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MACE SECURITY INTERNATIONAL INC
Form 10-K/A
September 24, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A

AMENDMENT NO. 2

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

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

FOR THE YEAR ENDED DECEMBER 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-22810

MACE SECURITY INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	03-0311630
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1000 CRAWFORD PLACE, SUITE 400	08054
MT. LAUREL, N.J.	(Zip Code)
(Address of Principal Executive Offices)	

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (856) 778-2300

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF EACH CLASS

Common Stock, par value \$.01 per share
(Title of Class)

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. [X]

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant on June 30, 2004 was approximately \$63,196,000. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the Nasdaq National Market on June 30, 2004. For purposes of determining this amount only, Registrant has defined affiliates as including (a) the executive officers and directors of Registrant on June 30, 2004, 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, 2004.

The number of shares of Common Stock, par value \$.01 per share, of the Registrant outstanding as of September 20, 2004 was 14,210,885.

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INDEX TO FORM 10-K/A - PART II

PART II - Item 7 Management's Discussion and Analysis of Financial Conditions and Results of Operations.

PART II - Item 8 Financial Statements and Supplementary Data.

PART III - Item 15 Exhibits, Financial Statement Schedules and Reports on Form 8-K.

EXPLANATORY NOTE

This Annual Report on Form 10-K/A constitutes Amendment No. 2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003. This Annual Report on Form 10-K/A is being filed solely to (i) amend and restate Part II - Item 7 Management's Discussion and Analysis of Financial Conditions and Results of Operations and (ii) amend the Financial Statements called for in Item 8, specifically Footnotes 5, 10 and 21 to the Consolidated Financial Statements, which were previously filed with the Commission as part of the Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 15, 2004. Except for the additional information included in Item 7, Item 8 and Item 15, this Amendment does not update information that was presented in the Company's original Annual Report on Form 10-K to reflect recent developments that have occurred since that date. Additional information about the Company can be found in other filings it has made with the Commission. This Form 10-K/A has been filed by the Company in response to a review by the Securities and Exchange Commission of the Company's 1934 Securities Exchange Act filings.

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

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The following discussion reviews our operations for each of the three years in the period ended December 31, 2003, and should be read in conjunction with our Consolidated Financial Statements and related notes thereto included elsewhere herein.

The following discussion includes Forward-Looking Statements. The accuracy of such statements depends upon a variety of factors that may affect our business and operations. Certain of these factors are discussed under Description of Business - Factors Influencing Future Results and Accuracy of Forward-Looking Statements included in Item 1 of this report.

SUMMARY OF CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the Company's financial statements. 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,

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and potentially result in materially different results under different assumptions and conditions. The Company's critical accounting policies are described below.

REVENUE RECOGNITION

Revenues from the Company's Car and Truck Wash Segment are recognized, net of customer coupon discounts, when services are rendered or fuel or merchandise is sold. The Company records a liability for gift certificates, ticket books, and seasonal and annual passes sold at its car care locations but not yet redeemed. The Company estimates these unredeemed amounts based on gift certificate and ticket book sales and redemptions throughout the year as well as utilizing historical sales and redemption rates per the car washes' point-of-sale systems. Seasonal and annual passes are amortized on a straight-line basis over the time during which the passes are valid.

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

COSTS OF TERMINATED ACQUISITIONS

Our policy is to charge as an expense any previously capitalized expenditures relating to proposed acquisitions that in management's current opinion will not be consummated.

DEFERRED REVENUE

The Company records a liability for gift certificates, ticket books, and seasonal and annual passes sold at its car care locations but not yet redeemed. The Company estimates these unredeemed amounts based on gift certificates and ticket book sales and redemptions throughout the year as well as utilizing historical sales and tracking of redemption rates per the car washes' point-of-

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sale systems. Seasonal and annual passes are amortized on a straight-line basis over the time during which the passes are valid.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we periodically review the carrying value of our long-lived assets held and used, and assets to be disposed of, when events and circumstances warrant such a review. We evaluate the carrying value of long-lived assets for potential impairment on a reporting unit basis using undiscounted after-tax estimated cash flows or on an individual asset basis if the asset is held for sale. See Note 17 of the Notes to Consolidated Financial Statements for information regarding impairment charges incurred with respect to one full service car wash site in our Texas region and two car wash sites in our Arizona region.

GOODWILL

Prior to 2002, goodwill was amortized on a straight-line basis over 25 years.

On January 1, 2002, the Company adopted SFAS 142, Goodwill and Other Intangible Assets, and as required, discontinued amortization of goodwill acquired prior to July 1, 2001. Additionally, SFAS 142 required that,

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within six months of adoption, the first phase of the goodwill transitional impairment testing be completed at the reporting unit level as of the date of adoption. SFAS 142 requires that any goodwill impairment loss recognized as a result of initial application be reported in the first interim period of adoption as a change in accounting principle and that the income per share effects of the accounting change be separately disclosed. The transitional impairment testing was completed during the third quarter of 2002 and as of January 1, 2002 (See Note 3 of the Notes to Consolidated Financial Statements).

