GARTNER INC
Form 10-Q
May 03, 2007

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended March 31, 2007

OR

o **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 1-14443
Gartner, Inc.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	04-3099750 (I.R.S. Employer Identification Number)
P.O. Box 10212 56 Top Gallant Road Stamford, CT (Address of principal executive offices)	06902-7700 (Zip Code)

Registrant s telephone number, including area code: (203) 316-1111

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

As of April 23, 2007, 104,041,570 shares of the registrant s common shares were outstanding.

Table Of Contents

Table of Contents

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

GARTNER, INC.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands)

	March 31, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 91,094	$ 67,801
Fees receivable, net	309,748	328,383
Deferred commissions	41,841	46,822
Prepaid expenses and other current assets	57,084	41,027
Total current assets	499,767	484,033
Property, equipment and leasehold improvements, net	58,757	59,715
Goodwill	409,161	408,545
Intangible assets, net	5,224	5,978
Other assets	84,523	81,522
Total Assets	$ 1,057,432	$ 1,039,793
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 141,742	$ 208,002
Deferred revenues	390,870	375,881
Current portion of long-term debt	234,000	220,000
Total current liabilities	766,612	803,883
Long-term debt	171,000	150,000
Other liabilities	84,392	59,592
Total Liabilities	1,022,004	1,013,475
Stockholders Equity		
Preferred stock		
Common stock	78	78
Additional paid-in capital	544,845	544,686
Unearned compensation, net	(1,692)	(2,208)
Accumulated other comprehensive income, net	13,842	13,097
Accumulated earnings	257,196	249,004
Treasury stock, at cost	(778,841)	(778,339)
Total Stockholders Equity	35,428	26,318
Total Liabilities and Stockholders Equity	$ 1,057,432	$ 1,039,793

See the accompanying notes to the condensed consolidated financial statements.

Table of Contents

GARTNER, INC.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Research	$ 158,800	$ 137,092
Consulting	76,267	75,893
Events	26,927	14,495
Other	2,203	3,449
Total revenues	264,197	230,929
Costs and expenses:		
Cost of services and product development	123,713	105,349
Selling, general and administrative	115,746	99,467
Depreciation	5,735	5,660
Amortization of intangibles	529	3,383
META integration charges		1,450
Total costs and expenses	245,723	215,309
Operating income	18,474	15,620
Interest expense, net	(6,263)	(4,363)
Other expense, net	(38)	(694)
Income before income taxes	12,173	10,563
Provision for income taxes	3,981	2,793
Net income	$ 8,192	$ 7,770
Income per common share:		
Basic	$ 0.08	$ 0.07
Diluted	$ 0.08	$ 0.07
Weighted average shares outstanding:		
Basic	103,521	113,769
Diluted	108,263	115,798

See the accompanying notes to the condensed consolidated financial statements.

Table of Contents

GARTNER, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Operating activities:		
Net income	$ 8,192	$ 7,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	6,264	9,043
Stock compensation expense	5,566	2,546
Excess tax benefits from stock-based compensation	(3,535)	(1,400)
Deferred taxes	(1,117)	(737)
Amortization and writeoff of debt issue costs	693	201
Changes in assets and liabilities:		
Fees receivable, net	19,511	36,421
Deferred commissions	5,071	7,308
Prepaid expenses and other current assets	(15,874)	(5,454)
Other assets	(2,467)	146
Deferred revenues	13,011	23,550
Accounts payable, accrued, and other liabilities	(35,537)	(73,289)
Cash (used) provided by operating activities	(222)	6,105
Investing activities:		
Additions to property, equipment and leasehold improvements	(4,777)	(3,356)
Other investing activities, net		(139)
Cash used in investing activities	(4,777)	(3,495)
Financing activities:		
Proceeds from interest rate swap	1,167	
Proceeds from stock issued for stock plans	11,984	11,894
Proceeds from debt issuance	405,000	
Payments for debt issuance costs	(1,257)	
Payments on debt	(370,000)	(3,333)
Purchases of treasury stock	(23,001)	(17,184)
Excess tax benefits from stock-based compensation	3,535	1,400
Cash provided (used) in financing activities	27,428	(7,223)
Net increase (decrease) in cash and cash equivalents	22,429	(4,613)
Effects of exchange rates on cash and cash equivalents	864	(29)
Cash and cash equivalents, beginning of period	67,801	70,282
Cash and cash equivalents, end of period	$ 91,094	$ 65,640

See the accompanying notes to the condensed consolidated financial statements.

Table of Contents

GARTNER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Basis of Presentation

These interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of Gartner, Inc. (Gartner or the Company) filed in its Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of operating revenues and expenses. These estimates are based on management s knowledge and judgments. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The results of operations for the three months ended March 31, 2007 may not be indicative of the results of operations for the remainder of 2007. Certain prior year amounts have been reclassified to conform to the current year presentation. Sales tax collected from customers remitted to governmental authorities is presented on a net basis in the Consolidated Statements of Operations.

Note 2 Comprehensive Income

The components of comprehensive income for the three months ended March 31, 2007 and 2006 are as follows (in thousands):

	Three Months Ended March 31,	
	2007	2006
Net income:	$ 8,192	$ 7,770
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	765	272
Unrealized loss on interest rate swap	(1,085)	1,257
Realized gain on interest rate swap (a)	1,033	
Amortization of pension unrealized loss	32	
Other comprehensive income	745	1,529
Comprehensive income	$ 8,937	$ 9,299

(a) Net of approximately $0.1 million reclassified to earnings in the first quarter of 2007.

Note 3 Computations of Income per Share of Common Stock

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

	Three Months Ended March 31,	
	2007	2006

Numerator:		
Net income used for calculating basic and diluted income per share	$ 8,192	$ 7,770
Denominator:		
Weighted average number of common shares used in the calculation of basic income per share	103,521	113,769
Common stock equivalents associated with stock-based compensation plans	4,742	2,029
Shares used in the calculation of diluted income per share	108,263	115,798
Basic income per share	$ 0.08	$ 0.07
Diluted income per share	$ 0.08	$ 0.07

For the three months ended March 31, 2007 and 2006, 0.5 million and 1.3 million options and stock-settled stock appreciation rights, respectively, were not included in the computation of diluted income per share because the effect would have been anti-dilutive.

Table of Contents

Note 4 Stock-Based Compensation

The Company grants stock-based compensation awards as an incentive for employees and directors to contribute to the Company s long-term success. The Company s awards include stock options, stock-settled stock appreciation rights, restricted stock, service- and performance-based restricted stock units, and common stock equivalents.

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards 123(R), Share-Based Payment (SFAS No. 123(R)), as interpreted by SEC Staff Accounting Bulletin No. 107 (SAB No. 107). Under SFAS No. 123(R), stock-based compensation expense is based on the fair value of the award on the date of grant, which is recognized over the related service period, net of estimated forfeitures. The service period is the period over which the related service is performed, which is generally the same as the vesting period. All of the Company s stock-based compensation awards are classified as equity awards in accordance with SFAS No. 123(R).

During the first quarter of 2007, the Company recognized $5.6 million of pre-tax stock compensation expense under SFAS No. 123(R), with $2.6 million recorded in Cost of services and product development expense and $3.0 million recorded in Selling, general and administrative expense in the Condensed Consolidated Statement of Operations. In the first quarter of 2006, the Company recognized $2.5 million of pre-tax stock compensation expense under SFAS No. 123(R), with $1.4 million recorded in Cost of services and product development expense and $1.1 million recorded in Selling, general and administrative expense.

As of March 31, 2007, the Company had $55.3 million of total unrecognized stock-based compensation cost, which is expected to be recognized as stock-based compensation expense over the remaining weighted-average service period of approximately 2.7 years. For the three months ended March 31, 2007, excess tax benefits realized from the exercise of stock-based compensation awards was $3.5 million. At the present time, the Company issues treasury shares upon the exercise or settlement of stock-based compensation awards.

Stock Options and Stock Appreciation Rights

A summary of the changes in stock options outstanding during the three months ended March 31, 2007 follows:

	Options in millions	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2006	12.8	$ 11.10	5.17 years
Granted			
Forfeited or expired	(0.1)	11.43	nm
Exercised (1)	(1.0)	11.70	nm
Outstanding at March 31, 2007 (2)	11.7	$ 11.05	5.05 years
Vested and exercisable at March 31, 2007 (2)	8.2	$ 10.95	4.65 years

nm=not meaningful

(1) Options exercised during the first quarter of 2007 had an intrinsic value of

$10.7 million. The Company received approximately $12.0 million in cash from stock option exercises in the first quarter of 2007.

(2) At March 31, 2007, options outstanding and options vested and exercisable had aggregate intrinsic values of $151.4 million and $106.4 million, respectively.

A summary of the changes in stock-settled stock appreciation rights (SARs) outstanding during the three months ended March 31, 2007 follows:

	SARs in millions	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2006	1.22	$ 14.48	$6.02	6.38 years
Granted (1)	0.6	21.82	7.99	7.00 years
Forfeited or expired				
Exercised				
SARs outstanding at March 31, 2007 (2)	1.8	$ 16.99	$6.66	6.39 years
Vested and exercisable at March 31, 2007		$	$	

Table of Contents

(1) SARs generally vest ratably over a four-year service period and expire in seven years.

(2) At March 31, 2007, SARs outstanding had an aggregate intrinsic value of $12.4 million.

The fair value of the Company s stock options and SARs was estimated on the date of grant using the Black-Scholes-Merton valuation model with the following weighted-average assumptions:

	Three Months Ended March 31,	
	2007	2006
Expected dividend yield (1)	0%	0%
Expected stock price volatility (2)	33%	40%
Risk-free interest rate (3)	4.7%	4.7%
Expected life in years (4)	4.8	4.8

(1) The dividend yield assumption is based on the history and expectation of the Company s dividend payouts. Historically, Gartner has not paid dividends on its common stock.

(2) Expected stock price volatility was based on both historical Gartner common stock prices and implied

volatility from publicly traded options in Gartner common stock.

(3) The risk-free interest rate is based on the yield of a U.S. treasury bond with a similar maturity of the expected life of the award.

(4) The expected life in years was based on the simplified calculation provided for in SAB No. 107. The simplified method determines the expected life in years based on the vesting period and contractual terms as set forth when the award is made.

Restricted Stock, Restricted Stock Units, and Common Stock Equivalents

The fair value of restricted stock, restricted stock units (RSUs), and common stock equivalents (CSEs) is determined on the date of grant based on the market price of the Company s common stock. The fair value of these awards is recognized as compensation expense as follows: (i) restricted stock awards generally vest based on the achievement of a market condition and are expensed on a straight-line basis over three years; (ii) service-based RSUs vest ratably over four years and are expensed on a straight-line basis over four years; (iii) performance-based RSUs are subject to both performance and service conditions, vest ratably over four years, and are expensed on an accelerated basis as required by SFAS No. 123(R); and (iv) CSEs vest immediately and are recorded as expense on the date of grant.

A summary of the changes in restricted stock, restricted stock units, and common stock equivalents during the three months ended March 31, 2007, is presented in the table below:

	Restricted Stock	Weighted-Average Grant Date Fair Value	Restricted Stock Units (RSUs)	Weighted-Average Grant Date Fair Value	Common Stock Equivalents (CSEs)	Weighted-Average Grant Date Fair Value

Nonvested at December 31, 2006	511,000	$8.81	1,521,620	$14.13		$
Granted (1), (2)			992,768	21.85	4,527	24.30
Vested or settled (2)			(1,225)	13.75	(4,527)	24.30
Forfeited			(13,325)	13.75		
Nonvested at March 31, 2007 (3), (4)	511,000	$8.81	2,499,838	$17.20		$

(1) Included in the 992,768 RSUs granted were 481,007 service-based RSUs awarded to non-executive staff and 511,761 shares of performance-based RSUs awarded to executives. The performance-based RSUs are subject to a performance condition tied to an annual increase in the Company s subscription-based contract value for 2007. With respect to the performance condition, the 511,761 performance-based RSUs granted represent the target amount, and the number of RSUs that will ultimately vest will be between 0% and 200% of the target amount depending on which performance level is achieved. If the minimum performance condition is not

met, the performance-based RSUs will expire, and any compensation expense already recorded will be reversed.

(2) Fees paid to directors are paid in CSEs. These vest immediately and are convertible into common shares when the director leaves the Board of Directors.

Table of Contents

(3) Vesting of 500,000 shares of the restricted stock is subject to a market condition, as follows: (i) 300,000 shares when the Company s common stock trades at an average price of $20 or more for sixty consecutive trading days, (ii) 100,000 shares when the Company s common stock trades at an average price of $25 or more for sixty consecutive trading days, and (iii) 100,000 shares when the Company s common stock trades at an average price of $30 or more for sixty consecutive trading days.

(4) The weighted-average remaining contractual term of the restricted stock units is 1.9 years. The restricted stock has no defined contractual term.

Note 5 Segment Information

The Company manages its business in three reportable segments: Research, Consulting and Events. Research consists primarily of subscription-based research products, access to research inquiry, as well as peer networking services and membership programs. Consulting consists primarily of consulting, measurement engagements, and strategic advisory services. Events consists of various symposia, conferences, and exhibitions.

The Company evaluates reportable segment performance and allocates resources based on gross contribution margin. Gross contribution is defined as operating income excluding certain Cost of services and product development and selling, general and administrative expenses, depreciation, META integration charges, amortization of intangibles, and Other charges. Certain costs included in consolidated Cost of services and product development are not allocated to segment expense, primarily web maintenance and customer relationship database costs, and certain bonus and fringe charges. The accounting policies used by the reportable segments are the same as those used by the Company.

The Company does not identify or allocate assets, including capital expenditures, by operating segment. Accordingly, assets are not reported by segment because the information is not available and is not reviewed in the evaluation of segment performance or in making decisions in the allocation of resources.

The following tables present information about the Company s reportable segments (in thousands). The Other column includes certain revenues and other expenses unallocated to reportable segments, expenses allocated to operations that do not meet the segment reporting quantitative threshold, and other charges. There are no inter-segment revenues:

	Research	Consulting	Events	Other	Consolidated
Three Months Ended March 31, 2007:					
Revenues	$ 158,800	$ 76,267	$ 26,927	$ 2,203	$ 264,197
Gross contribution	99,302	28,036	14,171	1,652	143,161
Corporate and other expenses					(124,687)
Operating income					$ 18,474

	Research	Consulting	Events	Other	Consolidated
Three Months Ended March 31, 2006:					
Revenues	$ 137,092	$ 75,893	$ 14,495	$ 3,449	$ 230,929
Gross contribution	84,487	33,826	6,427	2,813	127,553
Corporate and other expenses					(111,933)
Operating income					$ 15,620

Note 6 Goodwill and Intangible Assets

Changes in the carrying amount of goodwill, by reporting segment, for the three months ended March 31, 2007, are as follows:

	Balance December 31, 2006	Currency Translation Adjustments	Balance March 31, 2007
Research	$ 282,467	$ 553	$ 283,020
Consulting	87,666	47	87,713
Events	36,330	16	36,346
Other	2,082		2,082
Total goodwill	$ 408,545	$ 616	$ 409,161

The following table presents the Company s intangible assets subject to amortization (in thousands):

Table of Contents

March 31, 2007

	Customer Relationships	Other	Total
Gross cost	$ 7,700	$ 1,035	$ 8,735
Accumulated amortization	(3,080)	(431)	(3,511)
Net	$ 4,620	$ 604	$ 5,224

December 31, 2006

	Customer Relationships	Other	Total
Gross cost	$ 7,700	$ 1,265	$ 8,965
Accumulated amortization			

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

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

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

- announcements regarding the results of expansion or development efforts by us or our competitors;
- announcements regarding the acquisition of businesses or companies by us or our competitors;
- announcements regarding the disposition of the remaining assets that comprise our former Car Wash Segment, which may or may not be on favorable terms;

- technological innovations or new commercial products developed by us or our competitors;
- changes in our or our suppliers’ intellectual property portfolio;
- issuance of new or changed securities analysts’ reports and/or recommendations applicable to us or our competitors;
- additions or departures of our key personnel;
- operating losses by us; and
- actual or anticipated fluctuations in our quarterly financial and operating results and degree of trading liquidity in our common stock.

10

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

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

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

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

Risks Related to our Security Segment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

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

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

The Company's Security Segment leases manufacturing and office space in Bennington, Vermont under a lease between Vermont Mill and the Company. The lease, as extended, expires on November 14, 2011. Vermont Mill is controlled by Jon E. Goodrich, a former director and current employee of the Company. The original lease was entered into in November 1999 for a five year term. In November 2004, the Company exercised an option to continue the lease through November 2009 at a rate of $10,576 per month. The Company amended the lease in 2008 to occupy additional space for an additional $200 per month. The Company also leased from November 2008 to May 2009, on a month-to-month basis, approximately 3,000 square feet of temporary inventory storage space at a monthly cost of $1,200. In September 2009, the Company and Vermont Mill extended the term of the lease to November 14, 2010 at a monthly rate of $10,776 per month and modified the square footage rented to 33,476 square feet. The Company entered into a Lease Extension Agreement on December 20, 2010 to extend the lease through November 14, 2011 at a monthly rate of $11,315 and to provide an option to further extend the lease to May 14, 2012 at the same monthly rate. Rent expense under this lease was $129,857 and $135,318 for the years ended December 31, 2010 and 2009, respectively.

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

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

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

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

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

(1) All of our locations are owned, except for one location in the Dallas, Texas area which is leased. The Lubbock, Texas location was sold on March 8, 2011. (See Note 4. Business Acquisitions and Divestures and Note 21. Subsequent Events)

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

(3) One Dallas, Texas area location is subject to an Agreement of Sale. It is anticipated that the sale of this location will be consummated in the second quarter of 2011.

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

ITEM 3. LEGAL PROCEEDINGS

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

15

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

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

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

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

ITEM 4. (REMOVED AND RESERVED)

PART II

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

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

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

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

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

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

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

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

(c) Recent Sales of Unregistered Securities

None

(d) Issuer Purchases of Securities

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of 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, 2010	-	$ -	-	$ 1,226,000
November 1 to November 30, 2010	-	$ -	-	$ 1,226,000
December 1 to December 31, 2010	-	$ -	-	$ 1,226,000
Total	-	$ -	-	

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

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.

18

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, intrusion fencing, access control, security cameras and security digital recorders. The Security Segment also owns and operates a UL listed monitoring center that monitors video and security alarms for approximately 400 security dealer clients with over 41,000 end-user accounts. The Security Segment's electronic surveillance products and components are purchased from Asian and European manufacturers. Many of our products are designed to our specifications. We sell the electronic surveillance products and components primarily to installing dealers, distributors, system integrators and end-users. Other products in our Security Segment are less-than-lethal Mace® defense sprays and other security devices such as monitors, high-end digital and machine vision cameras and professional imaging components. 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, 2010 for the Security Segment were comprised of approximately 22% from our professional electronic surveillance operation, 7% from our consumer direct home and small business electronic surveillance operations, 25% from our machine vision camera and video conferencing equipment operation, 29% from our personal defense and law enforcement aerosol operation in Vermont, and 17% from our wholesale security monitoring operation in California.

