

MACE SECURITY INTERNATIONAL INC
Form 10-K
March 30, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transaction period from ___ to ___
Commission File No. 0-22810

MACE SECURITY INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)
Delaware 03-0311630
(State or other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
240 Gibraltar Rd., Suite 220, Horsham, PA 19044
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (267) 317-4009

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share

Name of each exchange on which registered: OTCQB

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of the voting stock held by non-affiliates of registrant on June 30, 2010 was approximately \$8,350,000. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the Nasdaq Global Market on June 30, 2010. For purposes of determining this amount only, the registrant has defined affiliates as including (a) the executive officers and directors of the Registrant on June 30, 2010 and (b) each stockholder that had informed registrant that it was the beneficial owner of 10% or more of the outstanding common stock of Registrant on June 30, 2010.

The number of shares of Common Stock, par value \$0.01 per share, of registrant outstanding as of March 21, 2011 was 15,735,725.

Mace Security International, Inc. and Subsidiaries
 Form 10-K
 Year Ended December 31, 2010

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PART I

ITEM 1. BUSINESS

GENERAL

Mace Security International, Inc. (the “Company” or “Mace”) was incorporated in Delaware on September 1, 1993. Our operations are currently conducted through one segment, our Security operation.

Our Security Segment designs, manufactures, assembles, markets and sells a wide range of security products. The products include less-than-lethal Mace® defense sprays, intrusion fencing, access control, security cameras and security digital recorders. The Security Segment also owns and operates an Underwriters Laboratories (“UL”) listed monitoring center that monitors video and security alarms for approximately 400 security dealer clients with over 41,000 end-user accounts. The Security Segment’s electronic surveillance products and components are purchased from Asian and European manufacturers. Many of our products are designed to our specifications. Other products in our Security Segment are monitors, high-end digital and machine vision cameras and professional imaging components. We sell the electronic surveillance products and components primarily to installing dealers, distributors, system integrators and end users. The main marketing channels for our products are industry shows, trade publications, catalogs, the internet, telephone orders, distributors and mass merchants.

We sold our Digital Media Marketing Segment in November 2010. The Digital Media Marketing Segment sold consumer products on third party internet promotional sites and promotional sites which we owned. We also sold third party products on the promotional sites that we owned. The concepts for the products we sold were developed internally and were purchased from third party manufacturers. We used a proprietary software marketing platform to sell the products on the internet promotional sites.

We formerly had a Car Wash Segment. At its largest, the Car Wash Segment consisted of fifty-seven car washes and five truck washes. As of December 31, 2010, we owned four remaining car washes, two of which were under separate Agreements for Sale. The sale of one of our car washes under an Agreement of Sale at December 31, 2010, the Lubbock, Texas car wash, was completed on March 8, 2011. The sale of the other car wash under an Agreement of Sale is anticipated to close in the second quarter of 2011.

Our former Car Wash and Digital Media Marketing Segments have been classified as discontinued operations in the statements of operations and the statements of cash flows with the related assets and liabilities classified as assets and related liabilities held for sale in the December 31, 2010 balance sheet. The car wash operations and the digital media marketing operations are no longer reported as Segments of the Company.

The Company’s annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as filed with the United States Securities and Exchange Commission (the “SEC”), can be accessed through the Company’s website at www.mace.com.

LINES OF BUSINESS

Security Segment. The Company’s Security Segment sells a wide variety of security products. The Security Segment also owns and operates a UL listed monitoring center that monitors video and security alarms for approximately 400 security dealer clients having over 41,000 end-user accounts. Among the products the Security Segment offers are:

- electronic surveillance products, including analog, digital and IP cameras, digital video recorders, security monitors, and matrix switching equipment for video distribution;
- electronic security products, including intrusion fencing, access control and GPS tracking devices;
-

advanced imaging devices used by manufacturers, including robotic camera dome systems, system controls, and consoles for system assembly markets;

- defense sprays, including our less-than-lethal Mace® defense sprays;
- personal defense items, including personal alarms, home security alarms, whistles, door jammers, window and door lock alarms, and the KinderGard® product line of childproof security locks;
- security literature for the domestic and foreign financial community, state-of-the-art training videos, and crisis response materials; and
- TG Guard®, an electronically controlled tear gas system used in prisons, embassies, and safe rooms.

Our electronic surveillance products and system component products are selected and sourced by our operating and marketing staff in Fort Lauderdale, Florida. The products are manufactured by overseas original equipment manufacturers (“OEM”). Our electronic surveillance products and system components are warehoused and shipped from our facility in Farmers Branch, Texas. Our defense sprays are manufactured by the Company in our Bennington, Vermont facility. The KinderGard® product line is manufactured by a third party utilizing molds primarily owned by the Company. Our defense sprays and the KinderGard® product line are packaged, warehoused, and shipped from our Bennington, Vermont facility. Our TG Guard® products are also assembled in our Bennington, Vermont facility.

Our electronic surveillance products and components are marketed through several sales channels, such as dealers, system integrators, catalogs, the internet, mass merchants, and by telephone orders. We also sell our products through distributors, exhibitions at national trade shows, and advertisements in trade publications.

Discontinued Operations. The Company, through its subsidiaries, owned four car washes as of December 31, 2010. As of March 9, 2011, the Company owns three car washes, all of which are located in Texas. The remaining car washes are all full service car washes, which provide exterior washing and drying, vacuuming of the interior of the vehicle, dusting of dashboards and door panels, and cleaning of all windows and glass. One of the remaining car washes is subject to an Agreement of Sale and the sale is anticipated to close in the second quarter of 2011.

The Digital Media Marketing Segment was an e-commerce and online marketing business which had two business divisions: (1) e-commerce, the sale of products to consumers through promotional websites and (2) online marketing, which published promotional websites that offered our products and third party products for sale. This segment used proprietary technologies and software to sell products on the internet. Linkstar, the e-commerce division, was sold on November 22, 2010. Promopath, which was not sold but was shut down, was an online marketer that located customers or leads for third party clients who hired Promopath. The advertising clients who hired Promopath paid us based on a set fee per customer, prospect or lead acquired. The online media marketing industry refers to the arrangement of acquiring customers, prospects or leads for advertisers on a fee basis per customer as the cost-per-acquisition (“CPA”) model.

BUSINESS STRATEGIES

Internal Growth. The Security Segment designs, manufactures, markets and sells a wide range of security products. For the year ended December 31, 2010, revenues from the Security Segment were \$18.4 million. The Company began selling electronic surveillance products and system components in August 2002. Revenues from electronic surveillance products and system components have grown from \$373,000 of revenue in 2002 to \$9.9 million in 2010. Growth has been principally achieved by acquiring businesses and through internal development of new products, as well as expanded advertising and marketing efforts. During 2009, the Security Segment added intrusion fencing and access control and in 2010 introduced an updated video line to its product offerings. In the second quarter of 2009, the Security Segment acquired a UL listed monitoring center. The monitoring center monitors video and security alarms for approximately 400 security dealer clients which have over 41,000 end-user accounts. The wholesale alarm monitoring company offers our dealers an easy alternative for the monitoring of the video output of our products that the dealers install. By offering video monitoring, we hope to be able to increase the loyalty and number of our dealers.

The Company sells its defense sprays in the consumer market under its Mace® brand. Defense sprays are sold in the law enforcement market under the brand name of TakeDown®. The Mace Trademark Corporation, a subsidiary of the Company, manages the correct use of the Mace® trademark by the Company and Armor Holdings, Inc. (See also Trademarks and Patents, page 6). Armor Holdings, Inc has the exclusive right to use the Mace® brand when selling aerosol defense sprays to the law enforcement market, pursuant to an agreement dated July 1998. We believe that the total domestic consumer defense spray market is approximately \$18 million to \$20 million in annual revenues and that the domestic law enforcement market is approximately \$5 million in annual revenues. Our newly developed Pepper Gel® has increased sales in Law Enforcement and Consumer markets. Pepper Gel® has a patent pending in the U.S. Patent and Trademark Office and in the European Union under the Patent Co-operation Treaty (PCT).

