MACE SECURITY INTERNATIONAL INC
Form 10-K
March 28, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

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

For the transaction period from __ to __

Commission File No. **0-22810**

MACE SECURITY INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	03-0311630
(State or other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	**Identification No.)**

240 Gibraltar Rd., Suite 220, Horsham, PA 19044

(Address of Principal Executive Offices) (Zip Code)

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

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

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

Common Stock, par value $0.01 per share

Name of each exchange on which registered: OTCQB

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of registrant on June 30, 2011 was approximately $3,209,000. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the OTCQB on June 30, 2011. For purposes of determining this amount only, the registrant has defined affiliates as including (a) the executive officers and directors of the Registrant on June 30, 2011 and (b) each stockholder that had informed registrant that it was the beneficial owner of 10% or more of the outstanding common stock of Registrant on June 30, 2011.

The number of shares of Common Stock, par value $0.01 per share, of registrant outstanding as of March 22, 2012 was 58,946,441.

Mace Security International, Inc. and Subsidiaries

Form 10-K

Year Ended December 31, 2011

Contents

		Page
PART I		
Item 1.	Business	3
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	14
Item 2.	Properties	14
Item 3.	Legal Proceedings	15
Item 4.	Mine Safety Disclosures	15
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
Item 6.	Selected Financial Data	17
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 7A.	Quantitative and Qualitative Disclosures About Market Risks	29
Item 8.	Financial Statements and Supplementary Data	29
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	30
Item 9A.	Controls and Procedures	30
Item 9B.	Other Information	30
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	30
Item 11.	Executive Compensation	34

Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	39
Item 13.	Certain Relationships and Related Transactions, and Director Independence	41
Item 14.	Principal Accounting Fees and Services	43
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	43

PART I

ITEM 1. BUSINESS

GENERAL

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

Our Security Segment designs, manufactures, assembles, markets and sells a wide range of security products. The products include less-than-lethal Mace® defense sprays, security cameras, monitors and security digital recorders. The Security Segment also owns and operates an Underwriters Laboratories (“UL”) listed wholesale security monitoring center that monitors video and security alarms for approximately 490 security dealer clients with over 70,500 monitored accounts. The Security Segment’s electronic surveillance products and components are purchased from Asian and European manufacturers. Many of our products are designed to our specifications. We sell the electronic surveillance products and components primarily to installing dealers, distributors, system integrators and end users. The main marketing channels for our products are industry shows, trade publications, catalogs, the internet, telephone orders, distributors and mass merchants.

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

We formerly had a Car Wash Segment. At its largest, the Car Wash Segment consisted of fifty-seven car washes and five truck washes. As of December 31, 2011, we owned three remaining car washes, one of which was under an Agreement for Sale. The sale of the car wash pursuant to the agreement of sale was completed on February 29, 2012.

Our former Car Wash and Digital Media Marketing Segments have been classified as discontinued operations in the statements of operations and the statements of cash flows with the related assets and liabilities classified as assets and related liabilities held for sale in the December 31, 2011 balance sheet. The car wash operations and the digital media marketing operations are no longer reported as Segments of the Company.

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

LINES OF BUSINESS

Security Segment. The Company currently operates in one business segment, the Security Segment, which consists of three operating or reporting units: Mace Personal Defense, Inc., which sells consumer safety and personal defense products; Mace Security Products, Inc., which sells electronic surveillance equipment and products; and Mace CSSS, Inc. ("Mace CS"), which provides wholesale security monitoring services. The Company entered the wholesale security monitoring business with its acquisition of Central Station Security Systems, Inc. ("CSSS") on April 30, 2009. See *Note 3. Business Acquisitions and Divestitures*. The Company's Security Segment sells a wide variety of security products. Among the products the Security Segment offers are:

- defense sprays, including our less-than-lethal Mace® defense sprays;
- electronic surveillance products, including analog, digital and IP cameras, digital video recorders, security monitors, and matrix switching equipment for video distribution;
- personal defense items, including personal alarms, home security alarms, whistles, door jammers, and window and door lock alarms;
- TG Guard®, an electronically controlled tear gas system used in prisons, embassies, and safe rooms.

Our electronic surveillance products and system component products are selected and sourced by our operating and marketing staff. The products are manufactured by overseas original equipment manufacturers ("OEM"). Our electronic surveillance products and system components are warehoused and shipped from our leased facility in Carrollton, Texas. Our defense sprays are manufactured by the Company in our leased Bennington, Vermont facility. Our defense sprays and certain non-aerosol security products are packaged, warehoused, and shipped from our Bennington, Vermont facility. Our TG Guard® products are also assembled in our Bennington, Vermont facility.

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

Discontinued Operations. The Company, through its subsidiaries, owned three car washes as of December 31, 2011. One of the remaining car washes at December 31, 2011 was sold on February 29, 2012. As of March 22, 2012, the Company operates two car washes, both of which are located in the Dallas, Texas area. One of the car washes is owned and the other is leased. These car washes operate as full service car washes which provide exterior washing and drying, vacuuming of the interior of the vehicle, dusting of dashboards and door panels, and cleaning of all windows and glass.

In the fourth quarter of 2011, the Company completed the sale of certain assets and liabilities related to its Industrial Vision Source ("IVS") division which sold high-end digital and machine vision camera and professional imaging components. With the sale of IVS completed, the Company exited the business of selling high-end digital and machine vision camera and components.

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

BUSINESS STRATEGIES

Internal Growth. The Security Segment designs, manufacturers, markets and sells a wide range of security products. For the year ended December 31, 2011, revenues from the Security Segment were $13.9 million. The Company began selling electronic surveillance products and system components in August 2002. Growth has been principally achieved by acquiring businesses and through internal development of new products, as well as expanded advertising and marketing efforts. During 2011, we continued to update our video line of product offerings. In the second quarter of 2009, the Security Segment acquired a UL listed wholesale security monitoring center. The monitoring center currently monitors video and security alarms for approximately 490 security dealer clients which have over 70,500 monitored accounts. The wholesale alarm monitoring company offers our dealers an easy alternative for the monitoring of the video output of our products that the dealers install. By offering video monitoring, we hope to be able to increase the loyalty and number of our dealers.

The Company sells its defense sprays in the consumer market under its Mace® brand. Defense sprays are sold in the law enforcement market under the brand name of TakeDown®. The Mace Trademark Corporation, a subsidiary of the Company, manages the correct use of the Mace® trademark by the Company and Armor Holdings, Inc. (See also Trademarks and Patents, page 6). Armor Holdings, Inc has the exclusive right to use the Mace® brand when selling aerosol defense sprays to the law enforcement market, pursuant to an agreement dated July 1998. We believe that the total domestic consumer defense spray market is approximately $18 million to $20 million in annual revenues and that the domestic law enforcement market is approximately $5 million in annual revenues. Our Pepper Gel®, developed in 2004, has increased sales in Law Enforcement and Consumer markets.

Throughout 2010 and 2011, we continued to implement cost savings measures, including a reduction in employees throughout the Company, and further consolidation of our Security Segment's electronic surveillance equipment operations in Florida and Texas. As part of this reorganization, we consolidated our security division's surveillance equipment warehousing operations into leased warehouse space in Carrollton, Texas and sold our Farmers Branch, Texas warehouse. Our electronic surveillance equipment security sales and administrative personnel operate in Fort Lauderdale, Florida in a leased facility.

***Operating Agreements and Acquisitions*.** On April 30, 2009, the Company completed the purchase of all the outstanding common stock of Central Station Security Systems, Inc. (“CSSS”) from CSSS’s shareholders. Total consideration for such purchase was approximately $3.7 million, which consisted of $1.7 million in cash at closing, $884,000 paid subsequent to closing with potential additional payments of up to $400,000 upon the settlement of certain contingencies as set forth in the Stock Purchase Agreement. In May 2010, the Company adjusted a contingent purchase price payout originally recorded at $276,000 after determining that acquired recurring monthly revenue (“RMR”) calculated at the acquisition’s one year anniversary date was less than the required amount as defined in the Stock Purchase Agreement. Accordingly, the Company recorded a reduction in selling, general and administrative (“ SG&A”) expenses during the second quarter ended June 30, 2010 of $276,000 and reduced a portion of the previously recorded contingent liability at the date of the acquisition of CSSS and the assumption of approximately $590,000 of liabilities. The remaining contingent purchase price liability of $400,000 is recorded at a discounted value as a non-current liability at December 31, 2011. CSSS, which was renamed Mace CS, is reported within the Company’s Security Segment, and is a national wholesale security monitoring company located in Anaheim, California. Mace CS’s primary assets are accounts receivable, equipment, customer contracts, and its business methods. The acquisition of Mace CS enables the Company to expand the marketing of its security products through cross-marketing of the Company’s surveillance equipment products to Mace CS’s dealer base as well as offering monitoring services to the Company’s current customers.