Cost of Revenues

Security

Cost of revenues within the Security Segment consists primarily of costs to purchase or manufacture the security products including direct labor and related taxes and fringe benefits, and 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

Selling, general and administrative ("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 or an accelerated method.

Other Income

Other income consists primarily 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 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 will be released to the Company in six months provided there are no unsatisfied indemnity claims 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, 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. At December 31, 2010, the results of operations of our previously owned Digital Media Marketing operations are reported as discontinued operations; and accordingly, have been segregated from the revenue and expense discussions below.

Linkstar, the e-commerce division, was a direct-response product business that developed, marketed and sold products directly to consumers through the internet. We reached our customers predominantly through online advertising on third-party promotional websites. Linkstar also marketed products on promotional websites operated by Promopath, our online marketing division. Promopath, our online affiliate marketing company, secured customer acquisitions or leads for advertising clients principally by using promotional internet sites that offer free gifts.

Revenues within our Digital Media Marketing Segment for the year ended December 31, 2010 were approximately $5.9 million, consisting of $5.7 million, or 97%, from our e-commerce division and $172,000, or 3%, from our online marketing division.

Cost of revenues within the Digital Media Marketing Segment consisted primarily of amounts we pay to website publishers that are directly related to revenue-generating events, including the cost to enroll new members, fulfillment and warehousing costs, including direct labor and related taxes, fringe benefits and e-commerce product costs. Promopath's largest expense is the purchasing of internet addresses to which it sends its promotional pages.

Car Wash Services

At December 31, 2010, we owned or leased four full service car wash locations in Texas which are reported as discontinued operations (see Note 5. of the Notes to Consolidated Financial Statements); 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.

On December 31, 2007, Eagle completed the purchase of the Company's five truck washes for $1.2 million in consideration, consisting of $280,000 cash and a $920,000 note payable to the Company secured by mortgages on the truck washes. The $920,000 note, which has a balance of $832,000 at December 31, 2010, has a five-year term, with principal and interest paid on a 15-year amortization schedule.

20

Results of Operations for the Two Years Ended December 31, 2010 and 2009

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

	Year ended December 31,			
	2010		2009	
Revenues	100	%	100	%
Cost of revenues	70.0		69.9	
Selling, general and administrative expenses	52.0		68.3	
Arbitration award	25.1		-	
Depreciation and amortization	3.2		3.0	
Asset impairment charges	2.6		2.5	
Operating loss	(52.9	)	(43.7	)
Interest expense, net	(0.2	)	(0.0	)
Other income	-		-	
Loss from continuing operations before income taxes	(53.1	)	(43.7	)
Income tax expense	(0.2	)	-	
Loss from continuing operations	(53.3	)	(43.7	)
Loss from discontinued operations, net of tax	(45.1	)	(15.2	)
Net loss	(98.4	)%	(58.9	)%

Revenues

Security

Revenues were approximately $18.4 million and $18.6 million for the years ended December 31, 2010 and 2009, respectively. Of the $18.4 million of revenues for the year ended December 31, 2010, $3.9 million, or 22%, was generated from our professional electronic surveillance operations, $1.3 million, or 7%, from our consumer direct home and small business electronic surveillance operations, $4.6 million or 25%, from our high-end digital and machine vision cameras and professional imaging components operation, $5.4 million, or 29%, from our personal defense and law enforcement aerosol operations in Vermont, and $3.2 million, or 17%, from our wholesale security monitoring operation in California acquired on April 30, 2009. Of the $18.6 million of revenues for the year ended December 31, 2009, $4.7 million, or 25%, was generated from our professional electronic surveillance operation, $2.5 million, or 14%, from our consumer direct home and small business electronic surveillance operation, $4.1 million or 22% from our high-end digital and machine vision cameras and professional imaging components operation, $5.0 million, or 27%, from our personal defense and law enforcement aerosol operation in Vermont and $2.3 million, or 12%, from our wholesale security monitoring operation.

Overall revenues within the Security Segment remained constant in 2010, despite increases in revenues from our wholesale security monitoring operation acquired in April 2009, our existing Vermont personal defense operation and from our machine vision operation. Revenues decreased in our consumer direct electronic surveillance division and our professional electronic surveillance operation. The combined $1.9 million, or 26%, 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 and a reduction in spending by many of our customers impacted by low housing construction starts. Our Vermont personal defense operations sales increased approximately $328,000, or 7%, from 2009 to 2010, with an increase noted in the sale of aerosol and non-aerosol products and TG Guard systems. Additionally, the Company’s machine vision camera and video conferencing equipment operations experienced an approximate $473,000, or 12%, increase in sales in 2010 over 2009, largely as a result of a focus on vertically integrating products, selling more system solutions, combined with increased sales in international markets.

Cost of Revenues

Security

Costs of revenues were $12.9 million and $13.0 million or 70% of revenues for 2010 and 2009, respectively.

Selling, General and Administrative Expenses

SG&A expenses for the years ended December 31, 2010 and 2009 were $9.6 million and $12.7 million, respectively. SG&A expenses as a percentage of revenues decreased to 52% in 2010 as compared to 68% for 2009. The reduction in SG&A costs were the result of implementation of corporate wide cost savings measures in 2008 through 2010, including a significant reduction in employees throughout the entire Company. The cost savings were partially realized from a reduction in costs with the consolidation of our security division's surveillance equipment warehouse operations into our Farmers Branch, Texas facility, as well as the consolidation of customer service, accounting services, and other administrative functions within these operations. SG&A costs decreased within our Florida and Texas electronic surveillance equipment operations by approximately $1.3 million, or 30%, partially as a result of our consolidation efforts to reduce SG&A expenses as noted above and partially as a result of our reduced sales levels. In addition to these cost savings measures, we noted a reduction in stock option non-cash compensation expense from continuing operations from approximately $115,000 in 2009 to $66,000 in 2010. SG&A expenses also include legal costs related to the recently settled arbitration proceedings with Mr. Paolino of approximately $344,000 and $798,000 for 2010 and 2009, respectively, and $224,000 and $163,000 of severance cost related to employee reductions in 2010 and 2009, respectively. Finally, in May 2010, the Company adjusted a contingent purchase price payout related to its April 2009 acquisition of the Company's wholesale monitoring operation 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 $582,000 and $567,000 for 2010 and 2009, respectively. The increase in depreciation and amortization expense in 2010 was principally related to amortization expense on the CSSS acquired intangible assets.

Asset Impairment Charges

In accordance with ASC 360, 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. Assets classified as held for sale are measured at the lower of carrying value or fair value, net of costs to sell.

Continuing Operations

In assessing goodwill for impairment, we first compare the fair value of our final reporting unit containing goodwill, our wholesale monitoring business, with its net book value. We estimate the fair value of the reporting unit using discounted expected future cash flows, supported by the results of various market approach valuation models. If the fair value of the reporting unit exceeds its net book value, goodwill is not impaired, and no further testing is necessary. If the net book value of this reporting unit exceeds its fair value, we perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we determine the implied fair value of goodwill in the same manner as if our reporting unit was being acquired in a business combination. Specifically, we allocate the fair value of the reporting unit to all of the assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. If the implied fair value of goodwill is less than the goodwill recorded on our balance sheet, we record an impairment charge for the difference.

We performed extensive valuation analyses, utilizing both income and market approaches, in our goodwill assessment process. The following describes the valuation methodologies used to derive the fair value of the reporting units.

- Income Approach: To determine fair value, we discounted the expected cash flows of the reporting unit. The discount rate used represents the estimated weighted average cost of capital, which reflects the overall level of inherent risk involved in our reporting units and the rate of return an outside investor would expect to earn. To estimate cash flows beyond the final year of our model, we used a terminal value approach. Under this approach, we used estimated operating income before interest, taxes, depreciation and amortization in the final year of our model, adjusted to estimate a normalized cash flow, applied a perpetuity growth assumption and discounted by a perpetuity discount factor to determine the terminal value. We incorporated the present value of the resulting terminal value into our estimate of fair value.

- Market-Based Approach: To corroborate the results of the income approach described above, we estimated the fair value of our reporting unit using several market-based approaches, including the value that we derive based on our consolidated stock price as described above. We also used the guideline company method which focuses on comparing our risk profile and growth prospects to select reasonably similar/guideline publicly traded companies.

The determination of the fair value of the 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, the discount rate, terminal growth rates, operating income before depreciation and amortization and capital expenditures forecasts. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. In addition, changes in underlying assumptions would have a significant impact on either the fair value of the reporting units or the goodwill impairment charge.

The allocation of the fair value of the reporting unit to individual assets and liabilities within the reporting unit also requires us to make significant estimates and assumptions. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, customer relationships, non-competition agreements and current replacement costs for certain property, plant and equipment.

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 June 30, 2009, December 31, 2009, June 30, 2010 and December 31, 2010. We recorded an impairment charge to trademarks of approximately $80,000 and an impairment charge of $142,000 to customer lists, both principally related to our consumer direct electronic surveillance operations as of June 30, 2009 and an impairment charge of $30,000 for trademarks related to our high end digital and machine vision cameras and professional imaging component operations at December 31, 2009. With continuing deterioration in 2010, we recorded an additional impairment charge of $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.

Additionally, 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 for our wholesale security monitoring business as of April 30, 2010, we determined that there was no impairment in that the fair value for this reporting unit exceeded the book value of its invested capital. Our wholesale security monitoring business has recorded goodwill of $1.98 million, which exceeds the book value of its invested capital by $249,000, or 7.8%. Subsequent to our most recent annual testing date of April 30, 2010, the operating results of this reporting unit have performed at expected levels and no impairment indicators were deemed present at December 31, 2010. 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, 2010 assessment, a hypothetical reduction in the annual recurring revenue growth rate from a range of 5% to 6% to an annual recurring revenue growth ratio of 3% to 4%, without a corresponding decrease in operating expenses, would result in an approximate $500,000 impairment charge. 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 dealers 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, and accelerating costs beyond management's control.

In the fourth quarter of 2008, we consolidated the inventory in our Fort Lauderdale, Florida warehouse into our Farmers Branch, Texas facility. Certain of our administrative and sale staff of our Security Segment's electronic surveillance products division remain in the Fort Lauderdale, Florida building, which we listed for sale with a real estate broker. We performed an updated market evaluation of this property, listing the facility for sale at a price of $1,950,000. We recorded an impairment charge of $275,000 related to this property at December 31, 2008, and additional impairment charges totaling $210,000 in 2009 to write-down the property to our estimate of net realizable value based on updated market valuations of the property. On December 4, 2009, the Company sold the Fort Lauderdale, Florida building, subject to an Agreement of Sale entered into on October 5, 2009, and recorded a loss of $107,000 in the fourth quarter of 2009 after closing costs and broker commissions.

Discontinued Operations

As noted in Note 4. Business Acquisitions and Divestitures, in the accompanying financial statements, the agreements of sale related to the three car washes the Company owned in Austin, Texas were amended to modify the sale price to $8.0 million. This amended sale price, less costs to sell, was estimated to result in a loss upon disposal of approximately $175,000. Accordingly, an impairment loss of $175,000 was recorded as of September 30, 2009 and included in the results from discounted operations in the accompanying consolidated statement of operations. The sale of the Austin, Texas car washes was completed on November 30, 2009. 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 at March 31, 2010. Finally, 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. We have determined that, due to further reductions in car wash volumes at these sites resulting from increased competition and a deterioration in demographic in the immediate geographic areas of these sites, current economic pressures, along with current data utilized to estimate the fair value of these car wash facilities, future expected cash flows would not be sufficient to recover their carrying values.

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. We updated our forecasted cash flows of these reporting units during the second quarter of each year. These updates considered current economic conditions and trends, estimated future operating results for the launch of new products as well as non-product revenue growth, and anticipated future economic and regulatory conditions. Based on the results of our assessment of goodwill impairment at June 30, 2009 and June 30, 2010, the net book value of our Digital Media Marketing Segment reporting unit exceeded its fair value at both measurement dates. With the noted potential impairment at June 30, 2009 and 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 $5.9 million at June 30, 2009 and $2.8 million at June 30, 2010, which were less than the recorded value of goodwill at these respective dates. Accordingly, we recorded impairments to write down goodwill of this reporting unit by $1.0 million and $3.1 million at June 30, 2009 and June 30, 2010, respectively. 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 5. 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 accompanying 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, 2010 and 2009 was $51,000 and $7,000, respectively. The increase in net interest expense is due to an increase in interest expense of approximately $14,000 and a reduction in interest income of approximately $30,000 with the Company’s decrease in average cash and cash equivalent balances on hand during 2010.

Other Income

Other income was $5,000 and $0 for 2010 and 2009, respectively.

Income Taxes

We recorded income tax expense of $30,000 and $0 for the years ended December 31, 2010, and 2009, respectively. Income tax expense (benefit) reflects the recording of income taxes on loss before income taxes at effective rates of approximately (0.3)%, and (0)% for the years ended December 31, 2010 and 2009, 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 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 $3.8 million in 2010 and $3.4 million in 2009 with a total valuation allowance of $22.2 million at December 31, 2010 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, 2010 were approximately $5.9 million, consisting of $5.7 million from our e-commerce division and $172,000 from our online marketing division. Revenues within our Digital Media Marketing Segment for the year ended December 31, 2009 were approximately $9.7 million, consisting of $9.6 million from our e-commerce division and $21,000 from our online marketing division. The reduction in revenues within our e-commerce division of approximately $4.0 million is principally related to a reduction in sales in our Purity by Mineral Science cosmetic product line, our ExtremeBriteWhite teeth whitening product, and our cross sell revenue with third-party companies. Additionally, in May 2010, many credit card companies implemented restrictive controls over customer data in response to legislation which negatively impacted our cross sell revenue. Finally, our ExtremeBriteWhite product sales were negatively impacted during the second and third quarter of 2010 as a result of one of our credit card processors discontinuing the processing of payments for this product.

Cost of revenues within our Digital Media Marketing Segment was approximately $4.7 million, or 79% of revenues, for the year ended December 31, 2010 and approximately $6.9 million, or 72% of revenues, for the year ended December 2009. The decrease in cost is due to a decline in new member acquisitions, partially offset by an increase in average CPA marketing expense for ExtremeBriteWhite customers. CPA marketing expense is recognized at the time a new member is acquired.

Car Wash Services

Revenues within the car wash operations for the year ended December 31, 2010 were $5.1 million as compared to $10.6 million for the same period in 2009, a decrease of $5.5 million or 52%. This decrease was primarily attributable to a decrease in wash and detail services, principally due to the sale of car washes and reduced car wash volumes in the Texas market. Overall car wash volumes declined by 252,000 cars, or 60%, in 2010 as compared to 2009, largely related to the closure and divestiture of 11 car wash locations in Texas since January 2009. Additionally, the

Company experienced a slight decrease in average car wash and detailing revenue per car from $17.89 in 2009 to $17.38 in 2010.

Cost of revenues within the car wash operations were $4.6 million, or 91% of revenues, and $6.6 million or 88% of revenues, for the years ended December 31, 2010 and 2009, respectively. The increase in cost of revenues as a percent of revenues in 2010 as compared to 2009 was the result of the reduction in car wash volumes and a slight increase in cost of labor as a percentage of car wash and detailing revenues.

Liquidity and Capital Resources

Liquidity

Cash and cash equivalents were $2.6 million at December 31, 2010. The ratio of our total debt to total capitalization, which consists of total debt plus stockholders' equity, was 20.0% at December 31, 2010 and 8.4% at December 31, 2009. Our business requires a substantial amount of capital, most notably to fund our losses. We plan to meet these capital needs from various financing sources, including borrowings, cash generated from the sale of car washes, and the issuance of common stock. Our debt covenants with J.P. Morgan Chase Bank, N.A. require us to maintain a total unencumbered cash and marketable securities balance of $1.5 million.

As of December 31, 2010, we had working capital of approximately $7.0 million. Working capital was approximately $16.6 million at December 31, 2009. Our positive working capital decreased by approximately $9.6 million from December 31, 2009 to December 31, 2010, principally due to the payment of $4.6 million for the Paolino arbitration award and from our 2010 net loss. As described in Note 18. Commitments and Contingencies, the Company and Mr. Paolino settled the various legal actions they had filed against each other in exchange for the Company paying Mr. Paolino $2,300,000 on November 1, 2010 and $2,310,000 on December 29, 2010.

The Company funded a portion of the payment to Mr. Paolino by borrowing $1.35 million from Merlin Partners, LP (“Merlin”). The loan which had an original maturity date of March 28, 2011 was extended to April 28, 2011. The loan was payable in two installments of $675,000 each upon the closing of each of two car washes that were under agreements of sale at December 31, 2010. The Company made a payment of $675,000 to Merlin upon the sale of the Lubbock, Texas car wash on March 8, 2011. The Company expects to pay the remaining balance owed plus accrued interest from the proceeds generated by the sale of a Dallas, Texas area car wash that is under an agreement of sale and expected to close in the second quarter of 2011. Merlin is a fund managed by Ancora Advisors, a subsidiary of the Ancora Group. Richard Barone, a Company director, is Chairman of the Ancora Group. The loan bears interest at a rate of 12% per annum, and is secured by second liens on the Dallas, Texas area car wash and a security interest in the trade name “Mace”. As part of the consideration for the financing, Merlin was also granted a Common Stock Purchase Warrant (the “Warrant”) to purchase up to 314,715 shares of the Company’s common stock at an exercise price of $0.20 per share, expiring December 28, 2015. The Warrant contains anti-dilution provisions providing that Merlin will receive additional warrants exercisable into 2% of any common stock of the Company issued by the Company through December 28, 2011. The exercise price of the Warrant will be adjusted lower to equal the stock issuance price of any stock issued through December 28, 2011 at a price below $0.20. The warrants were accounted for under the equity method with the Black-Scholes fair value of the warrants of $63,274 recorded as a discount to the $1.35 million Merlin loan and as additional paid-in capital. The discount will be charged to interest expense over the three month maturity period of the loan with an offsetting credit to the loan balance.

