MACE SECURITY INTERNATIONAL INC
Form 10-Q
May 05, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED MARCH 31, 2004 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 incorporation or organization) | (I.R.S. Employer Identification No.) |

1000 Crawford Place, Suite 400, Mt. Laurel, NJ 08054
(Address of Principal Executive Offices)

Registrant's Telephone No., including area code: (856) 778-2300

Indicate by checkmark 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 report), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No X

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock:

As of May 3, 2004 there were 13,286,056 Shares of Registrant's Common Stock, par value $.01 per share, outstanding.

Mace Security International, Inc.
Form 10-Q
Quarter Ended March 31, 2004

Contents

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Mace Security International, Inc.
Consolidated Balance Sheets

(In thousands except share information)

| ASSETS | March 31, 2004 (Unaudited) | December 31, 2003 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 3,651 | $ 3,414 |
| Accounts receivable, less allowance for doubtful accounts of $292 and $263 in 2004 and 2003, respectively | 1,555 | 1,531 |
| Inventories | 3,295 | 3,780 |
| Deferred income taxes | 265 | 266 |
| Prepaid expenses and other current assets | 2,089 | 1,878 |

| | | |
|---|---|---|
| Total current assets | 10,855 | 10,869 |
| Property and equipment: | | |
| Land | 31,391 | 31,391 |
| Buildings and leasehold improvements | 34,917 | 34,871 |
| Machinery and equipment | 10,267 | 10,172 |
| Furniture and fixtures | 447 | 447 |
| Total property and equipment | 77,022 | 76,881 |
| Accumulated depreciation | (11,226) | (10,738) |
| Total property and equipment, net of accumulated depreciation | 65,796 | 66,143 |
| Goodwill | 10,623 | 10,623 |
| Other intangible assets, net of accumulated amortization of $1,388 and $1,373 in 2004 and 2003, respectively | 1,006 | 991 |
| Deferred income taxes | 1,708 | 1,820 |
| Other assets | 143 | 156 |
| Total assets | $ 90,131 | $ 90,602 |

See accompanying notes.



| LIABILITIES AND STOCKHOLDERS' EQUITY | March 31, 2004 | December 31, 2003 |
|---|---|---|
| | (Unaudited) | |
| Current liabilities: | | |
| Current portion of long-term debt and capital lease obligations | $ 5,404 | $ 5,520 |
| Accounts payable | 2,055 | 2,658 |
| Income taxes payable | 248 | 172 |
| Deferred revenue | 346 | 402 |
| Accrued expenses and other current liabilities | 2,375 | 1,847 |
| Total current liabilities | 10,428 | 10,599 |
| Long-term debt, net of current portion | 25,085 | 25,591 |
| Capital lease obligations, net of current portion | 138 | 175 |
| Other liabilities | 12 | 25 |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value: | | |
| Authorized shares - 10,000,000 | | |
| Issued and outstanding shares - none | - | - |
| Common stock, $.01 par value: | | |
| Authorized shares - 100,000,000 | | |
| Issued and outstanding shares of 12,478,350 and 12,451,771 in 2004 and 2003, respectively | 125 | 125 |
| Additional paid-in capital | 69,824 | 69,785 |

| | | |
|---|---|---|
| Accumulated deficit | (15,481) | (15,698) |
| Total stockholders' equity | 54,468 | 54,212 |
| Total liabilities and stockholders' equity | $ 90,131 | $ 90,602 |

See accompanying notes.

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Mace Security International, Inc.
Consolidated Statements of Operations
(Unaudited)

(In thousands except share information)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Revenues: | | |
| Car wash and detailing services | $ 8,910 | $ 9,545 |
| Lube and other automotive services | 930 | 1,021 |
| Fuel and merchandise sales | 959 | 920 |
| Security products sales | 1,876 | 1,125 |
| | 12,675 | 12,611 |
| Cost of revenues: | | |
| Car wash and detailing services | 6,287 | 6,705 |
| Lube and other automotive services | 705 | 777 |
| Fuel and merchandise sales | 826 | 795 |
| Security products sales | 1,180 | 654 |
| | 8,998 | 8,931 |
| Selling, general and administrative expenses | 2,471 | 2,220 |
| Depreciation and amortization | 500 | 485 |
| Operating income | 706 | 975 |
| Interest expense, net | (479) | (522) |
| Other income | 112 | 82 |
| Income before income taxes | 339 | 535 |
| Income tax expense | 122 | 193 |
| Net income | $ 217 | $ 342 |

| | | |
|---|---|---|
| Per share of common stock (basic and diluted): | | |
| Net income | $ 0.02 | $ 0.03 |
| Weighted average shares outstanding: | | |
| Basic | 12,461,029 | 12,410,279 |
| Diluted | 12,618,837 | 12,416,564 |

See accompanying notes.



Mace Security International, Inc.
Consolidated Statement of Stockholders' Equity
(Unaudited)

(In thousands except share information)

| | Number of Common Shares | Par Value of Common Stock | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2003 | 12,451,771 | $ 125 | $ 69,785 | $ (15,698) | $ 54,212 |
| Exercise of common stock options | 20,000 | - | 26 | - | 26 |
| Common stock issued in purchase acquisition | 6,579 | - | 13 | - | 13 |
| Net income | - | - | - | 217 | 217 |
| Balance at March 31, 2004 | 12,478,350 | $ 125 | $ 69,824 | $ (15,481) | $ 54,468 |

See accompanying notes.



Mace Security International, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |

| | | |
|---|---|---|
| Operating activities | | |
| Net income | $ 217 | $ 342 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 500 | 485 |
| Provision for losses on receivables | 32 | 9 |
| Deferred income taxes | 112 | 173 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (56) | (266) |
| Inventories | 484 | (661) |
| Accounts payable | (603) | (419) |
| Deferred revenue | (56) | (36) |
| Accrued expenses | 529 | 123 |
| Income taxes | 77 | 17 |
| Prepaid expenses and other assets | (195) | 254 |
| Net cash provided by operating activities | 1,041 | 21 |
| Investing activities | | |
| Purchase of property and equipment | (141) | (149) |
| Payments for intangibles | (29) | (7) |
| Net cash used in investing activities | (170) | (156) |
| Financing activities | | |
| Payments on long-term debt and capital lease obligations | (660) | (591) |
| Proceeds from issuance of common stock | 26 | - |
| Payments to purchase stock | - | (2) |
| Net cash used in financing activities | (634) | (593) |
| Net increase (decrease) in cash and cash equivalents | 237 | (728) |
| Cash and cash equivalents at beginning of period | 3,414 | 6,189 |
| Cash and cash equivalents at end of period | $ 3,651 | $ 5,461 |

See accompanying notes.

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Mace Security International, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of Mace Security International, Inc. and its wholly owned subsidiaries (collectively "the Company" or "Mace"). All significant intercompany transactions have been eliminated in consolidation. These consolidated interim financial statements reflect all adjustments (including normal recurring accruals), which in the opinion of management, are necessary for a fair presentation of results of operations for the interim periods presented. The results of operations for the three month period ended March 31, 2004 are not necessarily indicative of the operating results for the full year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. Certain amounts in the 2003 financial statements have been reclassified to conform to the 2004 presentation. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

2. New Accounting Standards

In January 2003, the Financial Accounting Standards Board ("FASB") released Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46") which requires that all primary beneficiaries of Variable Interest Entities ("VIE") consolidate those entities. FIN 46 is effective immediately for VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to VIEs in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities are required to apply the provisions of the interpretation in financial statements for periods ending after March 14, 2004. The Company does not have interests in special purpose entities and the adoption of FIN 46R did not have an impact on the Company's consolidated financial position, results of operations, or cash flows.