Additionally, on March 31, 2011, the Company completed the purchase of all of the outstanding common stock of The Command Center, Inc. (“TCCI”) from TCCI’s stockholders. Total consideration was approximately $1.36 million, consisting of approximately $1.23 million in cash and the assumption of approximately $127,000 of liabilities. TCCI’s operations have been combined with the operations of Mace CS in Anaheim, California. TCCI was formerly located in Corona, California. TCCI has approximately 70 security dealer clients and approximately 22,500 monitored accounts. Mace CS, combined with TCCI, monitors over 70,500 monitored accounts through approximately 490 security dealer clients. TCCI’s primary assets were accounts receivable, equipment, customer contracts, and its business methods. The acquisition of TCCI provides growth to the Company’s wholesale security monitoring services division and expands the ability to market its security products through cross-marketing of the Company’s surveillance equipment products to Mace CS’s dealer base as well as offering the Company’s current customers monitoring services.

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

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

Discontinued Operations

We acquired our car and truck washes between May 1999 and December 2000 and had reported their results as the Company's Car Wash Segment. From December 2005 to March, 2012, we sold all but two car washes.

We currently operate two car washes as of March 22, 2012, both located in Texas. One car wash is owned and the other is leased.

The Digital Media Marketing Segment Operations were discontinued and sold in 2010.

MARKETING

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

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

We have a diverse customer base within the Security Segment with no single customer accounting for 10% or more of our consolidated revenues for the fiscal year ended December 31, 2011 or 2010. We do not believe that the loss of any single Security Segment customer would have a material adverse effect on our business or results of operations.

PRODUCTION AND SUPPLIES

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

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

COMPETITION

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

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

There continues to be a number of companies marketing personal defense sprays to civilian consumers, such as Armor Holdings, Inc. We continue to offer defense spray products that we believe distinguish themselves through brand name recognition and superior product features and formulations. This segment experienced increased sales in aerosols in each of the two years ending December 31, 2011 and 2010. We attribute the increased sales to improved marketing, including improvements in our website, and development of new products such as Mace Pepper Gun®, Pepper Gel®, Hot Pink Mace Defense Spray® and Night Defender®.

TRADEMARKS AND PATENTS

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

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

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

Additional trademarks used in our Security Segment are: Easy Watch®, SmartChoice®, MaceLock®, and MaceTrac®.

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

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

GOVERNMENT REGULATION/ENVIRONMENTAL COMPLIANCE

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

During 2008, the Company conducted a remediation of certain hazardous wastes at its Bennington, Vermont facility under an Administrative Consent Order entered into between the Company, the United States Environmental Protection Agency (the “EPA”), and Benmont Mill Properties, Inc. ("Benmont"), the owner of the facility. The EPA accepted the final report of the remediation in 2009. On April 8, 2010, the Company paid the EPA $216,086 as an oversight cost reimbursement. During the quarter ended September 30, 2010, Benmont reimbursed the Company 15% of the amount paid to the EPA, or $32,413. Total costs relating to the remediation of approximately $786,000 were recorded through the quarter ended December 31, 2009, and included disposal costs of the waste materials, as well as expenses incurred to engage environmental engineers and legal counsel and reimbursement of the EPA’s costs.

On November 16, 2010, the United States Attorney for the District of Vermont (the “U.S. Attorney”) filed a one count indictment charging Mace Security International, Inc. and Jon Goodrich with a felony of storing hazardous waste without a permit under 42 U.S.C. Section 6928(d)(2)(A) at the Company’s Bennington, Vermont location. Mr. Goodrich was the President of Mace Personal Defense, Inc., the Company's defense spray division located in Bennington, Vermont. Mr. Goodrich is also the owner of Benmont, the owner of the Bennington, Vermont facility and the owner of Vermont Mills Properties, Inc., the entity that rents the Bennington, Vermont facility to the Company. The Company resolved the indictment against the Company, through a Plea Agreement entered into between the Company's subsidiary, Mace Personal Defense, Inc., and the U.S. Attorney. The Plea Agreement was accepted by the Federal District Court for Vermont on May 26, 2011. Mace Personal Defense, Inc. pled guilty of one count of violating 42 U.S.C. § 6928(d)(2)(A) (Storage of Hazardous Waste Without a Permit) and was fined $100,000 (the "Fine"). The Fine was fully paid during 2011. In addition, the Company incurred legal expenses of $61,300 and

$82,300 in the years ended December 31, 2011 and 2010, respectively, relating to this matter.

The indictment charging Jon Goodrich was resolved with a guilty plea accepted by the Federal District Court in January, 2012. Mr. Goodrich pled guilty to a felony of storing hazardous waste without a permit under 42 U.S.C. § 6928(d)(2)(A) at the Company’s Bennington, Vermont location and agreed to a fine of $100,000. Mr. Goodrich is scheduled to be sentenced on May 2, 2012. The Company has to date advanced Mr. Goodrich the cost of his defense under the provisions of Article 6 of the Company's Bylaws. The advancements through December 31, 2011 were $83,178, which is included in the legal expense amounts disclosed in the above paragraph. The Company and Mr. Goodrich have entered into an Agreement ("Indemnity Agreement") on January 12, 2012 providing that the Company would not pay any portion of a fine imposed on Mr. Goodrich. The Indemnity Agreement also set a maximum limit to future advancements and indemnity claims of $25,000 with regard to any costs incurred by Mr. Goodrich after November 9, 2011. In exchange for Mr. Goodrich limiting future indemnity claims and agreeing to a five year non-compete agreement with the Company, the Company agreed not to seek recovery of any advancements it paid.

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

RESEARCH AND DEVELOPMENT

The staff in our Fort Lauderdale, Florida facility determines the requirements of various electronic surveillance products and components in conjunction with OEM manufacturers. We also have an on-site laboratory at our Vermont facility where research and development is conducted to maintain our reputation in the defense spray industry. We are continually reviewing ideas and potential licensing arrangements to expand our product lines. Our research and development expense was not material in 2011 or 2010.

INSURANCE

We maintain various insurance policies for our assets and operations. These policies provide property insurance including business interruption protection for each location. We maintain commercial general liability coverage in the amount of $1 million per occurrence and $2 million in the aggregate with an umbrella policy which provides coverage of up to $25 million. We also maintain workers' compensation policies in every state in which we operate. Commencing July 2002, as a result of increasing costs of the Company's insurance program, including auto, general liability, and workers' compensation coverage, we are insured through participation in a captive insurance program with other unrelated companies. Workers' compensation coverage for non-car wash employees was transferred to an occurrence-based policy in March 2009 through May 2010. The Company maintains excess coverage through occurrence-based policies. With respect to our auto, general liability, and certain workers' compensation policies, we are required to set aside an actuarially determined amount of cash in a restricted "loss fund" account for the payment of claims under the policies. We expect to fund these accounts annually as required by the captive insurance company. Should funds deposited exceed claims incurred and paid, unused deposited funds are returned to us with interest upon the captive insurance company deciding a distribution is appropriate, but no earlier than the fifth anniversary of the policy year-end. The captive insurance program is further secured by a letter of credit in the amount of $145,712 at December 31, 2011. The Company records a monthly expense for losses up to the reinsurance limit per claim based on the Company's tracking of claims and the insurance company's reporting of amounts paid on claims plus an estimate of reserves for possible future losses on reported claims and claims incurred but not reported. There can be no assurance that our insurance will provide sufficient coverage in the event a claim is made against us, or that we will be able to maintain in place such insurance at reasonable prices. An uninsured or under insured claim against us of sufficient magnitude could have a material adverse effect on our business and results of operations.

U.S. BASED BUSINESS

Our electronic surveillance products are manufactured in Korea, China, Taiwan, United Kingdom and Israel. All of our property and equipment is located in the United States. We do not believe we are currently subject to any material risks associated with any foreign operations. Approximately 4.7%, (or $654,000) and 11.2%, (or $2.1 million) of the 2011 and 2010 revenues, respectively, from our ongoing Security Segment were derived from customers outside of the United States.

EMPLOYEES

As of March 22, 2012, we had approximately 164 employees, of which approximately 52 were employed in our discontinued car wash business, 99 employed in the Security Segment, 11 in our corporate accounting, finance, marketing, administrative and information technology departments, and two in executive management. None of our employees are covered by a collective bargaining agreement.