The Company plans to raise working capital through a rights offering or other sale of securities. On December 23, 2010, the Board of Directors of the Company approved a plan to prepare a rights offering to purchase shares of the Company’s common stock (the “Rights Offering”). On March 25, 2011, the Company and Ancora Securities, Inc. ("Ancora") executed a Placement Agent and Dealer-Manager Agreement, under which Ancora will act as the placement agent for the planned Rights Offering. The basic terms of the Rights Offering being prepared is for each stockholder to be given the right to purchase three shares of common stock for each share of common stock owned as of the record date, at an exercise price to be established by the Company. The record date and exercise price will be determined and set by the Board of Directors at a later date near the date of the mailing of the prospectus for the Rights Offering. All new shares issued under the Rights Offering will be registered under the Securities Act of 1933, as amended (the “Securities Act”). We have also entered into a Securities Purchase Agreement dated March 25, 2011 ("Securities Purchase Agreement") with Merlin, a hedge fund which is under common control with Ancora. In accordance with the Securities Purchase Agreement, Merlin and up to three assignees of Merlin, will purchase $4,000,000 of our common stock, valued at the per share exercise price used in the Rights Offering at the conclusion of the Rights Offering. There are conditions to Merlin's obligation to purchase, including: (i) that the Rights Offering occur; (ii) the stock sold to Merlin is registered under the Securities Act; and (iii) the Company expand its Board of Directors to seven persons with the two vacancies created by the expansion to be filled with individuals acceptable to Merlin. The Company is currently preparing a registration statement to register the Rights Offering stock and the stock to be sold to Merlin. Richard Barone, a member of our Board of Directors, is a controlling owner of Ancora Securities, Inc and Ancora Advisors, LLC. Ancora Advisors, LLC is the manager of Merlin.

The Rights Offering is expected to be made to stockholders in the first half of 2011. This disclosure of the Rights Offering does not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of any securities in any state in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

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. As of December 31, 2010, we had four remaining car washes for sale, two of which were under agreements of sale (See Note 4. Business Acquisitions and Divestitures and Note 21. Subsequent Events). A car wash was sold on March 8, 2011 with the sale of one of the three remaining car washes pending. As of March 21, 2011, we had three remaining car washes for sale which we estimate will generate proceeds, net of related mortgages, in the range of approximately $1.7 million to $2.0 million. We also listed our Texas warehouse for sale in August, 2010 with a real estate broker, which we estimate will generate proceeds, net of related mortgage debt, of approximately $1.0 million to $1.2 million.

To the extent we do not reduce the current negative cash flow from operations of approximately $250,000 per month or generate sufficient cash from the sale of assets, we may not have sufficient cash to operate. To the extent we lack cash to meet our future capital and cash operating requirements, 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 not be sufficient to pay our estimated cash operating requirements through December 31, 2011 unless we are successful in increasing our cash position through the above noted asset sales or raising additional capital through the sale of securities. There can be no assurance that adequate pending asset sales will take place prior to December 31, 2011 or that we will be successful in selling our securities. If we are unable to raise additional capital, we will need to substantially reduce the scale of operations and curtail our business plans. Additionally, we will not have sufficient funds to meet capital expenditures and cash operating requirements through the next twelve months and will not comply with our debt covenants with JP Morgan Chase, unless we can increase sales and reduce the current levels of negative cash flow from operations as per the Company’s business plan, complete the pending sale of assets and/or raise additional cash from securities sales. Also see Item 1A. Risk Factors above for Risks Related to Our Business and Common Stock.

If we generate cash from the successful sale of our remaining Car Wash operations and our Texas warehouse as planned, our current cash and short-term investment balance at December 31, 2010 of $2.6 million and the cash proceeds from these asset sales will be sufficient to meet our future capital expenditure and operating funding needs through at least the next twelve months and will allow us to continue to satisfy our debt covenant requirement with Chase.

One of our short-term investments in 2008 was in a hedge fund, the Victory Fund, Ltd. The Victory Fund, Ltd. was a "Ponzi" scheme operated by Arthur Nadel. Mr. Nadel has been criminally convicted and a receiver was appointed to recover assets of the hedge fund on behalf of its investors. We invested $2.0 million in the Victory Fund and were repaid $1.0 million through a redemption on November 5, 2008. We recorded a charge of $2.2 million as an investment loss at December 31, 2008, which included $1.2 million that was reported by the hedge funds as profit on the initial investment. If we recover any of the $1.0 million initial investment loss, such amounts will be recorded as recoveries in future periods when received.

Capital expenditures for our Security Segment and our corporate division were $348,000 and $430,000 for the years ended December 31, 2010 and 2009, respectively. Capital expenditures in our discontinued operations, consisting of car wash operations and our Digital Media Marketing business, were $13,000 and $64,000 for the years ended December 31, 2010 and 2009, respectively. We estimate capital expenditures for the Security Segment at approximately $150,000 to $200,000 for 2011, principally related to technology and facility improvements for warehouse production equipment.

We intend to continue to expend cash for the purchasing of inventory as we grow and introduce new video surveillance and access control products in 2011 and in years subsequent to 2011. We anticipate that inventory purchases will be funded from cash collected from sales and working capital. At December 31, 2010, we maintained a $500,000 revolving credit facility with Chase to provide financing for additional video surveillance and access control product inventory purchases and for issuance of commercial letters of credit.

The amount of capital that we will spend in 2011 and in years subsequent to 2011 on all of our businesses is largely dependent on the profitability of our businesses. During the six months ended December 31, 2008, throughout 2009, and into 2010, we implemented Company-wide cost savings measures, including a reduction in employees throughout the entire Company, and completed a consolidation and reorganization of our Security Segment’s electronic surveillance equipment operations in Fort Lauderdale, Florida and Farmers Branch, Texas at December 31, 2008. Our goals of the reorganization were to better align our electronic surveillance equipment sales teams to achieve sales growth, gain efficiencies by sharing redundant functions within our security operations, such as warehousing, customer service, and administrative services, and to streamline our organizational structure and management team for improved long-term growth. During the twelve months ending December 31, 2010, we incurred approximately $224,000 in severance costs from employee reductions.

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

The U.S. Attorney conducted an investigation of the Company relating to possible violations of the RCRA at the Company's Bennington, Vermont location. On November 16, 2010, the U.S. Attorney filed a one count indictment charging the Company and Jon Goodrich with a felony of storing hazardous waste without a permit under 42 U.S.C. Section 6928(d)(2)(A). Mr. Goodrich is the President of Mace Personal Defense, Inc., the Company's defense spray division located in Bennington, Vermont. The Company has resolved the indictment through a Plea Agreement entered into between the Company's subsidiary, Mace Personal Defense, Inc. and the U.S. Attorney. The Plea Agreement was made under Fed. R. Crim. P. 11(c)(1)(C), and provides in part, for (i) Mace Personal Defense, Inc., to plead guilty to one count of violating 42 U.S.C. § 6928(d)(2)(A) (Storage of Hazardous Waste Without a Permit); (ii) Mace Personal Defense, Inc. to pay a fine of $100,000 (the "Fine") and a court assessment of $400, the Fine to be paid $34,000 on sentencing, and two additional installments of $33,000 each, at six months and twelve months from January 4, 2011; (iii) the Company to guarantee the payment of the Fine; (iv) the United States to dismiss the indictment against the Company at time of sentencing of Mace Personal Defense, Inc.; and (v) the United States not to prosecute Mace Personal Defense, Inc. (excluding the guilty plea) or the Company for any criminal offenses known to the United States Attorney's Office of Vermont as of the date of signing of the Plea Agreement committed by the Company or Mace Personal Defense, Inc. in the District of Vermont relative to the storage, shipment, handling or disposal of hazardous waste, including any associated record keeping or reporting offenses. The Plea Agreement is not final until it is accepted by the Court. A hearing date for sentencing has been scheduled for May 26, 2011. In addition to the Company incurring $83,000 in legal expenses in 2010 relating to this matter, the Company has recorded an accrual of $100,000 at December 31, 2010 as a result of its agreement to pay a $100,000 Fine as part of the Plea Agreement.

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 can be adversely impacted by our stock price. Our failure to maintain the required debt covenants on existing loans also adversely impacts our ability to obtain additional financing. We are reluctant to sell our common stock at market prices below our per share book value. Our ability to obtain new financing will be limited if our stock price is not above our per share book value and 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, 2010, we had borrowings, including capital lease obligations, of approximately $3.5 million. We had two letters of credit outstanding at December 31, 2010, totaling $307,566, as collateral relating to workers' compensation insurance policies. We maintain a $500,000 revolving credit facility to provide financing for additional video surveillance product inventory purchases and for issuance of commercial letters of credit. There were five commercial letters of credit outstanding for inventory purchases under the revolving credit facility at December 31, 2010 totaling $399,000.

Several of our debt agreements, as amended, contain certain affirmative and negative covenants and require the maintenance of certain levels of tangible net worth, maintenance of certain unencumbered cash and marketable securities balances, 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, 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, and require the maintenance of a minimum total unencumbered cash and marketable securities balance of $1.5 million.

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 further 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. If the Company was unable to obtain waivers or amendments in the future, Chase debt currently totaling $1.5 million, would become payable on demand by the financial institution. There can be no assurance that debt covenant waivers or amendments would be obtained or that the debt would be refinanced with other financial institutions at favorable terms.

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, 2010, 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)	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Long-term debt (2)	$ 3,341	$ 2,165	$ 1,016	$ 160	$ -
Capital lease obligations	128	58	70	-	-
Minimum operating lease payments	2,359	846	993	462	58
	$ 5,828	$ 3,069	$ 2,079	$ 622	$ 58

	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 (3)	$ 399	$ 399	$ -	$ -	$ -
Standby letters of credit (4)	308	308	-	-	-
	$ 707	$ 707	$ -	$ -	$ -

(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 $93,000.
(3) The Company maintains a $500,000 line of credit with Chase. There were five commercial letters of credit outstanding for inventory purchases under this line of credit at December 31, 2010 totaling $399,000.
(4) Outstanding letters of credit of $308,000 represent collateral for workers' compensation insurance policies.

Cash Flows

Operating Activities. 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, $583,000 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.

Net cash used in operating activities totaled $3.7 million for the year ended December 31, 2009. Cash used in operating activities in 2009 was primarily due to a net loss from continuing operations of $8.1 million, which included $115,000 in non-cash stock-based compensation charges, $567,000 of depreciation and amortization expense and $462,000 of goodwill and asset impairment charges. Cash was also impacted by an increase in accounts receivable of $487,000, a decrease in inventory of $1.5 million and an increase in accounts payable and accrued expenses of $2.0 million.

29

Investing Activities. 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.

Cash used in investing activities totaled approximately $5.2 million for the year ended December 31, 2009, which includes cash used in investing activities from discontinued operations of $6.1. Investing activity in 2009 also included capital expenditures of $430,000 related to ongoing operations and $1.9 million related to the acquisition of CSSS.

Financing Activities. 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.

Cash used in financing activities was approximately $1.5 million for the year ended December 31, 2009, which included $93,000 of routine principal payments related to continuing operations and $1.0 million of routine principal payments on debt related to discontinued operations.

Seasonality and Inflation

The Company does not believe that its operations are subject to seasonality.

Summary of Critical Accounting Policies

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 of 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 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 historic sales and tracking of redemption rates per the car washes' point-of-sale systems. Seasonal and annual passes are amortized on a straight-line basis over the time during which the passes are valid.

Fair Value Measurements

The Company's nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis include goodwill, intangible assets and long-lived tangible assets including property, plant and equipment. The Company did record impairment charges for certain of these assets during the years ended December 31, 2010 and 2009. See Note 19. Asset Impairment Charges.

30

Accounts Receivable

The Company's accounts receivable are due from trade customers. Credit is extended based on evaluation of customers' financial condition and, generally, collateral is not required. Payment terms vary and amounts due from customers are stated in the financial statements net of an allowance for doubtful accounts. Accounts which are outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they are deemed uncollectible. Any payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Risk of losses from international sales within the Security Segment are reduced by requiring substantially all international customers to provide either irrevocable confirmed letters of credit or cash advances.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in first-out ("FIFO") method for security and e-commerce products. Inventories at the Company's car wash locations consist of various chemicals and cleaning supplies used in operations and merchandise and fuel for resale to consumers. Inventories within the Company's Security Segment consist of defense sprays, child safety products, electronic security monitors, cameras and digital recorders, and various other consumer security and safety products. The Company continually, and at least on a quarterly basis, reviews the book value of slow moving inventory items, as well as discontinued product lines, to determine if inventory is properly valued. The Company identifies slow moving or discontinued product lines by a detail review of recent sales volumes of inventory items as well as a review of recent selling prices versus cost and assesses the ability to dispose of inventory items at a price greater than cost. If it is determined that cost is less than market value, then cost is used for inventory valuation. If market value is less than cost, then an adjustment is made to the Company's obsolescence reserve to adjust the inventory to market value. When slow moving items are sold at a price less than cost, the difference between cost and selling price is charged against the established obsolescence reserve.

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which are generally as follows: buildings and leasehold improvements - 15 to 40 years; machinery and equipment - 5 to 20 years; and furniture and fixtures - 5 to 10 years. Significant additions or improvements extending assets' useful lives are capitalized; normal maintenance and repair costs are expensed as incurred.

Advertising and Marketing Costs

The Company expenses advertising costs in its Security Segment and in its Car Wash operations, including advertising production cost, as the costs are incurred or the first time the advertisement appears. Marketing costs in the Company's Digital Media Marketing Segment, which consist of the costs to acquire new members for its e-commerce business, are expensed as incurred rather than deferred and amortized over the expected life of a customer.

Impairment of Long-Lived Assets

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

Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets we have acquired in business combinations. We perform a goodwill impairment test on at least an annual basis for each of our reporting units as previously disclosed. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company conducts its annual goodwill impairment test as of April 30 of each year for its wholesale security monitoring operation business unit or more frequently if indicators of impairment exist. We periodically analyze whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower expected growth rates, among others. The Company compares the fair value of each of its reporting units to their respective carrying values, including related goodwill. Future changes in the industry could impact the results of future annual impairment tests. There can be no assurance that future tests of goodwill impairment will not result in impairment charges.

Other Intangible Assets

Other intangible assets consist primarily of deferred financing costs, non-compete agreements, customer lists, software costs, product lists, patent costs, and trademarks. Our trademarks are considered to have indefinite lives, and as such, are not subject to amortization. These assets are tested for impairment using discounted cash flow methodology annually and whenever there is an impairment indicator. Estimating future cash flows requires significant judgment and projections may vary from cash flows eventually realized. Several impairment indicators are beyond our control, and determining whether or not they will occur cannot be predicted with any certainty. Customer lists, product lists, software costs, patents and non-compete agreements are amortized on a straight-line or accelerated basis over their respective assigned estimated useful lives.

Income Taxes

Deferred income taxes are determined based on the difference between the financial accounting and tax bases of assets and liabilities. Deferred income tax expense (benefit) represents the change during the period in the deferred income tax assets and deferred income tax liabilities. In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted laws, published tax guidance and estimates of future earnings. Deferred income tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

Nearly all of the Company’s debt at December 31, 2010, including debt related to discontinued operations, is at variable rates. 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 rates would not have a material effect on the fair value of our variable rate debt at December 31, 2010. The impact of increasing interest rates by one percent would be an increase in interest expense of approximately $24,000 in 2010.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of independent registered public accounting firm and Consolidated Financial Statements are included in Part IV, Item 15 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company’s management performed an evaluation under the supervision and with the participation of Dennis R. Raefield, the Company’s Chief Executive Officer (the “CEO”) and Gregory M. Krzemien, Chief Financial Officer (the “CFO”), and completed an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act ("Exchange Act")) as of December 31, 2010. Based on that evaluation, the CEO and the CFO concluded that the Company's disclosure controls and procedures were effective to ensure that information relating to the Company that is required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms, and is accumulated and communicated to management, including the CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). To evaluate the effectiveness of the Company's internal control over financial reporting, the Company uses the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Using the COSO Framework, the Company's management, including the CEO and the CFO, evaluated the Company's internal control over financial reporting and concluded that the Company's internal control over financial reporting was effective as of December 31, 2010. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting.

During the Company's last quarter, there were no changes in internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

DIRECTORS

Name	Age	Position
John C. Mallon	75	Director, Chairman of the Board
Dennis R. Raefield	63	Director, President and Chief Executive Officer
Gerald T. LaFlamme	71	Director
Richard A. Barone	68	Director
Michael E. Smith	55	Director

All of Mace's directors serve for terms of one year each until their successors are elected and qualified. All of the above directors were elected on June 18, 2010.

Dennis R. Raefield has served as a director since October 16, 2007 and as President and Chief Executive Officer since August 18, 2008. From April 2007 to August 17, 2008, Mr. Raefield was the President of Reach Systems, Inc. (formerly Edge Integration Systems, Inc.) (a manufacturer of security access control systems). From February 2005 to February 2006, Mr. Raefield was President of Rosslare Security Products, Inc. (a manufacturer of diverse security products). From February 2004 to February 2005, Mr. Raefield was President of NexVision Consulting (security business consultant). From January 2003 to February 2004, Mr. Raefield was President of Ortega InfoSystems (a software developer). From October 1998 to November 2002, Mr. Raefield was President of Ademco and Honeywell Access Systems (a division of Honeywell, Inc. that manufactured access control systems).

John C. Mallon has served as a director since December 14, 2007 and as Chairman of the Board since May 20, 2008. From 1994 to the present, Mr. Mallon has been the Managing Director of Mallon Associates (an investment bank and broker specializing in the security industry). From 1994 to 2006, Mr. Mallon was the Editor and Publisher of Mallon's Security Investing and Mallon's Security Report (financial newsletters tracking more than 250 public security companies). Mr. Mallon is a director of and Chairman of the Audit Committee of Good Harbor Partners Acquisition Corporation (a public special purpose acquisition corporation focusing on acquisitions in the global security market). Mr. Mallon is a director of and Chairman of the Board of IBI Armored Services, Inc. (a privately held national armored trucking, and money processing company). Mr. Mallon is also an attorney admitted to practice in the states of New York and Connecticut and before the United States Federal Court.

Gerald T. LaFlamme has served as a director since December 14, 2007. From May 20, 2008 to August 18, 2008, Mr. LaFlamme served as interim Chief Executive Officer of the Company. From 2004 to the present, Mr. LaFlamme has been President of JL Development Company, Inc. (a real estate development and consulting company). From 2001 to 2004, Mr. LaFlamme was Senior Vice President and CFO of Davidson Communities, LLC (a regional home builder). From 1978 to 1997, Mr. LaFlamme was Area Managing Partner for Ernst & Young, LLP, and a predecessor accounting firm in San Diego, CA. Mr. LaFlamme is a director and Chairman of the Audit Committee of Arlington Hospitality Inc. On August 31, 2005, Arlington Hospitality Inc. filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. At the time of the Chapter 11 filing, Mr. LaFlamme was a director of Arlington Hospitality Inc.

Richard A. Barone has served as a director since March 31, 2009. From 2001 to present, Mr. Barone has been Chairman of the Executive Committee for the Ancora Group of Companies. The Ancora Group of Companies includes Ancora Advisors LLC, Ancora Capital Inc., Ancora Securities Inc, the Ancora Mutual Funds, and the Ancora Foundation. Mr. Barone also oversees or manages a variety of investment strategies for the Ancora Group, selected clients and the Ancora Group's Hedge Fund, Merlin Partners, LP. Ancora Securities, Inc. is registered as a broker/dealer with the SEC and the Financial Industry Regulatory Authority ("FINRA"), formerly known as the NASD. Mr. Barone is Chairman of the Cleveland State University Foundation, Trustee of Cleveland State University, Director of Hospice of the Western Reserve, Director of Brentwood Hospital, Director of Stephan Company, and Chairman of Evergreen Expedition Group.