3. Other Intangible Assets

The following table reflects the components of intangible assets, excluding goodwill (in thousands):

| | March 31, 2004 | | December 31, 2003 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets: | | | | |
| Non-compete agreement | $ 88 | $ 9 | $ 65 | $ 7 |
| Customer list | 62 | 29 | 62 | 23 |
| Deferred financing costs | 397 | 165 | 390 | 158 |
| Total amortized intangible assets | 547 | 203 | 517 | 188 |
| Non-amortized intangible assets: | | | | |
| Trademarks - Security Products Segment | 1,731 | 1,175 | 1,731 | 1,175 |
| Service mark - Car and Truck Wash Segment | 116 | 10 | 116 | 10 |
| Total non-amortized intangible assets | 1,847 | 1,185 | 1,847 | 1,185 |

| | | | | |
|---|---|---|---|---|
| Total intangible assets | $ 2,394 | $ 1,388 | $ 2,364 | $ 1,373 |



The following sets forth the estimated amortization expense on intangible assets for the fiscal years ending December 31 (in thousands):

| | |
|---|---|
| 2004 | $69 |
| 2005 | 50 |
| 2006 | 35 |
| 2007 | 32 |
| 2008 | 24 |

4. Business Combinations

From April 1, 1999 through July 26, 2000, the Company acquired 62 car care facilities and five truck wash facilities through the acquisition of 17 separate businesses including: 42 full service facilities, one self service facility, 11 exterior only facilities and one lube center in Pennsylvania, New Jersey, Delaware, Texas, Florida, and Arizona; 11 facilities were subsequently divested or closed. The five full service truck wash facilities are located in Arizona, Indiana, Ohio, and Texas. Additionally, on August 12, 2002, the Company entered the electronic surveillance equipment and device business by acquiring the inventory, certain other assets and the operations of Micro-Tech Manufacturing, Inc. ("Micro-Tech").

On September 26, 2003, a wholly owned subsidiary within the Company's Security Products Segment acquired the inventory, certain other assets and the operations of Vernex, Inc., a manufacturer and retailer of electronic security monitors. Total consideration under the agreement was $213,000 cash. The agreement also provides for additional cash consideration based on sales performance for a twelve-month period subsequent to closing. This transaction was accounted for using the purchase method of accounting in accordance with SFAS 141, Business Combinations.

5. Stock Based Compensation

The Company accounts for stock options under Statement of Financial Accounting Standards ("SFAS") 123, Accounting for Stock-Based Compensation, as amended by SFAS 148, which contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS 123 permits entities to continue accounting for employee stock options and similar equity instruments under Accounting Principles Board ("APB") Opinion 25, Accounting for Stock Issued to Employees. Entities that continue to account for stock options using APB Opinion 25 are required to make pro forma disclosures of net income and earnings per share as if the fair value-based method of accounting defined in SFAS 123 had been applied.

At March 31, 2004, the Company had two stock based employee compensation plans. The Company accounts for the plans under the recognition and measurement principles of APB 25, Accounting for Stock Issued to Employees, and related interpretations. Stock-based employee compensation costs are not reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands, except per share amounts):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Net income, as reported | $ 217 | $ 342 |
| Less: Stock-based compensation costs under fair value based method for all awards | (88) | (75) |
| Pro forma net income | $ 129 | $ 267 |
| Earnings per share - basic and diluted | | |
| As reported | $ 0.02 | $ 0.03 |
| Pro forma | $ 0.01 | $ 0.02 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions for grants in the quarter ended March 31, 2003: expected volatility of 61%; risk-free interest rate of 4.07%; and expected life of 10 years. In the quarter ended March 31, 2004, 170,000 options were granted with an expected volatility of 20%, risk-free interest rates ranging from 3.80% to 4.05%; and expected life of 10 years.

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6. Commitments and Contingencies

In December 1999, the Company was named as a defendant in a suit filed in the Supreme Court of the State of New York by Janeen Johnson et. al. The litigation concerns a claim that a self-defense spray manufactured by the Company and used by a law enforcement officer contributed to the suffering and death of Christopher Johnson. This suit has been settled within the limits of our insurance coverage.

In 2000, the Company was named as a defendant in a suit filed in the United States District Court for the District of Colorado by Robert Rifkin. The suit alleges that the Company and its transfer agent delayed in the removal of a restrictive legend from certain shares of Company common stock owned by the plaintiff, and that the delay caused the plaintiff to incur a loss in excess of $335,000. Though the outcome of litigation is always uncertain, the Company believes that there was no delay in the removal of the legend from the shares.

In July 2001, the Company filed a lawsuit in the Supreme Court of New York County of the State of New York against LTV Networks, Inc. ("LTV") to collect upon a promissory note in the amount of $100,000. In January 2002, defendant LTV filed an answer to the suit denying liability under the promissory note and making counterclaims. The counterclaims allege that the Company had agreed to lend LTV $500,000 and that LTV has been damaged in the amount of $10 million because the Company only lent $100,000 to LTV. The Company has filed a summary judgment motion which requests a judgment on the promissory note and a dismissal of the defendant's counterclaims. On August 29, 2003, LTV filed a Voluntary Petition for Chapter 11 Reorganization in the United States Bankruptcy Court, Southern District of New York (the "Petition"). The Petition had the effect of operating as a stay on the State Court proceedings. The Bankruptcy Court lifted the stay in the first quarter of 2004, enabling the Company to proceed with its summary judgment motion. Though the outcome of litigation is always uncertain, the Company currently believes that the counterclaims are without merit and intends to assert its claims in the Bankruptcy proceedings.

In May 2002, the Company was named as one of three defendants in a suit filed by Timothy Gamradt and Carla Gamradt in the United States District Court for the District of Minnesota. The litigation alleges that the plaintiffs are entitled to damages against the Company due to injuries allegedly sustained by Mr. Gamradt when a pyrotechnic smoke device known as the "Black Smoke Device" was discharged by Mr. Gamradt's superior during a training exercise at a federal prison facility at which Mr. Gamradt was employed as a guard. Mr. Gamradt alleges that when the device was activated, he suffered injuries to his lungs. We have forwarded the suit to our insurance carrier for defense. We do not anticipate that this claim will result in the payment of damages in excess of our insurance coverage.

In July 2002, the Company and its former president, Jon Goodrich, were named as defendants in a lawsuit in the Supreme Court of New York County of the State of New York filed by Armor Holdings, et al. The suit alleges that the Company and Mr. Goodrich had violated the non-compete terms of various agreements entered into in April 1998, which transferred certain of the Company's then lines of business to the plaintiffs. The suit also alleges that the Company violated a right of first refusal on sale granted to plaintiffs when the Company entered into a Management Agreement with Mark Sport, Inc.("Mark Sport") to operate the Company's Security Products Segment. The lawsuit requests $15 million in damages. Though the outcome of litigation is always uncertain, the Company believes that all of the claims are without merit.

In December 2003, one of the Company's car wash subsidiaries was named as a defendant in a suit filed by Kristen Sellers in the Circuit Court of the Twelfth Judicial Circuit in and for Sarasota County, Florida. The suit alleges that the plaintiff is entitled to damages due to psychological injury and emotional distress sustained when an employee of the car wash allegedly assaulted Ms. Sellers with sexually explicit acts and words. The Company's subsidiary is alleged to have been negligent in hiring, retaining and supervising the employee. The Company forwarded the suit to its insurance carrier for defense. We do not anticipate that this claim will result in the payment of damages in excess of the Company's insurance coverage.

The Company has produced documents requested in a subpoena issued in connection with an investigation being conducted by the United States Securities and Exchange Commission of possible securities law violations. The subpoena was issued on October 27, 2003. The subpoena requested documents and information which would identify persons who knew of two transactions involving the Company prior to Mace's public announcement of the transactions. The transactions were announced by Mace on March 29, 1999 and were consummated in July of 1999. The subpoena also requested documents relating to Mace' s dealings with two investment banking firms and certain of their employees. Mace intends to fully cooperate with the United States Securities and Exchange Commission's investigation.

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 is material in relation to the Company's results of operations, liquidity, cash flows or financial condition.

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Although the Company is not aware of any substantiated claim of permanent personal injury from its products, the Company is aware of reports of incidents in which, among other things; defense sprays have been mischievously or improperly used, in some cases by minors; have not been instantly effective; or have been ineffective against enraged or intoxicated individuals.

The Company is subject to federal and state environmental regulations, including rules relating to air and water pollution and the storage and disposal of oil, other chemicals and waste. The Company believes that it complies, in all material respects, with all applicable laws relating to its business.

Certain of the Company's executive officers have entered into employee stock option agreements whereby options issued to them shall be entitled to immediate vesting upon a change in control of the Company. Additionally, the employment agreement of the Company's Chief Executive Officer, Louis D. Paolino, Jr., entitles Mr. Paolino to receive a fee of $2.5 million upon termination of employment under certain conditions. The employment agreement also provides for a bonus of $2.5 million upon a change in control.