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Common Stock

If we are unable to finance our business, our stock price could decline and we could go out of business. Our net losses for the years ended December 31, 2010 and 2011 were $18.1 million and $5.1 million, respectively. Our net loss for 2010 of $18.1 million included a $4.6 million Arbitration Award to Mr. Paolino and $7.4 million of non-cash impairment charges largely related to our discontinued Digital Media Marketing Segment. We have been funding operating losses by divesting our car washes and other non-core assets through third party sales and by the sale of common stock through a Rights Offering and the private sale of common stock. Our capital requirements include working capital for daily operations, including purchasing inventory and equipment. We had cash and cash equivalents of $7.9 million as of December 31, 2011. We estimate that our cash balances will be sufficient to pay our cash operating requirements through December 31, 2012. See the *Liquidity* section of our Management's Discussion and Analysis of Financial Condition and *Note 19. Related Party Transactions*.

We may not be able to raise capital from asset sales. The current economic climate has made it more difficult to sell our assets held for sale. As of March 22, 2012, we estimate that the two remaining car washes could generate proceeds, net of related mortgages, in the range of approximately $300,000 to $500,000. See *Note 3. Business Acquisitions and Divestitures.* There is no assurance that we will be able to complete the sale of our remaining car washes.

Many of our customers' spending for our products and services continued to be negatively impacted by the weak economy; our customers' spending may not recover at the same pace as the economy. Our customers reduced their overall spending beginning in 2008, as a result of the recession, the credit crisis, increased unemployment, declining housing starts, and other challenges that affected the economy. Though the domestic economy improved slightly in 2010 and 2011, the slow improvement has not resulted in our customers increasing their spending on our products and services. Many of our customers in our electronic surveillance equipment business finance their purchases through cash flow from operations or the incurrence of debt. Additionally, many of our customers in our electronic surveillance equipment and our personal defense products divisions depend on disposable personal income. The combination of a reduction of disposable personal income, a reduction in cash flow of businesses and the difficulty of businesses and individuals to obtain financing has continued to result in decreased spending by our customers. During 2011, our revenues from continuing operations declined $4.5 million, or 24%, from our revenues from continuing operations in 2010. To the extent our customers do not increase their spending in 2012, the reduced revenue level could have a material adverse effect on our operations. If our revenues do not recover or there is a further deterioration in the economy, our results of operations, financial position, and cash flows will be materially adversely affected.

We have reported net losses in the past. If we continue to report net losses, the price of our common stock may decline. We reported net losses and negative cash flow from operating activity from continuing operations in each of

the five years ended December 31, 2011. Although a portion of the reported losses in past years related to the Arbitration Award to Mr. Paolino and related legal costs expended, non-cash impairment charges of intangible assets and non-cash stock-based compensation expense, we may continue to report net losses and negative cash flow in the future. Our net loss for the years ended December 31, 2010 and 2011 were $18.1 million and $5.1 million, respectively. Additionally, accounting pronouncements require annual fair value based impairment tests of goodwill and other intangible assets identified with indefinite useful lives. As a result, we may be required to record additional impairments in the future, which could materially reduce our earnings and equity. If we continue to report net losses and negative cash flows, our stock price is likely to be adversely impacted.

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

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

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

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

If our insurance is inadequate, we could face significant losses. We maintain various insurance policies for our assets and operations. The insurance policies include property coverage, including business interruption protection for each location. We maintain commercial general liability coverage in the amount of $1 million per occurrence and $2 million in the aggregate, with an umbrella policy which provides coverage of up to $25 million. We also maintain workers' compensation policies in every state in which we operate. Since July 2002, as a result of increasing costs of the Company's insurance program, including auto, general liability, and certain of our workers' compensation coverage, we have been insured as a participant in a captive insurance program with other unrelated businesses. Workers' compensation coverage for non-car wash employees was temporarily transferred to an occurrence-based policy from March 2009 to May 2010. The Company maintains excess coverage through occurrence-based policies. With respect to our auto, general liability, and certain workers' compensation policies, we are required to set aside an actuarially determined amount of cash in a restricted "loss fund" account for the payment of claims under the policies. We expect to fund these accounts annually as required by the insurance company. Should funds deposited exceed claims incurred and paid, unused deposited funds are returned to us with interest after the fifth anniversary of the policy year-end. The captive insurance program is further secured by a letter of credit from the Company in the amount of $145,712 at December 31, 2011. The Company records a monthly expense for losses up to the reinsurance limit per claim based on the Company's tracking of claims and the insurance company's reporting of amounts paid on claims plus an estimate of reserves for possible future losses on reported claims and claims incurred but not reported. There can be no assurance that our insurance will provide sufficient coverage in the event a claim is made against us, or that we will be able to maintain in place such insurance at reasonable prices. An uninsured or under insured claim against us of sufficient magnitude could have a material adverse effect on our business and results of operations.

Our stock price has been, and likely will continue to be, volatile and an investment in our common stock may suffer a decline in value. The market price of our common stock has in the past been, and is likely to continue in the future to be, volatile. That volatility depends upon many factors, some of which are beyond our control, including:

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

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

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

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

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

Risks Related to our Business

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

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

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

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

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

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

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

Our defense sprays use hazardous materials which, if not properly handled, would result in our being liable for damages under environmental laws. Our consumer defense spray manufacturing operation currently incorporates hazardous materials, the use and emission of which are regulated by various state and federal environmental protection agencies, including the EPA. If we fail to comply with any environmental requirements, these changes or failures may expose us to significant liabilities that would have a material adverse effect on our business and financial condition. The EPA conducted a site investigation at our Bennington, Vermont facility in January 2008 and found the facility in need of remediation. See *Note 17. Commitments and Contingencies.*

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

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

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

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

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

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

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

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

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

Due to a concentration of monitoring customers in California, we are susceptible to environmental incidents that may negatively impact our results of operations. Approximately 85% of the monitoring businesses’ recurring monthly revenue at December 31, 2011 was derived from subscribers located in California. A major earthquake, or other environmental disaster in California where our facilities are located, could disrupt our ability to serve customers or render customers uninterested in continuing to retain us to provide alarm monitoring services.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Horsham, Pennsylvania. We rent approximately 5,000 square feet of space at a current annual cost of approximately $116,000 in Horsham, Pennsylvania.

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

The Company's Security Segment leases manufacturing and office space in Bennington, Vermont under a lease between Vermont Mill and the Company. The lease, as extended, expires on May 14, 2012. Vermont Mill is controlled by Jon E. Goodrich, a former director and employee of the Company. The original lease was entered into in November 1999. The Company also leased from November 2008 to May 2009, on a month-to-month basis, approximately 3,000 square feet of temporary inventory storage space at a monthly cost of $1,200. Under the Lease Extension Agreement entered into on December 20, 2010, the lease was extended through November 14, 2011 at a monthly rate of $11,315. The Company exercised an option in November 2011 to further extend the lease to May 14, 2012 at the same monthly rate. Rent expense under this lease was $135,780 and $129,857 for the years ended December 31, 2011 and 2010, respectively.

We lease 7,358 square feet of office space in Fort Lauderdale, Florida for the administrative and sales staff related to our Security Segment's electronic surveillance products division. This lease is for a three year term expiring on December 31, 2012 at a current rate of $7,143 per month. The lease also provides for a two year renewal option through December 31, 2014.

On December 16, 2011, we sold our Farmers Branch, Texas warehouse facility for cash consideration of $1.83 million. We purchased the Farmers Branch, Texas warehouse building in August 2004. The facility was used to warehouse our electronic surveillance products and our high end camera products. With the sale of this property, we lease 17,325 square feet of warehouse space in Carrollton, Texas. The lease is for a one year term expiring January 14, 2013 at a current rate of $6,136 per month. The lease contains a sixty day cancellation option.

In connection with our 2009 acquisition of CSSS, our wholesale security monitoring operation, we lease 10,044 square feet of office space in Anaheim, California for our administrative staff and monitoring operations. The lease is for a four year term expiring on July 31, 2013 at a current lease rate of $17,390 per month. The lease also provides for two five year renewal options through July 31, 2023.

Car Wash Properties. As of December 31, 2011, we owned two and leased one car wash facility. As of March 22, 2012, we own one and lease one car wash facility. Our remaining car wash facilities are reported under Discontinued Operations and are being held for sale. We have sold 47 car wash facilities and five truck washes since December 31, 2005. The locations of our car washes and the services offered at the locations are in the chart below.

Locations (1)	**Type of Car Wash**	**Number of Facilities as of December 31, 2011 (2)**	**Number of Facilities as of March 22, 2012 (3)**
Dallas, Texas Area	Full Service	3	2

(1) Two of our locations at December 31, 2011 were owned and one location was leased.