In accordance with SFAS 142, the Company also completed annual impairment tests as of November 30, 2003, and 2002, and will be subject to an impairment test each year thereafter and whenever there is an impairment indicator. Significant estimates and assumptions are used in assessing the fair value of the reporting units and determining impairment to goodwill (See Note 3 of the Notes to Consolidated Financial Statements). Adverse business conditions could impair recoverability of goodwill in the future and accordingly, the Company cannot guarantee that there will not be impairments in subsequent years.

OTHER INTANGIBLE ASSETS

Other intangible assets consist primarily of deferred financing costs, trademarks, and establishing a registered national brand name. Prior to 2002, our trademarks and brand name were amortized on a straight line basis over 15 years. In accordance with SFAS 142, Goodwill and Other Intangible Assets, our trademarks and brand name are considered to have indefinite lives, and as such, are no longer subject to amortization. These assets will be tested for impairment annually and whenever there is an impairment indicator. Deferred financing costs are amortized on a straight-line basis over the terms of the respective debt instruments. Customer lists and non-compete agreements are amortized on a straight-line basis over their respective estimated useful lives.

INCOME TAXES

Deferred income taxes are determined based on the difference between the financial accounting and tax bases of assets and liabilities. Deferred income

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

INTRODUCTION

REVENUES

CAR AND TRUCK WASH SERVICES

We own full service, exterior only and self-service car wash operations in New Jersey, Pennsylvania, Delaware, Texas, Florida and Arizona, as well as truck washes in Arizona, Indiana, Ohio and Texas. We earn revenues from washing and detailing automobiles; performing oil and lubrication services, minor auto repairs, and state inspections; selling fuel; and selling merchandise through convenience stores within the car wash facilities. Revenues generated for 2003 for the Car and Truck Wash Segment were comprised of approximately 82% car wash and detailing, 10% lube and other automotive services, and 8% fuel and merchandise.

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

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Weather can have and has had a significant impact on volume at the individual locations. The strength of the economy also has a significant impact on the volume at the car wash locations. We believe that the geographic diversity of our operating locations mitigates but does not remove the risks of adverse weather-related influence on our volume.

SECURITY PRODUCTS

During 2001, and for the first four months of 2002, the Company was paid \$20,000 per month under a Management Agreement pursuant to which Mark Sport, an entity controlled by Jon E. Goodrich, a director of the Company through December, 2003, operated the Security Products Segment. Effective May 1, 2002, the Management Agreement expired and the Company recommenced operation of the Security Products Segment. Prior to the acquisition of the assets and operations of Micro-Tech, the Company operated its Security Products Segment solely as the Consumer Products Division. The Company's Consumer Products operations manufacture and market personal safety, and home and auto security products which are sold through retail stores, major discount stores, domestic and international distributors, and at the Company's car care facilities.

With the acquisition on August 12, 2002 of certain of the assets and operations of Micro-Tech, a manufacturer and retailer of electronic security and surveillance devices, the Company added an additional division, the Electronic Surveillance Products Division, to its Security Products Segment. The Company has added security cameras, closed-circuit monitors, digital video recording devices and related electronic security components to its line of well-known personal security products. The Company is purchasing these items for resale from OEM manufacturers.

COST OF REVENUES

CAR AND TRUCK WASH SERVICES

Cost of revenues consists primarily of direct labor and related taxes and

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

SECURITY PRODUCTS

During 2001, and for the first four months of 2002, the Security Products Segment was operated under a Management Agreement by Mark Sport. Accordingly, during that time, no costs were incurred by the Company. Cost of revenues within the Security Products Segment consists primarily of costs to purchase or manufacture the security products including direct labor and related taxes and benefits, and raw material costs. Product return and warranty costs related to the electronic security surveillance product business have been minimal in that the majority of customer product warranty claims are reimbursed by the manufacturer.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

DEPRECIATION AND AMORTIZATION

Depreciation and amortization consists primarily of depreciation of buildings and equipment, and amortization of certain intangible assets. Buildings and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. Intangible assets, other than goodwill or intangible assets with indefinite useful lives, are amortized over their useful lives ranging from three to 15 years, using the straight-line method. In 2001, goodwill was amortized using the straight-line method over 25 years. With the adoption of SFAS 142 on January 1, 2002, we no longer amortize goodwill and certain intangible assets, namely trademarks and service marks, determined to have indefinite useful lives, thereby eliminating approximately \$900,000 in annual amortization expense.

COSTS OF TERMINATED ACQUISITIONS

Our policy is to charge as an expense any previously capitalized expenditures relating to proposed acquisitions that in our current opinion will not be consummated. At December 31, 2003, there were no costs related directly to proposed acquisitions that were not yet consummated. We periodically review the future likelihood of these acquisitions and record appropriate provisions against capitalized costs associated with projects that are not likely to be completed.

