

MACE SECURITY INTERNATIONAL INC
Form 10-K
March 25, 2009

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, 2008

Commission File No. 0-22810

MACE SECURITY INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

03-0311630
(I.R.S. Employer
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:

Common Stock, par value \$0.01 per share

Name of each exchange on which registered: The NASDAQ Global Market

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

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 (the "Exchange Act") 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

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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, 2008 was approximately \$25,504,000. 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, 2008. 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, 2008 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, 2008.

The number of shares of Common Stock, par value \$0.1 per share, of registrant outstanding as of March 18, 2009 was 16,285,377.

Mace Security International, Inc. and Subsidiaries
Form 10-K
Year Ended December 31, 2008

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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 three segments: Security, Digital Media Marketing, and Car Wash.

Our Security Segment designs, manufactures, assembles, markets and sells a wide range of security products. Our primary focus in the Security Segment is electronic surveillance products and components that we purchase from Asian manufacturers who design equipment to our requirements. We sell the electronic surveillance products and components primarily to installing dealers, distributors, system integrators and end users. Other products in our Security Segment are less-than-lethal Mace® defense sprays and other security devices such as monitors, high-end digital and machine vision cameras and professional imaging components, as well as video conferencing equipment. The main marketing channels for our products are industry shows, trade publications, catalogs, the internet, telephone orders, distributors, and mass merchants.

Our Digital Media Marketing Segment focuses on selling products on third party internet promotional sites. The products we sell are developed internally. We have in the past and may in the future conduct marketing and customer acquisitions for third parties using a proprietary marketing platform. The products we sell on the third party internet promotional sites utilize our proprietary marketing platform.

Our Car Wash Segment owns a total of 12 car washes as of March 18, 2009, one which is closed. All of Mace’s car washes are for sale.

The Company’s periodic reports on Forms 10-K and 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 Security Segment offers a wide variety of security related products. Among the items offered are electronic surveillance products, including analog, digital and IP cameras, digital video recorders, security monitors, matrix switching equipment for video distribution, robotic camera dome systems, system controls, and consoles for system assembly markets. Other products offered are Mace® defense sprays, personal alarms, home security alarms, whistles, door jammers, and window and door lock alarms. We also offer the KinderGard ® product line of childproof security locks, security literature for the domestic and foreign financial community, state-of-the-art training videos, 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 requirements are established by our operating and marketing staffs in Ft. Lauderdale, Florida and Farmers Branch, Texas and 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 us 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 Vermont facility. Our TG Guard® products are also assembled in our Vermont facility.

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

The Security Segment provided 40.9%, 52.7% and 63.3% of our revenues in fiscal years 2008, 2007, and 2006, respectively.

Digital Media Marketing Segment. The Digital Media Marketing Segment is an e-commerce and online marketing business which has two business divisions: (1) e-commerce and (2) online marketing. The online marketing division is currently not active. The segment uses proprietary technologies and software to sell products on the internet, through the e-commerce division. In the past and possibly in the future the Company used its proprietary technology to provide internet marketing services to third party advertisers.

Linkstar, which is our e-commerce division, is a direct-response product business that develops, markets and sells products directly to consumers through the internet promotional sites. We reach the customers predominately through online advertising on third-party promotional websites. The products include: Vioderm, an anti-wrinkle skin care product (www.vioderm.com); Purity by Mineral Science, a mineral cosmetic (www.mineralscience.com); TrimDay™, a weight-loss supplement (www.trimday.com); Eternal Minerals, a dead sea spa product line (www.eternalminerals.com); ExtremeBriteWhite, a teeth whitening product (www.extremebritewhite.com); and Knockout, an acne product (www.knockoutmyacne.com). We continuously develop and test product offerings to determine customer acquisition costs and revenue potential, as well as to identify the most efficient marketing programs.