(2) Our locations also offer other consumer products and related car care services, such as professional detailing services (offered at three locations), oil and lubrication services (offered at three locations), gasoline dispensing services (offered at one location), state inspection services (offered at three locations), and merchandise store sales (offered at three locations).

(3) One of the three Dallas, Texas area locations was subject to an Agreement of Sale at December 31, 2011 and was sold on February 29, 2012.

Certain of our car washes are encumbered by first mortgage loans. Of the three car washes owned or leased by us at December 31, 2011, one property and related equipment with a net book value totaling $2.0 million was secured by mortgage loans totaling $542,413.

ITEM 3. LEGAL PROCEEDINGS

The Company and its former Chief Executive Officer, Louis D. Paolino, Jr., settled various legal actions they had filed against each other. The settlement was entered into on October 26, 2010. As part of the settlement, the Company paid Mr. Paolino a total of $4,610,000 in the fourth quarter of 2010. As previously disclosed in the Company's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), an arbitration panel of the American Arbitration Association awarded Mr. Paolino the sum of $4,148,912 on May 4, 2010 as damages and a supplemental award of $738,835 for legal fees in connection with various claims filed by Mr. Paolino in connection with his termination as the Company's Chief Executive Officer on May 20, 2008 (the "Arbitration Awards").

During 2008, the Company conducted a remediation of certain hazardous wastes at its Bennington, Vermont facility under an Administrative Consent Order entered into between the Company, the United States Environmental Protection Agency (the "EPA"), and Benmont Mill Properties, Inc. ("Benmont"), the owner of the facility. The EPA accepted the final report of the remediation in 2009. On April 8, 2010, the Company paid the EPA $216,086 as an oversight cost reimbursement. During the quarter ended September 30, 2010, Benmont reimbursed the Company 15% of the amount paid to the EPA, or $32,413. Total costs relating to the remediation of approximately $786,000 were recorded through the quarter ended December 31, 2009, and included disposal costs of the waste materials, as well as expenses incurred to engage environmental engineers and legal counsel and reimbursement of the EPA's costs.

On November 16, 2010, the United States Attorney for the District of Vermont (the "U.S. Attorney") filed a one count indictment charging Mace Security International, Inc. and Jon Goodrich with a felony of storing hazardous waste without a permit under 42 U.S.C. § 6928(d)(2)(A) at the Company's Bennington, Vermont location. Mr. Goodrich was the President of Mace Personal Defense, Inc., the Company's defense spray division located in Bennington, Vermont. Mr. Goodrich is also the owner of Benmont, the owner of the Bennington, Vermont facility and the owner of Vermont Mills Properties, Inc., the entity that rents the Bennington, Vermont facility to the Company. The Company resolved the indictment against the Company through a Plea Agreement entered into between the Company's subsidiary, Mace Personal Defense, Inc., and the U.S. Attorney. The Plea Agreement was accepted by the Federal District Court for Vermont on May 26, 2011. Mace Personal Defense, Inc. pled guilty of one count of violating 42 U.S.C. § 6928(d)(2)(A) (Storage of Hazardous Waste Without a Permit) and was fined $100,000 (the "Fine"). The Fine was fully paid during 2011. In addition, the Company incurred legal expenses of $61,300 and $82,300 in the years ended December 31, 2011 and 2010, respectively, relating to this matter.

The indictment charging Jon Goodrich was resolved with a guilty plea accepted by the Federal District Court in January, 2012. Mr. Goodrich pled guilty to a felony of storing hazardous waste without a permit under 42 U.S.C. § 6928(d)(2)(A) at the Company's Bennington, Vermont location and agreed to a fine of $100,000. Mr. Goodrich is scheduled to be sentenced on May 2, 2012. The Company has to date advanced Mr. Goodrich the cost of his defense under the provisions of Article 6 of the Company's Bylaws. The advancements through December 31, 2011 were $83,178, which is included in the legal expense amounts disclosed in the above paragraph. The Company and Mr. Goodrich have entered into an Agreement ("Indemnity Agreement") on January 12, 2012 providing that the Company would not pay any portion of a fine imposed on Mr. Goodrich. The Indemnity Agreement also set a maximum limit to

future advancements and indemnity claims of $25,000 with regard to any costs incurred by Mr. Goodrich after November 9, 2011. In exchange for Mr. Goodrich limiting future indemnity claims and agreeing to a five year non-compete agreement with the Company, the Company agreed not to seek recovery of any advancements it paid.

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

Additional information regarding our legal proceedings can be found in Note 17 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

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

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

	HIGH	LOW
Year Ended December 31, 2010		
First Quarter	$1.24	$0.75
Second Quarter	$0.96	$0.56
Third Quarter	$0.63	$0.41
Fourth Quarter	$0.45	$0.24
Year Ended December 31, 2011		
First Quarter	$0.55	$0.34
Second Quarter	$0.50	$0.15
Third Quarter	$0.25	$0.15
Fourth Quarter	$0.20	$0.12
Year Ended December 31, 2012		
First Quarter through March 22, 2012	$0.19	$0.15

The closing price for our common stock on June 30, 2011 was $0.26. For purposes of calculating the aggregate market value of our shares of common stock held by non-affiliates, as shown on the cover page of this report, it has been assumed that all of the outstanding shares were held by non-affiliates except for the shares held by our directors and executive officers and stockholders owning 10% or more of our outstanding shares. However, this should not be deemed to constitute an admission that all such persons are, in fact, affiliates of the Company, or that there are not other persons who may be deemed to be affiliates of the Company. For further information concerning ownership of our securities by executive officers, directors and principal stockholders, see *Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

As of March 22, 2012 we had 81 stockholders of record and approximately 2,300 beneficial owners of our common stock. We did not pay dividends in the preceding two years and do not anticipate paying any cash dividends in the foreseeable future. We intend to retain all working capital and earnings, if any, for use in our operations and in the expansion of our business. Any future determination with respect to the payment of dividends will be at the discretion of our Board of Directors and will depend upon, among other things, our results of operations, financial condition and capital requirements, the terms of any then existing indebtedness, general business conditions, and such other factors as our Board of Directors deems relevant. Certain of our credit facilities prohibit or limit the payment of cash dividends without prior bank approval.

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

(c) Recent Sales of Unregistered Securities

On August 2, 2011, the Company issued a total of 20 million shares of common stock to Merlin Partners, LP (“Merlin”) and two assignees pursuant to a Securities Purchase Agreement dated March 25, 2011, for a purchase price of $0.20 per share. The sale of the stock resulted in aggregate net proceeds of $3,750,000 to the Company, net of a $250,000 fee in connection with the purchase.

The securities described above were issued to "accredited" investors, as such term is defined in Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). In reliance upon such accredited investors' representations, among other representations, the offer and issuance of the securities described above are exempt from the registration requirements under the Securities Act, pursuant to Section 4(2) thereof and in reliance upon Rule 506 of Regulation D promulgated by the SEC.

(d) Issuer Purchases of Securities

The following table summarizes our equity security repurchase during the three months ended December 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1 to October 31, 2011	-	$ -	-	$ 1,226,000
November 1 to November 30, 2011	-	$ -	-	$ 1,226,000
December 1 to December 31, 2011	-	$ -	-	$ 1,226,000
Total	-	$ -	-	

(1) On August 13, 2007, the Company's Board of Directors approved a share repurchase program to allow the Company to repurchase up to an aggregate $2,000,000 of its common shares in the future if the market conditions so dictate. As of December 31, 2011, 747,860 shares had been repurchased under this program at a cost of approximately $774,000.

ITEM 6. SELECTED FINANCIAL DATA

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

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

The following discussion reviews our operations for each of the two years in the periods ended December 31, 2011 and 2010, and should be read in conjunction with our Consolidated Financial Statements and related notes thereto included elsewhere herein.

FACTORS INFLUENCING FUTURE RESULTS AND ACCURACY OF FORWARD-LOOKING STATEMENTS

This report includes Forward-Looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act (“Forward-Looking Statements”). All statements other than statements of historical fact included in this report are Forward-Looking Statements. Forward-Looking Statements are statements related to future, not past, events. In this context, Forward-Looking Statements often address our expected future business and financial performance and financial condition, and often contain words such as "expect," "anticipate," "intend," "plan," believe," "seek," or "will." Forward-Looking Statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties that could cause our actual results to be materially different than those expressed in our Forward-Looking Statements include: the severity and duration of current economic and financial conditions; our success in selling our remaining car washes; the level of demand of the customers we serve for our goods and services; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. These uncertainties are described in more detail in Part I, Item 1A. *Risk Factors* of this Annual Report on Form 10-K. 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.