Michael E. Smith has served as a director since June 18, 2010. From 2003 to the present, Mr. Smith has been an Independent Consultant and Managing and Founding Partner of Chesterbrook Growth Partners, a consulting organization focused on providing strategic and operational advice to small to medium size firms in the security, RFID, auto-identification and electronic components industries. From 2001 to 2002, Mr. Smith was the President and Chief Executive Officer of Checkpoint Systems, Inc., a New York Stock Exchange listed company in the security, auto-identification and electronic components industries, having $650 million in sales during the 2001 to 2002 period.

EXECUTIVE OFFICERS

The individuals below are the current Executive Officers and were the Executive Officers during 2010, except for Robert M. Kramer whose last day as an employee of the Company was February 12, 2010.

Name	Age	Position
Dennis R. Raefield	63	President and Chief Executive Officer
Robert M. Kramer	58	Executive Vice President, General Counsel and Secretary
Gregory M. Krzemien	51	Chief Financial Officer and Treasurer

Dennis R. Raefield has served as President and Chief Executive Officer since August 18, 2008. From April 2007 to August 17, 2008, Mr. Raefield was the President of Reach Systems, Inc. (formerly Edge Integration Systems, Inc.) (a manufacturer of security access control systems). From February 2005 to February 2006, Mr. Raefield was President of Rosslare Security Products, Inc. (a manufacturer of diverse security products). From February 2004 to February 2005, Mr. Raefield was President of NexVision Consulting (security business consultant). From January 2003 to February 2004, Mr. Raefield was President of Ortega InfoSystems (a software developer). From October 1998 to November 2002, Mr. Raefield was President of Ademco and Honeywell Access Systems (a division of Honeywell, Inc. that manufactured access control systems).

Robert M. Kramer served as Executive Vice President, General Counsel, and Secretary of the Company from May 1999, to February 12, 2010 and as Chief Operating Officer of the Car Wash Segment from July 2000 to July 2006. Mr. Kramer was terminated upon the expiration of his employment contract, effective on February 12, 2010. Mr.

Kramer also served as a director of the Company from May 1999 to December 2003. From June 1996 through December 1998, he served as General Counsel, Executive Vice President and Secretary of Eastern Environmental Services, Inc. Mr. Kramer is an attorney and has practiced law since 1979 with various firms, including Blank Rome Comisky & McCauley, Philadelphia, Pennsylvania and Arent Fox Kitner Poltkin & Kahn, Washington, D.C. From 1989 to December 2000, Mr. Kramer had been the sole partner of Robert M. Kramer & Associates, P.C. From December 1989 to December 1997, Mr. Kramer served on the Board of Directors of American Capital Corporation, a registered securities broker dealer. Mr. Kramer received B.S. and J.D. degrees from Temple University.

Gregory M. Krzemien has served as the Chief Financial Officer and Treasurer of the Company since May 1999. From August 1992 through December 1998, he served as Chief Financial Officer and Treasurer of Eastern Environmental Services, Inc. From October 1988 to August 1992, Mr. Krzemien was a senior audit manager with Ernst & Young LLP. Mr. Krzemien received a B.S. degree in Accounting from the Pennsylvania State University.

CORPORATE GOVERNANCE

Audit Committee and Audit Committee Financial Expert

The Company has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Messrs. LaFlamme, Chairman, Smith, and Barone. The Board of Directors has determined that each member of the Audit Committee is independent within the meaning of Rule 4200(a)(15) of the National Association of Securities Dealers' Nasdaq Global Market listing standards and Rule 10A-3 promulgated under the Securities Exchange Act of 1934. The Board of Directors has determined that Mr. LaFlamme, the Chairman of the Company's Audit Committee, is an audit committee financial expert as defined by Item 407(d)(5)(ii) of Regulation S-K of the Exchange Act. The Charter of the Audit Committee is posted on our website at www.mace.com.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires Mace's directors and executive officers, as well as persons beneficially owning more than 10% of Mace's outstanding shares of common stock and certain other holders of such shares (collectively, "Covered Persons"), to file with the SEC, within specified time periods, initial reports of ownership, and subsequent reports of changes in ownership, of common stock and other equity securities of Mace. Based upon Mace's review of copies of such reports furnished to it and upon representations of Covered Persons that no other reports were required, to Mace's knowledge, all of the Section 16(a) filings required to be made by the Covered Persons with respect to 2010 were made on a timely basis, except that a Form 4 filing related to certain stock options granted to Mr. Krzemien in April 2010, due within two business days of the receipt of the stock options, was filed late.

Code of Ethics and Corporate Governance

The Company has adopted a Code of Ethics and Business Conduct for directors, officers (including the chief executive officer, chief financial officer, and employees. The Code of Ethics and Business Conduct is posted on our website at www.mace.com.

The Board of Directors has adopted Corporate Governance Guidelines. Stockholders are encouraged to review the Corporate Governance Guidelines at our website at www.mace.com for information concerning the Company's governance practices. Copies of the charters of the committees of the Board are also available on the Company's website.

Nominating Committee

The Nominating Committee is composed of independent directors. The Nominating Committee is currently composed of Messrs. Barone, Chairman, LaFlamme and Mallon. The charter of the Nominating Committee is available for inspection on the Company's web site, www.mace.com, under the heading of Investor Relations. The Nominating Committee considers candidates for Board membership suggested by its members, other Board members and management. The Nominating Committee has authority to retain a search firm to assist in the identification of director candidates. In selecting nominees for director, the Nominating Committee considers a number of factors, including, but not limited to:

- whether a candidate has demonstrated business and industry experience that is relevant to the Company, including recent experience at the senior management level (preferably as chief executive officer or in a similar position) of a company as large or larger than the Company;
- the candidate's ability to meet the suitability requirements of all relevant regulatory agencies;

- the candidate's ability to represent interests of the stockholders;
- the candidate's independence from management and freedom from potential conflicts of interest with the Company;
- the candidate's financial literacy, including whether the candidate will meet the audit committee membership standards;
- whether a candidate is widely recognized for his or her reputation, integrity, judgment, skill, leadership ability, honesty and moral values;
- the candidate's ability to work constructively with the Company's management and other directors; and
- the candidate's availability, including the number of other boards on which the candidate serves, and his or her ability to dedicate sufficient time and energy to his or her board duties.

During the process of considering a potential nominee, the Committee may request additional information concerning, or an interview with, the potential nominee.

The Nominating Committee will also consider recommendations by stockholders of nominees for directors to be elected at the Company's Annual Meeting of Stockholders, if they are received on or before January 15 of the year of the meeting or at an earlier date as may be determined and disclosed by the Company. In evaluating nominations received from stockholders, the Committee will apply the same criteria and follow the same process used to evaluate candidates recommended by members of the Nominating Committee. Stockholders wishing to recommend a nominee for director are to submit such nomination in writing, along with any other supporting materials the stockholder deems appropriate, to the Secretary of the Company at the Company's offices at 240 Gibraltar Road, Suite 220, Horsham, Pennsylvania 19044.

ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION TABLES AND NARRATIVES

The following table provides summary information concerning cash and certain other compensation paid or accrued by Mace to, or on behalf of the Named Executive Officers for the years ended December 31, 2010 and 2009.

Name and Principal Position	Year	Salary $	Bonus ($)	Option Awards ($)(2)	All Other Compensation ($)(3)	Total
Dennis R. Raefield						
President and Chief	2010	$ 375,000	$ -	$ 53,020	$ 27,454	$ 455,474
Executive Officer	2009	$ 375,000	$ -	$ 26,520	$ 32,059	$ 433,579
Robert M. Kramer						
Executive Vice	2010	$ 84,436	$ -	$ -	$ 969	$ 85,405
President, General	2009	$ 230,000	$ -	$ 8,587	$ 8,400	$ 246,987
Counsel and Secretary						
Gregory M. Krzemien						
Chief Financial Officer	2010	$ 230,000	$ -	$ 5,012	$ 8,400	$ 243,412
and Treasurer	2009	$ 230,000	$ -	$ 8,587	$ 8,400	$ 246,987

(1) The Company (i) granted no restricted stock awards and (ii) maintained no other long-term incentive plan for any of the Named Executive Officers, in each case during the fiscal years ended December 31, 2010 and 2009. Additionally, the Company has never issued any stock appreciation rights (SARs).

(2) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes, including the impact of estimated forfeitures, for the fiscal years ended December 31, 2010 and 2009, for all existing stock option awards and thus include amounts from awards granted in and prior to 2010. Assumptions used in the calculation of this amount are included in Note 3 to the Company's Audited Financial Statements for the fiscal year ended December 31, 2010.

(3) Mr. Raefield received a car at a lease cost of $791 per month beginning in August 2008. Additionally, Mr. Raefield is entitled under his employment agreement to receive payment of certain life and disability insurance premiums and funding of certain health reimbursement plans which totaled $17,962 and $22,567 in 2010 and 2009, respectively. Mr. Krzemien and Mr. Kramer (until the end of his employment on February 12, 2010), received car allowances of $700 per month in 2010 and 2009.

Dennis R. Raefield Employment Agreement

Dennis R. Raefield serves as the Company's President and Chief Executive Officer under an Employment Contract dated July 29, 2008 and expiring on August 18, 2011 (the "Raefield Employment Agreement"). Mr. Raefield's base salary is $375,000 annually. As a one-time incentive to execute the Raefield Employment Agreement, Mr. Raefield was paid $50,000 and received a reimbursement of legal expenses of $2,812 related to review of his employment contract.

In accordance with the Raefield Employment Agreement, Mr. Raefield received an option grant on July 30, 2008 exercisable into 250,000 shares of common stock at an exercise price of $1.50 per share (the "First Option"). The First Option was issued fully vested. On July 26, 2009, Mr. Raefield received a second option grant exercisable for

250,000 shares (the "Second Option"). The Second Option vests over two years, with the first 125,000 option shares vesting 12 months from the date of grant and the second 125,000 option shares vesting 24 months from the date of grant. The Second Option grant fully vests upon a change of control of the Company.

The Raefield Employment Agreement also provides that Mr. Raefield and the Company are required to develop a mutually acceptable annual bonus plan for Mr. Raefield within forty-five (45) days from the date of the Employment Agreement. No annual bonus plan was agreed upon for 2010. The Compensation Committee implemented a formal 2009 Incentive Plan for the CEO based on benchmarks of achieved earnings before interest, taxes, depreciation and amortization ("EBITDA") for the year ended 2009. Based on the Company's results for 2009, Mr. Raefield did not receive any payments under the 2009 Incentive Plan. The Raefield Employment Agreement further provides that Mr. Raefield can be terminated by the Board of Directors for cause without any severance or other payment. The Board of Directors can also terminate Mr. Raefield without cause, upon a payment of two times Mr. Raefield's current annual base salary.

Mr. Raefield has also been provided a Company vehicle at a lease cost of approximately $791 per month, plus all maintenance costs, and Company standard medical and other employee benefits. Mr. Raefield is prohibited from competing with the Company during his period of employment and for a one year period following a termination of employment. The Company is obligated to pay Mr. Raefield $375,000 in exchange for the one year non-compete obligation if Mr. Raefield is employed through August 18, 2011 and the Company and Mr. Raefield do not enter into a new employment agreement within sixty days after August 18, 2011.

Gregory M. Krzemien Employment Agreement

Mace currently employs Gregory M. Krzemien as its CFO and Treasurer as an employee at will under the Krzemien Agreement dated March 23, 2010. Mr. Krzemien's current annual base salary is $230,000, plus a $700 per month car allowance. The Krzemien Agreement also provided Mr. Krzemien with an option grant to purchase 50,000 shares of common stock under the Company's Stock Option Plan at an exercise price of $0.93, the market price of the Company's common stock on the date of the option grant. The option is to vest in three equal annual installments on the anniversary dates of the Krzemien Agreement. Under the Krzemien Agreement, Mr. Krzemien is not entitled to any change of control payment, but is entitled to a severance payment equal to six months of his base salary if he is terminated without "Good Cause," as defined in the Krzemien Agreement. Mr. Krzemien is also entitled to the six month severance payment if he resigns due to the Company materially changing his duties as Chief Financial Officer, relocating his office more than 25 miles from its present location or reducing his annual base salary. As defined, "Good Cause" to terminate Mr. Krzemien without a severance payment generally exists if Mr. Krzemien fails to perform his duties and does not cure such failure within thirty days of being notified of the failure, or commits certain other enumerated actions which harm the Company.

From February 12, 2007 through February 12, 2010, Mr. Krzemien was employed under an Employment Contract (the "Former Krzemien Employment Agreement"). In accordance with the Former Krzemien Employment Agreement, Mr. Krzemien received an option grant for 60,000 shares of common stock under the Company's Stock Option Plan at an exercise price of $2.73, the market price at the close of market on the date of grant. The options were granted on February 12, 2007. The options vested one-third on the date of the grant, one-third on February 12, 2008, and one-third on February 12, 2009.

Under the Former Krzemien Employment Agreement, Mr. Krzemien would have received a one-time retention payment equal to Mr. Krzemien's then annual base compensation (currently $230,000) upon the occurrence of both: (a) a change of control of the Company and (b) Louis D. Paolino, Jr. ceasing to be CEO of the Company (this event occurred on May 20, 2008). If Mr. Krzemien's employment was terminated during the term of the Former Krzemien Employment Agreement without cause or if the Company breached the Former Krzemien Employment Agreement, Mr. Krzemien would have been entitled to an additional one-time payment equal to Mr. Krzemien's then annual base compensation. The total amount of both the retention payment and termination payment was $460,000.

Mr. Krzemien receives a monthly car allowance of $700, which began in February 2007, and the Company's standard medical and other employee benefits.

Robert M. Kramer Employment Agreement

Mace employed Robert M. Kramer as its Executive Vice President, General Counsel and Secretary during 2009 through February 12, 2010 under an Employment Contract dated February 12, 2007 and expiring on February 12, 2010 (the "Kramer Employment Agreement"). The Company's Compensation Committee obtained a compensation study from Compensation Resources, Inc. prior to entering into the Kramer Employment Agreement. The initial base salary under the Kramer Employment Agreement was $230,000. In accordance with the Kramer Employment Agreement, Mr. Kramer received an option grant for 60,000 shares of common stock under the Company's Stock Option Plan at an exercise price of $2.73, the market price at the close of market on the date of grant. The options were granted on February 12, 2007. The options vested one-third on the date of the grant, one-third on February 12, 2008 and one-third on February 12, 2009.

Under the Kramer Employment Agreement, Mr. Kramer would have received a one-time retention payment equal to Mr. Kramer's then annual base compensation ($230,000) upon the occurrence of both: (a) a change of control of the Company and (b) Louis D. Paolino, Jr. ceasing to be CEO of the Company. Mr. Paolino ceased to be CEO of the Company on May 20, 2008. If during the term of the Kramer Employment Agreement, Mr. Kramer's employment was terminated without cause or if the Company breached the Kramer Employment Agreement, Mr. Kramer would have been entitled to an additional one-time payment equal to Mr. Kramer's then annual base compensation. The total amount of both the retention payment and termination payment was $460,000.

Mr. Kramer received a monthly car allowance of $700 through February 2010, the date of his termination, and the Company's standard medical and other employee benefits. Mr. Kramer was prohibited against competing with the Company during his period of employment and for a three-month period following termination of employment.

Potential Payments upon Termination or Change of Control

For a description of compensation that would become payable under existing arrangements in the event of a change of control or termination of each Named Executive Officer's employment under several different circumstances, see the discussion under "Change of Control Arrangements" in the "Compensation Discussion and Analysis" Section which is part of the Executive Compensation Section of this report.

The following tables quantify the amounts payable upon a change of control or the termination of each of the Named Executive Officers.

Change of Control Payment and Termination Payments – Dennis R. Raefield, Chief Executive Officer

Event Triggering Payment	Severance Payment		Acceleration of Option Awards(4)	
Termination by Company For Cause (1)	$	-		None
Termination by Company without Cause (1)	$	750,000		None
Non-Compete Payment (2)	$	375,000		None
Change of Control (3)	$	-	$	-

Change of Control Payment and Termination Payments – Gregory Krzemien, Chief Financial Officer

Event Triggering Payment	Severance Payment		Acceleration of Option Awards(4)	
Change of Control	$	-	$	-
Termination of Mr. Krzemien(5)	$	115,000	$	-

(1) Cause is defined in the Raefield Employment Agreement as "(a) Employee committing against the Company fraud, gross misrepresentation, theft or embezzlement, (b) Employee's conviction of any felony (excluding felonies involving driving a vehicle), (c) Employee's material intentional violations of Company policies, or (d) a material breach of the provisions of the Raefield Employment Agreement, including specifically the failure of Employee to perform his duties after written notice of such failure from the Company." The Raefield Employment Agreement provides that Mr. Raefield can be terminated by the Board of Directors for Cause, without any severance or other payment. The Board of Directors can also terminate Mr. Raefield without Cause, upon a payment of two times Mr. Raefield's then current annual base salary. The termination payment is calculated based on Mr. Raefield's base salary of $375,000 as of December 31, 2010.

(2) Mr. Raefield is prohibited from competing with the Company during his period of employment and for a one year period following a termination of employment. The Company is obligated to pay Mr. Raefield $375,000 in exchange for his one year agreement not to compete, if Mr. Raefield is employed through August 18, 2011 and the Company

and Mr. Raefield do not enter into a new employment agreement within sixty days after August 18, 2011.
(3) A Change of Control Event is defined in the Named Executive Officer's Employment Agreement as any of the events set forth in items (i) through and including (iii) below: (i) the acquisition in one or more transactions by any "Person," excepting the employee, as the term "Person" is used for purposes of Sections 13(d) or 14(d) of the Exchange Act, of "Beneficial Ownership" (as the term beneficial ownership is used for purposes or Rule 13d-3 promulgated under the Exchange Act) of the fifty percent (50%) or more of the combined voting power of the Company's then outstanding voting securities (the "Voting Securities"), for purposes of this item (i), Voting Securities acquired directly from the Company and from third parties by any Person shall be included in the determination of such Person's Beneficial Ownership of Voting Securities; (ii) the approval by the stockholders of the Company of: (A) a merger, reorganization or consolidation involving the Company, if the shareholders of the Company immediately before such merger, reorganization or consolidation do not or will not own directly or indirectly immediately following such merger, reorganization or consolidation, more than fifty percent (50%) of the combined voting power of the outstanding Voting Securities of the corporation resulting from or surviving such merger, reorganization or consolidation in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, reorganization or consolidation, (B) a complete liquidation or dissolution of the Company, or (C) an agreement for the sale or other disposition of 50% or more of the assets of the Company and a distribution of the proceeds of the sale to the stockholders; or (iii) the acceptance by stockholders of the Company of shares in a share exchange, if the stockholders of the Company immediately before such share exchange do not or will not own directly or indirectly following such share exchange own more than fifty percent (50%) of the combined voting power of the outstanding Voting Securities of the corporation resulting from or surviving such share exchange in substantially the same proportion as the ownership of the Voting Securities outstanding immediately before such share exchange.