From the acquisition date, July 20, 2007, through June 2008, our online marketing division, PromoPath, an online affiliate marketing business, 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. PromoPath helped companies create effective performance driven marketing campaigns and provided design, brand and technical support services in order to acquire customers for its advertising clients. PromoPath worked with many large publishers to reach many areas of interactive media. PromoPath’s advertising clients were typically established direct-response advertisers with well recognized brands and broad consumer appeal such as NetFlix, Discover credit cards and Bertelsmann Group. PromoPath generated CPA revenue, both brokered and through co-partnered sites. Promopath may in the future restart its third party marketing business. Currently, PromoPath only provides services to our e-commerce division.

In addition to CPA revenue, PromoPath had two other types of revenue streams. List management revenue, a revenue stream, based on a relationship between a data owner and a list management company. The data owner, PromoPath, compiles, collects, owns and maintains a proprietary computerized database composed of consumer information. PromoPath, as the data owner, granted a list manager a non-exclusive, non-transferable, revocable worldwide license to manage, make use and have access to the data pursuant to defined terms and conditions for which PromoPath is paid revenue. Another type of revenue stream PromoPath had was lead generation or Cost per Lead (“CPL”). Advertisers who purchase potential customers, on a CPL basis are interested in collecting data from consumers expressing interest in a product or service. CPL varies from CPA in that no credit card information for the potential customer needs to be provided to the advertiser for the fee to be paid for the lead.

Revenues within the Digital Media Marketing Segment from the acquisition date of the business, July 20, 2007, were approximately \$7.6 million; consisting of \$4.2 million, or 55.3%, from the e-commerce division and \$3.4 million, or 44.7%, from the online marketing division. (See Note 20, Segment Reporting, to the consolidated financial statements accompanying this report.)

Car Wash Segment. The Company, through its subsidiaries, owned 14 car washes as of December 31, 2008, three of which were closed. As of March 18, 2009, the Company owns 12 car washes in Texas, one of which is closed. The 12 locations consist of 11 full service car washes and one self service car wash location. The full service car washes 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.

Our typical car wash facility consists of a free standing building of approximately 4,000 square feet, containing a sales area for impulse items and a car wash tunnel. Cars are moved through the car wash tunnel by a conveyor system. Inside the tunnel, automatic equipment cleans the vehicle as it moves past the equipment. Additional services, including wheel cleaning, fragrance, rust protection treatment, wheel treatments, and waxing are also offered at the locations. Many of our locations also offer other consumer products and related car care services, such as professional automotive detailing services (currently offered at 11 locations), oil and lubrication services (currently offered at 5

locations), gasoline dispensing services (currently offered at 10 locations), state inspection services (currently offered at 5 locations), convenience store sales (currently offered at one location), and merchandise sales (currently offered at 11 locations). The Car Wash Segment provided 25.1%, 29.2% and 36.7% of our revenues in fiscal years 2008, 2007 and 2006, respectively. (See Note 20, Segment Reporting to the consolidated financial statements accompanying this report.)

Our car wash operations are not dependent on any one or a small number of customers. The nature of our car wash operations does not result in a backlog of orders at any time, and all of our car wash revenues are derived from sales in the United States.

For a discussion of seasonal effects on our car wash operations, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations-Seasonality and Inflation.

BUSINESS STRATEGIES

Security Segment.

Internal Growth. The Security Segment designs, manufactures, markets and sells a wide range of security products. For the year ended December 31, 2008, revenues from the Security Segment were \$20.7 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 \$10.7 million in 2008. Growth has been principally achieved through acquiring businesses and through internal growth through development of new product offerings, as well as expanded advertising and marketing efforts. We are currently pursuing the strategy of acquiring a wholesale alarm monitoring company. If acquired, the wholesale alarm monitoring company will offer 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 Mace Security International, Inc., manages the correct use of the Mace® trademark by Mace Security International, Inc. and Armor Holdings, Inc. (See also Trademarks and Patents, page 8). 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 consumer defense spray market is approximately \$18 million to \$20 million in annual revenues and that the 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 US Patent Office and internationally through the Patent Co-operation Treaty (PCT).