Introduction

Revenues

Security

Our Security Segment designs, manufactures, assembles, markets and sells a wide range of security products. The products include less-than-lethal Mace® defense sprays and other personal security devices, access control, security cameras, monitors and security digital recorders, and high-end digital and machine vision cameras and professional imaging components. The Security Segment also owns and operates a UL listed wholesale security monitoring center that monitors video and security alarms for approximately 490 security dealer clients with over 70,500 monitored accounts. The Security Segment's electronic surveillance products and components are purchased from Asian and European manufacturers. Many of our products are designed to our specifications. We sell the electronic surveillance products and components primarily to installing dealers, distributors, system integrators and end-users. The main marketing channels for our products are industry shows, trade publications, catalogs, the internet, telephone orders, distributors, and mass merchants. Revenues generated for the year ended December 31, 2011 for the Security Segment were comprised of approximately 38% from our personal defense and law enforcement aerosol operation, 28% from our wholesale security monitoring operation, 26% from our professional and consumer direct home and small business electronic surveillance operations, and 8% from our machine vision camera and video conferencing equipment operation.

Cost of Revenues

Security

Cost of revenues within the Security Segment consists primarily of costs to purchase or manufacture the security products, direct labor and related taxes and fringe benefits, raw material costs, and telecommunication costs related to our wholesale monitoring operation. Product warranty costs related to the Security Segment are mitigated in that a portion of customer product warranty claims are covered by the supplier through repair or replacement of the product associated with the warranty claim.

Selling, General and Administrative Expenses

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

We expense direct incremental costs associated with business acquisitions as well as indirect acquisition costs, such as executive salaries, corporate overhead, public relations, and other corporate services and overhead.

Depreciation and Amortization

Depreciation and amortization consists primarily of depreciation of buildings and equipment, and amortization of leasehold improvements and certain intangible assets. Buildings and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the shorter of their useful lives or the lease term with renewal options. Intangible assets, other than goodwill or intangible assets with indefinite useful lives, are amortized over their useful lives ranging from three to fifteen years, using the straight-line method or an accelerated method.

Other Income

Other income generally consists of gains and losses on short-term investments.

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, and changes to the valuation allowance.

Discontinued Operations

Digital Media Marketing

The Company's Board of Directors committed to a plan to divest of the Digital Media Marketing Segment and, on November 11, 2010, the Company entered into a Stock Purchase Agreement to sell the e-commerce division of its Digital Media Marketing Segment, Linkstar Corporation. On November 22, 2010, we sold Linkstar Corporation for a sale price of $1.1 million to Silverback Network, Inc. (the "Purchaser"). Under the terms of the Stock Purchase Agreement, the Purchaser paid $1.1 million for the stock of Linkstar Corporation, $990,000 of which was received at closing with ten percent (10%) of the purchase price, or $110,000, placed into escrow, which funds were released to the Company in May 2011 as provided for under the Stock Purchase Agreement. The results of the Digital Media Marketing Segment's operations have been classified as assets held for sale and liabilities related to assets held for sale in our balance sheet at December 31, 2011 and 2010, and as discontinued operations in our statements of operations and our statements of cash flows. Our Digital Media Marketing Segment consisted of two business divisions: (1) e-commerce and (2) online marketing. The results of operations of our Digital Media Marketing operations for the two years ended December 31, 2011 and 2010 were reported as discontinued operations and, accordingly, have been segregated from the revenues and expenses discussions below.

Car Wash Services

At December 31, 2011, we owned or leased three full service car wash locations in Texas, which are reported as discontinued operations (see *Note 4. Discontinued Operations and Assets Held for Sale*) and, accordingly, have been segregated from the following revenue and expense discussion. 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. The majority of revenues from our car wash operations are collected in the form of cash or credit card receipts, thus minimizing customer accounts receivable. Cost of revenues within the car wash operations consists primarily of direct labor and related taxes and fringe 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.

Results of Operations for the Two Years Ended December 31, 2011 and 2010

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

	Year ended December 31,			
	2011		2010	
Revenues	100	%	100	%
Cost of revenues	64.6		70.0	
Gross Profit	35.4		30.0	
Selling, general, and administrative expenses	62.3		52.0	
Arbitration award	-		25.1	
Depreciation and amortization	3.7		3.2	
Asset impairment charges	0.2		2.6	
Operating loss	(30.8	)	(52.9	)
Interest expense, net	(2.9	)	(0.2	)
Other income	-		-	
Gain on valuation of derivative	0.5		-	
Loss from continuing operations before income taxes	(33.2	)	(53.1	)
Income tax (benefit) expense	(0.6	)	0.2	
Loss from continuing operations	(32.6	)	(53.3	)
Loss from discontinued operations, net of tax	(4.5	)	(45.1	)
Net loss	(37.1	)%	(98.4	)%

Revenues

Security

Revenues were approximately $13.9 million and $18.4 million for the years ended December 31, 2011 and 2010, respectively. Of the $13.9 million of revenues for the year ended December 31, 2011, $5.2 million, or 38%, was generated from our personal defense and law enforcement aerosol operations in Vermont, $3.9 million, or 28%, from our wholesale security monitoring operation in California, $3.7 million, or 26%, from our professional and consumer direct home and small business electronic surveillance operations, and $1.1 million, or 8%, from our high-end digital and machine vision cameras and professional imaging components operation. Of the $18.4 million of revenues for the year ended December 31, 2010, $5.3 million, or 29%, was generated from our personal defense and law enforcement aerosol operation in Vermont, $3.2 million, or 17%, from our wholesale security monitoring operations, $5.3 million, or 29%, from our professional and consumer direct home and small business electronic surveillance operation, and $4.6 million, or 25%, from our high-end digital and machine vision cameras and professional imaging components operation.

Overall revenues within the Security Segment decreased $4.5 million, or 24%, in 2011 as compared to 2010, despite an increase in revenues from our wholesale security monitoring operation, which includes the acquisition of a monitoring center, TCCI, on March 31, 2011. See *Note 3. Business Acquisitions and Divestitures.* Revenues decreased in our professional and consumer direct home and small business electronic surveillance division and in our personal defense operation. The $1.6 million, or 31%, decrease in sales within our consumer direct and professional electronic surveillance operations was due to several factors, including the impact on sales of increased competition, direct sales by Asian manufacturers, the loss of a large customer, a reduction in spending by many of our customers impacted by the poor economy, and a decision by management to focus on consumer direct home and small business product sales versus high-end professional market products. Our personal defense operations sales experienced a slight decrease of approximately $117,000, or 2%, from 2010 to 2011, despite a 6% increase in the sale of our aerosol defense products. This increase in aerosol defense product sales was offset by a decrease in the sales of our TG Guard systems and wireless home security systems. Additionally, the Company's machine vision camera and video conferencing equipment operation experienced an approximate $3.5 million, or 77%, decrease in sales in 2011 from 2010 as a result of the loss of key sales personnel within this operation, a decrease in product availability resulting from natural disasters in Japan and the loss of one of its largest suppliers, and the ultimate sale of this operation on October 21, 2011.

Cost of Revenues

Security

Cost of revenues were $8.9 million and $12.9 million, or 64% and 70% of revenues, for the years ended December 31, 2011 and 2010, respectively. The reduction in cost of revenues as a percent of revenues is due to management's focus on improving margins through enhanced pricing and reduced cost of products and the reduction in sales of the machine vision camera operation which provides a gross profit margin substantially less than the other Security Segment operations. This gross profit margin improvement was partially offset by an additional charge during 2011 of $200,000 to write-down certain inventory which we plan on liquidating within our electronic surveillance equipment division.

Selling, General and Administrative Expenses

SG&A expenses for the years ended December 31, 2011 and 2010 were $8.6 million and $9.6 million, respectively. SG&A expenses as a percentage of revenues increased to 62% in 2011 as compared to 52% for 2010. The increase in SG&A expenses as a percentage of revenue is due to the 24% reduction in revenues as many of these costs are fixed in nature. The overall decrease in SG&A costs was the result of the implementation of corporate wide cost savings measures in 2008 through the fourth quarter of 2011, including a significant reduction in employees throughout the entire Company. The cost savings were partially realized from a reduction in costs within our security division's surveillance equipment operations. SG&A costs decreased within our electronic surveillance equipment operations by approximately $1.0 million, or 33%, partially as a result of our continued consolidation efforts to reduce SG&A expenses as noted above and partially as a result of our reduced sales levels. SG&A expense reductions were partially offset by increased SG&A expenses related to the acquisition of TCCI on March 31, 2011. SG&A expenses in 2011 also include the recording of a reserve for future payments under an obligation to pay the Company's former CEO, Dennis Raefield, $375,000 in exchange for Mr. Raefield's covenant not to compete with the Company for one year following his resignation; a charge for future severance payments to our former President of our Personal Defense Products operation of approximately $73,000; a $105,000 charge related to the termination of a contract with a vendor within the Company's Personal Defense Products operation; a reserve of $150,000 for future reimbursement of the costs incurred by a stockholder relating to the 2007 annual meeting of stockholders; and a $100,000 executive recruiting fee. SG&A expenses in 2010 includes legal costs related to the 2010 settled arbitration proceedings with Mr. Paolino of approximately $153,000 and severance costs of $224,000 related to employee reductions. Finally, in May 2010, the Company adjusted a contingent purchase price payout originally recorded at $276,000 after determining that acquired recurring monthly revenue ("RMR") calculated at the acquisition's one year anniversary date was less than the required amount as defined in the Stock Purchase Agreement. Accordingly, the Company recorded a reduction in SG&A expenses during the second quarter ended June 30, 2010 of $276,000 and reduced a portion of the previously recorded contingent liability at the date of the acquisition of CSSS.