During the six months ended December 31, 2008 and throughout 2009 and 2010, we continued to implement cost savings measures, including a reduction in employees throughout the Company, and completed a consolidation of our Security Segment’s electronic surveillance equipment operations in Fort Lauderdale, Florida and Farmers Branch, Texas. As part of this reorganization, we consolidated our security division’s surveillance equipment warehouse

operations into our Farmers Branch, Texas facility and sold our Fort Lauderdale, Florida warehouse. Our professional security sales and administrative team has remained in Fort Lauderdale, Florida in a rented facility. Our security catalog sales team was relocated to Florida in the rented facility. The goals of the reorganization were to align our electronic surveillance equipment sales teams to achieve sales growth, gain efficiencies by sharing redundant functions within our security operations, such as warehousing, customer service, and accounting services, and streamline our organization structure and management team for improved long-term growth.

Operating Agreements and Acquisitions. On April 30, 2009, the Company completed the purchase of all the outstanding common stock of Central Station Security Systems, Inc. ("CSSS") from CSSS's shareholders. Total consideration for such purchase was approximately \$3.7 million, which consisted of \$1.7 million in cash at closing, \$224,000 paid subsequent to closing, potential additional payments of up to \$1.2 million upon the settlement of certain contingencies as set forth in the Stock Purchase Agreement, \$951,000 of which is recorded in accrued expenses and other current liabilities at December 31, 2010, and the assumption of approximately \$590,000 of liabilities. CSSS, which was renamed Mace CS, is reported within the Company's Security Segment, and is a national wholesale monitoring company located in Anaheim, California, with approximately 400 security dealer clients. Mace CS owns and operates a UL-listed monitoring center that currently services over 41,000 end-user accounts. Mace CS's primary assets are accounts receivable, equipment, customer contracts, and its business methods. The acquisition of Mace CS enables the Company to expand the marketing of its security products through cross-marketing of the Company's surveillance equipment products to Mace CS's dealer base as well as offering monitoring services to the Company's current customers. The purchase price was allocated as follows: approximately (i) \$19,000 for cash; (ii) \$112,000 for accounts receivable; (iii) \$63,000 for prepaid expenses and other assets; (iv) \$443,000 for fixed assets and capital leased assets; (v) the assumption of \$590,000 of liabilities, and (vi) the remainder, or \$3.04 million, allocated to goodwill and other intangible assets. Within the \$3.04 million of acquired intangible assets, \$1.98 million was assigned to goodwill, which is not subject to amortization expense. The amount assigned to goodwill was deemed appropriate based on several factors, including: (i) multiples paid by market participants for businesses in the security monitoring business; (ii) levels of Mace CS's current and future projected cash flows; (iii) the Company's strategic business plan, which included cross-marketing the Company's surveillance equipment products to Mace CS's dealer base as well as offering the Company's current customers monitoring services, thus potentially increasing the value of its existing business segment; and (iv) the Company's plan to substitute for the cash flows of the Car Wash Segment, which the Company is exiting. The remaining intangible assets were assigned to customer contracts and relationships for \$940,000, trade name for \$70,000, and a non-compete agreement for \$50,000. Customer relationships, trade name and the non-compete agreement were assigned a life of fifteen, three, and five years, respectively.

We regularly evaluate potential acquisitions for the Security Segment to determine if they provide an advantageous opportunity. In evaluating potential acquisitions, we consider: (i) our cash position and the availability of financing at favorable terms; (ii) the potential for operating cost reductions; (iii) marketing advantages by adding new products or services to the Mace® brand name; (iv) market penetration of existing products or services; and (v) other relevant factors.

As consideration for acquisitions, we may use combinations of common stock, warrants, cash, and indebtedness. The consideration for each future acquisition will vary on a case-by-case basis depending on our financial interests, the historic operating results of the acquisition target, and the growth potential of the business to be acquired. We expect to finance the cash portion of future acquisitions through our cash reserves, funds provided by operations, loans, and the proceeds of possible future equity sales.

Discontinued Operations

We acquired our car and truck washes between May 1999 and December 2000 and had reported their results as the Company's Car Wash Segment. From December 2005 to March 9, 2011, we sold all but three car washes.

We currently own three car washes as of March 9, 2011, all located in Texas. One of these remaining car washes is subject to an Agreement of Sale. We are considering offers for our car washes and are evaluating offers based on whether the purchase price would be sufficient to retire all debt related to the car washes and provide sufficient capital for the growth of our Security Segment.

MARKETING

Our electronic surveillance products and components are marketed through several sales channels, such as catalogs, the internet, mass merchants and telephone orders. Our other products are sold through direct marketing, the use of distributors as well as exhibitions at national trade shows and advertisements in trade publications.

Our Mace® self defense sprays are available for purchase at mass merchant/department stores, gun shops, sporting goods stores, hardware stores, auto stores, convenience stores, drug stores and through the internet. In the law enforcement market, our defense sprays, including Pepper Gel®, are sold through direct marketing, the use of independent sales representatives and distributors as well as at exhibitions at national trade shows and advertisements in trade publications.

We have a diverse customer base within the Security Segment with no single customer accounting for 10% or more of our consolidated revenues for the fiscal year ended December 31, 2010 or 2009. We do not believe that the loss of any single Security Segment customer would have a material adverse effect on our business or results of operations.

PRODUCTION AND SUPPLIES

Our electronic surveillance products and system component requirements are established at our Fort Lauderdale, Florida facility and are manufactured principally in Korea, China, Taiwan, Israel and United Kingdom by OEMs. The electronic surveillance products and components meeting our requirements are labeled, packaged, and shipped ready for sale to our warehouse in Farmers Branch, Texas.

Substantially all of the manufacturing processes for our defense sprays are performed at our leased Bennington, Vermont facility. Defense spray products are manufactured on an aerosol filling machine. Most products are packaged in sealed, tamper-resistant "clamshells." KinderGard®, a product line of childproof locks, and TG Guard®, an electronic tear gas security system, are primarily manufactured by unrelated companies and are assembled and packaged on-site at our Vermont facility. There are numerous potential suppliers of the components and parts required in the production process. We have developed strong long-term relationships with many of our suppliers, including the following: Moldamatic, Inc., Amber International, Inc., and Springfield Printing, Inc. In addition, we purchase for resale a variety of products produced by others, including whistles and window and door alarms.

COMPETITION

Our video systems and security products components face competition from many larger companies such as Sony, Panasonic, Security Equipment Corp., and others. A number of these competitors have significantly greater financial, marketing, and other resources than us. Additionally, our foreign manufacturers of electronic surveillance products also sell directly to our customer base. We also compete with numerous well-established, smaller, local or regional firms. Increased competition from these companies could have an adverse effect on our electronic surveillance products sales.

Our security monitoring company is in a highly competitive industry. Monitoring accounts are difficult to obtain, as there is a natural resistance by dealers to move their end user accounts. There are many national and local monitoring companies that compete aggressively on price.

There continues to be a number of companies marketing personal defense sprays to civilian consumers, such as Armor Holdings, Inc. We continue to offer defense spray products that we believe distinguish themselves through brand name recognition and superior product features and formulations. This segment experienced increased sales in aerosols in each of the three years ending December 31, 2010, 2009 and 2008. We attribute the increased sales to improved marketing, including improvements in our website, and development of new products such as our Mace Pepper Gun®, our Mace Pepper Gel®, our Hot Pink Mace Defense Spray™ and our Night Defender Pepper Gel Defense Spray™.