GOODWILL AND ASSET IMPAIRMENT CHARGES

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we periodically review the carrying value of our long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. During the year ended December 31, 2002, we wrote down impaired assets by approximately \$1.2 million. The asset

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write-down related to one of our full service car wash sites in Texas and two full service car wash sites in Arizona. We have determined that due to poor demographics and increased competition in the geographic areas of these sites, their future expected cash flows would not be sufficient to recover their respective carrying values. During the quarter ended June 30, 2003, we further wrote down the assets related to one of the full service car wash sites in Arizona which we partially wrote down at December 31, 2002, by an additional \$351,000. The additional write-down was the result of the impending loss of a significant customer of this site resulting in an additional reduction of the future expected cash flows of this site and the ability to recover the site's carrying value. The Company closed the facility effective September 30, 2003. We continue to market the remaining two sites for sale and have written down these two assets to their estimated fair market values.

The Company performs its annual impairment testing of Goodwill and Other Intangibles as of November 30 each year which corresponds with the Company's determination of its annual operating budgets for the upcoming year. The Company's valuation of goodwill is based on a discounted cash flow model applying an appropriate discount rate to future expected cash flows and management's annual review of historical data and future assessment of certain critical operating factors, including, car wash volumes, average car wash and detailing revenue rates per car, wash and detailing labor cost percentages, weather trends and recent and expected operating cost levels. In the fourth quarter of 2003, as a result of this annual impairment test of

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Goodwill and Other Intangibles in accordance with SFAS 142, we recorded an impairment of approximately \$3.4 million related to our Northeast region-reporting unit of our Car and Truck Wash Segment. This was principally due to a reduction in future projected cash flow as determined during our 2004 budgeting process, which we undertook in November, 2003. The projection of cash flow from the Northeast region-reporting unit was reduced because fewer cars were washed in 2003 than the Company had projected in November 2002 for 2003. We projected our car wash volume for 2003 based on the number of cars washed in the Northeast region-reporting unit in the previous four years. The Company believes that fewer cars were actually washed during 2003 as a result of more inclement weather than in 2002 and a slower economy. The Company anticipates that the volume of cars washed in the Northeast region will increase, if weather patterns return to the patterns existing in prior years.

OTHER INCOME

Other income consists largely of rental income received from renting out excess space at our car wash facilities, along with gains and losses on the sale of property and equipment.

INCOME TAXES

Income tax (benefit) expense reflects the recording of income taxes on (loss) income before cumulative effect of a change in accounting principle at effective rates of approximately 1%, 36%, and 37% for the years ended December 31, 2003, 2002, and 2001, respectively. In 2003, no income tax benefit was recorded for the Northeast region reporting unit impairment of approximately \$3.4 million due to the non-deductibility of the related goodwill.

In 2002, the income tax benefit related to the cumulative effect of change in accounting principle was recorded at an effective tax rate of 36% for the impairments in the Arizona and Truck Wash reporting units. No income tax benefit was recorded for the Northeast region reporting unit's impairment due to the non-deductibility of the goodwill. The effective rate differs from the federal

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statutory rate for each year primarily due to state and local income taxes, non-deductible costs related to intangibles, fixed asset adjustments, and changes to the valuation allowance.

RESULTS OF OPERATIONS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2003

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

	2003	
	----	YEA
Revenues	100.0%	
Cost of revenues	73.1	

Selling, general and administrative expenses	19.4	
Depreciation and amortization	4.0	
Costs of terminated acquisitions	-	

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	2003	
	----	YEA
Goodwill and asset impairment charges	7.7	

Operating (loss) income	(4.2)	
Interest expense, net	(4.0)	
Other income	0.9	

(Loss) income from continuing operations before income taxes	(7.3)	
Income tax (benefit) expense	(0.1)	

(Loss) income before cumulative effect of change in accounting principle	(7.2)	
Cumulative effect of change in accounting principle, net of tax benefit	-	
Net (loss) income	(7.2)%	
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REVENUES

CAR AND TRUCK WASH SERVICES

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Revenues for the year ended December 31, 2003 were \$43.4 million as compared to \$44.1 million for the year ended December 31, 2002, a decrease of \$0.7 million or 1.6%. Of the \$43.4 million of revenues for the year ended December 31, 2003, \$35.7 million or 82% was generated from car wash and detailing, \$4.1 million or 10% from lube and other automotive services, and \$3.6 million or 8% from fuel and merchandise sales. Of the \$44.1 million of revenues for the year ended December 31, 2002, \$36.7 million or 83% was generated from car wash and detailing, \$4.2 million or 10% from lube and other automotive services, and \$3.2 million or 7% from fuel and merchandise sales. The decrease in wash and detailing revenues was principally due to closing or divesting of three of our car wash locations and a lube facility during 2003; the temporary closure of a car wash location in Arizona due to fire damage; a departure from historic revenue levels within the Northeast region due to several significant snow storms in the first quarter of 2003, an increase in inclement weather, particularly on weekends, within the Texas region and the impact of a slower economy. Overall car wash volumes declined 6.9% in 2003 from 2002, including 1.8% from the closing or divesting of the three car wash locations noted above. Partially offsetting this decline in volume, the Company experienced an increase in average wash and detailing revenue per car to \$14.52 in 2003, from \$13.89 in 2002. This increase in average wash and detailing revenue per car was the result of management's continued focus on aggressively selling detailing and additional on-line car wash services. The increase in fuel and merchandise revenues is the result of more aggressive pricing on fuel to attract traffic into our car wash facilities and the addition of higher quality merchandise in our car wash lobbies.