Depreciation and Amortization

Depreciation and amortization totaled $514,000 and $582,000 for the years ended December 31, 2011 and 2010, respectively. The decrease in depreciation and amortization expense in 2011 as compared to 2010 was primarily related to a reduction in amortization expense with the impairment and write down of certain intangible assets related to the Company’s electronic surveillance equipment operations in the first six months of 2010, partially offset by amortization expense on TCCI intangible assets acquired on March 31, 2011.

Asset Impairment Charges

Due to continuing challenges in our Mace Security Products, Inc. reporting unit, we performed certain impairment testing of our remaining intangible assets, specifically, the value assigned to customer lists, product lists, and trademarks as of September 30, 2011, June 30, 2010, and December 31, 2010. We recorded an impairment charge of $15,000 to trademarks as of September 30, 2011; $74,000 to customer lists, $81,000 to product lists, and $70,000 for trademarks as of June 30, 2010; and impairment charges of $260,000 at December 31, 2010 relating to trademarks, all principally related to our consumer direct electronic surveillance operations and our high end digital and machine vision cameras and professional imaging component operation. On August 31, 2011, the Company entered into a Commercial Contract, which was subsequently amended on October 19, 2011 and November 7, 2011, to sell its Farmers Branch, Texas warehouse for $1,830,000. The net book value of the warehouse at September 30, 2011 was approximately $1,725,000 with closing costs and broker commissions estimated at $125,000. Accordingly, we recorded an impairment charge of $20,000 relating to this facility as of September 30, 2011. The sale of the warehouse was completed on December 16, 2011. The cash proceeds from the sale were $1.12 million, net of paying off existing debt of $494,574 and closing costs. Costs at closing were $120,000, including $109,800 of broker commissions. The sale of the warehouse resulted in a gain of $9,300.

We conduct our annual assessment of goodwill for impairment for our wholesale security monitoring business reporting unit as of April 30 of each year. This is our remaining business reporting unit with recorded goodwill. With respect to our assessment of goodwill impairment as of April 30, 2011, we determined that there was no impairment in that the fair value for this reporting unit exceeded its net book value by approximately $1.0 million or 22%. Our wholesale security monitoring business has recorded goodwill of $2.8 million at April 30, 2011. The determination of the fair value of this reporting unit requires us to make significant estimates and assumptions that affect the reporting unit’s expected future cash flows. These estimates and assumptions primarily include, but are not limited to, expected future revenues and expense levels, the discount rate, terminal growth rates, operating income before depreciation and amortization and capital expenditures forecasts. We periodically update our forecasted cash flows of the wholesale security monitoring reporting unit considering current economic conditions and trends, estimated future operating results, our views of growth rates, anticipated future economic and relevant regulatory conditions. The key or most significant assumption is our estimate of future recurring revenues. If monthly recurring revenue from security monitoring services within this reporting unit were to be adversely affected by the ongoing economic climate or by other events and we were unable to adjust operating costs to compensate for such revenue loss, this reporting unit would be adversely affected, which would negatively impact the fair value of this business. Based on the Company’s

April 30, 2011 assessment, a hypothetical reduction in the annual recurring revenue growth rate from a range of 4% to 5% to an annual recurring revenue growth rate of 1% to 2%, without a corresponding decrease in operating expenses, would result in the fair value for the reporting unit exceeding its net book value at April 30, 2011 by approximately $50,000. Additional events or circumstances that could have a negative effect on estimated fair value of this reporting unit include, but are not limited to, a loss of customers due to competition, pressure from our customers to reduce pricing, the purchase of our dealer customers by third parties who choose to obtain monitoring services elsewhere, the current adverse financial and economic conditions on revenues and costs, inability to continue to employ a competent workforce at current rates of pay, changes in government regulations, accelerating costs beyond management's control, and management's inability to control and manage payroll and other operating costs.

Discontinued Operations

During the quarter ended December 31, 2009, we wrote down three Arlington, Texas car wash sites for a total of $1.2 million, including a $200,000 write down of a car wash site for which the Company entered into an agreement of sale on January 27, 2010 for a sale price below its net book value; and a $37,000 write down related to a Lubbock, Texas car wash sold on March 10, 2010. In April 2010, we reduced the sale price of a Lubbock, Texas car wash location based on recent offers of $1.7 million for this location and our decision to negotiate a sale of this site at this price, which was below the net book value of $1.85 million. Accordingly, we recorded an impairment charge of $150,000 related to this site on March 31, 2010. Also, in October 2010, we accepted an offer to purchase our Arlington, Texas oil lubrication and self serve car wash facility for a sale price of $340,000, which was below the site's net book value. Accordingly, we recorded an impairment charge of $53,000 related to this site as of September 30, 2010. In September 2011, we re-evaluated the market value of one of our remaining car wash sites in Arlington, Texas and a site in Fort Worth, Texas with a business broker. Based on our evaluation, we determined that the estimated future proceeds from these sites were below their net book values by $200,000 and $61,000, respectively. Accordingly, we recorded impairment charges of $261,000 related to these two sites at September 30, 2011. With the continued difficulty in selling this remaining Arlington, Texas car wash facility, we re-evaluated our strategy to dispose of this property and accordingly recorded an additional impairment charge of $250,000 at December 31, 2011.

Prior to the disposition of our Digital Media Marketing Segment in the fourth quarter of 2010, we conducted our annual assessment of goodwill for impairment for this reporting unit as of June 30 of each year. Based on the results of our assessment of goodwill impairment at June 30, 2010, the net book value of our Digital Media Marketing Segment reporting unit exceeded its fair value. With the noted potential impairment at June 30, 2010, we performed the second step of the impairment test to determine the implied fair value of goodwill. The resulting implied goodwill was $2.8 million at June 30, 2010, which was less than the recorded value of goodwill. Accordingly, we recorded an impairment to write down goodwill of this reporting unit by $3.1 million at June 30, 2010. Additionally, during our June 30, 2010 review of intangible assets, we determined that trademarks within our Digital Media Marketing Segment were also impaired by $275,000. Finally, as noted in *Note 4. Discontinued Operations and Assets Held for Sale,* we entered into an agreement of sale on November 11, 2010 to sell the e-commerce division of our Digital Media Marketing Segment, Linkstar, for a sale price of $1.1 million. Accordingly, an impairment loss of $3.6 million was recorded as of September 30, 2010 and included in the results from discontinued operations in the consolidated statements of operations. The $3.6 million impairment charge included a write-off of the remaining goodwill of the Digital Media Marketing Segment of $2.8 million and $800,000 related to other intangible assets, including software, trademarks, and non-compete agreements. With the closing of the sale of the e-commerce division of our Digital Media Marketing Segment on November 22, 2010, a final loss of $191,000 on disposal was recorded in the fourth quarter of 2010.

Interest Expense, Net

Interest expense, net of interest income, for the years ended December 31, 2011 and 2010 was $404,000 and $51,000, respectively. Interest expense of $404,000 for the year ended December 31, 2011 includes interest expense paid to Merlin of approximately $129,800 related to two promissory notes, $152,000 of non-cash interest expense for the accretion of the discounts to the Merlin promissory note and debenture for related warrants and a conversion option, and $30,700 of interest expense related to purchase price holdback provisions related to the CSSS acquisition.

Other Income

Other income was $0 and $5,000 for 2011 and 2010, respectively.

Income Taxes

We recorded income tax (benefit) expense of $(80,000) and $30,000 for the years ended December 31, 2011 and 2010, respectively. Income tax expense reflects the recording of state income taxes. The effective tax rates are approximately (1.7)% and 0.3% for the years ended December 31, 2011 and 2010, respectively. 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, and changes to the valuation allowance.