7. Subsequent Events

On April 16, 2004, we received approximately $9.0 million in cash from Price Legacy Corporation in exchange for the Company removing a contractual restriction that prohibited Price Legacy Corporation from selling 1,750,000 shares of the Company's common stock without the Company's approval. Price Legacy Corporation (formerly Excel Legacy Holdings, Inc.) purchased 125,000 restricted shares in July of 1999 and received 1,750,000 shares in October of 1999 in a transaction in which the Company purchased the car wash assets of Millennia Car Wash, LLC (Millennia). The assets consisted of 17 full service car washes, five lube and repair centers, eight fuel sales operations, and 17 convenience stores in the Phoenix, Arizona and San Antonio, Texas markets. The proceeds will be used as part of working capital.

On April 20, 2004, the Company purchased a 20,000 square foot facility in Fort Lauderdale, Florida, to serve as its regional headquarters for the Electronic Surveillance Products Division. Consideration for the facility consisted of 250,000 registered shares of the Company's common stock.

The Master Facility Agreement between the Company and Fusion Capital Fund II, LLC ("Fusion") and the Equity Purchase Agreement between the Company and Fusion is terminated. Under the Master Facility Agreement, the Company had entered into an Equity Purchase Agreement on April 17, 2000. Under the Equity Purchase Agreement, Fusion had the right and obligation to purchase up to $10,000,000 of the Company's common stock under certain conditions. On April 21, 2004, the Company and Fusion entered into a termination and release agreement to resolve a dispute that arose between the Company and Fusion. The dispute arose out of Fusion's claim that it was entitled to purchase approximately 690,000 shares of the Company's common stock at a price of $2.32 per share under the terms of the Equity Purchase Agreement. The Company's position was that Fusion did not have the right to purchase the 690,000 shares. On April 21, 2004, the dispute was resolved by the Company and Fusion entering into an agreement that provided (i) the Company sell to Fusion 150,000 registered shares of common stock at $2.32 per share, (ii) the Master Facility Agreement and Equity Purchase Agreement are terminated, and (iii) the Company has the unilateral right exercisable through May 31, 2004 to enter into a new common stock purchase agreement with Fusion for $10,000,000 of common stock. The new agreement would have a provision prohibiting Fusion from purchasing shares below a minimum purchase price to be selected by the Company. On April 22, 2004, Fusion purchased 150,000 shares of the Company's common stock at $2.32 per share, in accordance with the termination and release agreement.

8. Business Segments Information

The Company currently operates in two segments: the Car and Truck Wash Segment, supplying complete car care services (including wash, detailing, lube, and minor repairs), fuel, and merchandise sales; and the Security Products Segment. The Security Products Segment is comprised of two operating divisions; the Electronic Surveillance Products Division and Consumer Products Division. The Consumer Products Division designs, markets and sells consumer products for use in home and automobile and for personal protection. The Electronic Surveillance Products Division designs, markets and sells cameras, digital video recorders (DVR's), and monitors.

Financial information regarding the Company's segments is as follows (in thousands):

| | Car and Truck Wash | Security Products | Corporate Functions * |
|---|---|---|---|
| Three months ended March 31, 2004 | | | |
| Revenues from external customers | $ 10,799 | $ 1,876 | $ - |
| Intersegment revenues | $ - | $ 3 | $ - |
| Segment operating income (loss) | $ 1,456 | $ (1) | $ (749) |
| Segment assets | $ 82,841 | $ 7,290 | $ - |
| Goodwill | $ 10,381 | $ 242 | $ - |
| Capital Expendiutres | $ 136 | $ 6 | $ - |
| Three months ended March 31, 2003 | | | |
| Revenues from external customers | $ 11,486 | $ 1,125 | $ - |
| Intersegment revenues | $ - | $ - | $ - |
| Segment operating income (loss) | $ 1,680 | $ (27) | $ (678) |
| Capital Expenditures | $ 138 | $ 11 | $ - |

* Corporate functions include the corporate treasury, legal, financial reporting, information technology, corporate tax, corporate insurance, human resources, investor relations, and other typical centralized administrative functions.

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of its financial statements. The Company bases its estimates on historical experience, actuarial valuations and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Some of those judgments can be subjective and complex, and consequently, actual results may differ from these estimates under different assumptions or conditions. We must make these estimates and assumptions because certain information that we use is dependent on future events and cannot be calculated with a high degree of precision from the data currently available. Such estimates include the Company's estimates of reserves such as the allowance for doubtful accounts, inventory valuation allowances, insurance losses and loss reserves, valuation of long-lived assets, estimates of realization of income tax net operating loss carryforwards, as well as valuation calculations such as the Company's goodwill impairment calculations under the provisions of SFAS 142, Goodwill and Other Intangible Assets.

10. Income Taxes

The Company recorded income tax expense of $122,000 and $193,000 for the three months ended March 31, 2004 and 2003, respectively. Income tax expense reflects the recording of income taxes on income at an effective rate of approximately 36% in both 2004 and 2003. The effective rate differs from the federal statutory rate for each year primarily due to state and local income taxes, non-deductible costs related to intangibles, fixed asset adjustments and changes to the valuation allowance.

11. Related Party Transactions

Effective August 1, 2000, Mace entered into a five-year lease with Bluepointe, Inc., a corporation controlled by Louis D. Paolino, Jr., Mace's Chairman, Chief Executive Officer and President, for Mace's executive offices in Mt. Laurel, New



Jersey. The lease terms were subject to a survey of local real estate market pricing and approval by the Company's Audit Committee and provide for an initial monthly rental payment of $15,962, which increases by 5% per year in the third through fifth years of the lease. Mace believes that the terms of this lease (based on an annual rate of $19.00 per square foot) are competitive when compared to similar facilities in the Mt. Laurel, New Jersey area.

The Company purchased charter airline services from Air Eastern, Inc., and LP Learjets, LLC, charter airline companies owned by Louis D. Paolino, Jr., the Company's Chairman, Chief Executive Officer and President. On November 6, 2001, the Audit Committee approved an arrangement subject to quarterly review under which the Company prepaid LP Learjets, LLC $5,109 per month for the right to use a Learjet 31A for 100 hours per year. The prepayments ceased in July, 2002. When the Learjet 31A is used, the prepaid amount is reduced by the hourly usage charge as approved by the Audit Committee, and the Company pays to third parties unaffiliated with Louis D. Paolino, Jr., the direct costs of the Learjet's per-hour use, which include fuel, pilot fees, engine insurance and landing fees. The balance of unused prepaid flight fees total $31,659 at March 31, 2004.

From February 2000 through April 2002, the Company and Mark Sport, Inc. ("Mark Sport") were parties to a Management Agreement. Mark Sport is a Vermont corporation controlled by Jon E. Goodrich, a former director and current employee of the Company. Mr. Goodrich was a director from December 1987 through December 2003. Under the Management Agreement, as amended, Mark Sport operated the Company's Security Products Segment and received all profits or losses from January 1, 2000 to April 30, 2002 in exchange for certain payments to the Company. At March 31, 2004, Mark Sport owed the Company $127,000 in payments under the Management Agreement. Subsequent to March 31, 2004, the outstanding balance owed by Mark Sport to the Company was paid in full.

The Company's Consumer Products Division leases manufacturing and office space under a five-year lease with Vermont Mill, Inc. ("Vermont Mill"), which provides for monthly lease payments of $9,167 through November 2004. The Company has exercised an option to continue the lease through November 2009. The rent will increase by a CPI factor in November 2004. Vermont Mill is controlled by Jon E. Goodrich, a former director and current employee of the Company. The Company believes that the lease rate is lower than lease rates charged for similar properties in the Bennington, Vermont area. On July 22, 2002, the lease was amended to provide Mace the option and right to cancel the lease with proper notice and a payment equal to six months of the then current rent for the leased space occupied by Mace. On March 1, 2004, Vermont Mill agreed to pay the $127,000 that Mark Sport owed the Company by giving the Company a monthly rent reduction of $1,700. Subsequent to March 31, 2004, the outstanding balance owed by Mark Sport to the Company was paid in full.