Revenues for the year ended December 31, 2002 were \$44.1 million as compared to \$48.0 million for the year ended December 31, 2001, a decrease of \$3.9 million or 8.1%. Of the \$44.1 million of revenues for the year ended December 31, 2002, \$36.7 million or 83% was generated from car wash and detailing, \$4.2 million or 10% from lube and other automotive services, and \$3.2 million or 7% from fuel and merchandise sales. Of the \$48.0 million of revenues for the year ended December 31, 2001, \$39.9 million or 83% was generated from car wash and detailing, \$4.5 million or 9% from lube and other automotive services, and \$3.6 million or 8% from fuel and merchandise sales. The decrease in wash and detailing revenues was principally due to the divesting of two of our car wash locations during 2001 combined with a departure from our historic revenue levels

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within our Northeast region due to the unusual lack of snow and pollen in the first six months of 2002 and increased rainfall in the quarter ending December 31, 2002. The Company also experienced more challenging weather within its Texas region for the quarters ended September 30 and December 31, 2002. Car wash volume declined 8.4% in 2002 from 2001. In addition to these declines in volume, the Company experienced a slight reduction in average wash and detailing revenues per car to \$13.89 in 2002, from \$13.90 per car in 2001. Despite management's continued focus on aggressively selling detailing and additional on-line car wash services, more aggressive coupon and discount promotions to encourage volume reduced the average revenue per car. As to the decline in revenues from lube and other automotive services, we discontinued the practice of providing a free wash to lube customers, resulting in decreased lube revenues but benefiting our overall site gross margin performance. The decline in fuel and merchandise revenues was the result of instituting certain minimum gross margin criteria which reduced fuel sales and the sale of certain low margin merchandise.

SECURITY PRODUCTS

Pursuant to a Management Agreement, we earned \$80,000 in 2002 and \$240,000 in

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2001. These amounts are included under revenues from operating agreements. Effective May 1, 2002, the Company recommenced operation of the Security Products Segment. Revenues for the Consumer Products Division were approximately \$2.8 million and \$2.1 million in 2003 and 2002, respectively. Additionally, in August 2002, the Company purchased the inventory and certain assets and operations of Micro-Tech, an electronic surveillance and security device business. Revenues for this business unit were approximately \$2.8 million and \$380,000 in 2003 and 2002, respectively.

COST OF REVENUES

CAR AND TRUCK WASH SERVICES

Cost of revenues for the year ended December 31, 2003 were \$32.3 million or 74% of revenues with car washing and detailing costs at 73% of respective revenues, lube and other automotive services costs at 77% of respective revenues, and fuel and merchandise costs at 87% of respective revenues. Cost of revenues for the year ended December 31, 2002 were \$31.8 million, or 72% of revenues with car wash and detailing costs at 70% of respective revenues, lube and other automotive services costs at 78% of respective revenues, and fuel and merchandise costs at 87% of respective revenues.

In 2003, the Company experienced a deterioration in wash and detailing operating margins largely due to the decrease in wash volume of 6.9% as compared to the prior year, combined with increased insurance premiums and related claim costs, lease termination costs related to an underperforming car wash property closed in 2003, and an increase in labor costs as a percent of revenues of approximately two percentage points. This deterioration in wash and detailing operating margins was partially offset by certain temporary and permanent cost savings measures instituted in March of 2003, including reductions in payroll and related benefit costs, repairs and maintenance costs and certain other operating expenses.

Cost of revenues for the year ended December 31, 2002 were \$31.8 million or 72% of revenues with car washing and detailing costs at 70% of respective revenues, lube and other automotive services costs at 78% of respective revenues, and fuel and merchandise costs at 87% of respective revenues. Cost of revenues for the year ended December 31, 2001 were \$34.1 million, or 71% of revenues with car wash and detailing costs at 69% of respective revenues, lube and other automotive services costs at 77% of respective revenues, and fuel

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and merchandise costs at 89% of respective revenues.

With only a slight decrease in average wash and detailing revenues per car in 2002 and our continued emphasis on controlling direct labor and other operating costs such as wash and detailing chemicals and supplies, car damages, uniform expense, and repairs and maintenance costs, we experienced only a one percentage point reduction in wash and detailing gross margins in 2002 despite the 8.4% volume decline previously noted. We also experienced a slight increase in our direct wash and detailing labor costs as a percent of car wash and detail revenues to 48% in 2002 as compared to 47% in 2001 as a result of the volume decline.