Realization of the future tax benefits related to the deferred tax assets is dependent upon many factors, including the Company's ability to generate taxable income in future years. The Company performed a detailed review of the considerations influencing our ability to realize the future benefit of the net operating losses ("NOLs"), including the extent of recently used NOLs, the turnaround of future deductible temporary differences, the duration of the NOL carryforward period, and the Company's future projection of taxable income. The Company increased its valuation allowance against deferred tax assets by $7.4 million in 2011 and $3.8 million in 2010 with a total valuation allowance of $29.7 million at December 31, 2011 representing the amount of its deferred income tax assets in excess of the Company's deferred income tax liabilities. The valuation allowance was recorded because management was unable to conclude that realization of the net deferred income tax asset was more likely than not. This determination was a result of the Company's continued losses, the uncertainty of the timing of the Company's sale of its remaining Car Wash operations, and the ultimate extent of growth in the Company's Security Segment.

Discontinued Operations

Digital Media Marketing

Revenues within our Digital Media Marketing Segment for the year ended December 31, 2011 were $0 as a result of the sale of Linkstar in November 2010. Revenues within our Digital Media Marketing Segment for the year ended December 31, 2010 were approximately $5.9 million, consisting of $5.7 million from our e-commerce division and $172,000 from our online marketing division.

Cost of revenues within our Digital Media Marketing Segment for the year ended December 31, 2011 were $0 as a result of the sale of Linkstar in November 2010 and approximately $4.7 million, or 79% of revenues, for the year ended December 31, 2010.

Car Wash Services

Revenues within the car wash operations for the year ended December 31, 2011 were $3.0 million as compared to $5.1 million for the same period in 2010, a decrease of $2.1 million or 41%. This decrease was primarily attributable to a decrease in wash and detail services, principally due to the sale of car washes. Overall car wash volume declined by approximately 69,000 cars, or 41%, in 2011 as compared to 2010. The majority of the decrease in overall car wash volume related to the closure and sale of five car wash locations in Texas since January 2010. Additionally, the Company experienced a slight increase in average car wash and detailing revenue per car from $17.53 in 2010 to $17.87 in 2011.

Cost of revenues within the car wash operations were $2.75 million, or 92% of revenues, and $4.6 million or 91% of revenues for the years ended December 31, 2011 and 2010, respectively. The slight increase in cost of revenues as a percent of revenues in 2011 as compared to 2010 was the result of the reduction in revenues with certain of these costs fixed in nature.

Liquidity and Capital Resources

Liquidity

Cash and cash equivalents were $7.9 million at December 31, 2011, including $439,000 of the Company's cash deposited into a restricted cash account at Chase as security against the Company's revolving credit facility and certain letters of credit provided by Chase as collateral relating to workers' compensation insurance policies. The ratio of our total debt to total capitalization, which consists of total debt plus stockholders' equity, was 8% at December 31, 2011 and 20% at December 31, 2010. As of December 31, 2011, we had working capital, excluded the restricted cash, of approximately $10.7 million. Working capital was approximately $7.0 million at December 31, 2010. Our positive working capital increased by approximately $3.7 million from December 31, 2010 to December 31, 2011, primarily due to the proceeds generated from our recent Rights Offering of our stock and partially offset by our net loss in 2011.

The Company conducted a Rights Offering to raise working capital. The Rights Offering was completed on August 1, 2011. A total of 22,372,616 shares of common stock were purchased in the Rights Offering. Of the 22,372,616 shares of common stock purchased, 16,305,144 were purchased under the basic subscription right and 6,067,472 were purchased through the oversubscription privilege. Net proceeds, after expenses from the Rights Offering, were approximately $4.3 million (the Rights Offering is described in *Note 19. Related Party Transactions*). On August 2, 2011, Merlin and two assignees purchased 20 million shares of the Company's common stock at a price of $0.20 per share (the "Additional Stock"). The sale of Additional Stock resulted in net proceeds to the Company of $3.75 million. The purchasers of the Additional Stock were paid a fee of $250,000 in connection with the purchase. Additionally, shares registered in the Registration Statement but not sold in the Rights Offering (the "Available Stock") were offered for sale by the Company during the period commencing on August 2, 2011, and concluding on August 15, 2011. The Company sold 838,100 shares of the offered Available Stock generating additional proceeds of $167,620.

Our business requires a substantial amount of capital, most notably to fund our losses. We believe that the proceeds from the Rights Offering and the sale of Additional Stock have provided sufficient working capital to fund our business plan for the next twelve months.

The current negative cash flow from operations is approximately $50,000 to $100,000 per month. We plan to use our working capital to fund the negative cash flow until we are able to eliminate the negative cash flow. We have sufficient working capital to meet our future capital and cash operating requirements for at least the next twelve months. If we cannot eliminate the negative cash flow, we will need to raise additional funds through bank borrowings and additional equity and/or debt financings, which may result in significant increases in leverage and interest expense and/or substantial dilution of our outstanding equity. We estimate that our cash balances will be sufficient to pay our estimated cash operating requirements through December 31, 2012. Also see Item 1A. Risk Factors below for Risks Related to Our Business and Common Stock.

The Company funded a portion of the settlement payment to Mr. Paolino by borrowing $1.35 million from Merlin on December 28, 2010. The loan's maturity date was extended to August 15, 2011. The Company made a principal payment of $675,000 to Merlin on the loan on March 8, 2011. The $675,000 balance of the loan and accrued interest of $13,950 was paid on August 8, 2011. See *Note 19. Related Party Transactions.*

23

On March 30, 2011, we borrowed $1.4 million at an interest rate of 6% per annum from Merlin to fund the acquisition of a wholesale security monitoring company. The loan is due March 30, 2013; however, Merlin had the right to call the loan commencing on September 27, 2011, forty trading days after the completion of the Company's Rights Offering and Merlin's purchase of the Additional Stock ("Call Trigger Event"). Merlin's right to call the loan expired on March 27, 2012, six months from September 27, 2011. Merlin did not exercise their right to call the loan within the time allowed, and accordingly; the loan's maturity date was extended to March 30, 2016. See *Note 19. Related Party Transactions* for additional information and the terms of this debt instruments.

We have been funding our losses through the sale of assets. In 2010, we generated $3.1 million in cash from the sale of assets, including $990,000 from the sale of Linkstar and $2.1 million from the sale of four car washes, net of related mortgages. In the first quarter of 2011, we generated $975,000 in cash, net of a related mortgage, from the sale of a Lubbock, Texas car wash with $675,000 of the net proceeds used to pay down a promissory note with Merlin. Additionally, in the fourth quarter of 2011, we generated $517,000 in cash from the sale of the Company's high-end digital and machine vision camera and professional imaging component operation, Industrial Vision Sources, Inc. ("IVS") on October 21, 2011 and $1.17 million in cash from the sale of our Farmers Branch, Texas warehouse on December 16, 2011, net of a $495,000 mortgage loan and $120,000 of commissions and customary closing costs.

As of December 31, 2011, we had three remaining car washes for sale. On February 29, 2012, the Company completed the sale one of the three car washes for a sale price of $2.1 million. The cash proceeds of the sale were $1.57 million, net of paying off existing debt of $512,000 and certain closing costs. We estimate the two remaining car washes will generate proceeds in the range of approximately $300,000 to $500,000.

Capital expenditures for our Security Segment and our corporate division were $165,000 and $334,000 for the years ended December 31, 2011 and 2010, respectively. Capital expenditures in our discontinued operations, consisting of car wash operations and our Digital Media Marketing business, were $4,000 and $13,000 for the years ended December 31, 2011 and 2010, respectively. We estimate capital expenditures for the Security Segment at approximately $200,000 to $300,000 for 2012, principally related to technology improvements within our wholesale security monitoring services operations and upgrading manufacturing equipment within or personal defense products operations.

On November 16, 2010, the United States Attorney for the District of Vermont (the "U.S. Attorney") filed a one count indictment charging Mace Security International, Inc. and Jon Goodrich with a felony of storing hazardous waste without a permit under 42 U.S.C. §6928(d)(2)(A) at the Company's Bennington, Vermont location. Mr. Goodrich was the President of Mace Personal Defense, Inc., the Company's defense spray division located in Bennington, Vermont. Mr. Goodrich is also the owner of Benmont, the owner of the Bennington, Vermont facility and the owner of Vermont Mills Properties, Inc., the entity that rents the Bennington, Vermont facility to the Company. The Company resolved the indictment against the Company, through a Plea Agreement entered into between the Company's subsidiary, Mace Personal Defense, Inc., and the U.S. Attorney. The Plea Agreement was accepted by the Federal District Court for Vermont on May 26, 2011. Mace Personal Defense, Inc. pled guilty of one count of violating 42 U.S.C. § 6928(d)(2)(A) (Storage of Hazardous Waste Without a Permit) and was fined $100,000 (the "Fine"). The Fine was

fully paid during 2011. In addition, the Company incurred legal expenses of $61,300 and $82,300 in the years ended December 31, 2011 and 2010, respectively, relating to this matter.