Vermont Mill borrowed a total of $228,671 from the Company through December 31, 2001. On February 22, 2002, Vermont Mill executed a three year promissory note with monthly installments of $7,061 including interest at a rate of 7%. The Company's Lease Agreement with Vermont Mill provides for a right of offset of lease payments against this promissory note in the event monthly payments are not made by Vermont Mill. At March 31, 2004, the balance owed on this promissory note was $82,100. Subsequent to March 31, 2004, the balance on the promissary note was paid in full.

From January 1, 2003 through March 31, 2004, the Company's Electronic Surveillance Products Division sold approximately $51,000 of electronic security equipment to DSS, Inc. and approximately $69,600 to Security Systems and Installations, Inc. Louis Paolino, III, the son of the Company's CEO, Louis D. Paolino, Jr., is a one-third owner of DSS, Inc. and a fifty percent owner of Security Systems and Installations Inc. Security Systems and Installations, Inc. has taken over the business of DSS, Inc. The pricing extended to DSS, Inc. and Security Systems and Installations, Inc. is no more favorable than the pricing given to third party customers who purchase in similar volume. Additionally, DSS, Inc. was hired by the Company to install security cameras in four of the Company' s car washes at an installation fee of $6,800. At March 31, 2004, DSS, Inc. and Security Systems and Installations, Inc. owed the Company approximately $16,000 and $7,600 respectively.

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12. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

| | Three Months Ended | |
|---|---|---|
| | 3/31/04 | 3/31/03 |
| Numerator: | | |
| Net income | $ 217 | $ 342 |
| Denominator: | | |
| Denominator for basic income per share - weighted average shares | 12,461,029 | 12,410,279 |
| Dilutive effect of options and warrants | 157,808 | 6,285 |
| Denominator for diluted income per share - weighted average shares | 12,618,837 | 12,416,564 |
| Basic and diluted income per share: | | |
| Net income | $ 0.02 | $ 0.03 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements and the notes thereto included in this Form 10-Q.

Forward-Looking Statements

This report includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Forward-Looking Statements"). All statements other than statements of historical fact included in this report are Forward-Looking Statements. Although we believe that the expectations reflected in such Forward-Looking Statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, number of acquisitions, and projected or anticipated benefits from acquisitions made by or to be made by us, or projections involving anticipated revenues, earnings, levels of capital expenditures or other aspects of operating results. All phases of our operations are subject to a number of uncertainties, risks, and other influences, many of which are outside our control and any one of which, or a combination of which, could materially affect the results of our operations and whether Forward-Looking Statements made by us ultimately prove to be accurate. Such important factors that could cause actual results to differ materially from our expectations are disclosed in this section and elsewhere in this report. All subsequent written and oral Forward-Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the important factors described below that could cause actual results to differ from our expectations. The Forward-Looking Statements made herein are only made as of the date of this filing, and we undertake no obligation to publicly update such Forward-Looking Statements to reflect subsequent events or circumstances.

Summary of Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company's financial statements. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.



Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. The Company's critical accounting policies are described below.

Revenue Recognition

Revenues from the Company's Car and Truck Wash Segment are recognized, net of customer coupon discounts, when services are rendered or fuel or merchandise is sold. The Company records a liability for gift certificates, ticket books, and seasonal and annual passes sold at its car care locations but not yet redeemed.

The Company estimates these unredeemed amounts based on gift certificate and ticket book sales and redemptions throughout the year as well as utilizing historical sales and tracking of redemption rates per the car washes' point-of-sale systems. Seasonal and annual passes are amortized on a straight-line basis over the time during which the passes are valid.

Revenues from the Company's Security Products Segment are recognized when shipments are made, or for export sales when title has passed. Shipping and handling charges are included in revenues and cost of goods sold.

Deferred Revenue

The Company records a liability for gift certificates, ticket books, and seasonal and annual passes sold at its car care locations but not yet redeemed. The Company estimates these unredeemed amounts based on gift certificate and ticket book sales and redemptions throughout the year as well as utilizing historical sales and tracking of redemption rates per the car washes' point- of-sale systems. Seasonal and annual passes are amortized on a straight-line basis over the time during which the passes are valid.

Impairment of Long-Lived Assets

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we periodically review the carrying value of our long-lived assets held and used, and assets to be disposed of, when events and circumstances warrant such a review. If significant events or changes in circumstances indicate that the carrying value of an asset or asset group may not be recoverable, we perform a test of recoverability by comparing the carrying value of the asset or asset group to its undiscounted expected future cash flows. Cash flow projections are sometimes based on a group of assets, rather than a single asset. If cash flows cannot be separately and independently identified for a single asset, we will determine whether an impairment has occurred for the group of assets for which we can identify the projected cash flows. If the carrying values are in excess of undiscounted expected future cash flows, we measure any impairment by comparing the fair value of the asset group to its carrying value. If the fair value of an asset or asset group is determined to be less than the carrying amount of the asset or asset group, an impairment in the amount of the difference is recorded in the period that the impairment indicator occurs.

Goodwill

In accordance with SFAS 142, the Company completed annual impairment tests as of November 30, 2003, and 2002, and will be subject to an impairment test each year thereafter and whenever there is an impairment indicator. Significant estimates and assumptions are used in assessing the fair value of the reporting units and determining impairment to goodwill. Significant estimates and assumptions include future cash flows, growth rates, discount rates, weighted average cost of capital, and estimates of market valuations of the identifiable assets of each reporting unit. Estimating cash flows requires significant judgment including factors beyond our control and our projections may vary from cash flows eventually realized. The Company cannot guarantee that there will not be impairments in subsequent years.

Other Intangible Assets

Other intangible assets consist primarily of deferred financing costs, trademarks, and establishing a registered national brand name. Prior to 2002, our trademarks and brand name were amortized on a straight line basis over 15 years. In accordance with SFAS 142, Goodwill and Other Intangible Assets, our trademarks and brand name are considered to have indefinite lives, and as such, are no longer subject to amortization. These assets are tested for impairment using discounted cash flow methodology annually and whenever there is an impairment indicator. Estimating future cash flows requires significant judgment and projections may vary from cash flows eventually realized. Several impairment indicators are beyond our control, and cannot be predicted with any certainty whether or not they will occur. Deferred financing costs are amortized on a straight-line basis over the terms of the respective debt instruments. Customer lists and non-compete agreements are amortized on a straight-line basis over their respective estimated useful lives.



Income Taxes

Deferred income taxes are determined based on the difference between the financial accounting and tax bases of assets and liabilities. Deferred income tax expense (benefit) represents the change during the period in the deferred income tax assets and deferred income tax liabilities. Deferred income tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

## Introduction

Revenues

Car and Truck Wash Services

We own full service, exterior only and self-service car wash locations in New Jersey, Pennsylvania, Delaware, Texas, Florida and Arizona, as well as truck washes in Arizona, Indiana, Ohio and Texas. We earn revenues from washing and detailing automobiles; performing oil and lubrication services, minor auto repairs, and state inspections; selling fuel; and selling merchandise through convenience stores within the car wash facilities. Revenues generated for the three months ended March 31, 2004 for the Car and Truck Wash Segment were comprised of approximately 82% car wash and detailing, 9% lube and other automotive services, and 9% fuel and merchandise.

The majority of revenues are collected in the form of cash or credit card receipts, thus minimizing customer accounts receivable.

Weather can and has had a significant impact on volume at the individual locations. We believe that the geographic diversity of our operating locations helps mitigate the risk of adverse weather-related influence on our volume.

Security Products

Prior to the acquisition of Micro-Tech, the Company operated its Security Products Segment solely as the Consumer Products Division. The Company's Consumer Products operations manufacture and market personal safety, and home and auto security products which are sold through retail stores, major discount stores, domestic and international distributors, and at the Company's car care facilities.

With the acquisition on August 12, 2002 of certain of the assets and operations of Micro-Tech, a manufacturer and retailer of electronic security and surveillance devices, the Company added an additional division to its Security Products Segment. The Company has added security cameras, closed-circuit monitors, digital video recording devices and related electronic security components to its line of well-known personal security products. The Company's electronic security products are manufactured to our specifications principally in Korea, China, and other foreign countries, and are labeled, packaged, and shipped ready for sale, to our warehouse in Hollywood, Florida.

Cost of Revenues

Car and Truck Wash Services

Cost of revenues consists primarily of direct labor and related taxes and benefits, certain insurance costs, chemicals, wash and detailing supplies, rent, real estate taxes, utilities, car damages, maintenance and repairs of equipment and facilities, as well as the cost of the fuel and merchandise sold.