TRADEMARKS AND PATENTS

We began marketing products in 1993 under the Mace® brand name and related trademarks pursuant to an exclusive license for sales of defense sprays to the consumer market in the continental United States and a non-exclusive license for sales to the consumer market worldwide. We subsequently purchased outright the Mace® brand name and related trademarks (Pepper Mace®, Chemical Mace®, Mace . . . Just in Case®, CS Mace™ and Magnum Mace™). In conjunction with this purchase, we acquired a non-exclusive worldwide license to promote a patented pepper spray formula in both the consumer and law enforcement markets. We have patents pending for our new less-than-lethal gel products in the United States and also in several foreign jurisdictions. We have recently obtained trademarks for Mace Pepper Gel® and have filed trademark applications for Hot Pink Mace Defense Spray™, Night Defender Pepper Gel Defense Spray™ and the Sportsman Scent System®. Additionally, we have been issued a patent on the locking mechanism for our Mark VI defense spray unit and have recently received a patent internationally for a non-irritant

gel formulation.

In July 1998, in connection with the sale of our Law Enforcement Division, we transferred our Mace® brand trademark and all related trademarks, and a patent (No. 5,348,193) to our wholly-owned subsidiary, Mace Trademark Corp. The purchaser of our Law Enforcement division received a 99-year license to use the Mace® brand, certain other such trademarks and the patents in the law enforcement market only.

We also have various other patents and trademarks for the devices we sell, including trademarks and/or patents for the Big Jammer® door brace, Screecher®, Peppergard®, Mace (Mexico)®, Viper® defense spray, KinderGard®, TG Guard®, Take Down®, Muzzle®, Pepper Mace®, MSI and Design®, Mace® Community (European Union) Trademark, Pepper Gel®, and Take Down Extreme®. We also license the pending patent for our new Pepper Gun product.

Additional trademarks used in our Security Segment are: SecurityandMore.com®, Industrial Vision Source®, Easy Watch®, Focus Vision 4 Observation System (Stylized)®, SmartChoice®, MaceLock™, MaceTrac™ and MaceVision™.

The Company has expanded the Mace® trademark to cover new electronic surveillance products.

We believe these Mace-related trademarks provide us with a competitive advantage.

GOVERNMENT REGULATION/ENVIRONMENTAL COMPLIANCE

The distribution, sale, ownership, and use of consumer defense sprays are legal in some form in all fifty states and the District of Columbia. However, in some states, sales to minors are prohibited and in several states (MA, MI, NY and WI, for example) sales are highly regulated. Among the typical regulations are the following, which list is not all inclusive: Massachusetts requires both the seller and possessor to be licensed; Michigan does not allow the sale of combinations of tear gas and pepper sprays; and New York requires sellers to be licensed firearms dealers or pharmacists. There are often restrictions on sizes, labeling and packaging that may vary from state to state. We have been able to sell our defense sprays consistent with the requirements of state laws. We believe we are in material compliance with all federal, state, and local laws that affect the sale and marketing of our defense spray business. There can be no assurance, however, that broader or more severe restrictions will not be enacted that would have an adverse impact on the sale of defense sprays. Additionally, certain states require licenses for the sale of our security equipment. We have obtained all required licenses.

During January 2008, the United States Environmental Protection Agency (the "EPA") conducted a site investigation at the Company's Bennington, Vermont location and the building within which the facility is located. The Company leases 33,476 square feet of the building from Vermont Mill Properties, Inc. ("Vermont Mill"). The site investigation was focused on whether hazardous substances were being improperly stored. After the site investigation, the EPA notified the Company and the building owner, Benmont Mill Properties, Inc. ("Benmont"), that remediation of certain hazardous wastes was required. Vermont Mill and Benmont are both owned and controlled by Jon Goodrich, the President of the Company's defense spray division. The EPA, the Company, and the building owner entered into an Administrative Consent Order under which the hazardous materials and waste were remediated. All remediation required by the Administrative Consent Order was completed within the time allowed by the EPA and a final report regarding the remediation was submitted to the EPA in October 2008, as required by the Administrative Consent Order. On September 29, 2009, the EPA accepted the final report. On February 23, 2010, the EPA issued the Company an invoice for \$240,096 representing the total of the EPA's oversight costs that the Company and Benmont were obligated to pay under the Administrative Consent Order. On April 8, 2010, the Company negotiated a reduction in the oversight cost reimbursement and, on April 13, 2010, the Company paid a negotiated amount of \$216,086 to the EPA. During the quarter ended September 30, 2010, Benmont reimbursed the Company 15% of the amount paid to the EPA, or \$32,413. A total estimated cost of approximately \$786,000 relating to the remediation, which includes disposal of the waste materials, as well as expenses incurred to engage environmental engineers and legal counsel and reimbursement of the EPA's costs, has been recorded through December 31, 2010.

The United States Attorney for the District of Vermont (the "U.S. Attorney") conducted an investigation of the Company relating to possible violations of the Resource Conservation and Recovery Act ("RCRA") at the Company's Bennington, Vermont location. On November 16, 2010, the U.S. Attorney filed a one count indictment charging the Company and Jon Goodrich with a felony of storing hazardous waste without a permit under 42 U.S.C. Section 6928(d)(2)(A). Mr. Goodrich is the President of Mace Personal Defense, Inc., the Company's defense spray division located in Bennington, Vermont. The Company has resolved the indictment through a Plea Agreement entered into between the Company's subsidiary, Mace Personal Defense, Inc. and the U.S. Attorney. The Plea Agreement was made under Fed. R. Crim. P. 11(c)(1)(C), and provides in part, for (i) Mace Personal Defense, Inc., to plead guilty to one count of violating 42 U.S.C. § 6928(d)(2)(A) (Storage of Hazardous Waste Without a Permit); (ii) Mace Personal Defense, Inc. to pay a fine of \$100,000 (the "Fine") and a court assessment of \$400, the Fine to be paid \$34,000 on sentencing, and two additional installments of \$33,000 each, at six months and twelve months from January 4, 2011; (iii) the Company to guarantee the payment of the Fine; (iv) the United States to dismiss the indictment against the Company at time of sentencing of Mace Personal Defense, Inc.; and (v) the United States not to prosecute Mace Personal Defense, Inc. (excluding the guilty plea) or the Company for any criminal offenses known to the United

States Attorney's Office of Vermont as of the date of signing of the Plea Agreement committed by the Company or Mace Personal Defense, Inc. in the District of Vermont relative to the storage, shipment, handling or disposal of hazardous waste, including any associated record keeping or reporting offenses. The Plea Agreement is not final until it is accepted by the Court. A hearing date for sentencing has been scheduled for May 26, 2011. In addition to the Company incurring \$83,000 in legal expenses in 2010 relating to this matter, the Company has recorded an accrual of \$100,000 at December 31, 2010 as a result of its agreement to pay a \$100,000 Fine as part of the Plea Agreement.

Car Washes Held for Sale. We are subject to various local, state, and federal laws regulating the discharge of pollutants into the environment. We believe that our operations are in compliance, in all material respects, with applicable environmental laws and regulations. Three major areas of regulation facing us are disposal of lubrication oil at our oil change centers, the compliance with all underground storage tank laws in connection with our gasoline sales, and the proper recycling and disposal of water used in our car washes. We use approved waste-oil haulers to remove our oil and lubricant waste. Our underground storage tanks are in compliance with all legal requirements. We recycle our waste water and, where we have proper permits, it is disposed of into sewage drains. Approximately 70% of the water used in the car wash is recycled at sites where a built-in reclaim system exists.