SECURITY PRODUCTS

During 2001 and for the first four months of 2002, pursuant to a Management Agreement, no costs were incurred by us. Cost of revenues were \$3.5 million or 62% of revenues and \$1.5 million or 61% of revenues for 2003 and 2002, respectively.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2003 were \$9.5 million compared to \$8.4 million for the same period in 2002, an increase of approximately \$1.1 million or 13%. SG&A costs as a percent of revenues were 19.4% for 2003 as compared to 18.1% in 2002. The increase in SG&A costs is primarily the result of recommencing operation of the Security Products Segment in May 2002, which along with the growth in the Electronic Surveillance Products Division added a combined \$1.2 million of SG&A costs in 2003. The Company also incurred approximately \$168,000 of legal fees through December 31, 2003 related to the investigation being conducted by the United States Securities and Exchange Commission. These increases in costs were partially offset by certain temporary and permanent cost saving measures initiated in March of 2003, including reductions in payroll and related benefit costs.

Selling, general and administrative expenses for the year ended December 31, 2002 were \$8.4 million compared to \$7.4 million for the same period in 2001, an increase of approximately \$1.0 million or 14%. SG&A costs as a percent of revenues were 18.0% for 2002 as compared to 15.3% in 2001. The increase in SG&A costs was primarily the result of recommencing operation of the Security Products Segment in May 2002, which, along with the acquisition of the assets and operations of Micro-Tech, added a combined \$0.9 million of SG&A costs in 2002. We also experienced an increase in certain credit card and bank charges and a significant increase in insurance costs. These increases were partially offset by a decrease in administrative salaries and certain office costs.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization totaled \$2.0 million for the year ended December 31, 2003 and December 31, 2002.

Depreciation and amortization totaled \$2.0 million for the year ended December 31, 2002 as compared to \$2.8 million for 2001. This decrease was primarily attributable to the adoption of SFAS 142 on January 1, 2002, under which the Company no longer amortizes goodwill and other intangible assets determined to have indefinite useful lives. This decrease of approximately \$900,000 in amortization costs was partially offset by increased depreciation expense as a result of recent property and equipment purchases and recommencing operation of the Security Products Segment in May 2002.

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COSTS OF TERMINATED ACQUISITIONS

Our policy is to charge as an expense any previously capitalized expenditures relating to proposed acquisitions that in our current opinion will not be consummated. During 2002 and 2001, the costs of previously capitalized expenditures related to proposed acquisitions totaled approximately \$57,000 and \$135,000, respectively. These costs, which principally related to several possible acquisitions we pursued outside the car wash industry, are primarily related to due diligence costs.

ASSET IMPAIRMENT CHARGES

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we periodically review the carrying value of our long-lived assets held, and used and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. During the year ended December 31, 2002, we wrote down assets determined to be impaired by approximately \$1.2 million. The asset write-down related to one of our full service car wash sites

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in Texas and two full service car wash sites in Arizona. We have determined that due to poor demographics and increased competition in the geographic areas of these sites, their future expected cash flows will not be sufficient to recover their respective carrying values. During the quarter ended June 30, 2003, we further wrote down the assets related to one of the full service car wash sites in Arizona which we partially wrote down at December 31, 2002, by an additional \$351,000. The additional write-down was the result of the impending loss of a significant customer of this site resulting in an additional reduction of the future expected cash flows of this site and the ability to recover the site's carrying value. The Company closed the facility effective September 30, 2003. We continue to market the remaining two sites for sale and have written down these two assets to their estimated fair market values.

In the fourth quarter of 2003, as a result of the annual impairment test of Goodwill and Other Intangibles in accordance with SFAS 142, we recorded an impairment of approximately \$3.4 million related to our Northeast region reporting unit of our Car and Truck Wash Segment. This was principally due to a reduction in future projected cash flows resulting from extended departures from our historic revenue levels as a result of inclement weather and a slower economy.

INTEREST EXPENSE, NET

Interest expense, net of interest income, for the year ended December 31, 2003, was \$2.0 million compared to \$2.2 million for 2002. This decrease in our interest expense was the result of a decrease in interest rates on approximately 50% of our long-term debt which has interest rates tied to the prime rate and a reduction in our outstanding debt as a result of normal principal payments.

Interest expense, net of interest income, for the year ended December 31, 2002, was \$2.2 million compared to \$2.9 million for 2001. This decrease in our interest expense was the result of a decrease in interest rates on approximately 50% of our long-term debt which has interest rates tied to the prime rate and a reduction in our outstanding debt as a result of normal principal payments.

OTHER INCOME

Other income for 2003 was \$438,000 compared to \$327,000 for 2002. Included in 2003 is a \$107,000 gain on the sale of a car wash facility in our Northeast region.

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Other income for 2002 was \$327,000 compared to \$514,000 for 2001. The primary reason for the decrease was that the 2001 figure included a \$216,000 gain on the sale of a car wash facility in August of 2001.

INCOME TAXES

We recorded income tax (benefit) expense of \$(50,000), \$(32,000), and \$534,000 for the years ended December 31, 2003, 2002, and 2001, respectively. Income tax (benefit) expense reflects the recording of income taxes on (loss) income before cumulative effect of change in accounting principle at effective rates of approximately 1%, 36%, and 37% for the years ended December 31, 2003, 2002, and 2001, respectively. In 2003, no income tax benefit was recorded on the Northeast region reporting unit goodwill impairment of approximately \$3.4 million due to the non-deductibility of the goodwill. The effective rate differs from the federal statutory rate for each year primarily due to state and local income taxes, non-deductible costs related to intangibles, fixed asset adjustments and changes to the valuation allowance.