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

In the past, we have been successful in obtaining financing by selling our common stock and obtaining mortgage loans. Our ability to obtain new financing may be adversely impacted by our stock price. Our ability to obtain new financing will be limited if our cash from operating activities does not improve. Currently, we cannot incur additional long-term debt without the approval of one of our commercial lenders. The Company must demonstrate that the cash flow benefit from the use of new loan proceeds exceeds the resulting future debt service requirements.

Debt Capitalization and Other Financing Arrangements

At December 31, 2011, we had borrowings, including capital lease obligations, of approximately $1.53 million, net of unamortized discounts for warrants and a conversion option classified in stockholders' equity totaling $549,000 at December 31, 2011 related to the $1.4 million Merlin debenture note. See *Note 19. Related Party Transactions.* We had two letters of credit outstanding at December 31, 2011, totaling $149,392, as collateral relating to workers' compensation insurance policies. We also maintain a $250,000 revolving credit facility to provide financing for additional video surveillance product inventory purchases and for issuance of commercial letters of credit. There was one commercial letter of credit outstanding for inventory purchases under the revolving credit facility at December 31, 2011 for $34,698.

Several of our debt agreements, as amended, contain certain affirmative and negative covenants and require the maintenance of certain levels of tangible net worth, limitations on capital spending and the maintenance of certain debt service coverage ratios on a consolidated level.

The Chase term loan agreements limit capital expenditures annually to $1.0 million and require the Company to provide Chase with an Annual Report on Form 10-K and audited financial statements within 120 days of the Company's fiscal year end and a Quarterly Report on Form 10-Q within 60 days after the end of each fiscal quarter. A Chase term loan agreement requirement to maintain minimum total unencumbered cash and marketable securities balance of $1.5 million was eliminated through an amendment to the term loan agreement effective December 31, 2011. We were in compliance with the ongoing covenant requirements as of December 31, 2011.

The Company's ongoing ability to comply with its debt covenants under its credit arrangements and to refinance its debt depends largely on the achievement of adequate levels of cash flow. If our future cash flows are less than expected or our debt service, including interest expense, increases more than expected, causing us to default on any of the Chase covenants in the future, the Company will need to obtain amendments or waivers from Chase. Our cash flow has been and could continue to be adversely affected by continued deterioration in economic conditions and the requirements to fund the growth of our security business. In the event that non-compliance with the debt covenants should occur, the Company would pursue various alternatives in an 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 debt covenant waivers or amendments would be obtained, if needed, or that the debt could be refinanced with other financial institutions on favorable terms.

Contractual Obligations

The Company is obligated under various operating leases, primarily for certain equipment and real estate within the Car Wash operations. 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 December 31, 2011, including capital lease obligations, debt related to discontinued operations and liabilities related to assets held for sale (in thousands):

	Payments Due By Period				
Contractual Obligations (1) (2)	Total	Less than One Year	One to Three Years	Three to Five Years	More Than Five Years
Long-term debt (3)	$1,436	$ 1,346	$ 90	$ -	$ -
Capital lease obligations	96	74	22	-	-
Minimum operating lease payments	1,688	785	606	297	-
Total	$3,220	$ 2,205	$ 718	$ 297	$ -

	Amounts Expiring Per Period				
Other Commercial Commitments	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Line of credit (4)	$ 35	$ 35	$ -	$ -	$ -
Standby letters of credit (5)	149	149	-	-	-
Total	$ 184	$ 184	$ -	$ -	$ -

(1) Potential amounts for inventory ordered under purchase orders are not reflected in the amounts above as they are typically cancelable prior to delivery and, if purchased, would be sold within the normal business cycle.
(2) Related interest obligations have been excluded from this maturity schedule. Our interest payments for the next twelve month period, based on current market rates, are expected to be approximately $100,000.
(3) Long-term debt includes the $1.4 million debenture note with Merlin, net of unamortized discounts for warrants and a conversion option totaling $549,000 at December 31, 2011.
(4) The Company maintains a $250,000 line of credit with Chase. There was one commercial letter of credit outstanding for inventory purchases under this line of credit at December 31, 2011 for $34,698.
(5) Outstanding letters of credit of $149,392 represent collateral for workers' compensation insurance policies.

Cash Flows

Operating Activities. Net cash used in operating activities totaled $2.9 million for the year ended December 31, 2011. Cash used in operating activities in 2011 was primarily due to a net loss from continuing operations of $4.5 million,

partially offset by $55,000 of non-cash stock-based compensation charges from continuing operations and $514,000 of depreciation and amortization expense. Cash was also impacted by a decrease in accounts receivable of $290,000, a combined decrease in accounts payable and accrued expenses of $240,000, a decrease in inventory of $536,000, and a decrease in prepaid expenses and other assets of $470,000.

Net cash used in operating activities totaled $10.2 million for the year ended December 31, 2010. Cash used in operating activities in 2010 was primarily due to a net loss from continuing operations of $9.8 million, partially offset by $66,000 of non-cash stock-based compensation charges from continuing operations, $582,000 of depreciation and amortization expense and $485,000 of other intangible asset impairment charges. Cash was also impacted by an increase in accounts receivable of $444,000, a decrease in accounts payable and accrual expenses of $886,000, and a decrease in inventory of $974,000.

Investing Activities. Cash used in investing activities totaled approximately $286,000 for the year ended December 31, 2011, including cash provided by investing activities from discontinued operations of $975,000 related to the sale of a car wash site during the year ended December 31, 2011. Investing activity also included capital expenditures of $165,000 related to ongoing operations and $1.8 million related to the acquisition of TCCI and payment of certain purchase price holdbacks related to the 2009 acquisition of Mace CS.

Cash provided by investing activities totaled approximately $3.8 million for the year ended December 31, 2010, which includes cash provided by investing activities from discontinued operations of $3.0 million related to the sale of four car wash sites and Linkstar Corporation from our former Digital Media Marketing Segment in the year ended December 31, 2010. Investing activity also included capital expenditures of $348,000 related to ongoing operations and proceeds from short-term investments of $1.1 million.

Financing Activities. Cash provided by financing activities was approximately $7.9 million for the year ended December 31, 2011, which includes $1.4 million of borrowings from Merlin, $1.5 million of principal payments on debt from continuing operations, and net proceeds from our completed Rights Offering of our stock of $8.2 million. Financing activities also include $214,000 of routine principal payments on debt related to discontinued operations.

Cash provided in financing activities was approximately $681,000 for the year ended December 31, 2010, which includes $1.4 million of borrowings, largely related to a $1.35 million short term note with Merlin, $136,000 of routine principal payments on debt from continuing operations, and $178,000 related to the purchase of treasury stock. Financing activities also include $448,000 of routine principal payments on debt related to discontinued operations

Seasonality and Inflation

The Company does not believe its operations are subject to seasonality. Inflation and changing prices have not had a material impact on the Company’s net sales and revenues or its income from continuing operations in the two most recent fiscal years.

Summary of Critical Accounting Policies

Revenue Recognition and Deferred Revenue

The discussion and analysis of our financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). 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. 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 and Deferred Revenue

The Company recognizes revenue in general when the following criteria have been met: persuasive evidence of an arrangement exists, a customer contract or purchase order exists and the fees are fixed and determinable, no significant obligations remain and collection of the related receivable is reasonably assured. Allowances for sales returns, discounts and allowances are estimated and recorded concurrent with the recognition of the sale and are primarily based on historic return rates.

Revenues from the Company's Security Segment are recognized when shipments are made or security monitoring services are provided, or for export sales, when title has passed. More specifically, revenue is recognized and recorded by our electronic surveillance equipment business and personal defense spray and related products business when shipments are made and title has passed. Revenue within our wholesale security monitoring operation is recognized and recorded on a monthly basis as security monitoring services are provided to its dealers under cancellable contracts with terms generally for two (2) to twenty-four (24) months. Revenues are recorded net of sales returns and discounts.

The Company's discontinued Digital Media Marketing Segment's e-commerce division recognized revenue and the related product costs for trial product shipments after the expiration of the trial period. Marketing costs incurred by the e-commerce division were recognized as incurred. The online marketing division recognized revenue and cost of sales based on the gross amount received from advertisers and the amount paid to the publishers placing the advertisements as cost of sales.

Revenues from the Company's discontinued Car Wash operations are recognized, net of customer co