RESEARCH AND DEVELOPMENT

The staff in our Fort Lauderdale, Florida facility determines the requirements of various electronic surveillance products and components in conjunction with OEM manufacturers. We also have an on-site laboratory at our Vermont facility where research and development is conducted to maintain our reputation in the defense spray industry. We are continually reviewing ideas and potential licensing arrangements to expand our product lines. Our research and development expense was not material in 2010 or 2009.

INSURANCE

We maintain various insurance policies for our assets and operations. These policies provide property insurance including business interruption protection for each location. We maintain commercial general liability coverage in the amount of \$1 million per occurrence and \$2 million in the aggregate with an umbrella policy which provides coverage of up to \$25 million. We also maintain workers' compensation policies in every state in which we operate. Commencing July 2002, as a result of increasing costs of the Company's insurance program, including auto, general liability, and workers' compensation coverage, we are insured through participation in a captive insurance program with other unrelated companies. Workers' compensation coverage for non-car wash employees was transferred to an occurrence-based policy in March 2009 through May 2010. The Company maintains excess coverage through occurrence-based policies. With respect to our auto, general liability, and certain workers' compensation policies, we are required to set aside an actuarially determined amount of cash in a restricted "loss fund" account for the payment of claims under the policies. We expect to fund these accounts annually as required by the captive insurance company. Should funds deposited exceed claims incurred and paid, unused deposited funds are returned to us with interest upon the captive insurance company deciding a distribution is appropriate, but no earlier than the fifth anniversary of the policy year-end. The captive insurance program is further secured by a letter of credit in the amount of \$303,886 at December 31, 2010. The Company records a monthly expense for losses up to the reinsurance limit per claim based on the Company's tracking of claims and the insurance company's reporting of amounts paid on claims plus an estimate of reserves for possible future losses on reported claims and claims incurred but not reported. There can be no assurance that our insurance will provide sufficient coverage in the event a claim is made against us, or that we will be able to maintain in place such insurance at reasonable prices. An uninsured or under insured claim against us of sufficient magnitude could have a material adverse effect on our business and results of operations.

U.S. BASED BUSINESS

Our electronic surveillance products are manufactured in Korea, China, Taiwan, United Kingdom and Israel. All of our property and equipment is located in the United States. We do not believe we are currently subject to any material risks associated with any foreign operations. Approximately 11.2%, (or \$2.1 million) and 3.6%, (or \$676,000) of the 2010 and 2009 revenues, respectively, from our ongoing Security Segment were derived from customers outside of the United States.

EMPLOYEES

As of March 21, 2011, we had approximately 197 employees, of which approximately 88 were employed in our discontinued car wash business, 94 employed in the Security Segment, 13 in our corporate accounting, finance, marketing and information technology departments, and two in executive management. None of our employees are covered by a collective bargaining agreement.

AVAILABLE INFORMATION

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For more information about the Company, please visit our website at www.mace.com. Our electronic filings with the SEC (including all annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to these reports), including the exhibits, are available free of charge through our website as soon as reasonably practicable after we electronically file them with or furnish them to the SEC.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Common Stock

If we are unable to finance our business, our stock price could decline and we could go out of business. Our net losses for 2009 and 2010 were \$11.0 million and \$18.1 million, respectively. Our net loss for 2010 of \$18.1 million included the \$4.6 million Arbitration Award to Mr. Paolino and \$7.4 million of non-cash impairment charges largely related to our discontinued Digital Media Marketing Segment. We have been funding operating losses by divesting of our car washes and other non-core assets through third party sales. Our capital requirements include working capital for daily operations, including purchasing inventory and equipment. We had cash and cash equivalents of \$2.6 million as of December 31, 2010. We estimate that our cash balances will not be sufficient to pay our cash operating requirements through December 31, 2011 unless we are successful in increasing our cash position through pending asset sales or otherwise raising additional capital. The Company plans to raise working capital through a rights offering approved by the Company's Board of Directors, See Note 2. Liquidity. The current economic climate has made it more difficult to sell our remaining car washes as it is more difficult for buyers to finance the purchase price. A car wash was sold on March 8, 2011 and the sale of one of the three remaining car washes is pending, See Note 4. Business Acquisitions and Divestitures and Note 21. Subsequent Events, for a description of the car wash sale and pending sales. As of March 21, 2011, we had three remaining car washes for sale which we estimate will generate proceeds, net of related mortgages, in the range of approximately \$1.7 million to \$2.0 million. Our Texas warehouse is also listed for sale. We estimate the sale of the Texas warehouse will generate proceeds, net of related mortgage debt, of approximately \$1.0 to \$1.2 million. To the extent that these pending sales do not occur during the second or third quarter of 2011 and to the extent we lack cash to meet our future capital needs, we will need to raise additional funds through bank borrowings and additional equity and/or debt financings, which may result in significant increases in leverage and interest expense and/or substantial dilution of our outstanding equity. If we are unable to raise additional capital, we may be forced to substantially reduce the scale of our operations and curtail our business plan.

Our common stock is not listed on a stock exchange and is traded on the OTCQB system of OTC Market, Inc. The Company's common stock was transferred from the NASDAQ Global Market to the OTCQB™ Marketplace on September 30, 2010. The OTCQB™ market is operated by OTC Market, Inc. and is only available to Over-the-Counter ("OTC") securities that are registered and fully reporting with the SEC or that report to banking or insurance regulators. The Company's common stock was delisted from the NASDAQ Global Market as a result of the Company not regaining compliance with the minimum \$1.00 closing bid price rule of the NASDAQ. OTC listed stocks involve risks in addition to those associated with stocks traded on a national exchange. Many OTC stocks trade less frequently and in smaller volumes than stocks listed on national exchanges. Also, the values of OTC stocks may be more volatile than stocks listed on a national exchange.

Many of our customers' spending for our products and services continued to be negatively impacted by the 2008 recession, and deterioration in the credit markets; our customers' spending may not recover at the same pace as the economy recovers. Our customers' reduced spending began in 2008 as a result of the recession, the credit crisis, declining consumer and business confidence, increased unemployment, and other challenges that affected the domestic economy. Though the economy improved slightly in 2009 and 2010, the slow improvement has not resulted in our customers increasing their spending on our products and services. Many of our customers in our electronic surveillance equipment business finance their purchases through cash flow from operations or the incurrence of debt. Additionally, many of our customers in our electronic surveillance equipment and our personal defense products divisions depend on disposable personal income. The combination of a reduction of disposable personal income, a reduction in cash flow of businesses and the difficulty of businesses and individuals to obtain financing has continued to result in decreased spending by our customers. During 2010, our revenues from continuing operations declined \$196,000, or 1%, from our revenues from continuing operations in 2009. To the extent our customers do not increase their spending in 2011, the reduced revenue level could have a material adverse effect on our operations. If our

revenues do not recover or there is a further deterioration in the economy, our results of operations, financial position, and cash flows will be materially adversely affected.

We have reported net losses in the past. If we continue to report net losses, the price of our common stock may decline, or we could go out of business. We reported net losses and negative cash flow from operating activity from continuing operations in each of the five years ended December 31, 2010. Although a portion of the reported losses in past years related to the Arbitration Award to Mr. Paolino and related legal costs expended, non-cash impairment charges of intangible assets and non-cash stock-based compensation expense, we may continue to report net losses and negative cash flow in the future. Our net loss for the year ended December 2010 was \$18.1 million. Additionally, accounting pronouncements require annual fair value based impairment tests of goodwill and other intangible assets identified with indefinite useful lives. As a result, we may be required to record additional impairments in the future, which could materially reduce our earnings and equity. If we continue to report net losses and negative cash flows, our stock price is likely to be adversely impacted.