Security Products

Cost of revenues within the Security Products Segment consists primarily of costs to purchase or manufacture the security products including direct labor and related taxes and benefits, and raw material costs. Product return and warranty costs related to the new electronic security surveillance product business have been minimal in that the majority of customer product warranty claims are reimbursed by the manufacturer.



Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of management, clerical and administrative salaries, professional services, insurance premiums, sales commissions, and other costs relating to marketing and sales.

We capitalize direct incremental costs associated with acquisitions. Indirect acquisition costs, such as executive salaries, corporate overhead, public relations, and other corporate services and overhead are expensed as incurred. The Company also charges as an expense any capitalized expenditures relating to proposed acquisitions that will not be consummated.

Depreciation and Amortization

Depreciation and amortization consists primarily of depreciation of buildings and equipment, and amortization of certain intangible assets. Buildings and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. Intangible assets, other than goodwill or intangible assets with indefinite useful lives, are amortized over their useful lives ranging from three to 15 years, using the straight-line method. With the adoption of SFAS 142 on January 1, 2002, we no longer amortize goodwill and certain intangible assets, namely trademarks and service marks, determined to have indefinite useful lives.

Other Income

Other income consists primarily of rental income received on renting out excess space at our car wash facilities and includes gains and losses on the sale of equipment.

Income Taxes

Income tax expense is derived from tax provisions for interim periods that are based on the Company's estimated annual effective rate. Currently, the effective rate differs from the federal statutory rate primarily due to state and local income taxes, non-deductible costs related to acquired intangibles, fixed asset adjustments and changes to the valuation allowance.

Liquidity and Capital Resources

Liquidity

Cash and cash equivalents were $3.7 million at March 31, 2004. The ratio of our total debt to total capitalization, which consists of total debt plus stockholders' equity, was 36% at March 31, 2004, and 37% at December 31, 2003.

Our business requires a substantial amount of capital, most notably to pursue our expansion strategies. We have been expanding our electronic surveillance products business by increasing its inventories of merchandise, hiring personnel, and purchasing office and warehouse facilities. We also require capital for car wash equipment purchases for our Car and Truck Wash Segment. We plan to meet these capital needs from various financing sources, including borrowings, internally generated funds, and the issuance of common stock.

As of March 31, 2004, we had working capital of approximately $427,000. Working capital at March 31, 2004 included the classification of approximately $3.2 million of 15 year amortization loans as current liabilities as a result of these loans being up for renewal in June through October 2004. The Company intends to renew these loans with the current lender. Although the Company has been successful in renewing similar loans with the current lender in the past, there can be no assurance that our lender will continue to provide us with renewals or with renewals at favorable terms. At December 31, 2003, working capital was $270,000.

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We estimate aggregate capital expenditures for our Car and Truck Wash Segment and the Security Products Segment, exclusive of acquisitions of businesses and the building purchased in April 2004 for 250,000 registered shares of the Company's common stock, of approximately $500,000 to $1 million for the remainder of the year ending December 31, 2004.

In October 2002, we purchased a building as a warehouse, production and administrative facility for our electronic surveillance products operations. In October 2003, we purchased additional warehouse and office space adjacent to the original facility. We financed a portion of the $885,000 total purchase price of this facility with a long-term mortgage of approximately $728,000. On April 20, 2004 we purchased a building in exchange for 250,000 registered shares of the Company's common stock. We intend to sell our existing warehouse facility and use the recently purchased building as a warehouse and office facility for the electronic surveillance products operations. We have expended cash of approximately $900,000 since the inception of the electronic surveillance equipment division for capital expenditures and the acquisition costs of Micro-Tech and Vernex. Additionally, the inventory balance of the electronic surveillance equipment division at March 31, 2004 is $1.4 million. We will continue to expend significant cash for the purchasing of inventory as we introduce new electronic surveillance products in the future. While the Company believes that existing working capital may be adequate to fund the Company's current cash requirements, the Company may need to raise additional debt or equity financing in the future. If successful in raising additional financing, the Company may not be able to do so on terms that are not dilutive to existing stockholders or less costly than existing sources of financing. Failure to secure additional financing in a timely manner and on favorable terms in the future could have a material adverse impact on the Company' s financial performance and stock price and require the Company to implement certain cost reduction initiatives and curtail its operations.

Debt Capitalization and Other Financing Arrangements

At March 31, 2004, we had borrowings, including capital lease obligations, of approximately $30.6 million. We had three letters of credit outstanding at March 31, 2004, totaling $1,103,000 as collateral relating to workers' compensation insurance policies. We maintain a $500,000 revolving credit facility to provide financing for additional electronic surveillance product inventory purchases. There were no borrowings outstanding under the revolving credit facility at March 31, 2004.

Several of our debt agreements, as amended, contain certain affirmative and negative covenants and require the maintenance of certain levels of tangible net worth, maintenance of certain unencumbered cash and marketable securities balances, and the maintenance of certain debt coverage ratios on a consolidated level. At March 31, 2004, we were not in compliance with our consolidated debt coverage ratios related to our GMAC notes payable and Bank One notes payable. With respect to the GMAC notes payable, the Company has received a waiver of acceleration of the notes through April 1, 2005. Additionally, the Company has entered into amendments to the Bank One term loan agreements effective March 31, 2004. The Company is currently in compliance with these Bank One covenants as amended. The amended debt coverage ratio with Bank One requires the Company to maintain a consolidated earnings before interest, income taxes, depreciation and amortization ("EBITDA") to debt service (collectively " the debt coverage ratio") of 1.05 to 1 at March 31, 2004; 1.03 to 1 at June 30, 2004; and 1.05 to 1 at September 30, 2004 and December 31, 2004. The Bank One amendment also requires the maintenance of a minimum total unencumbered cash and marketable securities balance of $5 million. This cash balance requirement will be lowered to $1 million upon the Company returning to a debt coverage ratio of at least 1.10 to 1. The Company initiated certain temporary cost savings measures in March of 2004, including reductions in payroll expense and certain operating costs. These savings through March 31, 2004 totaled approximately $100,000. Additionally, the Company sold or closed three unprofitable car wash facilities and a lube facility in 2003 and increased its prices in March 2004 within the Car and Truck Wash Segment to help improve cash flows for fiscal 2004. If our future cash flows are less than expected or debt service including interest expense increase more than expected and we default on any of the Bank One covenants or the GMAC covenant in the future, the Company will need to obtain further amendments or waivers from these lenders. If the Company is unable to obtain waivers or amendments in the future, Bank One debt totaling $14.3 million and GMAC debt totaling $11.4 million, including debt recorded as long-term debt at March 31, 2004, would become payable on demand.

The Company's ongoing ability to comply with its debt covenants under its credit arrangements and refinance its debt depends largely on the achievement of adequate levels of cash flow. Our cash flow has been and could continue to be adversely affected by weather patterns and economic conditions. In the event that non-compliance with the debt covenants should reoccur, the Company would pursue various alternatives to attempt to successfully resolve the non-compliance, which might include, among other things, seeking additional debt covenant waivers or amendments, or refinancing debt with other financial



institutions. There can be no assurance that further debt covenant waivers or amendments would be obtained or that the debt would be refinanced with other financial institutions at favorable terms. If we are unable to obtain renewals on maturing loans or refinancing of loans on favorable terms, our ability to operate would be materially and adversely affected. The Company is obligated under various operating leases, primarily for certain equipment and real estate within the Car and Truck Wash Segment. Certain of these leases contain purchase options, renewal provisions, and contingent rentals for our proportionate share of taxes, utilities, insurance, and annual cost of living increases.

The following are summaries of our contractual obligations and other commercial commitments at March 31, 2004 (in thousands):

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than One Year | Two to Three Years | Four to Five Years | More Than Five Years |
| Long-term debt | $ 30,336 | $ 5,252 | $ 4,870 | $ 11,039 | $ 9,175 |
| Capital leases | 290 | 152 | 122 | 16 | - |
| Minimum operating lease payments | 4,524 | 1,216 | 1,454 | 784 | 1,070 |
| | $ 35,150 | $ 6,620 | $ 6,446 | $ 11,839 | $ 10,245 |

| | Amounts Expiring Per Period | | | | |
|---|---|---|---|---|---|
| Other Commercial Commitments | Total | Less Than One Year | Two to Three Years | Four to Five Years | More Than Five Years |
| Line of Credit | $ 500 | $ 500 | $ - | $ - | $ - |
| Standby Letters of Credit | 1,103 | 1,103 | - | - | - |
| | $ 1,603 | $ 1,603 | $ - | $ - | $ - |

(1) There were no borrowings outstanding under the Company's line of credit at March 31, 2004.