(4) Assumes exercise of all in-the-money stock options for which vesting accelerated at $0.39 per share (the closing price of the Company's common stock on December 31, 2010).

(5) The payment is due Mr. Krzemien if he is terminated without "Good Cause." "Good Cause" in the Krzemien Agreement exists, if any of the following occur: (i) Employee's refusal to perform his duties or other obligations under this Agreement, or Employee's intentional or grossly negligent conduct causing material harm to the Company as determined by the Company, on fifteen (15) days notice after the Company has provided Employee written notice of such failure to perform and Employee has failed to cure the unsatisfactory performance, if capable of cure, within thirty (30) business days; or (ii) Employee's conviction of a felony, or a misdemeanor involving moral turpitude, or Employee's engaging in conduct involving dishonesty toward the Company or its customers, or engaging in conduct that could damage the reputation or good will of the Company, whether or not occurring in the workplace; or (iii) Employee's death, or inability with reasonable accommodation to perform his duties under this Agreement because of illness or physical or mental disability or other incapacity which continues for a period of 120 consecutive days, as determined by a medical doctor; or (iv) If Employee engages in any type of discrimination, harassment, violence or threat thereof, or other behavior toward other employees of the Company, or any of its subsidiaries or toward third parties or employees of a third party; (v) alcohol abuse and/or use of controlled substances during employment hours, or a positive test for use of controlled substances that are not prescribed by a medical doctor; or (vi) gross negligence or willful misconduct with respect to the Company, or any of its affiliates or subsidiaries; or (vii) on fifteen (15) days notice for any other material intentional breach of this Agreement or the Company's Employee Manual by Employee not cured within 30 days after Employee's receipt of written notice of the same from the Company.

Grants of Stock Options

The following table sets forth certain information concerning individual grants of stock options to the Named Executive Officers during the fiscal year ended December 31, 2010.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	All other Option Awards: Number of Securities Underlying Options	Exercise Price of Option Awards per Share	Grant Date Fair Value of Stock and Option Awards
Dennis R. Raefield	-	-	-	-
Gregory M. Krzemien	April 7, 2010	50,000	$ 0.93	$ 28,640

On July 28, 2009, as part of Mr. Raefield's Employment Agreement, the Compensation Committee awarded Mr. Raefield options for 250,000 shares of the Company's Common Stock vesting one-half on July 28, 2010 and one-half on July 28, 2011. The options are exercisable at $0.97 per share. The Black Scholes value of the awarded option grant is $151,542. The median long term incentive compensation of chief executive officers, as set forth in the Hay 2007 Report was $243,257. The Compensation Committee believed that the option award was warranted due to the award being below the median of long term incentive compensation granted to chief executive officers, as stated in the Hay 2007 Report, a compensation study for the Chief Executive Officer position from the Hay Group dated December 12, 2007. Mr. Raefield's total direct compensation under his employment agreement was below the median total direct compensation market consensus for chief executive officers, as set forth in the Hay 2007 Report.

On April 7, 2010, as part of the Krzemien Agreement, the Compensation Committee awarded Mr. Krzemien an option grant to purchase 50,000 shares of common stock under the Company's Stock Option Plan at an exercise price of

$0.93, the market price of the Company's common stock on the date of the option grant. The option grant is to vest in three equal annual installments on the anniversary dates of the Krzemien Agreement. The Black- Scholes value of the awarded option grant is $28,640.

Aggregated Option and Warrant Exercises in Last Fiscal Year

The following table sets forth certain information regarding stock options held by the Named Executive Officers during the fiscal year ended December 31, 2010, including the number of exercisable and un-exercisable stock options as of December 31, 2010 by grant. No options were exercised by any of the Named Executive Officers during the fiscal year ended December 31, 2010.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Grant Date	Option Expiration Date
Dennis R. Raefield	(2) 15,000	-	1.94	1/8/2008	1/8/2018
	(3) 250,000	-	1.50	7/30/2008	7/30/2018
	(4) 125,000	(4) 125,000	0.97	7/28/2009	7/28/2019
Gregory M. Krzemien	50,000	-	1.38	3/30/2001	3/30/2011
	37,500	-	2.36	4/4/2002	4/4/2012
	150,000	-	1.32	7/14/2003	7/14/2013
	50,000	-	5.35	11/19/2004	11/19/2014
	60,000	-	2.40	3/23/2006	3/23/2016
	60,000	-	2.73	2/12/2007	2/12/2017
	40,000	-	1.44	3/25/2008	3/25/2018
	-	(5) 50,000	0.93	4/7/2010	4/7/2020
Robert M. Kramer (1)	50,000	-	1.38	3/30/2001	3/30/2011
	37,500	-	2.36	4/4/2002	4/4/2012
	150,000	-	1.32	7/14/2003	7/14/2013
	37,500	-	4.21	11/2/2004	11/2/2014
	75,000	-	5.35	11/19/2004	11/19/2014
	75,000	-	2.40	3/23/2006	3/23/2016
	60,000	-	2.73	2/12/2007	2/12/2017
	40,000	-	1.44	3/25/2008	3/25/2018

(1) Fully vested option.

(2) Fully vested options granted to Mr. Raefield during the period Mr. Raefield served as a Director.

(3) Fully vested options granted to Mr. Raefield as part of Mr. Raefield being hired as the Company's President and Chief Executive Officer.

(4) Options granted on July 28, 2009 vest 125,000 shares on July 28, 2010 and 125,000 shares on July 28, 2011.

(5) Options granted on April 7, 2010 vest 16,667 shares on April 7, 2011, 16,667 shares on April 7, 2012 and 16,666 shares on April 7, 2013.

DIRECTOR COMPENSATION

The following table provides summary information concerning cash and certain other compensation paid or accrued by Mace to or on behalf of Mace's Directors, other than Mr. Raefield, for the year ended December 31, 2010.

Name	Fees Earned or Paid in Cash ($) (1)	Option Awards ($) (2)	All Other Compensation ($)	Total
John C. Mallon	$ 27,500	$ -	$ -	$ 27,500
Mark S. Alsentzer	$ 21,000	$ -	$ -	$ 21,000
Gerald T. LaFlamme	$ 27,500	$ -	$ -	$ 27,500
Richard A. Barone	$ 29,500	$ -	$ -	$ 29,500
Michael E. Smith	$ 15,125	$ 2,915	$ -	$ 18,040

(1) Mark S. Alsentzer served on the Board of Directors until the election of our new Director, Michael E. Smith, at the Annual Meeting of Stockholders on June 18, 2010.

(2) The aggregate options outstanding at December 31, 2010 were as follows: John C. Mallon, 45,000 options; Gerald T. LaFlamme, 45,000 options; Richard A. Barone, 30,000 options; and Michael E. Smith, 15,000 options. Assumptions used in the calculation of these amounts are included in Note 3 to the Company's Audited Financial Statements for the fiscal year ended December 31, 2010. The amounts in this column reflect the dollar amount recognized, in accordance with GAAP for share-based payments, for financial reporting purposes for the fiscal year ended December 31, 2010. There were no options granted to non-employee directors in 2010, except for Mr. Smith's initial grant of 15,000 options upon his election to the Board of Directors on June 18, 2010. Options granted to non-employee directors in 2008 were for services on the Board for 2008 and 2009. Options granted to non-employee directors in 2009 were for services on the Board for 2010.

For the year 2010, the Board of Directors approved of the following fees to be paid to directors who are not employees of the Company with respect to their calendar year 2010 service: a $15,000 annual cash retainer fee to be paid in a lump sum; a $1,000 fee to each non-employee director for each Board or Committee meeting attended in person; a $500 fee to each non-employee director for each Board or Committee meeting exceeding thirty minutes in length attended by telephone. Additionally, a grant of 15,000 options at the close of market on December 18, 2009 for services on the Board for 2010 were granted to each non-employee director, except for Mr. Smith who was granted 15,000 options upon his election to the Board of Directors on June 18, 2010. The grants vested immediately.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance Under Equity Compensation Plans

The Company has two Stock Option Plans that have been approved by the stockholders. The plans are the 1999 Stock Option Plan and the 1993 Stock Option Plan. Stock options are issued under the 1999 Stock Option Plan and 1993 Stock Option Plan at the discretion of the Compensation Committee to employees at an exercise price of no less than the then current market price of the common stock and generally expire ten years from the date of grant. Allocation of available options and vesting schedules are at the discretion of the Compensation Committee and are determined by potential contribution to, or impact upon, the overall performance of the Company by the executives and employees. Stock options are also issued to members of the Board of Directors at the discretion of the Compensation Committee. These options may have similar terms as those issued to officers or may vest immediately. The purpose of both Stock

Option Plans is to provide a means of performance-based compensation in order to provide incentive for the Company's employees. Warrants have been issued in connection with the sale of the shares of the Company's stock, the purchase and sale of certain businesses and to a director. The terms of the warrants have been established by the Board of Directors of the Company. Certain of the warrants have been approved by stockholders.

The following table sets forth certain information regarding the Company's Stock Option Plans and warrants as of December 31, 2010.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
1993 Stock Option Plan	18,959	$ 3.11	56,999
1999 Stock Option Plan	3,133,415	$ 2.09	3,867,788
Total of both Equity Compensation Plans approved by stockholders	3,152,374	$ 2.07	3,924,787
Equity compensation plans not approved by stockholders	314,715	$ 0.20	N/A
Total	3,467,089	$ 1.92	3,924,787

Beneficial Ownership

The following beneficial ownership table sets forth information as of February 28, 2011 regarding ownership of shares of Mace common stock by the following persons:

- each person who is known to Mace to own beneficially more than 5% of the outstanding shares of Mace common stock, based upon Mace's records or the records of the SEC;
- each director of Mace;
- each Named Executive Officer; and
- all directors and executive officers of Mace, as a group.

Unless otherwise indicated, to Mace's knowledge, all persons listed on the beneficial ownership table below have sole voting and investment power with respect to their shares of Mace common stock. Shares of Mace common stock subject to options or warrants exercisable within 60 days of February 28, 2011 are considered outstanding for the purpose of computing the percentage ownership of the person holding such options or warrants, but are not deemed outstanding for computing the percentage ownership of any other person.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership		Percentage of Common Stock Owned (1)	
Lawndale Capital Management, LLC 591 Redwood Highway, Suite 2345 Mill Valley, CA 94941	1,638,382	(2)	10.3	%
Ancora Group (3) One Chagrin Highlands 2000 Auburn Drive, Suite 300 Cleveland, Ohio 44122	1,905,515	(3)	11.9	%
Louis D. Paolino, Jr. 2626 Del Mar Place Fort Lauderdale, Florida 33301	1,040,958	(4)	6.6	%
Nantahala Capital Management, LLC 100 First Stamford Place, 2nd Floor Stamford, CT 06902	788,700	(5)	5.0	%
Gregory M. Krzemien	489,417	(6)	3.0	%
Michael E. Smith	15,000	(7)	*	
Dennis R. Raefield	401,000	(8)	2.5	%
Richard A. Barone	197,000	(9)	1.3	%
John C. Mallon	55,000	(10)	*	
Gerald T. LaFlamme	45,000	(11)	*	
All current directors and executive officers as a group (6 persons)	1,202,417	(12)	7.2	%

* Less than 1% of the outstanding shares of Mace common stock.

(1) Percentage calculation is based on 15,735,725 shares outstanding on February 28, 2011.

(2) According to their Schedule 13D Amendment 8 filed with the SEC on November 30, 2009, consists of 1,638,382 shares to which Lawndale Capital Management, LLC ("Lawndale") has shared voting and dispositive power. The Schedule 13D was filed jointly by Lawndale, Andrew E. Shapiro and Diamond A Partners, L.P. ("Diamond"). Lawndale is the investment advisor to and the general partner of Diamond, which is an investment limited partnership. Mr. Shapiro is the sole manager of Lawndale. Mr. Shapiro is also deemed to have shared voting and dispositive power with respect to the shares reported as beneficially owned by Lawndale. Diamond has shared voting and dispositive power with respect to 1,415,110 shares of the Company.

(3) According to information provided by the Ancora Group, which includes The Ancora Group, Inc., Ancora Capital, Inc.; Ancora Securities, Inc., the main subsidiary of Ancora Capital, Inc.; Ancora Advisors, LLC, Ancora Trust, the master trust for the Ancora Mutual Funds; Ancora Foundation, a private foundation; Merlin Partners, LP an investment limited partnership; and various owners and employees of the aforementioned entities have aggregate

beneficial ownership of 1,905,515 shares, including warrants issued to Merlin Partners, LP to purchase 314,715 shares of Mace common stock. Ancora Securities, Inc. is registered as a broker/dealer with the SEC and FINRA. Ancora Advisors, LLC is registered as an investment advisor with the SEC under the Investment Advisors Act of 1940, as amended. The Ancora Trust, which includes Ancora Income Fund, Ancora Equity Fund, Ancora Special Opportunity Fund, and Ancora MicroCap Fund, are registered with the SEC as investment companies under the Investment Company Act of 1940, as amended. Mr. Richard Barone, a director of the Company, is the controlling shareholder of The Ancora Group, Inc., which is the parent company of Ancora Advisors, LLC, and Ancora Securities, Inc. Mr. Barone owns approximately 5% of Merlin Partners, LP and 20% of The Ancora Group and is Chairman of and has an ownership interest in the various Ancora Funds. Ancora Advisors, LLC has the power to dispose of the shares owned by the investment clients for which it acts as advisor, including Merlin Partners, for which it is also the General Partner, and the Ancora Mutual Funds. Ancora Advisors, LLC, disclaims beneficial ownership of such shares, except to the extent of its pecuniary interest therein. Ancora Securities, Inc. acts as the agent for its various clients and has neither the power to vote nor the power to dispose of the shares. Ancora Securities, Inc. disclaims beneficial ownership of such shares. Each of the entities named have disclaimed membership in a Group within the meaning of Section 13(d)(3) of the Exchange Act and the Rules and Regulations promulgated thereunder in Schedule 13D Amendment 5 as filed with the SEC. The 1,905,515 aggregate shares listed for the Ancora Group are represented as owned beneficially, as follows: (a) 470,000 by the Ancora Mutual Funds for which Mr. Barone is a portfolio manager; (b) 1,078,800 by investment clients of Ancora Advisors, LLC, over which shares Ancora Advisors LLC has the power of disposition by virtue of an Investment Management Agreement (Ancora Advisors, LLC has disclaimed beneficial ownership of such shares); (c) 42,000 by owners/employees of Ancora Group, including Richard A. Barone; and (d) 314,715 warrants issued to Merlin Partners, LP to purchase Mace common stock.

(4) Includes options to purchase 150,000 shares.
(5) The 788,700 shares listed for Nantahala Capital Management, LLC are owned beneficially according to Schedule 13G filed with the SEC on February 3, 2011.
(6) Includes options to purchase 464,167 shares.
(7) Includes options to purchase 15,000 shares.
(8) Includes options to purchase 390,000 shares.
(9) Includes 135,000 shares owned by Mr. Barone, 32,000 shares owned by entities Mr. Barone directly controls and options to purchase 30,000 shares.
(10) Includes options to purchase 45,000 shares.
(11) Represents options to purchase 45,000 shares.
(12) See Notes 1 and 6 through 11 above.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Party Transactions

The Company's Security Segment leases manufacturing and office space under a lease between Vermont Mill and the Company. The lease, as extended, expires on November 14, 2011. Vermont Mill is controlled by Jon E. Goodrich, a former director and current employee of the Company. The original lease was entered into in November 1999 for a five year term. In November 2004, the Company exercised an option to continue the lease through November 2009 at a rate of $10,576 per month. The Company amended the lease in 2008 to occupy additional space for an additional $200 per month. The Company also leased from November 2008 to May 2009, on a month-to-month basis, approximately 3,000 square feet of temporary inventory storage space at a monthly cost of $1,200. In September 2009, the Company and Vermont Mill extended the term of the lease to November 14, 2010 at a monthly rate of $10,776 per month and modified the square footage rented to 33,476 square feet. The Company entered into a Lease Extension Agreement on December 20, 2010 to further extend the lease through November 14, 2011 at a monthly rate of $11,315 and provides an option to further extend the lease to May 14, 2012 at the same monthly rate. Rent expense under this lease was $129,857 and $135,318 for the years ended December 31, 2010 and 2009, respectively.

The Company funded a portion of the payment to Mr. Paolino by borrowing $1.35 million from Merlin Partners, LP ("Merlin"). The loan which had an original maturity date of March 28, 2011 was extended to April 28, 2011. The loan was payable in two installments of $675,000 each upon the closing of each of two car washes that were under agreements of sale at December 31, 2010. The Company made a payment of $675,000 to Merlin upon the sale of the Lubbock, Texas car wash on March 8, 2011. The Company expects to pay the remaining balance owed plus accrued interest from the proceeds generated by the sale of a Dallas, Texas area car wash that is under an agreement of sale and expected to close in the second quarter of 2011. Merlin is a fund managed by Ancora Advisors, a subsidiary of the Ancora Group. Richard Barone, a Company director, is Chairman of the Ancora Group. The loan bears interest at a rate of 12% per annum, and is secured by second liens on the Dallas, Texas area car wash and a security interest in the trade name "Mace". As part of the consideration for the financing, Merlin was also granted a Common Stock Purchase Warrant (the "Warrant") to purchase up to 314,715 shares of the Company's common stock at an exercise price of $0.20 per share, expiring December 28, 2015. The Warrant contains anti-dilution provisions providing that Merlin will receive additional warrants exercisable into 2% of any common stock of the Company issued by the Company through December 28, 2011. The exercise price of the Warrant will be adjusted lower to equal the stock issuance price of any stock issued through December 28, 2011 at a price below $0.20.

The Company's Audit Committee Charter, Section IV.E (vi), provides that the Audit Committee annually reviews all existing related party transactions or other conflicts of interest that exist between employees and directors and the Company. The Audit Committee Charter also requires that the Audit Committee review all proposed related party transactions. As provided in Section IV.E (iv) of the Audit Committee Charter, the Company may not enter into a related party transaction, unless the transaction is first approved by the Audit Committee. The Audit Committee Charter is in writing and is available for review on the Company's website at www.mace.com, under the Investor Relations heading. The current members of the Audit Committee are Messrs. LaFlamme, Barone, and Smith. When reviewing related party transactions, the Audit Committee considers the benefit to the Company of the transaction and whether the transaction furthers the Company's interest. The decisions of the Audit Committee are set forth in writing in the minutes of the meetings of the Audit Committee.