We compete with many companies, some of whom are more established and better capitalized than us. We compete with a variety of companies on a worldwide basis. Some of these companies are larger and better capitalized than us. There are also few barriers to entry in our markets and thus above average profit margins will likely attract additional competitors. Our competitors may develop products and services that are superior to, or have greater market acceptance than, our products and services. For example, many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources and larger customer bases than ours. These factors may allow our competitors to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Our competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies which may allow them to offer superior products and services.

Failure or circumvention of our controls or procedures could seriously harm our business. An internal control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no system of controls can provide absolute assurance that all control issues, mistakes and instances of fraud, if any, within the Company have been or will be detected. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Any failure of our controls and procedures to detect error or fraud could seriously harm our business and results of operations.

If we lose the services of our executive officers, our business may suffer. If we lose the services of one or more of our executive officers and do not replace them with experienced personnel, that loss of talent and experience will make our business plan, which is dependent on active growth and management, more difficult to implement and could adversely impact our operations.

If our insurance is inadequate, we could face significant losses. We maintain various insurance coverage for our assets and operations. These coverages include property coverage including business interruption protection for each location. We maintain commercial general liability coverage in the amount of \$1 million per occurrence and \$2 million in the aggregate with an umbrella policy which provides coverage of up to \$25 million. We also maintain workers' compensation policies in every state in which we operate. Since July 2002, as a result of increasing costs of the Company's insurance program, including auto, general liability, and certain of our workers' compensation coverage, we have been insured as a participant in a captive insurance program with other unrelated businesses. Workers' compensation coverage for non-car wash employees was temporarily transferred to an occurrence-based policy from March 2009 to May 2010. The Company maintains excess coverage through occurrence-based policies. With respect to our auto, general liability, and certain workers' compensation policies, we are required to set aside an actuarially determined amount of cash in a restricted "loss fund" account for the payment of claims under the policies. We expect to fund these accounts annually as required by the insurance company. Should funds deposited exceed claims incurred and paid, unused deposited funds are returned to us with interest after the fifth anniversary of the policy year-end. The captive insurance program is further secured by a letter of credit from the Company in the amount of \$303,886 at December 31, 2010. The Company records a monthly expense for losses up to the reinsurance limit per claim based on the Company's tracking of claims and the insurance company's reporting of amounts paid on claims plus an estimate of reserves for possible future losses on reported claims and claims incurred but not reported. There can be no assurance that our insurance will provide sufficient coverage in the event a claim is made against us, or that we will be able to maintain in place such insurance at reasonable prices. An uninsured or under insured claim against us of sufficient magnitude could have a material adverse effect on our business and results of operations.

Our stock price has been, and likely will continue to be, volatile and an investment in our common stock may suffer a decline in value. The market price of our common stock has in the past been, and is likely to continue in the future to

be, volatile. That volatility depends upon many factors, some of which are beyond our control, including:

- announcements regarding the results of expansion or development efforts by us or our competitors;
- announcements regarding the acquisition of businesses or companies by us or our competitors;
- announcements regarding the disposition of the remaining assets that comprise our former Car Wash Segment, which may or may not be on favorable terms;
 - technological innovations or new commercial products developed by us or our competitors;
 - changes in our or our suppliers' intellectual property portfolio;
- issuance of new or changed securities analysts' reports and/or recommendations applicable to us or our competitors;
 - additions or departures of our key personnel;
 - operating losses by us; and
- actual or anticipated fluctuations in our quarterly financial and operating results and degree of trading liquidity in our common stock.

One or more of these factors could cause a decline in our revenues and income or in the price of our common stock, thereby reducing the value of an investment in our Company.

Because we are a Delaware corporation, it may be difficult for a third party to acquire us, which could affect our stock price. We are governed by Section 203 of the Delaware General Corporation Law, which prohibits a publicly held Delaware corporation from engaging in a “business combination” with an entity who is an “interested stockholder” (as defined in Section 203, an owner of 15% or more of the outstanding stock of the corporation) for a period of three years following the stockholder becoming an “interested stockholder,” unless approved in a prescribed manner. This provision of Delaware law may affect our ability to merge with, or to engage in other similar activities with, some other companies. This means that we may be a less attractive target to a potential acquirer who otherwise may be willing to pay a premium for our common stock above its market price.

If we issue our authorized preferred stock, the rights of the holders of our common stock may be affected and other entities may be discouraged from seeking to acquire control of our Company. Our certificate of incorporation authorizes the issuance of up to 10 million shares of “blank check” preferred stock that could be designated and issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt. No shares of preferred stock are currently outstanding. It is not possible to state the precise effect of preferred stock upon the rights of the holders of our common stock until the board of directors determines the respective preferences, limitations, and relative rights of the holders of one or more series or classes of the preferred stock. However, such effect might include: (i) reduction of the amount otherwise available for payment of dividends on common stock, to the extent dividends are payable on any issued shares of preferred stock, and restrictions on dividends on common stock if dividends on the preferred stock are in arrears, (ii) dilution of the voting power of the common stock to the extent that the preferred stock has voting rights, and (iii) the holders of common stock not being entitled to share in our assets upon liquidation until satisfaction of any liquidation preference granted to the holders of our preferred stock. The “blank check” preferred stock may be viewed as having the effect of discouraging an unsolicited attempt by another entity to acquire control of us and may therefore have an anti-takeover effect. Issuances of authorized preferred stock can be implemented, and have been implemented by some companies in recent years, with voting or conversion privileges intended to make an acquisition of a company more difficult or costly. Such an issuance, or the perceived threat of such an issuance, could discourage or limit the stockholders’ participation in certain types of transactions that might be proposed (such as a tender offer), whether or not such transactions were favored by the majority of the stockholders, and could enhance the ability of officers and directors to retain their positions.

Our policy of not paying cash dividends on our common stock could negatively affect the price of our common stock. We have not paid in the past, and do not expect to pay in the foreseeable future, cash dividends on our common stock. We expect to reinvest in our business any cash otherwise available for dividends. Our decision not to pay cash dividends may negatively affect the price of our common stock.

Risks Related to our Security Segment

We could become subject to litigation regarding intellectual property rights, which could seriously harm our business. Although we have not been the subject of any such actions, third parties may in the future assert against us infringement claims or claims that we have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. We provide the specifications for most of our security products and contract with independent suppliers to engineer and manufacture those products and deliver them to us. Certain of these products contain proprietary intellectual property of these independent suppliers. Third parties may in the future assert claims against our suppliers that such suppliers have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. If such infringement by our suppliers or us were found to exist, a party could seek an injunction preventing the use of their intellectual property. In addition, if an infringement by us were found to exist, we may attempt to acquire a license or right to use such technology or intellectual property. Some of our

suppliers have agreed to indemnify us against any such infringement claim, but any infringement claim, even if not meritorious and/or covered by an indemnification obligation, could result in the expenditure of a significant amount of our financial and managerial resources, which would adversely affect our operations and financial results.

If our Mace brand name falls into common usage, we could lose the exclusive right to the brand name. The Mace registered name and trademark is important to our security business and defense spray business. If we do not defend the Mace name or allow it to fall into common usage, our security segment business could be adversely affected.

If our original equipment manufacturers (“OEMs”) fail to adequately supply our products, our security products sales may suffer. Reliance upon OEMs, as well as industry supply conditions, generally involves several additional risks, including the possibility of defective products (which can adversely affect our reputation for reliability), a shortage of components and reduced control over delivery schedules (which can adversely affect our distribution schedules), and increases in component costs (which can adversely affect our profitability). We have some single-sourced manufacturer relationships, either because alternative sources are not readily or economically available or because the relationship is advantageous due to performance, quality, support, delivery, capacity, or price considerations. If these sources are unable or unwilling to manufacture our products in a timely and reliable manner, we could experience temporary distribution interruptions, delays, or inefficiencies adversely affecting our results of operations. Even where alternative OEMs are available, qualification of the alternative manufacturers and establishment of reliable suppliers could result in delays and a possible loss of sales, which could affect operating results adversely.