The Master Facility Agreement between the Company and Fusion Capital Fund II, LLC ("Fusion") and the Equity Purchase Agreement between the Company and Fusion is terminated. Under the Master Facility Agreement, the Company had entered into an Equity Purchase Agreement on April 17, 2000. Under the Equity Purchase Agreement, Fusion had the right and obligation to purchase up to $10,000,000 of the Company's common stock under certain conditions. On April 21, 2004, the Company and Fusion entered into a termination and release agreement to resolve a dispute that arose between the Company and Fusion. The dispute arose out of Fusion's claim that it was entitled to purchase approximately 690,000 shares of the Company's common stock at a price of $2.32 per share under the terms of the Equity Purchase Agreement. The Company's position was that Fusion did not have the right to purchase the 690,000 shares. On April 21, 2004, the dispute was resolved by the Company and Fusion entering into an agreement that provided (i) the Company sell Fusion 150,000 registered shares of common stock at $2.32 per share, (ii) the Master Facility Agreement and Equity Purchase Agreement are terminated, and (iii) the Company has the unilateral right exercisable through May 31, 2004 to enter into a new common stock purchase agreement with Fusion for $10,000,000 of common stock. The new agreement would have a provision prohibiting Fusion from purchasing shares below a minimum purchase price to be selected by the Company. On April 22, 2004, Fusion purchased 150,000 shares of the Company's common stock at $2.32 per share, in accordance with the termination and release agreement.

Cash Flows

Operating Activities. Net cash provided by operating activities totaled $1.0 million for the three months ended March 31, 2004. Cash provided by operating activities in 2004 was primarily due to positive operating results and a reduction of inventory within the Company's Electronic Surveillance Products Division.

Investing Activities. Cash used in investing activities totaled $170,000 for the three months ended March 31, 2004 which includes $135,000 for capital expenditures relating to ongoing car care operations, and $6,000 for the Security Products Segment.

Financing Activities. Cash used in financing activities was $634,000 for the three months ended March 31, 2004 which includes routine principal payments on debt of $660,000 partially offset by $26,000 of proceeds from the issuance of common stock.

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Seasonality and Inflation

The Company believes that its car washing and detailing operations are adversely affected by periods of inclement weather. In particular, long periods of rain and cloudy weather adversely affects our car wash volumes and related lube and other automotive services as people typically do not wash their cars during such periods. Additionally, extended periods of warm, dry weather, usually encountered during the Company's third quarter, may encourage customers to wash their cars themselves which also can adversely affect our car wash business. The Company has attempted to mitigate the risk of unfavorable weather patterns by having operations in diverse geographic regions. The Company also experiences a seasonal reduction in volume during the third quarter within the Company's Arizona and Florida regions as a result of a migration of a significant portion of those areas' populations to cooler climates.

The Company believes that inflation and changing prices have not had, and are not expected to have, a material adverse effect on its results of operations in the near future.

Results of Operations for the Three Months Ended March 31, 2004
Compared to the Three Months Ended March 31, 2003

The following table presents the percentage each item in the consolidated statements of operations bears to total revenues:

Three Months Ended

| | March 31, 2004 | March 31, 2003 |
|---|---|---|
| Revenues | 100.0 % | 100.0 % |
| Cost of revenues | 71.0 | 70.8 |
| Selling, general and administrative expenses | 19.5 | 17.6 |
| Depreciation and amortization | 3.9 | 3.9 |
| Operating income | 5.6 | 7.7 |
| Interest expense, net | (3.8) | (4.1) |
| Other income | 0.9 | 0.6 |
| Income before income taxes | 2.7 | 4.2 |
| Income tax expense | 1.0 | 1.5 |
| Net income | 1.7 % | 2.7 % |

Revenues

Car and Truck Wash Services

Revenues for the three months ended March 31, 2004 were $10.8 million as compared to $11.5 million for the three months ended March 31, 2003, a decrease of $0.7 million or 6%. This decrease was primarily attributable to a decrease in wash and detail services. Of the $10.8 million of revenues for the three months ended March 31, 2004, $8.9 million or 82% was generated from car wash and detailing, $0.9 million or 9% from lube and other automotive services, and $1.0 million or 9% from fuel and merchandise sales. Of the $11.5 million of revenues for the three months ended March 31, 2003, $9.6 million or 83% was generated from car wash and detailing, $1.0 million or 9% from lube and other automotive services, and $0.9 million or 8% from fuel and merchandise sales. The decrease in wash and detailing revenues was principally due to closing or divesting of three of our car wash locations and a lube facility during 2003; the temporary closure of a car wash location in Arizona due to fire damage; continued unfavorable weather trends within the Northeast and Texas regions; and the impact of a slower economy. Overall car wash volumes declined 10.6% in the first quarter of 2004 as compared to the first quarter of 2003, including 5.1% from the closing or divesting of the three car wash locations noted above. Partially offsetting this decline in volume, the Company experienced an increase in average wash and detailing revenue per car to $14.42 in 2004, from $13.84 in 2003. This increase in average wash and detailing revenue per car was the result of management's continued focus on aggressively selling detailing and additional on-line car wash services. The increase in fuel and merchandise revenues is primarily the result of the addition of higher quality merchandise in our car wash lobbies.

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Security Products

Revenues for the three months ended March 31, 2004 were $1.9 million comprised of approximately $1.2 million from the Electronic Surveillance Products Division and approximately $672,000 from the Consumer Products Division. Revenues for the three months ended March 31, 2003 were approximately $1.1million, comprised of $400,000 from the Electronic Surveillance Products Division and $700,000 from the Consumer Products Division. The increase in revenues within the Electronic

Surveillance Products Division is due principally to growth in sales to security systems installers and sales generated by Vernex, which was acquired in September 2003.

Cost of Revenues

Car and Truck Wash Services

Cost of revenues for the three months ended March 31, 2004 were $7.8 million, or 72% of revenues, with car washing and detailing costs at 71% of respective revenues, lube and other automotive services costs at 76% of respective revenues, and fuel and merchandise costs at 86% of respective revenues. Cost of revenues for the three months ended March 31, 2003 were $8.3 million, or 72% of revenues, with car washing and detailing costs at 70% of respective revenues, lube and other automotive services costs at 76% of respective revenues, and fuel and merchandise costs at 86% of respective revenues.

Security Products

During the three months ended March 31, 2004 cost of revenues were $1.2 million or 63% of revenues as compared to $654,000 or 58% of revenues for the three months ended March 31, 2003. The increase in cost of revenues in 2004 is principally due to the growth in the Electronic Surveillance Products Division which has gross profit margins typically lower than the Consumer Products Division. Additionally, with the acquistion of Vernex, a manufacturer and retailer of electronic security monitors, the Company increased its sales of monitors which are typically sold at lower profit margins than other electronic surveillance equipment.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2004 were $2.5 million compared to $2.2 million for the same period in 2003. SG&A expenses as a percent of revenues were 19.5% for the three months ended March 31, 2004 as compared to 17.6% in the first quarter of 2003. The increase in SG&A costs is primarily the result of the growth in the Electronic Surveillance Products Division which added an additional $195,000 of SG&A costs in 2004. The Company also incurred approximately $43,000 of legal fees through March 31, 2004 related to the investigation being conducted by the United States Securities and Exchange Commission ( See Note 6 of the accompanying notes to consolidated financial statements.) These increases in costs were partially offset by certain temporary cost saving measures initiated in March of 2004, including reductions in payroll and other administrative costs.

Depreciation and Amortization

Depreciation and amortization totaled $500,000 for the three months ended March 31, 2004 as compared to $485,000 for the same period in 2003.

Interest Expense, Net

Interest expense, net of interest income, for the three months ended March 31, 2004 was $479,000 compared to $522,000 for the three months ended March 31, 2003. This decrease in interest expense was the result of a decrease in interest rates on approximately 50% of our long term debt which has interest rates tied to the prime rate, and a reduction in our outstanding debt as a result of normal principal payments.