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In 2002, we recorded an income tax benefit related to the cumulative effect of a change in accounting principle of approximately \$2.2 million which reflects an effective rate of 36% for the impairment in the Arizona and truck wash reporting units. No income tax benefit was recorded for the Northeast region reporting unit goodwill impairment due to the non-deductibility of the goodwill.

At December 31, 2003, we had approximately \$21.0 million of net operating loss carryforwards for federal income tax purposes. Components of the net operating loss carryforwards include \$19.8 million from continuing operations and \$1.2 million from acquired net operating losses attributable to the acquisition of Colonial Full Service Car Wash, Inc.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Cash and cash equivalents were \$3.4 million at December 31, 2003. The ratio of our total debt to total capitalization, which consists of total debt plus stockholders' equity, was 37% at December 31, 2003, 37% at December 31, 2002, and 35% at December 31, 2001.

Our business requires a substantial amount of capital, most notably to pursue our expansion strategies, including our current expansion in the electronic surveillance products business, and for equipment purchases and upgrades for our Car and Truck Wash Segment. We plan to meet these capital needs from various financing sources, including borrowings, internally generated funds, and the issuance of common stock if the market price of the Company's stock improves.

As of December 31, 2003, we had working capital of approximately \$270,000. At December 31, 2002, working capital was a negative \$2.2 million, including cash and cash equivalents of \$6.2 million. The change in working capital at December 31, 2003 is primarily attributable to renewal and reclassification to non-current liabilities of approximately \$6.4 million of 15-year amortizing loans with our current lender. This was partially offset by reclassification to current liabilities of approximately \$3.2 million of additional loans due and up for renewal in June through October 2004. The Company intends to renew these loans with the current lender. Although the Company has been successful in renewing similar loans with the current lender in the past, including the renewal of the above mentioned loans in 2003 totaling \$6.4 million for a five year renewal

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period, there can be no assurance that our lender will continue to provide us with renewals or with renewals at favorable terms.

During 2003 and 2002 we made capital expenditures of \$872,000 and \$1.4 million, respectively within our Car and Truck Wash Segment. We estimate aggregate capital expenditures for our Car and Truck Wash Segment, exclusive of acquisitions of businesses, of approximately \$500,000 for the year ending December 31, 2004. The Company believes its current cash balance at December 31, 2003 of \$3.4 million and cash flow from operating activities in 2004 will be sufficient to meet its car wash capital expenditure funding needs through at least the next twelve months. In years subsequent to 2004, we estimate that our Car and Truck Wash Segment will require annual capital expenditures of \$500,000 to \$1,000,000. Capital expenditures within our Car and Truck Wash Segment are necessary to maintain the efficiency and competitiveness of our sites. If the cash provided from operating activities does not improve in 2004 and future years and if current cash balances are depleted, we will need to raise additional capital to meet these ongoing capital requirements.

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In October 2002, we purchased a building as a warehouse, production and administrative facility for our new electronic surveillance products operations. In October 2003, we purchased additional warehouse and office space adjacent to the original facility. We financed a portion of the \$885,000 total purchase price of our facility with a long-term mortgage of approximately \$728,000. Additionally, we have spent approximately \$4.2 million to date in developing our Electronic Surveillance Products Division, including the acquisition costs of Micro-Tech and Vernex and the cost of developing and purchasing inventory for our expanded product line.

As of December 31, 2003, we maintain an unused \$500,000 revolving credit facility with Bank One to provide financing for additional electronic surveillance product inventory purchases. This revolving credit facility, subject to an availability calculation based on inventory and accounts receivable (as defined in our bank agreement). We expect to fund working capital needs for the Security Products Segment, including inventory purchases, with cash collected on current sales and the line of credit.

The Company anticipates aggregate capital expenditures for the Security Products Segment in 2004 of approximately \$1.5 million, exclusive of acquisitions of businesses and, if any, their related capital requirements. The principal component of the \$1.5 million is necessary to meet the requirements for additional warehouse and office space for our Security Products business located in Hollywood, FL. The Company intends to fund this expenditure through a mortgage or, if a mortgage is not an alternative or the price of our common stock rises to a level which we deem to be advantageous, though the issuance of our Common Stock.

In the past, we have been successful in obtaining financing by selling common stock and obtaining mortgage loans. Our ability to obtain new financing is currently adversely impacted by our stock price and our current debt coverage ratios on existing loans. We are reluctant to sell common stock at current prices as our market price is below our per share book value. For the year ended 2003 we would have been in default of our debt covenants had we not obtained waivers and amendments of certain of our debt coverage ratios. Our ability to obtain new financing will be limited, if our stock price does not increase or our cash from operating activities does not improve. Currently, the Company cannot incur additional long term debt without the approval of its 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, 2003, we had borrowings of approximately \$31.3 million. We had three letters of credit

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outstanding at December 31, 2003, totaling \$825,000 as collateral relating to workers' compensation insurance policies. We maintain a revolving credit facility to provide financing for additional electronic surveillance product inventory purchases.