The loss of our distributorship for Sony Electronics’ Visual Imaging Products will adversely impact the sales within our high-end digital and machine vision camera operation, IVS. IVS recorded total net revenues of \$4.6 million for the year ended December 31, 2010 of which approximately 60% of the net revenues were derived from the sale of Visual Imaging Products of Sony Electronics, Inc. (“Sony Products”). We have been notified by Sony Electronics, Inc. that our distributorship for Sony Products will end on March 27, 2011. If we are unable to replace Sony Products sales with other sales, the net revenues of our IVS business will decline. We are considering alternatives, such as selling the IVS business and obtaining other products to sell.

Many states have laws, and other states have stated an intention to enact laws, requiring manufacturers of certain electronic products to pay annual registration fees and have recycling plans in place for electronic products sold at retail, such as televisions, computers, and monitors (“electronic recycling laws”). If the electronic recycling laws are applied to us, the sale of monitors by us may become prohibitively expensive. Our Security Segment sells monitors as part of the video security surveillance packages we market. The video security surveillance packages consist of cameras, digital video recorders and video monitors. We have taken the position with many states that our monitors are security monitors and are not subject to the laws they have enacted which generally refer to computer monitors. If we have to pay registration fees and have recycling plans for the monitors we sell, it may be prohibitively expensive to offer monitors as part of our security surveillance packages. The inability to offer monitors at a competitive price will place us at a competitive disadvantage.

The businesses that manufacture our electronic surveillance products are located in foreign countries, making it difficult to recover damages if the manufacturers fail to meet their obligations. Our electronic surveillance products and many non-aerosol personal protection products are manufactured on an OEM basis. Most of the OEM suppliers we deal with are located in Asian or European countries and are paid a significant portion of an order in advance of the shipment of the product. If any of the OEM suppliers defaulted on their agreements with the Company, it would be difficult for the Company to obtain legal recourse because of the suppliers’ assets being located in foreign countries.

If people are injured by our consumer safety products, we could be held liable and face damage awards. We face claims of injury allegedly resulting from our defense sprays, which we market as less-than-lethal. For example, we are aware of allegations that defense sprays used by law enforcement personnel resulted in deaths of prisoners and of suspects in custody. In addition to use or misuse by law enforcement agencies, the general public may pursue legal action against us based on injuries alleged to have been caused by our products. We may also face claims by purchasers of our electronic surveillance systems if they fail to operate properly during the commission of a crime. As the use of defense sprays and electronic surveillance systems by the public increases, we could be subject to additional product liability claims. We currently have a \$25,000 deductible on our consumer safety products insurance policy, meaning that all such lawsuits, even unsuccessful ones and ones covered by insurance, cost the Company money. Furthermore, if our insurance coverage is exceeded, we will have to pay the excess liability directly. Our product liability insurance provides coverage of \$1 million per occurrence and \$2 million in the aggregate with an

umbrella policy which provides coverage of up to \$25 million. However, if we are required to directly pay a claim in excess of our coverage, our income will be significantly reduced, and in the event of a large claim, we could go out of business.

If governmental regulations regarding defense sprays change or are applied differently, our business could suffer. The distribution, sale, ownership and use of consumer defense sprays are legal in some form in all 50 states and the District of Columbia. Restrictions on the manufacture or use of consumer defense sprays may be enacted, which would severely restrict the market for our products or increase our costs of doing business.

Our defense sprays use hazardous materials which, if not properly handled, would result in our being liable for damages under environmental laws. Our consumer defense spray manufacturing operation currently incorporates hazardous materials, the use and emission of which are regulated by various state and federal environmental protection agencies, including the EPA. If we fail to comply with any environmental requirements, these changes or failures may expose us to significant liabilities that would have a material adverse effect on our business and financial condition. The EPA conducted a site investigation at our Bennington, Vermont facility in January 2008 and found the facility in need of remediation. See Note 18. Commitments and Contingencies.

Our monitoring business relies on third party providers for the software systems and communication connections we use to monitor alarms and video signals; any failure or interruption in products or services provided by these third parties could harm our ability to operate our business. Our central station utilizes third party software and third party phone and internet connections to monitor alarm and video signals. Any financial or other difficulties our providers face may have negative effects on our business.

Our monitoring business can lose customers due to customers' cancelling land-line telecommunications services. Certain elements of our operating model rely on our customers' selection and continued use of traditional, land-line telecommunications services, which we use to communicate with our monitoring operations. In order to continue to service existing customers who cancel their land-line telecommunications services and to service new customers who do not subscribe to land-line telecommunications services, some customers must upgrade to alternative and often more expensive wireless or internet based technologies. Higher costs may reduce the market for new customers of alarm monitoring services, and the trend away from traditional land-lines to alternatives may mean more existing customers will cancel service with us. Continued shifts in customers' preferences regarding telecommunications services could continue to have an adverse impact on our earnings, cash flow and customer attrition.

Our monitoring business faces continued competition and pricing pressure from other companies in the industry and, if we are unable to compete effectively with these companies, our sales and profitability could be adversely affected.

We compete with a number of major domestic security monitoring companies, as well as a large number of smaller, regional competitors. We believe that this competition is a factor in our customer attrition, limits our ability to raise prices, and, in some cases, requires that we lower prices. Some of our monitoring competitors, either alone or in conjunction with their respective parent corporate groups, are larger than we are and have greater financial resources, sales, marketing or operational capabilities than we do. In addition, opportunities to take market share using innovative products, services and sales approaches may attract new entrants to the field. We may not be able to compete successfully with the offerings and sales tactics of other companies, which could result in the loss of customers and, as a result, decreased revenue and operating results.

Loss of customer accounts by our monitoring business could materially adversely affect our operations. Our contracts can be terminated on 60 day notice by our customers. We could experience the loss of accounts as a result of, among other factors:

- relocation of customers;
- customers' inability or unwillingness to pay our charges;
- adverse financial and economic conditions, the impact of which may be particularly acute among our small business customers;
- the customers' perceptions of value;
- competition from other alarm service companies; and
- the purchase of our dealers by third parties who choose to monitor elsewhere.

Loss of a large dealer customer could result in a significant reduction in recurring monthly revenue. Net losses of customer accounts could materially and adversely affect our business, financial condition and results of operations.

Increased adoption of "false alarm" ordinances by local governments may adversely affect our monitoring business. An increasing number of local governmental authorities have adopted, or are considering the adoption of, laws, regulations or policies aimed at reducing the perceived costs to municipalities of responding to false alarm signals. Such measures could include:

- requiring permits for the installation and operation of individual alarm systems and the revocation of such permits following a specified number of false alarms;

- imposing limitations on the number of times the police will respond to alarms at a particular location after a specified number of false alarms;
 - requiring further verification of an alarm signal before the police will respond; and
 - subjecting alarm monitoring companies to fines or penalties for transmitting false alarms.

Enactment of these measures could adversely affect our future business and operations. For example, concern over false alarms in communities adopting these ordinances could cause a decrease in the timeliness of police response to alarm activations and thereby decrease the propensity of consumers to purchase or maintain alarm monitoring services. In addition, our costs to service affected accounts could increase.

Due to a concentration of monitoring customers in California, we are susceptible to environmental incidents that may negatively impact our results of operations. Approximately 92% of the monitoring businesses' recurring monthly revenue at December 31, 2010 was derived from customers located in California. A major earthquake, or other environmental disaster in California where our facilities are located, could disrupt our ability to serve customers or render customers uninterested in continuing to retain us to provide alarm monitoring services.