Other Income

Other income for the three months ended March 31, 2004 was $112,000 compared to

$82,000 for the three months ended March 31, 2003.



Income Taxes

The Company recorded tax expense of $122,000 and $193,000 for the three months ended March 31, 2004 and 2003, respectively. Tax expense reflects the recording of income taxes at an effective rate of approximately 36% in both 2004 and 2003. The effective rate differs from the federal statutory rate for each year primarily due to state and local income taxes, non-deductible costs related to intangibles, fixed asset adjustments and changes to the valuation allowance.

## Risk Factors

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Forward-Looking Statements"). All statements other than statements of historical fact included in this report are Forward-Looking Statements. Although we believe that the expectations reflected in such Forward-Looking Statements are reasonable, we can give no assurance that such expectations will prove to have been correct. These risks and uncertainties are set forth herein and in the Company's 2003 Form 10-K and as may be set forth in the Company's subsequent press releases and/or Forms 10-Q, 8-K, and other filings with the United States Securities and Exchange Commission. All phases of our operations are subject to a number of uncertainties, risks and other influences, many of which are outside our control and any one of which, or a combination of which, could materially affect the results of our operations and whether Forward- Looking Statements made by us ultimately prove to be accurate. Such important factors that could cause actual results to differ materially from our expectations are disclosed in this section and elsewhere in this report. All subsequent written and oral Forward-Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the important factors described below that could cause actual results to differ from our expectations.

Our business plan poses risks for us. Our business objectives include expanding our Electronic Surveillance Products Division. We may also acquire additional car washes, if we can do so under advantageous terms. We have expended cash of approximately $900,000 since the inception of the electronic surveillance equipment division for capital expenditures and the acquisition costs of Micro-Tech and Vernex. Additionally, the inventory balance of the electronic surveillance equipment division at March 31, 2004 is $1.4 million. Our strategy involves a number of risks, including:

- i. risks associated with growth;
- ii. risks associated with acquisitions and their integration into our Company;
- iii. risks associated with the recruitment and development of management and operating personnel;
- iv. risks of not being able to sell the electronic surveillance products in the quantities we have ordered from OEM manufacturers; and
- v. risks associated with the rapid product cycles and obsolescence of inventory in the electronic surveillance business.

If we are unable to manage one or more of these associated risks effectively, we may not fully realize our business plan.

Risk related to borrowings. Our borrowings as of March 31, 2004 were $30.6 million. Of the borrowings, $5.4 million is classified as current as it is due in less than twelve months. Our business plan is dependent on refinancing the debt as it becomes due. Several of our debt agreements, as amended, contain certain affirmative and negative covenants and require the maintenance of certain levels of tangible net worth maintenance of certain unencumbered, cash and marketable securities balances, and the maintenance of certain debt coverage ratios on a consolidated level. At March 31, 2004, we were not in compliance with our consolidated debt coverage ratios related to our GMAC notes payable and Bank One notes payable. With respect to the GMAC notes payable, the Company has received a waiver of acceleration of the notes through April 1, 2005. Additionally, the Company has entered into amendments to the Bank One term loan agreements effective March 31, 2004. The Company is currently in compliance with these Bank One covenants as amended. The amended debt coverage ratio with Bank One requires the Company to maintain a consolidated earnings before interest, income taxes, depreciation and amortization ("EBITDA") to debt service (collectively " the debt coverage ratio") of 1.05 to 1 at March 31, 2004; 1.03 to 1 at June 30, 2004; and 1.05 to 1 at September 30, 2004 and December 31, 2004. The Bank One amendment also requires the maintenance of a minimum total unencumbered cash and marketable securities balance of $5 million. This cash balance requirement will be lowered to $1 million upon the Company returning to



a debt coverage ratio of at least 1.10 to 1. The Company initiated certain temporary cost savings measures in March of 2004, including reductions in payroll expense and certain operating costs. These savings through March 31, 2004 totaled approximately $100,000. The Company sold or closed three unprofitable car wash facilities and a lube facility in 2003 and increased its prices in March 2004 within the Car and Truck Wash Segment to help improve cash flows for fiscal 2004. If our cash flows are less than expected or debt service including interest expense increases more than expected and we default on any of the Bank One covenants or the GMAC covenant in the future, the Company will need to obtain further amendments or waivers from these lenders. If the Company is unable to obtain waivers or amendments in the future, Bank One debt totaling $14.3 million and GMAC debt totaling $11.4 million, including debt recorded as long-term debt at March 31, 2004, would become payable on demand.

The Company's ongoing ability to comply with its debt covenants under its credit arrangements and refinance its debt depend largely on the achievement of adequate levels of cash flow. Our cash flow has been and can continue to be adversely affected by weather patterns and the economic climate. In the event that non-compliance with the debt covenants should reoccur, the Company would pursue various alternatives to successfully resolve the non-compliance, which might include, among other things, seeking additional debt covenant waivers or amendments, or refinancing debt with other financial institutions. There can be no assurance that further debt covenant waivers or amendments would be obtained or that the debt would be refinanced with other financial institutions on favorable terms. If we are unable to obtain renewals on maturing loans or refinancing of loans on favorable terms, our ability to operate would be materially and adversely affected.

Our operations are dependent substantially on the services of our executive officers. If we lose one or more of our executive officers and do not replace them with experienced personnel, the loss could have a material adverse effect on our business and results of operations. We do not maintain key-man life insurance policies on our executive officers. The primary terms of the employment agreements of Robert M. Kramer, Gregory M. Krzemien, and Ronald R. Pirollo expired on March 26, 2003. Louis D. Paolino, Jr. and the Company have executed an employment agreement which has a term through August 12, 2006. Messrs. Kramer and Krzemien are working on a month-to-month at-will basis. Mr. Pirollo or the Company may terminate Mr. Pirollo's employment at any time. Mr. Paolino is the Company's Chief Executive Officer; Mr. Kramer is the Company's

Chief Operating Officer, General Counsel and Secretary; Mr. Krzemien is the Company's Chief Financial Officer and Treasurer; and Mr. Pirollo is the Company's Chief Accounting Officer and Corporate Controller.

We have reported net losses. We have reported net losses and working capital deficits, and we have expended substantial funds for acquisitions, equipment, and new business development. With the adoption of SFAS 142, Goodwill and Other Intangible Assets , on January 1, 2002, we no longer amortize goodwill and certain intangible assets determined to have indefinite useful lives. Additionally, SFAS 142 requires annual fair value based impairment tests of goodwill and other intangible assets identified with indefinite useful lives. The Company cannot guarantee that there will not be impairments in subsequent reporting periods that will have a material impact on earnings and equity of the Company.

We have a limited operating history regarding our Electronic Surveillance Products Division. We are expanding our line of electronic surveillance security products. We are incurring expenses to develop new products without having extensively tested the size or possible profitability of the market for such products. There are numerous risks associated with the new Electronic Surveillance Products Division that may prevent the Company from selling them profitably, including, among others: risks associated with unanticipated problems in the acquired companies; risks inherent with our management having limited experience in electronic security product market; risks relating to the size and number of competitors in the electronic security product market, many of whom may be more experienced or better financed; risks associated with the costs of planned entry into new markets and expansion of product lines in old markets; risks associated with rapidly evolving technology and having inventory become obsolete; risks associated with purchasing inventory prior to having orders for the inventory; risks related to locating and maintaining reliable sources of OEM products and component supplies in the electronic surveillance industry; risks related to retaining key employees involved in future technology development and communications with OEM suppliers; risks associated with developing and introducing new products in order to maintain competitiveness in a rapidly changing marketplace; and risk related to the cost of product returns, warranties and customer support.

We may not be able to manage growth. If we succeed in growing, it will place significant burdens on our management and on our operational and other resources. We will need to attract, train, motivate, retain, and supervise our senior managers and other employees. If we are unable to do this, we will not be able to realize our business objectives.

Our car wash business may suffer under certain weather conditions. Seasonal trends in some periods may affect our car wash business. In particular, long periods of rain and cloudy weather can adversely affect our car wash business as people typically do not wash their cars during such periods. Additionally, extended periods of warm, dry weather may encourage customers to wash their cars themselves which also can adversely affect our car wash business.