During the six months ended December 31, 2008, we implemented company wide cost savings measures, including a reduction in employees throughout the entire Company, and began a consolidation of our Security Segment's electronic surveillance equipment operations in Ft. 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. Our professional security sales and administrative team remained in Florida with our security catalog sales team being located in Texas. Our intended goals of the reorganization are to better 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 to streamline our organization structure and management team for improved long-term growth.

Operating Agreements and Acquisitions. On August 12, 2002, the video systems and system component products were added to the Security Segment when we acquired certain of the assets and operations of Micro-Tech, Inc., a manufacturer and retailer of video security and surveillance devices. Plasma and video security monitors were added to the Security Segment on September 26, 2003 when we acquired certain assets and the operations of Vernex, Inc., a manufacturer and retailer of plasma and CRT video monitors. We added a line of high-end digital and machine vision cameras and professional imaging components, Industrial Vision Source ("IVS"), and a line of consumer "do it yourself" video surveillance systems, SecurityandMore ("S&M"), on July 1, 2004, when we acquired the two businesses from American Building Control, Inc. On November 23, 2005 we acquired the inventory and customer accounts of Securetek, Inc. which specializes in the sale of electronic surveillance products to security alarm dealers and installers. The acquired businesses were relocated and integrated into our existing security operations.

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 to

the Mace® brand name; (iv) market penetration of existing products; 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.

Digital Media Marketing Segment.

Sales. We have been increasing sales and customer acquisition efforts and expenses in our e-commerce division. The Purity cosmetics product line is, to date, our most successful product line and is anticipated to remain stable. We also anticipate additional growth from our recent launch of new products such as our Extreme BriteWhite, our teeth whitening product; Knockout, our acne product and continued expansion of our other current product lines.

Operating Efficiency. In an effort to streamline and strengthen internal operations, we have consolidated all internal operations of our Digital Media Marketing Segment in our Wexford, Pennsylvania office, a suburb of Pittsburgh, Pennsylvania. We maintain a sales presence throughout the country. We consolidated the Digital Media Marketing Segment's e-commerce division's shipping and fulfillment functions within our security warehouse and shipping facility in Farmers Branch, Texas in 2008. We plan to lease warehouse space in the Wexford, Pennsylvania area in 2009 and move the e-commerce division's shipping and fulfillment functions to Pennsylvania. We believe that the consolidation provides savings in operating costs, overhead, and personnel.

Acquisition. On July 20, 2007, the Digital Media Marketing Segment was added to our operations when all of the outstanding common stock of Linkstar was purchased from Linkstar's shareholders. The acquisition of Linkstar provides us with a presence in the online and digital media services industry. We paid approximately \$10.5 million to the Linkstar shareholders consisting of \$7.0 million in cash at closing, \$500,000 of promissory notes bearing a 5% interest rate paid on January 3, 2008 and 1,176,471 unregistered shares of the Company's common stock. The Company's stock was issued based on a closing price of \$2.55 per share or a total value of \$2.9 million.

Car Wash Segment.

Sales. We intend to maintain our revenues of the car washes we own while we continue to sell the car washes. We intend to maintain the revenues by providing superior service and through our existing marketing efforts. To maintain market share in a given operating region, we spend approximately 2% to 3% of regional revenue on regional advertising campaigns emphasizing coupons to attract volume with discount offers and brand awareness.

Operating Efficiency. We have implemented programs to take advantage of certain economies of scale in such areas as the purchase of equipment, chemicals, supplies and parts, equipment maintenance, data processing, financing arrangements, employee benefits, insurance and communications. We train our operating personnel to emphasize customer service, labor efficiency, safe operations, and sales of add-on and ancillary services.

Acquisitions and Divestitures. We acquired our car and truck washes between May 1999 and December 2000. Our current strategy is to sell the car washes we own. From December 2005 to March 18, 2009, we have sold 37 car washes including all of our car washes in the Northeast, Arizona, Florida and San Antonio, Texas regions. The five truck washes we had owned were sold in 2007.