Director Independence

Mace has Corporate Governance Guidelines. The Corporate Governance Guidelines provide that a majority of the Company's directors should be independent, as defined in Section 3.14 of the Company's ByLaws. Section 3.14 of the Company's ByLaws is available for review on the Company's website at www.mace.com, under the Investor Relations heading. The Board has determined that Messrs. LaFlamme, Mallon, Barone and Smith are independent under these rules. In addition, all of the Audit Committee members are independent under the Audit Committee independence standards established by the NASDAQ Global Market and the rules promulgated by the SEC. The Board has an Audit Committee, a Compensation Committee, a Nominating Committee and an Ethics and Corporate Governance Committee. The independent directors are the sole members of all of the named committees.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees. The Company was billed $274,997 by Grant Thornton LLP for the audit of Mace's annual financial statements for the fiscal year ended December 31, 2010, and for the review of the financial statements included in Mace's Quarterly Reports on Form 10-Q filed for each calendar quarter of 2010. The Company was billed $361,193 by Grant Thornton LLP for the audit of Mace's annual financial statements for the fiscal year ended December 31, 2009, and for the review of the financial statements included in Mace's Quarterly Reports on Form 10-Q for each calendar quarter of 2009.

Tax Fees. The Company was billed $49,961 and $63,771 for tax compliance services rendered by Grant Thornton LLP during 2010 and 2009, respectively. The services aided the Company in the preparation of federal, state and local tax returns.

All Other Fees. The Company did not incur any other fees from Grant Thornton LLP during 2010 or 2009.

Other Matters. The Audit Committee of the Board of Directors has considered whether the provision of financial information systems design and implementation services and other non-audit services is compatible with maintaining the independence of Mace's registered public accountants, Grant Thornton LLP. The Audit Committee pre-approves all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditors. One hundred percent of auditing services and permitted non-audit services in 2009 and 2010 were pre-approved by the Audit Committee. The Audit Committee may delegate authority to the chairman, or in his or her absence, a member designated by the chairman to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such person or subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Consolidated Financial Statements:
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2010 and 2009
Consolidated Statements of Operations for the years ended December 31, 2010 and 2009
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010 and 2009
Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009
Notes to Consolidated Financial Statements

(a) (2)

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 SEC are not required under the related instructions or are inapplicable and therefore have been omitted.

(a) (3) Exhibits:

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

*3.3 Amended and Restated Bylaws of Mace Security International, Inc.

*3.4 Amended and Restated Certificate of Incorporation of Mace Security International, Inc. (Exhibit 3.4 to the 1999 Form 10-KSB)

45

*3.5	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Mace Security International, Inc. (Exhibit 3.5 to the 2000 Form 10-KSB)
*3.6	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Mace Security International, Inc. (Exhibit 3.6 to the 2002 Form 10-K)
*3.7	The Company's Amended and Restated Certificate of Incorporation (Exhibit 4.1 to the June 16, 2004 Form S-3)
*10.1	1993 Non-Qualified Stock Option Plan (1)
*10.2	Trademarks (1)
*10.3	Mace Security International, Inc. 1999 Stock Option Plan. (Exhibit 10.98 to the June 30, 1999 Form 10-QSB dated August 13, 1999) (3)
*10.4	Business Loan Agreement dated January 31, 2000, between the Company, its subsidiary - Colonial Full Service Car Wash, Inc., and Bank One, Texas, N.A.; Promissory Note dated February 2, 2000 between the same parties as above in the amount of $400,000 (pursuant to instruction 2 to Item 601 of Regulation S-K, two additional Promissory Notes, which are substantially identical in all material respects except as to the amount of the Promissory Notes) are not being filed in the amount of: $19,643.97 and $6,482; and a Modification Agreement dated as of January 31, 2000 between the same parties as above in the amount of $110,801.55 (pursuant to instruction 2 to Item 601 of Regulation S-K, Modification Agreements, which are substantially identical in all material respects except to the amount of the Modification Agreement) are not being filed in the amounts of: $39,617.29, $1,947,884.87, $853,745.73, and $1,696,103.31. (Exhibit 10.124 to the December 31, 1999 Form 10-KSB dated March 29, 2000)
*10.5	Amendment dated March 13, 2001, to Business Loan Agreement between the Company, its subsidiary Colonial Full Service Car Wash, Inc., and Bank One, Texas, N.A. (pursuant to instruction 2 to Item 601 of Regulation S-K, one additional amendment which is substantially identical in all material respects, except as to the borrower being Eager Beaver Car Wash, Inc., is not being filed). (Exhibit 10.132 to the December 31, 2000 Form 10-KSB dated March 20, 2001)
*10.6	Modification Agreement between the Company, its subsidiary, Colonial Full Service Car Wash, Inc., and Bank One, Texas, N.A. in the amount of $2,216,000 (pursuant to Instruction 2 to Item 601 of Regulation S-K, Modification Agreements, which are substantially identical in all material respects except to amount and extension date of the Modification Agreement are not being filed in the original amounts of $984,000 (extended to August 20, 2004) and $1,970,000 (extended to June 21, 2004). (Exhibit 10.133 to the June 30, 2001 Form 10-Q dated August 9, 2001)
*10.7	Term Note dated November 6, 2001 between the Company, its subsidiary, Colonial Full Service Car Wash, Inc., and Bank One, Texas, N.A. in the amount of $380,000. (Exhibit 10.134 to the September 30, 2001 Form 10-Q dated November 9, 2001)
*10.8	Master Lease Agreement dated June 10, 2002 between the Company, its subsidiary Colonial Full Service Car Wash, Inc., and Banc One Leasing Corporation in the amount of $193,055. (Exhibit 10.140 to the June 30, 2002 Form 10-Q dated August 14, 2002)
*10.9	Lease Schedule and Addendum dated August 28, 2002 in the amount of $39,434 to Master Lease Agreement dated June 10, 2002, between the Company, its subsidiary, Colonial Full Service Car Wash, Inc., and Banc One Leasing Corporation. (Exhibit 10.144 to the September 30, 2002 Form 10-Q dated November 12, 2002)
*10.10	Note Modification Agreement dated February 21, 2003, between the Company, its subsidiary, Colonial Full Service Car Wash, Inc. and Bank One, Texas, N.A. in the amount of $348,100. (Exhibit 10.148 to the December 31, 2002 Form 10-K dated March 19, 2003)
*10.11	Note Modification Agreement and Amendment to Credit Agreement dated January 21, 2004, between the Company, its subsidiary, Colonial Full Service Car Wash, Inc. and Bank One, Texas, N.A. in the amount of $48,725.50. (Exhibit 10.157 to the December 31, 2004 Form 10-K dated March 12, 2004)
*10.12	

	Credit Agreement dated as of December 31, 2003 between the Company, its subsidiary, Eager Beaver Car Wash, Inc., and Bank One Texas, N.A. (pursuant to instruction 2 to Item 601of Regulation S-K, four additional credit agreements which are substantially identical in all material respects, except as to the borrower being Mace Car Wash - Arizona, Inc., Colonial Full Service Car Wash, Inc., Mace Security Products, Inc. and Mace Security International, Inc., are not being filed.) (Exhibit 10.158 to the December 31, 2004 Form 10-K dated March 12, 2004.)
*10.13	Amendment to Credit Agreement dated April 27, 2004, effective March 31, 2004 between Mace Security International, Inc., and Bank One Texas, N.A. (Pursuant to instruction 2 to Item 601 of Regulation S-K, four Additional credit agreements which are substantially identical in all material respects, except as to borrower being the Company's subsidiaries, Mace Car Wash-Arizona, Inc., Colonial Full Service Car Wash, Inc. Mace Security Products Inc. and Eager Beaver Car Wash, Inc., are not being filed) (Exhibit 10.159 to the March 31, 2004 Form 10-Q dated May 5, 2004)

46

*10.14	Modification Agreement between the Company , its subsidiary, Colonial Full Service Car Wash, Inc., and Bank One, Texas, N.A. in the original amount of $984,000 (pursuant to Instruction 2 to Item 601 of Regulation S-K, Modification Agreements, which are substantially identical in all material respects except to amount and extension date of the Modification Agreement, are not being filed in the original amounts of $2,216,000 (extended to August 20, 2009) and $380,000 (extended to October 6, 2009)). (Exhibit 10.167 to the September 30, 2004 Form 10-Q dated November 12, 2004)
*10.15	Promissory Note dated September 15, 2004 between the Company, its subsidiary, Mace Security Products, Inc., and Bank One, Texas, N.A. in the amount of $825,000. (Exhibit 10.168 to the September 30, 2004 Form 10-Q dated November 12, 2004)
*10.16	Note Modification Agreement dated December 1, 2005 between the Company, its subsidiary Mace Security Products, Inc. and JPMorgan Bank One Bank, N.A. in the amount of $500,000. (Exhibit 10.179 to the December 31, 2005 Form 10-K dated July 14, 2006) Form 8-K dated March 6, 2006) +
*10.17	Amendment to Credit Agreement dated October 31, 2006, effective September 30, 2006 between Mace Security International, Inc., and JP Morgan Chase Bank, N.A. (Pursuant to Instruction 2 to Item 601 of Regulation S-K, five additional credit agreements which are substantially identical in all material respects, except as to borrower being the Company’s subsidiaries, Mace Truck Wash, Inc., Mace Car Wash-Arizona, Inc., Colonial Full Service Car Wash, Inc., Mace Security Products Inc., and Eager Beaver Car Wash, Inc., are not being filed). (Exhibit 10.1 to the September 30, 2006 Form 10-Q dated November 13, 2006)
*10.18	Employment Agreement dated August 21, 2006 between Mace Security International, Inc. and Louis D. Paolino, Jr. (Exhibit 10.1 to the August 21, 2006 Form 8-K dated August 22, 2006) (3)
*10.19	Employment Agreement dated February 12, 2007 between Mace Security International, Inc. and Gregory M. Krzemien (Exhibit 10.1 to the February 8, 2007 Form 8-K dated February 14, 2007) (3)
*10.21	Employment Agreement dated July 29, 2008 between Mace Security International, Inc. and Dennis R. Raefield (Incorporated by reference as Exhibit 10.1 to the July 29, 2008 Form 8-K dated July 31, 2008) (3)
*10.22	Amendment to Credit Agreement dated May 1, 2009, between Mace Security International, Inc., and JP Morgan Chase Bank N.A. (“Chase”). (Pursuant to Instruction 2 to Item 601 of Regulation S-K, two additional credit agreements which are substantially identical in all material respects, except as to borrower being the Company’s subsidiaries, Mace Car Wash-Arizona, Inc. and Colonial Full Service Car Wash, Inc. are not being filed). (Incorporated by reference as Exhibit 10.37 to the March 31, 2009 Form 10Q dated May 13, 2009).
*10.23	Note Modification Agreement between the Company, its subsidiary-Colonial Full Service Car Wash, Inc. and Chase, in the original amount of $2,216,000 extended to April 20, 2011. (Pursuant to Instruction 2 to Item 601 of Regulation S-K, Modification Agreements which are substantially identified in all material respects except to amounts and extension dates of the Modification Agreements, are not being filed in the original amounts of $1,970,000 (extended to April 21, 2011) $984,000 (extended to April 20, 2011 and $380,000 extended to May 6, 2011)). (Incorporated by reference as Exhibit 10.38 to the March 31, 2009 Form 10Q dated May 13, 2009).
*10.24	Modification, Renewal, and Extension of Note, Liens and Credit Agreement dated May 8, 2009 between the Company, its subsidiary, Mace Security Products Inc. and Chase. (Incorporated by reference as Exhibit 10.39 to the March 31, 2009 Form 10Q dated May 13, 2009).
*10.25	Stock Purchase Agreement dated April 7, 2009, by and among Mace Security International, Inc., CSSS, In Keays, and Bradley Keays and related Amendment 1 to Stock Purchase Agreement dated April (Incorporated by reference as Exhibit 10.40 to the March 31, 2009 Form 10Q dated May 13, 2009).
*10.26	Agreements consisting of: (i) Commercial Earnest Money Contract, dated as of January 15, 2009; (ii) Amendment to Commercial Earnest Money Contract dated effective March 16, 2009; (iii) Commercial Earnest Contract, executed as of April 16, 2009; (iv) Amendment to Commercial Earnest Monet Contracts, dated as of May 27, 2009, (v) Third Amendment to Commercial Earnest Money Contracts,

	dated September 1, 2009; (vii) Fifth Amendment to Contracts dated October 9, 2009; and (viii) Assignment of Commercial Earnest money Contract dated October 12, 2009. (Incorporated by reference as Exhibit 10.1 to the November 30, 2009 Form 8-K dated December 4, 2009).
*10.27	Amendment to Credit Agreement dated December 21, 2009, between Mace Security International, Inc., and JP Morgan Chase Bank N.A. ("Chase"). (Pursuant to Instruction 2 to Item 601 of Regulation S-K, two additional credit agreements which are substantially identical in all material respects, except as to borrower being the Company's subsidiaries, Mace Security Products, Inc. and Colonial Full Service Car Wash, Inc., are not being filed). (Incorporated by reference as Exhibit 10.27 to the December 31, 2009 Form 10-K dated March 24, 2010).
*10.28	Line of Credit Note dated December 12, 2009 between the Company, its subsidiary, Mace Security Products, Inc., and JP Morgan Chase Bank N.A. in the amount of $500,000. (Incorporated by reference as Exhibit 10.28 to the December 31, 2009 Form 10-K dated March 24, 2010).

47

*10.29	Letter Agreement of Employment dated March 23, 2010 between Mace Security International, Inc. and Gregory M. Krzemien. (3) (Incorporated by reference as Exhibit 10.29 to the December 31, 2009 Form 10-K dated March 24, 2010).
*10.30	Stock Purchase Agreement dated November 11, 2010, by and among Mace Security International, Inc., Linkstar Interactive, Inc., Linkstar Corporation, and Silverback Network, Inc. (Exhibit 10.1 to the September 30, 2010 Form 10-Q filed November 15, 2010).
10.31	Promissory Term Note Agreement dated December 28, 2010, between the Company and Merlin Partners, LP in the amount of $1,350,000 and related Security Agreement and Common Stock Purchase Warrant.
10.32	Line of Credit Note in the amount of $500,000 and related Amendment to Credit Agreement dated December 17, 2010 between the Company, its subsidiary, Mace Securities Products, Inc., and JP Morgan Chase Bank N.A.
10.33	Securities Purchase Agreement dated March 25, 2011, between the Company and Merlin Partners, LP.
10.34	Placement Agent and Dealer-Manager Agreement dated March 25, 2011, between the Company and Ancora Securities, Inc.
11	Statement Regarding Computation of Per Share Earnings.
*14	Code of Ethics and Business Conduct (Exhibit 14 to the December 31, 2003 Form 10-K dated March 12, 2004)
21	Subsidiaries of the Company
23.1	Consent of Grant Thornton LLP
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal 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	Corporate Governance Guidelines dated October 16, 2007 (Exhibit 99.1 to the October 16, 2007 8-K dated October 16, 2007)

*Incorporated by reference to the exhibit indicated in parentheses.
+Schedules and other attachments to the indicated exhibit have been omitted. The Company agrees to furnish supplementally to the SEC upon request a copy of any omitted schedules or attachments.

(1) Incorporated by reference to the exhibit of the same number filed with the Company's registration statement on Form SB-2 (33-69270) that was declared effective on November 12, 1993.

(2) Incorporated by reference to the Company's Form 10-QSB report for the quarter ended September 30, 1994 filed on November 14, 1994. It should be noted that Exhibits 10.25 through 10.34 were previously numbered 10.1 through 10.10 in that report.

(3) Indicates a management contract or compensation plan or arrangement.

SIGNATURES

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

MACE SECURITY INTERNATIONAL, INC.

By: /s/ Dennis R. Raefield.
Dennis R. Raefield
President and Chief Executive Officer

DATED the 30 day of March, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Dennis R. Raefield Dennis R. Raefield. (Principal Executive Officer)	President, Chief Executive Officer and Director	March 30, 2011
/s/ Gregory M. Krzemien Gregory M. Krzemien (Principal Financial Officer and Principle Accounting Officer)	Chief Financial Officer and Treasurer	March 30, 2011
/s/John C. Mallon John C. Mallon	Chairman of the Board	March 30 2011
/s/Richard A. Barone Richard A. Barone	Director	March 30, 2011
/s/Gerald T. LaFlamme Gerald T. LaFlamme	Director	March 30, 2011
/s/ Michael E. Smith Michael E. Smith	Director	March 30, 2011

Mace Security International, Inc.
Audited Consolidated Financial Statements
Years ended December 31, 2010 and 2009

Contents

Report of Independent Registered Public Accounting Firm

Board of Directors
Mace Security International, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Mace Security International, Inc. (a Delaware corporation) and Subsidiaries (the Company) as of December 31, 2010 and 2009 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mace Security International, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP
Philadelphia, Pennsylvania
March 30, 2011

Mace Security International, Inc. and Subsidiaries
Consolidated Balance Sheets

(In thousands, except share and par value information)

ASSETS

	December 31, 2010	December 31, 2009
Current assets:		
Cash and cash equivalents	$2,564	$8,289
Short-term investments	-	1,086
Accounts receivable, less allowance for doubtful accounts of $562 and $785 in 2010 and 2009, respectively	2,119	1,939
Inventories, less reserve for obsolescence of $1,304 and $1,379 in 2010 and 2009, respectively	3,273	5,232
Prepaid expenses and other current assets	1,790	2,078
Assets held for sale	6,330	7,180
Total current assets	16,076	25,804
Property and equipment:		
Land	-	250
Buildings and leasehold improvements	703	2,213
Machinery and equipment	3,237	3,177
Furniture and fixtures	459	491
Total property and equipment	4,399	6,131
Accumulated depreciation and amortization	(2,754)	(2,856)
Total property and equipment, net	1,645	3,275
Goodwill	1,982	7,869
Other intangible assets, net of accumulated amortization of $1,675 and $1,881 in 2010 and 2009, respectively	1,767	3,780
Other assets	1,554	1,630
Total assets	$23,024	$42,358

The accompanying notes are an integral
part of these consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2010	December 31, 2009
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$1,378	$109
Accounts payable	2,168	3,436
Income taxes payable	199	206
Deferred revenue	324	319
Accrued expenses and other current liabilities	2,905	3,028
Liabilities related to assets held for sale	2,081	2,123
Total current liabilities	9,055	9,221
Long-term debt, net of current portion	43	568
Capital lease obligations, net of current portion	70	120
Other liabilities	-	461
Commitments and contingencies – See Note 18		
Stockholders' equity:		
Preferred stock, $.01 par value: authorized shares-10,000,000, issued and outstanding shares-none	-	-
Common stock, $.01 par value: authorized shares-100,000,000, issued and outstanding shares of 15,735,725 and 15,913,775 in 2010 and 2009, respectively	157	159
Additional paid-in capital	93,912	93,948
Accumulated other comprehensive loss	-	-
Accumulated deficit	(80,196)	(62,098)
	13,873	32,009
Less treasury stock at cost 18,332 and 18,200 shares in 2010 and 2009, respectively	(17)	(21)
Total stockholders' equity	13,856	31,988
Total liabilities and stockholders' equity	$23,024	$42,358