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We face significant competition. The extent and kind of competition that we face varies. The car care industry is highly competitive. Competition is based primarily on location, facilities, customer service, available services and price. Because barriers to entry into the car care industry are relatively low, competition may be expected to continually arise from new sources not currently competing with us. We also face competition from outside the car care industry, such as gas stations and convenience stores that offer automated car wash services. In some cases, these competitors may have greater financial and operating resources than do we. In our car wash business, we face competition from a number of sources, including regional and national chains, gasoline stations, gasoline companies, automotive companies and specialty stores, both regional and national.

Consumer demand for our car wash services is unpredictable. Our financial condition and results of operations will depend substantially on continued consumer demand for car wash services. Our car wash business depends on consumers choosing to employ professional services to wash their cars rather than washing their cars themselves or not washing their cars at all. We cannot give assurance that consumer demand for car wash services will increase in the future, nor can we give assurance that consumer demand will maintain its current level.

We must maintain and replace our car wash equipment. Although we undertake to keep our car wash equipment in proper operating condition, the operating environment in car washes results in frequent mechanical problems. If we fail to properly maintain and replace the equipment, any car wash could become inoperable or operate inefficiently resulting in a loss of revenue. Many of our car washes have older equipment which requires frequent repair or replacement.

We must operate our locations safely. Our Consumer Products Division and Car and Truck Wash Segment utilize harsh chemicals in their operations. Though we train our personnel in safety, there is a risk of injury to our employees.

We face risks associated with significant insurance claims. We maintain various insurance coverages for our assets and operations. These coverages include Property coverages 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 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 businesses. The Company maintains excess coverage through occurrence-based policies. With respect to our auto, general liability, and workers' compensation policies, we are required to set aside an actuarial 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 on the third anniversary of the policy year-end. The captive insurance program is further secured by a letter of credit in the amount of $803,000 at March 31, 2004. If our loss experience is worse than expected, our cash assessments to the captive may be increased in the future. 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 their estimate of reserves for possible future payments. 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 car and truck wash operations face governmental regulations. We are governed by federal, state and local laws and regulations, including environmental regulations, that regulate the operation of our car wash centers and other car care services businesses. Other car care services, such as gasoline and lubrication, use a number of oil derivatives and other regulated hazardous substances. As a result, we are governed by environmental laws and regulations dealing with, among other things:

i. transportation, storage, presence, use, disposal, and handling of hazardous materials and wastes;

ii. discharge of storm water; and

iii. underground storage tanks.

If uncontrolled hazardous substances were found on our property, including leased property, or if we were found to be in violation of applicable laws and regulations, we could be responsible for clean-up costs, property damage, and fines or other penalties, any one of which could have a material adverse effect on our financial condition and results of operations.

We face risks associated with our consumer safety products. We face claims of injury allegedly resulting from our defense sprays. 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 the event a lawsuit is brought against us, we cannot give assurance that our insurance coverage will be sufficient to cover any judgments won. If our insurance coverage is exceeded, we will have to pay the excess liability directly.



Listing on the Nasdaq National Market. Our common stock is listed on the Nasdaq National Market with a bid price of $3.07 at the close of the market on May 3, 2004. The high and low sale prices per share for our common stock ranged from $1.78 to $2.29 during the first quarter ending March 31, 2004. If the price of our common stock falls below $1.00 and for 30 consecutive days remains below $1.00, we are subject to being delisted from the Nasdaq National Market. Upon delisting from the Nasdaq National Market, our stock would be traded on the Nasdaq SmallCap Market until we maintain a minimum bid price of $1.00 for 30 consecutive days at which time we can regain listing on the Nasdaq National Market. If our stock fails to maintain a minimum bid price of $1.00 for 30 consecutive days during a 180 day grace period on the Nasdaq SmallCap Market or a 360 day grace period if compliance with certain core listing standards are demonstrated, we could receive a delisting notice from the Nasdaq SmallCap Market. Upon delisting from the Nasdaq SmallCap Market, our stock would be traded over-the-counter, more commonly known as OTC. OTC transactions involve risks in addition to those associated with transactions in securities traded on the Nasdaq National Market or the Nasdaq SmallCap Market (together "Nasdaq-Listed Stocks"). OTC companies may have limited product lines, markets or financial resources. Many OTC stocks trade less frequently and in smaller volumes than Nasdaq-Listed Stocks. The values of these stocks may be more volatile than Nasdaq-Listed Stocks. If our stock is traded in the OTC market and a market maker sponsors us, we may have the price of our stock electronically displayed on the OTC Bulletin Board, or OTCBB. However, if we lack sufficient market maker support for display on the OTCBB, we must have our price published by the National Quotations Bureau LLP in a paper publication known as the "Pink Sheets." The marketability of our stock will be even more limited if our price must be published on the "Pink Sheets."

Our stock price is volatile. Our common stock's market price has been volatile. Factors like fluctuations in our quarterly revenues and operating results, our acquisition program, market conditions, and economic conditions generally may impact significantly our common stock's market price. In addition, if we make an acquisition, we may agree to issue common stock that will become available for resale and may have an impact on our common stock's market price.

Our preferred stock may affect the rights of the holders of our common stock; it may also discourage another entity from acquiring control of Mace. Our Certificate of Incorporation authorizes the issuance of up to 10 million shares of preferred stock. 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 preferred stock.

The 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 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.

Some provisions of Delaware law may prevent us from being acquired. 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" for a period of three years, 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 price for our common stock above its market price.

We do not expect to pay cash dividends on our common stock. We do not expect to pay cash dividends on our common stock in the foreseeable future. We will reinvest in our business any cash otherwise available for dividends.

There are additional risks set forth in the incorporated documents. In addition to the risk factors set forth above, you should review the financial statements and exhibits incorporated into this report. Such documents may contain, in certain instances and from time to time, additional and supplemental information relating to the risks set forth above and/or additional risks to be considered by you, including, without limitation, information relating to losses



experienced by us in certain historical periods, working capital deficits at particular dates, information relating to pending and recently completed acquisitions, descriptions of new or changed federal or state regulations applicable to Mace, data relating to remediation and the actions taken by Mace, and estimates at various times of Mace's potential liabilities for compliance with environmental laws or in connection with pending litigation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in our exposure to market risks arising from fluctuations in foreign currency exchange rates, commodity prices, equity prices or market interest rates since December 31, 2003 as reported on our Form 10-K for the year ended December 31, 2003.

Item 4. Controls and Procedures

The Company's management conducted an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2004. Based on this evaluation and as of the date of the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner to material information required to be included in the Company's SEC reports. There have been no significant changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's most recent fiscal quarter that have materially affected, or are reasonablely likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding our legal proceedings can be found in Note 6 Commitments and Contingencies.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

| | |
|---|---|
| 10.159 | Amendment to Credit Agreement dated April 27, 2004, effective as of March 31, 2004 between Mace Security International, Inc., and Bank One Texas, N.A. (Pursuant to instruction 2 to Item 601 of Regulation S-K, four additional credit agreements which are substantially identical in all material respects, except as to borrower being the Company's subsidiaries, Mace Car Wash-Arizona, Inc., Colonial Full Service Car Wash, Inc., Mace Security Products, Inc. and Eager Beaver Car Wash, Inc., are not being filed.) |
| 10.160 | Termination Agreement dated April 21, 2004, between Mace Security International, Inc. and Fusion Capital Fund II, LLC. |
| 10.161 | Stock Restriction Removal Agreement dated April 12, 2004, between Mace Security International, Inc. and Price Legacy Corporation. |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(b) Current Reports on Form 8-K or 8-K/A:

On March 12, 2004, the Company filed a report on Form 8-K dated March 12, 2004, under Item 7 and Item 12, to report the issuance of a press release announcing the Company's financial results for the fiscal quarter and year ended December 31, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Mace Security International, Inc.

BY: /s/ Louis D. Paolino, Jr.
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Louis D. Paolino, Jr., Chairman,
Chief Executive Officer and President

BY: /s/ Gregory M. Krzemien
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Gregory M. Krzemien, Chief Financial Officer

BY: /s/ Ronald R. Pirollo
--------------------
Ronald R. Pirollo, Controller (Principal
Accounting Officer)

DATE: May 5, 2004



EXHIBIT INDEX

| Exhibit No. | Description |
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