During 2000 and 2001, we refinanced on a long term basis under favorable terms the majority of our short term debt related to our 1999 and 2000 acquisitions. Several of our debt agreements, as amended, contain certain affirmative and negative covenants and require the maintenance of certain levels of tangible net worth and the maintenance of certain debt coverage ratios on a consolidated level. At December 31, 2003, we were not in compliance with our consolidated debt coverage ratio related to our GMAC notes payable. With respect to the GMAC notes payable, the Company has received a waiver of acceleration of the notes

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through January 1, 2005. Additionally, the Company has entered into amendments to the Bank One term loan agreements as of December 31, 2003. The Company is currently in compliance with these covenants as amended. The Company initiated certain temporary and permanent cost savings measures in March of 2003, including reductions in payroll expense and certain operating costs to enable it to maintain compliance with the Bank One consolidated debt coverage ratio. These savings through December 31, 2003 totaled approximately \$425,000. Additional temporary and permanent cost saving measures were initiated in March of 2004, including further reductions in payroll expenses and certain operating costs, along with an increase in prices within the Car and Truck Wash Segment to enable the Company to maintain compliance with the Bank One consolidated debt coverage ratio. The amended debt coverage ratio with Bank One requires the Company to maintain a consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to debt service (collectively, the "debt coverage ratio") of 1.1 to 1 at December 31, 2003 and in the future. As of March 11, 2004, the preliminary operating results for the quarter ended March 31, 2004 indicate that we should meet the Bank One required debt coverage ratio as of March 31, 2004; however, we cannot provide assurance that favorable operating trends will continue through March 31, 2004. If we default on any of the Bank One covenants or the GMAC covenant in the future, the Company will need to obtain further amendments or waivers from these lenders. If the Company is unable to obtain waivers or amendments in the future, Bank One debt totaling \$14.9 million and GMAC debt totaling \$11.6 million recorded as long-term debt at December 31, 2003 would become due on demand.

The Company's ongoing ability to comply with its debt covenants under its credit arrangements and refinance its debt depends largely on the achievement of adequate levels of cash flow. Our cash flow has been and could continue to be adversely affected by weather patterns and economic conditions. In the event that non-compliance with the debt covenants should reoccur, the Company would pursue various alternatives to 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. Although the Company believes that it would be successful in resolving potential non-compliance with its debt covenants, or refinancing its current debt, there can be no assurance that further debt covenant waivers or amendments would be obtained or that the debt would be refinanced with other financial institutions on favorable terms. If we are unable to obtain renewals of our loans or refinancings on favorable terms, our ability to operate would be materially and adversely affected.

The Company is obligated under various operating leases, primarily for certain equipment and real estate within the Car and Truck Wash Segment. Certain of these leases contain purchase options, renewal provisions, and contingent rentals for a proportionate share of taxes, utilities, insurance, and annual cost of living increases. Future minimum lease payments under operating leases with initial or remaining noncancellable lease terms in excess of one year as of December 31, 2003 are as follows: 2004 - \$1.3 million; 2005 - \$1.0 million; 2006 - \$616,000; 2007 - \$501,000; 2008 - \$369,000; and thereafter - \$1.1 million.

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The following are summaries of our contractual obligations and other commercial commitments at December 31, 2003 (in thousands):

	PAYMENTS DUE BY PERIOD			
TOTAL	2004	2005 - 2006	2007 -	-----
-----	-----	-----	-----	-----

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CONTRACTUAL OBLIGATIONS

Long-term debt, including capital leases (1)	\$31,286	\$5,520	\$ 4,935	\$11,
Minimum operating lease payments	4,853	1,280	1,582	
Product Purchase Commitments	107	107	-	
	-----	-----	-----	-----
	\$36,246	\$6,907	\$ 6,517	\$12,
	=====	=====	=====	=====

AMOUNTS EXPIRING PER PERIOD

	TOTAL	2004	2005 - 2006	2007 - 2008
	-----	----	-----	-----
OTHER COMMERCIAL COMMITMENTS				
Line of Credit (2)	\$ 500	\$ 500	\$ -	\$ -
Standby Letters of Credit	825	825	-	-
	-----	-----	-----	-----
	\$1,325	\$1,325	\$ -	\$ -
	=====	=====	=====	=====

- (1) Related interest obligations have been excluded from this maturity schedule. Our 2004 interest payments are expected to be approximately \$1.8 million.
- (2) There were no borrowings outstanding under the Company's line of credit at December 31, 2002 or 2003.