The accompanying notes are an integral
part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries
Consolidated Statements of Operations

(In thousands, except share and per share information)

	Year Ended December 31, 2010	2009
Revenues	$18,395	$18,591
Cost of revenues	12,874	12,998
Gross profit	5,521	5,593
Selling, general, and administrative expenses	9,568	12,691
Arbitration award	4,610	-
Depreciation and amortization	582	567
Asset impairment charges	485	462
Operating loss	(9,724)	(8,127)
Interest expense, net	51	7
Other income	5	-
Loss from continuing operations before income taxes	(9,770)	(8,134)
Income tax expense	30	-
Loss from continuing operations	(9,800)	(8,134)
Loss from discontinued operations, net of tax of $0 in 2010 and 2009	(8,298)	(2,817)
Net loss	$(18,098)	$(10,951)
Per share of common stock (basic and diluted):		
Loss from continuing operations	$(0.62)	$(0.50)
Loss from discontinued operations	(0.53)	(0.18)
Net loss	$(1.15)	$(0.68)
Weighted average shares outstanding:		
Basic and diluted	15,749,465	16,202,254

The accompanying notes are an integral
part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(In thousands, except share information)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock	Total
Balance at December 31, 2008	16,285,377	$ 163	$ 94,161	$ (5)	$ (51,147)	$ (5)	$ 43,167
Purchase and retirement of treasury stock	(371,602)	(4)	(329)	-	-	(16)	(349)
Stock-based compensation expense (see note 14)	-	-	116	-	-	-	116
Unrealized gain on short-term investments	-	-	-	5	-	-	5
Net loss	-	-	-	-	(10,951)	-	(10,951)
Total comprehensive loss	-	-	-	-	-	-	(10,946)
Balance at December 31, 2009	15,913,775	159	93,948	-	(62,098)	(21)	31,988
Purchase and retirement of treasury stock	(178,050)	(2)	(181)	-	-	4	(179)
Stock-based compensation expense (see note 14)	-	-	145	-	-	-	145
Net loss	-	-	-	-	(18,098)	-	(18,098)
Total comprehensive loss	-	-	-	-	-	-	(18,098)
Balance at December 31, 2010	15,735,725	$ 157	$ 93,912	$ -	$ (80,196)	$ (17)	$ 13,856

The accompanying notes are an integral
part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31, 2010	2009
Operating activities		
Net loss	$(18,098)	$(10,951)
Loss from discontinued operations, net of tax	(8,298)	(2,817)
Loss from continuing operations	(9,800)	(8,134)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	583	567
Stock-based compensation	66	115
Provision for losses on receivables	170	204
Loss on sale of property and equipment	-	98
Loss on short-term investments	-	5
Goodwill and asset impairment charges	485	462
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(444)	(487)
Inventories	974	1,548
Prepaid expenses and other assets	(268)	310
Accounts payable	(176)	1,367
Deferred revenue	14	206
Accrued expenses	(710)	646
Income taxes payable	(37)	(136)
Net cash used in operating activities-continuing operations	(9,143)	(3,229)
Net cash used in operating activities-discontinued operations	(1,040)	(510)
Net cash used in operating activities	(10,183)	(3,739)
Investing Activities		
Acquisition of business, net of cash acquired	-	(1,863)
Purchase of property and equipment	(348)	(430)
Proceeds from (purchase of) short-term investments	1,086	(82)
Proceeds from sale of property and equipment	-	1,524
Payments for intangibles	(2)	(31)
Net cash provided by (used in) investing activities-continuing operations	736	(882)
Net cash provided by investing activities-discontinued operations	3,041	6,064
Net cash provided by investing activities	3,777	5,182
Financing activities		
Proceeds from short-term note and long-term debt	1,443	-
Payments on long-term debt and capital lease obligations	(136)	(93)
Purchase and retirement of treasury stock	(178)	(350)
Net cash provided by (used in) financing activities-continuing operations	1,129	(443)
Net cash used in financing activities-discontinued operations	(448)	(1,025)
Net cash provided by (used in) financing activities	681	(1,468)
Net decrease in cash and cash equivalents	(5,725)	(25)
Cash and cash equivalents at beginning of year	8,289	8,314
Cash and cash equivalents at end of year	$2,564	$8,289

The accompanying notes are an integral
part of these consolidated financial statements.

F-7

Mace Security International, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Description of Business and Basis of Presentation

The accompanying consolidated financial statements include accounts of Mace Security International, Inc. and its wholly owned subsidiaries (collectively, the "Company" or "Mace"). All significant intercompany transactions have been eliminated in consolidation.

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 CS, Inc., 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 4. Business Acquisitions and Divestitures.

The Company had a Digital Media Marketing Segment. The Company exited the digital media marketing business and sold the e-commerce division of the segment, Linkstar Corporation, on November 22, 2010. See Note 4. Business Acquisitions and Divestitures. This segment sold consumer products on the internet and provided online marketing services. The Company also had a Car Wash Segment which provided complete car care services (including car wash, detailing, lube, and minor repairs). As of December 31, 2010, there were only four remaining car washes all of which were located in Texas.

The assets and liabilities of our remaining car wash operations are classified as assets held for sale and liabilities related to assets held for sale in the balance sheet and the results of operations for the car washes and the discontinued Digital Media Marketing Segment are reflected as discontinued operations in the statements of operations and the statements of cash flows. The statement of operations and the statement of cash flows for the prior year have been restated to reflect the discontinued operations in accordance with accounting principles generally accepted in the United States ("GAAP"). See Note 5. Discontinued Operations and Assets Held for Sale.

2. Liquidity

As of December 31, 2010, we had working capital of approximately $7.0 million including cash and cash equivalents of $2.6 million. Our business requires a substantial amount of capital, most notably to fund our losses. We plan to meet these capital needs from various financing sources, including borrowings, cash generated from the sale of car washes and other assets, and the issuance of common stock.

The Company plans to raise working capital through a rights offering or other sale of securities. On December 23, 2010, the Board of Directors of the Company approved a plan to prepare a rights offering to purchase shares of the Company's common stock (the "Rights Offering"). On March 25, 2011, the Company and Ancora Securities, Inc. ("Ancora") executed a Placement Agent and Dealer-Manager Agreement, under which Ancora will act as the placement agent for the planned Rights Offering. The basic terms of the Rights Offering being prepared is for each stockholder to be given the right to purchase three shares of common stock for each share of common stock owned as of the record date, at an exercise price to be established by the Company. The record date and exercise price will be determined and set by the Board of Directors at a later date near the date of the mailing of the prospectus for the Rights Offering. All new shares issued under the Rights Offering will be registered under the Securities Act of 1933, as amended (the "Securities Act"). We have also entered into a Securities Purchase Agreement dated March 25, 2011 ("Securities Purchase Agreement") with Merlin, a hedge fund which is under common control with Ancora. In accordance with the Securities Purchase Agreement, Merlin and up to three assignees of Merlin, will purchase

$4,000,000 of our common stock, valued at the per share exercise price used in the Rights Offering at the conclusion of the Rights Offering. There are conditions to Merlin's obligation to purchase, including: (i) that the Rights Offering occur; (ii) the stock sold to Merlin is registered under the Securities Act; and (iii) the Company expand its Board of Directors to seven persons with the two vacancies created by the expansion to be filled with individuals acceptable to Merlin. The Company is currently preparing a registration statement to register the Rights Offering stock and the stock to be sold to Merlin. Richard Barone, a member of our Board of Directors, is a controlling owner of Ancora Securities, Inc and Ancora Advisors, LLC. Ancora Advisors, LLC is the manager of Merlin.

Additionally, our debt covenants with JP Morgan Chase Bank, N.A. require us to maintain a total unencumbered cash and marketable securities balance of $1.5 million. We have been funding our losses to-date 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. As of December 31, 2010, we had four remaining car washes for sale, two of which were under agreements of sale (See Note 4. Business Acquisitions and Divestitures and Note 21. Subsequent Events). A car wash was sold on March 8, 2011 with the sale of one of the three remaining car washes pending. As of March 21, 2011, we had three remaining car washes for sale which we estimate will generate proceeds, net of related mortgages, in the range of approximately $1.7 million to $2.0 million. We also listed our Texas warehouse for sale in August, 2010 with a real estate broker, which we estimate will generate proceeds, net of related mortgage debt, of approximately $1.0 million to $1.2 million.

3. Summary of Significant Accounting Policies

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 of 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 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 historic sales and tracking of redemption rates per the car washes' point-of-sale systems. Seasonal and annual passes are amortized on a straight-line basis over the time during which the passes are valid.

Shipping and handling costs related to the Company's Security Segment of $486,000 and $535,000 in the years ended December 31, 2010 and 2009 respectively, are included in cost of revenues.

Fair Value Measurements

The Company's nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis include goodwill, intangible assets and long-lived tangible assets including property, plant and equipment. The Company recorded impairment charges for certain of these assets during the years ended December 31, 2010 and 2009. See

Note 6. Goodwill and Note 19. Asset Impairment Charges.

Accounts Receivable

The Company’s accounts receivable are due from trade customers. Credit is extended based on evaluation of customers’ financial condition and, generally, collateral is not required. Payment terms vary and amounts due from customers are stated in the financial statements net of an allowance for doubtful accounts. Accounts which are outstanding longer than the payment terms are considered past due. The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company’s previous loss history, the customer’s current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they are deemed uncollectible. Any payments subsequently received on such receivables are credited to the allowance for doubtful accounts. Risk of losses from international sales within the Security Segment are reduced by requiring substantially all international customers to provide either irrevocable confirmed letters of credit or cash advances.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method for security and e-commerce products. Inventories at the Company’s car wash locations consist of various chemicals and cleaning supplies used in operations and merchandise and fuel for resale to consumers. Inventories within the Company’s Security Segment consist of defense sprays, child safety products, electronic security monitors, cameras and digital recorders, and various other consumer security and safety products. The Company continually, and at least on a quarterly basis, reviews the book value of slow moving inventory items, as well as discontinued product lines, to determine if inventory is properly valued. The Company identifies slow moving or discontinued product lines by a detail review of recent sales volumes of inventory items as well as a review of recent selling prices versus cost and assesses the ability to dispose of inventory items at a price greater than cost. If it is determined that cost is less than market value, then cost is used for inventory valuation. If market value is less than cost, then an adjustment is made to the Company’s obsolescence reserve to adjust the inventory to market value. When slow moving items are sold at a price less than cost, the difference between cost and selling price is charged against the established obsolescence reserve.

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which are generally as follows: buildings and leasehold improvements - 15 to 40 years; machinery and equipment - 5 to 20 years; and furniture and fixtures - 5 to 10 years. Significant additions or improvements extending assets' useful lives are capitalized; normal maintenance and repair costs are expensed as incurred. Depreciation expense from continuing operations was approximately $309,000 and $303,000 for the year ended December 31, 2010 and 2009, respectively. Maintenance and repairs are charged to expense as incurred and amounted to approximately $19,000 and $33,000 for the years ended December 31, 2010 and 2009, respectively.

Advertising and Marketing Costs

The Company expenses advertising costs in its Security Segment and in its discontinued Car Wash operations, including advertising production cost, as the costs are incurred or the first time the advertisement appears. Marketing costs in the Company’s discontinued Digital Media Marketing Segment, which consisted of the costs to acquire new members for its e-commerce business, were expensed as incurred rather than deferred and amortized over the expected life of a customer. Prepaid advertising costs were $1,600 and $41,400 at December 31, 2010 and 2009, respectively. Advertising expense was approximately $513,400 and $858,900 for the years ended December 31, 2010 and 2009, respectively.

Impairment of Long-Lived Assets

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

Goodwill

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets we have acquired in business combinations. We perform a goodwill impairment test on at least an annual basis for each of our reporting units as previously disclosed. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. As of December 31, 2010, wholesale security monitoring business is our only remaining business unit with recorded goodwill. The Company conducts its annual goodwill impairment test of this remaining reporting unit as of April 30 of each year or more frequently if indicators of impairment exist. We periodically analyze whether any such indicators of impairment exist. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a sustained, significant decline in our share price and market capitalization, a decline in our expected future cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition and/or slower expected growth rates, among others. The Company compares the fair value of its reporting unit to its respective carrying value, including related goodwill. Future changes in the industry could impact the results of future annual impairment tests. Goodwill was $2.0 million at December 31, 2010 and $7.9 million at December 31, 2009. There can be no assurance that future tests of goodwill impairment will not result in impairment charges.

Other Intangible Assets

Other intangible assets consist primarily of deferred financing costs, non-compete agreements, customer lists, software costs, product lists, patent costs, and trademarks. Our trademarks are considered to have indefinite lives, and as such, are not subject to amortization. These assets are tested for impairment using discounted cash flow methodology annually and whenever there is an impairment indicator. Estimating future cash flows requires significant judgment and projections may vary from cash flows eventually realized. Several impairment indicators are beyond our control, and determining whether or not they will occur cannot be predicted with any certainty. Customer lists, product lists, software costs, patents and non-compete agreements are amortized on a straight-line or accelerated basis over their respective assigned estimated useful lives.

Income Taxes

Deferred income taxes are determined based on the difference between the financial accounting and tax bases of assets and liabilities. Deferred income tax expense (benefit) represents the change during the period in the deferred income tax assets and deferred income tax liabilities. In establishing the provision for income taxes and deferred income tax assets and liabilities, and valuation allowances against deferred tax assets, the Company makes judgments and interpretations based on enacted laws, published tax guidance and estimates of future earnings. Deferred income tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

Fair Value of Financial Instruments

The Company’s financial instruments consist primarily of cash and cash equivalents, short-term investments, trade receivables, trade payables and debt instruments. The carrying values of cash and cash equivalents, trade receivables, and trade payables are considered to be representative of their respective fair values.

Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the carrying values and fair values of the Company’s fixed and variable rate debt instruments at December

31, 2010 and 2009, including debt recorded as liabilities related to assets held for sale, were as follows (in thousands):

F-11

	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed rate debt	$ 1,432	$ 1,525	$ 186	$ 211
Variable rate debt	2,037	2,040	2,734	2,738
Total	$ 3,469	$ 3,565	$ 2,920	$ 2,949

Supplementary Cash Flow Information

Interest paid on all indebtedness, including discontinued operations, was approximately $134,000 and $252,000 for the years ended December 31, 2010 and 2009, respectively.

Noncash investing and financing activity of the Company within discontinued operations includes the recording of a $750,000 note receivable recorded as part of the consideration received from the sale of the Company's San Antonio, Texas car washes during the three months ended March 31, 2009. Additionally, noncash investing and financing activity of the Company includes the acquisition of communication equipment under a note payable for $78,000 during the three months ended March 31, 2010.

Stock-Based Compensation

The Company has two stock-based employee compensation plans. The Company recognizes compensation expense for all share-based awards on a straight-line basis over the life of the instruments, based upon the grant date fair value of the equity or liability instruments issued. Total stock compensation expense was approximately $80,000 and $116,000 for the years ended December 31, 2010 and 2009, respectively ($66,000 in SG&A expense, and $14,000 in discontinued operations in 2010 and $115,000 in SG&A expense and $1,000 in discontinued operations in 2009). Additionally, as a result of the arbitration award to Louis D. Paolino Jr. (See Note 18. Commitments and Contingencies), the Company evaluated the restored stock options that were previously cancelled and found the value of these restored options to be insignificant. Accordingly, no additional expense was recorded.

The fair values of the Company's options were estimated at the dates of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Year Ended December 31,	
	2010	2009
Expected term (years)	5 to 10	6.5 to 10
Risk-free interest rate	1.78% - 2.97%	2.75%-3.40%
Volatility	48%	47% to 49%
Dividend yield	0%	0%
Forfeiture Rate	30%	30%

Expected term: The Company's expected life is based on the period the options are expected to remain outstanding. The Company estimated this amount based on historical experience of similar awards, giving consideration to the contractual terms of the awards, vesting requirements and expectations of future behavior.

Risk-free interest rate: The Company uses the risk-free interest rate of a U.S. Treasury Note with a similar term on the date of the grant.

Volatility: The Company calculates the volatility of the stock price based on historical value and corresponding volatility of the Company's stock price over the prior six years, to correspond with the Company's focus on the Security Segment.

Dividend yield: The Company uses a 0% expected dividend yield as the Company has not paid dividends to date and does not anticipate declaring dividends in the near future.

During the years ended December 31, 2010 and 2009, the Company granted 130,000 and 433,000 stock options, respectively. The weighted-average of the fair value of stock option grants are $0.44 and $0.55 per share for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, total unrecognized stock-based compensation expense is $66,000, which has a weighted average period to be recognized of approximately 0.9 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

New Accounting Standards

In October 2009, the Financial Accounting Standards Board ("FASB") issued ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements - a consensus of the FASB Emerging Issues Task Force, which amends the criteria for when to evaluate individual delivered items in a multiple deliverable arrangement and how to allocate consideration received. This ASU is effective for fiscal years beginning on or after June 15, 2010, which is January 1, 2011 for the Company. The Company is currently evaluating the impact of adopting the guidance.

4. Business Acquisitions and Divestitures

Acquisitions

On April 30, 2009, the Company completed the purchase of all of the outstanding common stock of CSSS from CSSS's shareholders. Total consideration was approximately $3.7 million, consisting of $1.7 million in cash at closing, $224,000 paid subsequent to closing, potential additional payments of up to $1.2 million upon the settlement of certain contingencies as set forth in the Stock Purchase Agreement, and the assumption of approximately $590,000 of liabilities. 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 recorded at the date of the acquisition. Accrued contingencies related to the acquisition as of December 31, 2010 total $951,000, which are recorded in accrued expenses and other current liabilities.

CSSS, which was renamed Mace CS, is reported within the Company's Security Segment, is a national wholesale monitoring company located in Anaheim, California, with approximately 400 security dealer clients. Mace CS owns and operates a UL-listed monitoring center that services over 41,000 end-user accounts. Mace CS's primary assets are accounts receivable, equipment, customer contracts, and its business methods. The acquisition of Mace CS enables the Company to expand the marketing of its security products through cross-marketing of the Company's surveillance equipment products to Mace CS's dealer base as well as offering the Company's current customers monitoring services. The purchase price was allocated as follows: approximately (i) $19,000 for cash; (ii) $112,000 for accounts receivable; (iii) $63,000 for prepaid expenses and other assets; (iv) $443,000 for fixed assets and capital leased assets; (v) the assumption of $590,000 of liabilities; and (vi) the remainder, or $3.04 million, allocated to goodwill and other intangible assets. Within the $3.04 million of acquired intangible assets, $1.98 million was assigned to goodwill, which is not subject to amortization expense. The amount assigned to goodwill was deemed appropriate based on several factors, including: (i) multiples paid by market participants for businesses in the security monitoring business; (ii) levels of Mace CS's current and future projected cash flows; (iii) the Company's strategic business plan, which included cross-marketing the Company's surveillance equipment products to Mace CS's dealer base as well as offering monitoring services to the Company's current customers, thus potentially increasing the value of its existing business segment; and (iv) the Company's plan to substitute for the cash flows of the Car Wash Segment, which the Company is exiting. The remaining intangible assets were assigned to customer contracts and relationships for $940,000, trade name for $70,000, and a non-compete agreement for $50,000. Customer relationships, trade name, and the non-compete agreement were assigned a life of fifteen, three, and five years, respectively.