On January 14, 2009, we sold our two remaining San Antonio, Texas car washes. The sales price of the car washes was \$1,000,000, resulting in a loss of approximately \$7,000. The sales price was paid by the buyer issuing us a secured promissory note in the amount of \$750,000 bearing interest at 6% per annum. Additionally, on January 15, 2009, we entered into an agreement of sale for two of the three car washes we own in Austin, Texas for a sale price of \$6,000,000. The net book value of these two washes is approximately \$5,300,000. The transaction is conditioned upon the buyer being satisfied with a Phase 2 environmental study that is being conducted on the two sites. No assurances can be given the transaction will be consummated.

We currently own 12 car washes, as of March 18, 2009, all located in Texas. We are marketing our car washes individually and in groups. We are considering offers for our car washes and evaluate 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 and Digital Media Marketing Segments. We seek to grow the Security and Digital Media Marketing Segments through acquisitions, new product development and new market penetration.

MARKETING

Security Segment. Our electronic surveillance products and components are marketed through several sales channels, such as catalogs, the internet, mass merchants, exhibitions at national trade shows 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 self defense sprays are available for purchase at mass merchant/department stores, gun shops, sporting goods stores, hardware, auto, convenience and drug stores. 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 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 5% or more of our consolidated revenues for the fiscal year ended December 31, 2008. 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.

Digital Media Marketing Segment. All e-commerce products and services are marketed on third party promotional internet sites. We are continuing to increase the products offered by our Linkstar e-commerce division, with the successful launch of our mineral cosmetic line, Purity, in late 2007, the launch of Eternal Minerals, a Dead Sea spa product line in the Spring of 2008 and ExtremeBriteWhite, a teeth whitening product in late 2008. We intend to concentrate on expanding our existing product lines, building brand awareness, and launching three to four new product lines in 2009.

Car Wash Segment. The car care industry services customers on a local and regional basis. We employ operational and customer service people at our operating locations. The operational and customer service people are supervised by the management of the operating locations. We emphasize providing quality services as well as customer satisfaction and retention. We market our services through regional coupon advertising, direct mail marketing programs and radio and television advertisements. We have a diverse customer base, with no single customer accounting for 5% or more of our consolidated revenues for the fiscal year ended December 31, 2008. We do not believe that the loss of any single customer would have a material adverse effect on our business or results of operations.

PRODUCTION AND SUPPLIES

Security Segment. Our electronic surveillance products and system component requirements are established at our Ft. Lauderdale, Florida and Farmers Branch, Texas facilities and are manufactured principally in Korea, China, and other foreign countries, by original equipment manufacturers ("OEM"). 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, MaceCash™, a dye pack system, 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.

Digital Media Marketing Segment. Our Linkstar e-commerce division is located in Wexford, Pennsylvania (a suburb of Pittsburgh). Shipping and fulfillment for the e-commerce division is performed in the Company's Dallas, Texas warehouse location and from a third-party fulfillment center. The products sold by the e-commerce division are manufactured within the US as well as China and other foreign countries. The packaging of products is also currently obtained through suppliers in the US and China.

Car Wash Segment. We do not manufacture any of the car wash equipment or supplies which we use. There are numerous suppliers of car wash equipment and supplies.

COMPETITION

Security Segment. 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. Our high-end digital and machine vision camera operation, IVS, is a large distributor of Sony® products. Customers of IVS who achieve a high Sony® product purchasing level, qualify for purchasing directly from Sony®. IVS occasionally loses high volume customers to Sony. 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.

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, 2008, 2007 and 2006 and increased sales in TG Guard systems in 2006 and 2007. We attribute the increased sales to improved marketing, including improvements in our website, as well as an increase in government spending on purchasing our TG Guard systems for embassy, prison and safe room installations.

Digital Media Marketing Segment. Linkstar, our e-commerce division, competes with product development and marketing companies, both on and offline. Our success relies on creating innovative products attractive to consumers, and being able to gain and protect market share for successful product lines. We compete with numerous well-established national and regional companies such as ValueClick, Think Partnership, Syndero, Intelligent Beauty, Guthy-Renker, and Bare Escentuals. PromoPath, our online marketing division, currently is not conducting any business except for the placement of Linkstar's e-commerce products on third-party promotional websites.