We could face liability for our failure to respond adequately to alarm activations. The nature of the monitoring services we provide potentially exposes us to greater risks of liability for employee acts or omissions or system failures than may be inherent in other businesses. In an attempt to reduce this risk, our alarm monitoring agreements and other agreements pursuant to which we sell our products and services contain provisions limiting our liability to customers and third parties. In the event of litigation with respect to such matters, however, these limitations may not be enforced. In addition, the costs of such litigation could have an adverse effect on us.

Future government regulations or other standards could have an adverse effect on our operations. Our monitoring operations are subject to a variety of laws, regulations and licensing requirements of federal, state and local authorities. In certain jurisdictions, we are required to obtain licenses or permits to comply with standards governing employee selection and training and to meet certain standards in the conduct of our business. The loss of such licenses, or the imposition of conditions to the granting or retention of such licenses, could have an adverse effect on us. In the event that these laws, regulations and/or licensing requirements change, we may be required to modify our operations or to utilize resources to maintain compliance with such rules and regulations. In addition, new regulations may be enacted that could have an adverse effect on us.

The loss of our Underwriter Laboratories ("UL") listing could negatively impact our competitive position. Our alarm monitoring center is UL listed. To obtain and maintain a UL listing, an alarm monitoring center must be located in a building meeting UL's structural requirements, have back-up and uninterruptible power supplies, have secure telephone lines and maintain redundant computer systems. UL conducts periodic reviews of alarm monitoring centers to ensure compliance with its regulations. Non-compliance could result in a suspension of our UL listing. The loss of our UL listing could negatively impact our competitive position.

ITEM 1B. UNRESOLVED STAFF COMMENTS

At March 21, 2011, there were no unresolved comments from the SEC staff regarding our periodic or current reports.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Horsham, Pennsylvania and the office of our Chief Executive Officer is in Walnut Creek, California. We rent approximately 5,000 square feet of space at a current annual cost of approximately \$116,000 in Horsham, Pennsylvania and approximately 800 square feet of space plus use of common areas at a current annual cost of approximately \$51,000 in Walnut Creek, California.

Security Segment Properties. The operations of our electronic surveillance product operations are located in Fort Lauderdale, Florida and Farmers Branch, Texas. The operations of our personal defense and law enforcement aerosol business, including administration and sales, and all of its production facilities are located in Bennington, Vermont. Our wholesale security monitoring operation is located in Anaheim, California.

The Company's Security Segment leases manufacturing and office space in Bennington, Vermont under a lease between Vermont Mill and the Company. The lease, as extended, expires on November 14, 2011. Vermont Mill is controlled by Jon E. Goodrich, a former director and current employee of the Company. The original lease was entered into in November 1999 for a five year term. In November 2004, the Company exercised an option to continue

the lease through November 2009 at a rate of \$10,576 per month. The Company amended the lease in 2008 to occupy additional space for an additional \$200 per month. The Company also leased from November 2008 to May 2009, on a month-to-month basis, approximately 3,000 square feet of temporary inventory storage space at a monthly cost of \$1,200. In September 2009, the Company and Vermont Mill extended the term of the lease to November 14, 2010 at a monthly rate of \$10,776 per month and modified the square footage rented to 33,476 square feet. The Company entered into a Lease Extension Agreement on December 20, 2010 to extend the lease through November 14, 2011 at a monthly rate of \$11,315 and to provide an option to further extend the lease to May 14, 2012 at the same monthly rate. Rent expense under this lease was \$129,857 and \$135,318 for the years ended December 31, 2010 and 2009, respectively.

On December 4, 2009, we sold our Fort Lauderdale, Florida building for cash consideration of \$1.6 million. We had purchased the Fort Lauderdale, Florida building in June 2004. The Fort Lauderdale, Florida building had housed the administrative and sales staff of the Security Segment's electronic surveillance products division. With the sale of this property, we lease 7,358 square feet of office space in Fort Lauderdale, Florida for the administrative and sales staff located in the Fort Lauderdale, Florida area. This lease is for a three year term expiring on December 31, 2012 at a current rate of \$7,143 per month. The lease also provides for a two year renewal option through December 31, 2014.

We own a 45,000 square foot facility in Farmers Branch, Texas that was purchased in August 2004. The facility is used to warehouse our electronic surveillance products and our high end camera products. Additionally, in the fourth quarter of 2008, we consolidated the inventory of our Fort Lauderdale, Florida based electronic surveillance equipment operation into our Farmers Branch, Texas facility. The Farmers Branch, Texas facility is secured by a first mortgage loan in the amount of \$552,510 at December 31, 2010.

In connection with our 2009 acquisition of CSSS, our wholesale security monitoring operation, we lease 10,044 square feet of office space in Anaheim, California for our administrative staff and monitoring operations. The lease is for a four year term expiring on July 31, 2013 at a current lease rate of \$16,370 per month. The lease also provides for two five year renewal options through July 31, 2023.

Car Wash Properties. As of December 31, 2010, we owned three and leased one car wash facility. As of March 21, 2011, we own two and lease one car wash facility. Our remaining car wash facilities are reported under Discontinued Operations and are being held for sale. We have sold 45 car wash facilities and five truck washes since December 31, 2005. The locations of our car washes and the services offered at the locations are in the chart below.

Locations (1)	Type of Car Wash	Number of Facilities as of December 31, 2010 (2)	Number of Facilities as of March 21, 2011 (3)
Dallas, Texas Area	Full Service	3	3
Lubbock, Texas	Full Service	1	-

- (1) All of our locations are owned, except for one location in the Dallas, Texas area which is leased. The Lubbock, Texas location was sold on March 8, 2011. (See Note 4. Business Acquisitions and Divestitures and Note 21. Subsequent Events)
- (2) Our locations also offer other consumer products and related car care services, such as professional detailing services (currently offered at three locations), oil and lubrication services (currently offered at three locations), gasoline dispensing services (currently offered at two locations), state inspection services (currently offered at three locations), and merchandise store sales (currently offered at three locations).
- (3) One Dallas, Texas area location is subject to an Agreement of Sale. It is anticipated that the sale of this location will be consummated in the second quarter of 2011.

Certain of our car washes are encumbered by first mortgage loans. Of the four car washes owned or leased by us at December 31, 2010, two properties and related equipment with a net book value totaling \$3.7 million secured first mortgage loans totaling \$1.4 million and two properties with a net book value totaling \$810,000 million were not encumbered.

ITEM 3. LEGAL PROCEEDINGS

The Company and its former Chief Executive Officer, Louis D. Paolino, Jr., have settled the various legal actions they had filed against each other. The settlement was entered into on October 26, 2010. As part of the settlement, the Company paid Mr. Paolino \$2,300,000 on November 1, 2010 and \$2,310,000 on December 29, 2010. With Mace's final payment under the settlement agreement, all legal actions between Mr. Paolino and the Company have been dismissed with prejudice and mutual releases between the Company and Mr. Paolino became effective. As previously disclosed in the Company's filings under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") an arbitration panel of the American Arbitration Association awarded Mr. Paolino the sum of \$4,148,912 as damages and a supplemental award of \$738,835 for legal fees in connection with various claims filed by Mr. Paolino in connection with his termination as the Company's Chief Executive Officer (the "Arbitration Awards"). The Arbitration Awards were confirmed on October 8, 2010 by the Court of Common Pleas of Philadelphia County. As of the quarter ended March 31, 2010, the Company recorded an accrual of \$4,500,000 million for the payment of the Arbitration Awards, increased to \$4,600,000 in the quarter ended June 30, 2010. The Court also ruled that Mr. Paolino had until December 8, 2010 to exercise 1,769,682 stock options which were cancelled by the Company upon Mr. Paolino's termination. These stock options were not exercised by Mr. Paolino by December 8, 2010 and accordingly expired and became null and void.