Mace currently employs Louis D. Paolino, Jr. as its President and Chief Executive Officer under a three-year employment agreement dated August 12, 2003. The principle terms of the employment agreement include: an annual salary of \$400,000; a car allowance not to exceed \$1,500 per month; provision of certain medical and other employee benefits; prohibition against competing with Mace during employment and for a three-month period following a termination of employment; and a \$2.5 million payment in the event that Mr. Paolino's employment is terminated for certain reasons set forth in the employment agreement. The termination payment is not due in the event of termination due to death or disability or certain prohibited conduct, as more fully set forth in the employment agreement. The termination payment is due if Mr. Paolino is terminated for unsatisfactory job performance. The employment agreement also entitles Mr. Paolino to a \$2.5 million change-of-control bonus.

On April 5, 2000, we executed a master facility agreement with Fusion Capital Fund II, LLC ("Fusion") pursuant to which Fusion agreed to enter into up to two equity purchase agreements, each with an aggregate principal amount of \$12 million. The master facility agreement expired on February 20, 2003. The first equity purchase agreement was executed by Fusion on April 17, 2000. Proceeds from purchased shares through December 31, 2001 totaled approximately \$1.3 million. There were no purchased shares in 2002 or 2003.

CASH FLOWS

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Operating Activities. Net cash provided by operating activities totaled \$137,000 for the year ended December

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31, 2003 as compared to net cash provided by operating activities of \$3.3 million for the year ended December 31, 2002. The reduction in net cash provided by operating activities in 2003 was principally due to increased net losses from operations in 2003 and a decrease in cash generated from the changes in working capital accounts of \$2.3 million. The decrease in cash generated from working capital is mainly attributed to an increase in the Company's inventory and accounts receivable totaling \$1.95 million, due primarily to the increase in inventory and accounts receivable related to the growth and expansion of the Company's new Electronic Surveillance Products Division. The increase in the loss from operations is mainly due to the expansion of the new Electronic Surveillance Products Division and the effect of increased inclement weather, especially in the Northeast and Texas regions, together with a slower economy, which negatively affected the Company's car count.

Investing Activities. Cash used in investing activities totaled \$569,000 for the year ended December 31, 2003. The use of cash in 2003 reflects \$1.1 million for capital expenditures, including \$873,000 relating to ongoing car care operations and \$234,000 for the expansion of the new Electronic Surveillance Products Division. These expenditures were offset partially by \$598,000 of cash proceeds from the sale of a car wash facility in our Northeast region.

Financing Activities. Cash used in financing activities was \$2.3 million for the year ended December 31, 2003. This reflects routine principal payments on debt of \$2.4 million, proceeds from the issuance of stock under the Company's stock option plans of \$40,000, and \$14,000 for the purchase and retirement of shares of our common stock.

SEASONALITY AND INFLATION

The Company believes that its car washing and detailing operations are adversely affected by extended periods of inclement weather. In particular, long periods of rain and cloudy weather adversely affect our car wash volumes and related lube and other automotive services as people typically do not wash their cars during such periods. Additionally, extended periods of warm, dry weather may encourage customers to wash their cars themselves which also can adversely affect our car wash business. The Company has mitigated the risk of unfavorable weather patterns by having operations in diverse regions.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are not materially exposed to market risks arising from fluctuations in foreign currency exchange rates, commodity prices, or equity prices.

INTEREST RATE EXPOSURE

A significant portion of our debt is at fixed rates, and as such, changes in market interest rates would not significantly impact operating results unless and until such debt would need to be refinanced at maturity. Substantially all of our variable rate debt obligations are tied to the prime rate, as is our incremental borrowing rate. A one percent increase in the prime and Libor rates would not have a material effect on the fair value of our variable rate debt at December 31, 2003 and would have had the impact of increasing interest expense

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by approximately \$180,000 in 2003.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The reports of independent certified public accountants and Consolidated Financial Statements are included in Part IV, ITEM 15 of this Report beginning on page F-1.

PART IV - ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed or incorporated by reference as part of this Form 10-K/A.

1. FINANCIAL STATEMENTS

Report of the Independent Certified Accountants.

Consolidated Financial Statements of Mace Security International, Inc. for the years ended December 31, 2003, 2002, and 2001 including:

Consolidated Balance Sheets for the years ended December 31, 2003, 2002, and 2001;

Consolidated Statements of Operations for the years ended December 31, 2003, 2002, and 2001;

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002, and 2001;

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002, and 2001; and

Notes to Consolidated Financial Statements.

2. FINANCIAL STATEMENT SCHEDULE

The requirements of Schedule II have been included in the Notes to Consolidated Financial Statements. All other schedules for which provision is made in the applicable accounting regulations of the United States Securities and Exchange Commission ("the Commission") are not required under the related instructions or are inapplicable, and therefore, have been omitted.

3. EXHIBITS

The following Exhibits are filed as part of this report (exhibits marked with an asterisk have been previously filed with the Commission and are incorporated herein by this reference):

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 Financial Statements and Notes to Financial Statements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

MACE SECURITY INTERNATIONAL, INC.

By: /s/ Gregory M. Krzemien

Gregory M. Krzemien
Chief Financial Officer and Treasurer

DATED the 24th day of September, 2004.

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Exhibit Index

Exhibit -----	Description -----
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Financial Statements and Notes to Financial Statements

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