Car Wash Segment. The car care industry is a highly fragmented industry comprised of many large and small businesses. We compete principally with locally-owned car wash facilities and other regional car wash chains which may, in many instances, be located near our car washes. The car care industry is highly competitive. Competition is based primarily on location, facilities, customer service, available services and price. We also face competition from sources outside the car wash industry, such as gas stations that offer automated car wash services. Barriers to entry in the car care industry are relatively low. Competition is always entering our existing markets from new sources not currently competing with us.

TRADEMARKS AND PATENTS

Security Segment. 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. Additionally, we have recently obtained trademarks for Mace Pepper Gel® and have filed trademark applications for Hot Pink Mace 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.

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.

With the 2004 acquisition of S&M and IVS, we obtained the following trademarks used in our Security Segment: SecurityandMore®, SecurityandMore.com®, Industrial Vision Source®, Security Outsourcing Solutions™, Observision®, ProtectItNow!®, Easy Watch®, Focus Vision 4 Observation System (Stylized)® and SmartChoice®.

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.

Digital Media Marketing Segment. We are applying for trademarks and service marks for the brands we sell on the internet.

Car Wash Segment. We own a registered service mark for Super Bright®. Super Bright® is our brand name in our Lubbock, Texas locations. We operate our remaining car washes in our Texas regions under locally recognizable names such as Colonial Car Wash in Dallas, Texas and Genie Car Wash in Austin, Texas.

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GOVERNMENT REGULATION/ENVIRONMENTAL COMPLIANCE

Security Segment. 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 Environmental Protection Agency (“EPA”) conducted a site investigation at the Company’s Bennington, Vermont location and the building within which the facility is located. The Company leases 44,000 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. Subsequent to the investigation, the EPA notified the Company and the building owner that remediation of certain hazardous wastes were required. 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. The Company has not received any comments from the EPA regarding the final report. A total estimated cost of approximately \$710,000 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, 2008. This amount represents management’s best estimate of probable loss, as defined by SFAS No. 5, Accounting for Contingencies. Approximately \$593,000 has been paid to date, leaving an accrual balance of \$117,000 at December 31, 2008 for estimated EPA costs. The initial accrual of \$285,000 recorded at December 31, 2007 was increased by \$380,000 in the first quarter and \$65,000 in the second quarter due to there being more hazardous waste to dispose of than originally estimated, increased cost estimates for additional EPA requirements in handling and oversight related to disposing of the hazardous waste, and the cost of obtaining additional engineering reports requested by the EPA. The accrual for waste disposal was decreased by \$27,000 in the third quarter when the final hazardous materials and waste were disposed of and the actual cost of disposal of the waste was determined and increased by \$7,000 in the fourth quarter due to the actual cost of preparing final engineering reports exceeding original estimated costs.

In addition to the EPA site investigation, the United States Attorney for the District of Vermont (“U.S. Attorney”) conducted a search of the Company’s Bennington, Vermont location and the building in which the facility is located, during February 2008 under a search warrant issued by the U.S. District Court for the District of Vermont. On May 2, 2008, the U.S. Attorney issued a grand jury subpoena to the Company. The subpoena required the Company to provide the U.S. Attorney documents related to the storage, disposal and transportation of materials at the Bennington, Vermont location. The Company has supplied the documents and fully cooperated with the U.S. Attorney’s investigation and will continue to do so. The Company is unable at this time to determine whether further action will be taken by the U.S. Attorney or if any charges, fines or penalties will be imposed on the Company. The Company has made no provision for any future costs associated with the investigation.

Digital Media Marketing Segment. We believe that we currently comply with all state and federal laws within our online marketing practices. However, the online marketing segment has come under increased scrutiny by the Federal Trade Commission (“FTC”) and several state Attorney Generals in regards to online lead generation practices. Because

our online marketing and e-commerce sites could be impacted, we are closely monitoring any changes to state or federal laws and FTC guidelines. In addition, any changes to laws impacting the import or sale of any products within our e-commerce division could adversely impact revenues, although we believe this to be of minimal risk in the near future.

Car Wash Segment. We are subject to various local, state, and fede