During January 2008, the United States Environmental Protection Agency (the "EPA") conducted a site investigation at the Company's Bennington, Vermont location and the building within which the facility is located. The Company leases 33,476 square feet of the building from Vermont Mill Properties, Inc. ("Vermont Mill"). The site investigation was focused on whether hazardous substances were being improperly stored. After the site investigation, the EPA notified the Company and the building owner, Benmont Mill Properties, Inc. ("Benmont"), that remediation of certain hazardous wastes was required. Vermont Mill and Benmont are both owned and controlled by Jon Goodrich, the President of the Company's defense spray division. The EPA, the Company, and the building owner entered into an Administrative Consent Order under which the hazardous materials and waste were remediated. All remediation required by the Administrative Consent Order was completed within the time allowed by the EPA and a final report regarding the remediation was submitted to the EPA in October 2008, as required by the Administrative Consent Order. On September 29, 2009, the EPA accepted the final report. On February 23, 2010, the EPA issued the Company an invoice for \$240,096 representing the total of the EPA's oversight costs that the Company and Benmont were obligated to pay under the Administrative Consent Order. On April 8, 2010, the Company negotiated a reduction in the oversight cost reimbursement and, on April 13, 2010, the Company paid a negotiated amount of \$216,086 to the EPA. During the quarter ended September 30, 2010, Benmont reimbursed the Company 15% of the amount paid to the EPA or \$32,413. A total estimated cost of approximately \$786,000 relating to the remediation, which includes disposal of the waste materials, as well as expenses incurred to engage environmental engineers and legal counsel and reimbursement of the EPA's costs, has been recorded through December 31, 2010.

The U.S. Attorney conducted an investigation of the Company relating to possible violations of the Resource Conservation and Recovery Act ("RCRA") at the Company's Bennington, Vermont location. On November 16, 2010, the U.S. Attorney filed a one count indictment in the Federal District Court for the District of Vermont charging the Company and Jon Goodrich with a felony of storing hazardous waste without a permit under 42 U.S.C. Section 6928(d)(2)(A). Mr. Goodrich is the President of Mace Personal Defense, Inc., the Company's defense spray division located in Bennington, Vermont. The Company has resolved the indictment through a Plea Agreement entered into between the Company's subsidiary, Mace Personal Defense, Inc. and the U.S. Attorney. The Plea Agreement was made under Fed. R. Crim. P. 11(c)(1)(C), and provides in part, for (i) Mace Personal Defense, Inc., to plead guilty to one count of violating 42 U.S.C. § 6928(d)(2)(A) (Storage of Hazardous Waste Without a Permit); (ii) Mace Personal Defense, Inc. to pay a fine of \$100,000 (the "Fine") and a court assessment of \$400, the Fine to be paid \$34,000 on sentencing and two additional installments of \$33,000 each, at six months and twelve months from January 4, 2011; (iii) the Company to guarantee the payment of the Fine; (iv) the United States to dismiss the indictment against the Company at time of sentencing of Mace Personal Defense, Inc.; and (v) the United States not to prosecute Mace Personal Defense, Inc. (excluding the guilty plea) or the Company for any criminal offenses known to the United States Attorney's Office of Vermont as of the date of signing of the Plea Agreement committed by the Company or Mace Personal Defense, Inc. in the District of Vermont relative to the storage, shipment, handling or disposal of hazardous waste including any associated record keeping or reporting offenses. The Plea Agreement is not final until it is accepted by the Court. A hearing date for sentencing has been scheduled for May 26, 2011. The Company has recorded an accrual of \$100,000 at December 31, 2010 as a result of its agreement to pay a \$100,000 Fine as part of the Plea Agreement.

The Company is a party to various other legal proceedings related to its normal business activities. In the opinion of the Company's management, none of these proceedings are material in relation to the Company's results of operations, liquidity, cash flows, or financial condition.

Additional information regarding our legal proceedings can be found in Note 18 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

ITEM 4. (REMOVED AND RESERVED)

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Price and Dividends of the Registrant's Common Equity

Our common stock was traded on the NASDAQ Global Market through September 30, 2010 and since September 30, 2010 our stock has been quoted on the OTCQB system of OTC Market, Inc. under the trading symbol "MACE." Common stock price reflects inter-dealer quotations, does not include retail markups, markdowns or commissions and does not necessarily represent actual transactions.

The following table sets forth, for the quarters indicated, the high and low sale prices per share for our common stock, as reported by Nasdaq through September 30, 2010 and by the OTCQB system after September 30, 2010.

	HIGH	LOW
Year Ended December 31, 2009		
First Quarter	\$ 0.91	\$ 0.61
Second Quarter	\$ 1.29	\$ 0.65
Third Quarter	\$ 1.19	\$ 0.89
Fourth Quarter	\$ 1.24	\$ 0.68
Year Ended December 31, 2010		
First Quarter	\$ 1.24	\$ 0.75
Second Quarter	\$ 0.96	\$ 0.56
Third Quarter	\$ 0.63	\$ 0.41
Fourth Quarter	\$ 0.45	\$ 0.24
Year Ended December 31, 2011		
First Quarter, through March 21, 2011	\$ 0.55	\$ 0.34

The closing price for our common stock on June 30, 2010 was \$0.60. For purposes of calculating the aggregate market value of our shares of common stock held by non-affiliates, as shown on the cover page of this report, it has been assumed that all of the outstanding shares were held by non-affiliates except for the shares held by our directors and executive officers and stockholders owning 10% or more of our outstanding shares. However, this should not be deemed to constitute an admission that all such persons are, in fact, affiliates of the Company, or that there are not other persons who may be deemed to be affiliates of the Company. For further information concerning ownership of our securities by executive officers, directors and principal stockholders, see Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

As of March 21, 2011 we had 93 stockholders of record and approximately 2,600 beneficial owners of our common stock. We did not pay dividends in the preceding two years and do not anticipate paying any cash dividends in the foreseeable future. We intend to retain all working capital and earnings, if any, for use in our operations and in the expansion of our business. Any future determination with respect to the payment of dividends will be at the discretion of our Board of Directors and will depend upon, among other things, our results of operations, financial condition and capital requirements, the terms of any then existing indebtedness, general business conditions, and such other factors as our Board of Directors deems relevant. Certain of our credit facilities prohibit or limit the payment of cash dividends without prior bank approval.

For information regarding our equity compensation plans, See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

(c) Recent Sales of Unregistered Securities

None

(d) Issuer Purchases of Securities

The following table summarizes our equity security repurchase during the three months ended December 31, 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Approximate Dollar Shares Purchased Value of Shares that as part of Publicly Announced Plans or Programs		May Yet Be Purchased Under the Plans or Programs (1)
October 1 to October 31, 2010	-	\$ -	-		\$ 1,226,000
November 1 to November 30, 2010	-	\$ -	-		\$ 1,226,000
December 1 to December 31, 2010	-	\$ -	-		\$ 1,226,000
Total	-	\$ -	-		

(1) On August 13, 2007, the Company's Board of Directors approved a share repurchase program to allow the Company to repurchase up to an aggregate \$2,000,000 of its common shares in the future if the market conditions so dictate. As of December 31, 2010, 747,860 shares had been repurchased under this program at a cost of approximately \$774,000.

ITEM 6. SELECTED FINANCIAL DATA

The Company is a "smaller reporting company" as defined by Rule 10(f)(1) of Regulation S-K, and as such is not required to present the information under this Item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion reviews our operations for each of the two years in the periods ended December 31, 2010 and 2009, and should be read in conjunction with our Consolidated Financial Statements and related notes thereto included elsewhere herein.