Divestitures

On January 14, 2009, the Company sold its two remaining San Antonio, Texas car washes for $1.0 million, resulting in a loss of approximately $7,000. The sale price was paid by the buyer issuing the Company a secured promissory note in the amount of $750,000, bearing interest at 6% per annum plus cash of $250,000, less closing costs.

On September 16, 2009, the Company sold an Arlington, Texas car wash for a sale price of $979,000. The net book value of this car wash was approximately $925,000. Simultaneously with the sale, $461,000 of cash was used to pay down related mortgage debt. The sale resulted in a net gain of $15,000. On July 31, 2009, the Company sold a cell tower easement located at one of the Company's Arlington, Texas car wash properties for a sale price of $292,000. The sale resulted in a net gain of $9,600.

On November 30, 2009 the Company sold all three of its Austin, Texas car washes for a sale price of $8.0 million. Costs at closing were approximately $328,000, consisting of $240,000 of broker commissions, approximately $17,000 of non-reimbursed environmental costs, and approximately $71,000 of other closing costs. Cash proceeds received were $5,585,000, consisting of $5,145,000 of cash received at closing on November 30, 2009 and $440,000 received through previously released escrow deposits. Approximately $2,149,000 of the $8.0 million sale proceeds was used to pay-off existing bank debt in addition to payment of closing costs. The sale resulted in a net gain of approximately $1,000.

On March 10, 2010, the Company sold one of its Lubbock, Texas car washes for cash consideration of $750,000. Cash proceeds of $733,000 were received, net of closing costs. The sale resulted in a net loss of approximately $1,000.

On June 2, 2010, the Company completed the sale of one of its Lubbock, Texas car washes for a total sale price of $650,000. The net book value of this car wash site was approximately $428,000. The cash proceeds of the sale were $641,000, net of closing costs. The sale resulted in a gain of approximately $211,000.

On June 1, 2010, the Company entered into an agreement of sale for a car wash in Arlington, Texas for a sale price of $2.1 million. The current book value of this car wash is approximately $2.0 million with outstanding debt of approximately $820,000. The agreement of sale provides the buyer a forty-five (45) day inspection period which expired on August 15, 2010. The closing date is forty-five (45) days after the inspection period. The buyer was able to exercise up to three thirty (30) day extension periods beyond the defined closing date with additional escrow deposits required of $10,000 for each extension period requested. The buyer has exercised all three extensions with an extended closing date of the later of December 28, 2010 or the date final environmental clearance is obtain from the Texas Commission on Environmental Quality for fuel tanks removed from the site at the request of the buyer. Escrow deposits, including the three extension deposits, of $70,000 have been made by the buyer. The deposits are payable to the Company under certain default conditions as defined in the agreement of sale. Although the Company has received final environmental clearance and anticipates that this sale will be completed in the second quarter of 2011, no assurance can be given that this transaction will be consummated.

On July 26, 2010, the Company completed the sale of one of its Arlington, Texas car washes for a sale price of $625,000. The cash proceeds of the sale were $413,000, net of paying off existing debt of $195,000 and certain closing costs. The sale resulted in a net gain of approximately $13,000.

On November 22, 2010, the Company, through its subsidiaries, Linkstar Interactive Inc., and Linkstar Corporation, (the “Subsidiaries”), entered into a Stock Purchase Agreement with Silverback Network, Inc. (the “Purchaser”) for the sale of the e-commerce division of its Digital Media Marketing Segment, Linkstar Corporation, for a sale price of $1.1 million. Under terms of the Stock Purchase Agreement, the Purchaser paid a purchase price of $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 will be released to the Company in six months provided there are no unsatisfied indemnity claims under the Stock Purchase Agreement. Costs at closing were approximately $40,000, consisting of broker commissions. As a result of the sale, the Company’s cash increased by approximately $950,000. The sale resulted in a loss of approximately $191,000.

On December 27, 2010, the Company completed the sale for an oil lubrication facility and self-serve car wash in Arlington, Texas for a sale price of $350,000. The current book value of this facility was approximately $335,000, with outstanding debt of approximately $54,000. The sale resulted in a net gain of approximately $8,000.

5. Discontinued Operations and Assets Held for Sale

The Company reviews the carrying value of its long-lived assets held and used, and its assets to be disposed of, for possible impairment when events and circumstances warrant such a review. We also follow the applicable guidance in determining when to reclass assets to be disposed of to assets and related liabilities held for sale as well as when an operation disposed of or to be disposed of is classified as a discontinued operation in the statements of operations and the statements of cash flows.

As of December 31, 2010, the assets of the Company’s former Car Wash Segment consisted of four car washes, two of which were under contracts for sale under separate agreements of sale. The sale of one car wash under an agreement of sale at December 31, 2010, the Lubbock, Texas car wash, was completed on March 8, 2011. Also, on November 22, 2010, the Company sold the e-commerce division of its Digital Media Marketing Segment, Linkstar Corporation. Additionally, during the quarter ended September 30, 2010, the Company made a decision to sell its warehouse located in Farmers Branch, Texas (the “Texas warehouse”) and has listed the warehouse with a real estate broker. The results for the car wash operations and the discontinued Digital Media Marketing Segment’s operations have been classified as discontinued operations in the statements of operations and the statements of cash flows. These classifications are based on the remaining car washes, the remaining component of the Digital Media Marketing business, Promopath, as well as the Texas warehouse, all currently being marketed and ready for sale or being under an agreement of sale. The Company’s Board of Directors is committed to a plan to dispose of the remaining car washes, the remaining component of the Digital Media Marketing business, and the Texas warehouse within the next twelve months. The statement of operations and the statement of cash flows for the prior year have been restated to reflect the discontinued operations in accordance with GAAP.

Revenues from discontinued operations were $11.0 million and $20.3 million for the years ended December 31, 2010 and 2009, respectively. Operating loss from discontinued operations, including asset impairment charges, was $8.4 million and $2.8 million for the years ended December 31, 2010 and 2009, respectively.

Assets and liabilities held for sale were comprised of the following (in thousands):

	As of December 31, 2010				
	Car Wash Segment				
Assets held for sale:	Dallas and Fort Worth, Texas	Lubbock, Texas	Digital Media Marketing Segment	Security Segment Texas Warehouse	Total
Inventory	$117	$5	$ -	$-	$122
Other current assets	-	-	58	-	58
Property, plant and equipment, net	2,820	1,707	3	1,615	6,145
Intangible assets	5	-	-	-	5
Total assets	$2,942	$1,712	$ 61	$1,615	$6,330
Liabilities related to assets held for sale:					
Other current liabilities	$-	$-	$ 103	$-	$103
Current portion of long-term debt	615	172	-	58	845
Long-term debt, net of current portion	114	524	-	495	1,133
Total liabilities	$729	$696	$ 103	$553	$2,081

	As of December 31, 2009		
Assets held for sale:	Dallas and Fort Worth, Texas	Lubbock, Texas	Total
Inventory	$ 245	$ 136	$ 381
Property, plant and equipment, net	3,796	2,997	6,793
Intangible assets	6	-	6
Total assets	$ 4,047	$ 3,133	$ 7,180
Liabilities related to assets held for sale:			
Current portion of long-term debt	$ 293	$ 166	$ 459
Long-term debt, net of current portion	967	697	1,664
Total liabilities	$ 1,260	$ 863	$ 2,123

6. Goodwill

In assessing goodwill for impairment, we first compare the fair value of our final reporting unit containing goodwill, our wholesale monitoring business, with its net book value. We estimate the fair value of the reporting unit using discounted expected future cash flows, supported by the results of various market approach valuation models. If the fair value of the reporting unit exceeds its net book value, goodwill is not impaired, and no further testing is necessary. If the net book value of this reporting unit exceeds its fair value, we perform a second test to measure the amount of impairment loss, if any. To measure the amount of any impairment loss, we determine the implied fair value of goodwill in the same manner as if our reporting unit was being acquired in a business combination. Specifically, we allocate the fair value of the reporting unit to all of the assets and liabilities of that unit, including any unrecognized intangible assets, in a hypothetical calculation that would yield the implied fair value of goodwill. If the implied fair value of goodwill is less than the goodwill recorded on our balance sheet, we record an impairment charge for the difference.

We performed extensive valuation analyses, utilizing both income and market approaches, in our goodwill assessment process. The following describes the valuation methodologies used to derive the fair value of the reporting units.

- Income Approach: To determine fair value, we discounted the expected cash flows of the reporting unit. The discount rate used represents the estimated weighted average cost of capital, which reflects the overall level of inherent risk involved in our reporting units and the rate of return an outside investor would expect to earn. To estimate cash flows beyond the final year of our model, we used a terminal value approach. Under this approach, we used estimated operating income before interest, taxes, depreciation and amortization in the final year of our model, adjusted to estimate a normalized cash flow, applied a perpetuity growth assumption and discounted by a perpetuity discount factor to determine the terminal value. We incorporated the present value of the resulting terminal value into our estimate of fair value.

- Market-Based Approach: To corroborate the results of the income approach described above, we estimated the fair value of our reporting unit using several market-based approaches, including the value that we derive based on our consolidated stock price as described above. We also used the guideline company method which focuses on comparing our risk profile and growth prospects to select reasonably similar/guideline publicly traded companies.

The determination of the fair value of the 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, the discount rate, terminal growth rates, operating income before depreciation and amortization and capital expenditures forecasts. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. In addition, changes in underlying assumptions would have a significant impact on either the fair value of the reporting units or the goodwill impairment charge.

The allocation of the fair value of the reporting unit to individual assets and liabilities within the reporting unit also requires us to make significant estimates and assumptions. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, customer relationships, non-competition agreements and current replacement costs for certain property, plant and equipment.

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 June 30, 2009, December 31, 2009, June 30, 2010 and December 31, 2010. We recorded an impairment charge to trademarks of approximately $80,000 and an impairment charge of $142,000 to customer lists, both principally related to our consumer direct electronic surveillance operations as of June 30, 2009 and an impairment charge of $30,000 for trademarks related to our high end digital and machine vision cameras and professional imaging component operations at December 31, 2009. With continuing deterioration in 2010, we recorded an additional impairment charge of $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 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.

Additionally, 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 for our wholesale security monitoring business as of April 30, 2010, we determined that there was no impairment in that the fair value for this reporting unit exceeded the book value of its invested capital. Our wholesale security monitoring business has recorded goodwill of $1.98 million, which exceeds the book value of its invested capital by $249,000, or 7.8%. Subsequent to our most recent annual testing date of April 30, 2010, the operating results of this reporting unit have performed at expected levels and no impairment indicators were deemed present at December 31, 2010. 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, 2010 assessment, a hypothetical reduction in the annual recurring revenue growth rate from a range of 5% to 6% to an annual recurring revenue growth rate of 3% to 4%, without a corresponding decrease in operating expenses, would result in an approximate $500,000 impairment charge. 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 dealers 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, and accelerating costs beyond management's control.

Discontinued Operations

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. We updated our forecasted cash flows of these reporting units during the second quarter of each year. These updates considered current economic conditions and trends, estimated future operating results for the launch of new products as well as non-product revenue growth, and anticipated future economic and regulatory conditions. Based on the results of our assessment of goodwill impairment at June 30, 2009 and June 30, 2010, the net book value of our Digital Media Marketing Segment reporting unit exceeded its fair value at both measurement dates. With the noted potential impairment at June 30, 2009 and 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 $5.9 million at June 30, 2009 and $2.8 million at June 30, 2010, which were less than the recorded value of goodwill at these respective dates. Accordingly, we recorded impairments to write down goodwill of this reporting unit by $1.0 million and $3.1 million at June 30, 2009 and June 30, 2010, respectively. 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 5. 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 accompanying 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.

The changes in the carrying amount of goodwill for the years ended December 31, 2010 and 2009 are as follows (in thousands):

	Digital Media Marketing Segment	Security Monitoring Services Reporting Unit	Total
Balance at December 31, 2008	$ 6,887	$ -	$ 6,887
Acquisition of CSSS, Inc.	-	1,982	1,982
Impairment loss	(1,000)	-	(1,000)
Balance at December 31, 2009	$ 5,887	$ 1,982	$ 7,869
Impairment loss	(5,887)	-	$ (5,887)
Balance at December 31, 2010	$ -	$ 1,982	$ 1,982

7. Allowance for Doubtful Accounts

The changes in the allowance for doubtful accounts are summarized as follows:

	Year Ended December 31, 2010	2009
	(In thousands)	
Balance at beginning of year	$ 785	$ 760
Additions (charged to expense)	170	571
Adjustments	13	(3)
Deductions	(406)	(543)
Balance at end of year	$ 562	$ 785

8. Inventories

Inventories, net of reserves for obsolete inventory, consist of the following:

	As of December 31, 2010	2009
	(In thousands)	
Finished goods	$ 2,517	$ 4,269
Work in process	74	77
Raw materials and supplies	682	886
	$ 3,273	$ 5,232

F-19

The changes in the reserve for obsolete inventory are summarized as follows:

	Year Ended December 31, 2010	2009
	(In thousands)	
Balance at beginning of year	$ 1,379	$ 1,463
Additions (charged to expense)	117	163
Deductions	(192)	(247)
Balance at end of year	$ 1,304	$ 1,379

9. Other Intangible Assets

	December 31, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Amortized intangible assets:				
Non-compete agreements	$ 148	$ 115	$ 515	$ 231
Customer and Product lists	2,417	1,398	2,572	1,156
Software	-	-	883	356
Patent Costs and Trademarks	97	39	106	16
Deferred financing costs	123	123	123	122
Total amortized intangible assets	2,785	1,675	4,199	1,881
Non-Amortized intangible assets:				
Trademarks - Security Segment	657	-	984	-
Trademarks - Digital Media Marketing Segment	-	-	478	-
Total Non-Amortized intangible assets	657	-	1,462	-
Total other intangible assets	$ 3,442	$ 1,675	$ 5,661	$ 1,881

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

2011	$150
2012	$135
2013	$127
2014	$86
2015	$63

Amortization expense of other intangible assets was approximately $442,000 and $468,000 for the years ended December 31, 2010 and 2009, respectively. The weighted average useful life of amortizing intangible assets was 4.3 years at December 31, 2010.

10. Long-Term Debt, Notes Payable, and Capital Lease Obligations

Long-term debt notes and capital lease obligations, including debt related to discontinued operations, totaling $3.5 million consist of the following:

	As of December 31, 2010	2009
	(In thousands)	
Promissory note payable to Merlin Partners, LP, interest rate of 12.0% due by April 28, 2011 as extended, collateralized by second liens on two car washes and a security interest in the trade name "Mace."	$ 1,288	$ -
Notes payable to Chase, interest rate of prime plus 0.75% (4.0% at December 31, 2010) payable in monthly principal payments totaling $14,951 plus interest maturing from April 2011 to March, 2013, collateralized by real property and equipment of certain of the Colonial Car Wash locations and Mace CS.	640	1,080
Note payable to Western National Bank, interest rate of 3.75%, (the interest rate is established every 5 years, based on prime rate plus 0.5%), due in monthly installments of $16,921 including interest, through October 2014, collateralized by real property and equipment in Lubbock, Texas.	697	862
Note payable to Chase, interest rate of prime plus 0.95% (4.2% at December 31, 2010) due in monthly fixed principal payments of $4,847 plus interest through May 2012, collateralized by real property and equipment of Mace Security Products, Inc. in Farmers Branch, Texas.	553	611
Note Payable to Chase, interest rate of prime plus 0.25% (3.5% at December 31, 2010) due in monthly installments of $3,132, including interest (adjusted annually) through February 2013, collateralized by real property and equipment of certain of the Colonial Car Wash locations.	148	181
Various capital lease obligations related to equipment at Mace CS, Inc. at various interest rates from 9.06% to 13.27%, due in monthly installments totaling $5,810 maturing from August 2012 through February, 2014, collateralized by equipment.	128	166
Note payable to Lyon Financial Services, interest rate of 7.99% due in monthly installments of $510 including interest, through September 2013, collateralized by a vehicle.	15	20
	3,469	2,920
Less: current portion, including debt related to discontinued operations	3,356	2,232
	$ 113	$ 688

Of the four car washes owned or leased by us at December 31, 2010, two properties and related equipment with a net book value totaling $3.7 million are secured by first mortgage loans totaling $1.4 million.

At December 31, 2010, we had borrowings, including borrowings related to discontinued operations, of approximately $3.5 million, substantially all of which are secured by mortgages against certain of our real property. Of such borrowings, approximately $3.4 million, including $2.0 million of debt included in liabilities related to assets held for sale, is reported as current as it is due or expected to be repaid in less than twelve months from December 31, 2010.

The Company funded a portion of the payment to Mr. Paolino by borrowing $1.35 million from Merlin Partners, LP (“Merlin”). The loan was payable in two installments of $675,000 each upon the closing of each of two car washes that are under agreements of sale. The Company make a payment of $675,000 to Merlin upon the sale of the Lubbock, Texas car wash on March 8, 2011 and expects to pay the remaining balance plus accrued interest Merlin from the proceeds generated by the sale of Dallas, Texas area car wash under an agreement of sale and expected to close in the second quarter of 2011. The loan which had an original maturity date of March 28, 2011 was extended to April 28, 2011. Merlin is a fund managed by Ancora Advisors, a subsidiary of the Ancora Group. Richard Barone, a Company director, is Chairman of the Ancora Group. The loan bears interest at a rate of 12% per annum, and is secured by second liens on the two car washes and a security interest in the trade name “Mace”. As part of the consideration for the financing, Merlin was also granted a Common Stock Purchase Warrant (the “Warrant”) to purchase up to 314,715 shares of the Company’s common stock at an exercise price of $0.20 per share, expiring December 28, 2015. The Warrant contains anti-dilution provisions providing that Merlin will receive additional warrants exercisable into 2% of any common stock of the Company issued by the Company through December 28, 2011. The exercise price of the Warrant will be adjusted lower to equal the stock issuance price of any stock issued through December 28, 2011 at a price below $0.20. The warrants were accounted for under the equity method with the Black-Scholes fair value of the warrants of $63,274 recorded as a discount to the $1.35 million Merlin loan and as additional paid-in capital. The discount will be charged to interest expense over the three month maturity period of the loan with an offsetting credit to the loan balance.

We have two letters of credit outstanding at December 31, 2010, totaling $308,000 as collateral relating to workers’ compensation insurance policies. We maintain a $500,000 revolving credit facility to provide financing for additional electronic surveillance product inventory purchases and for commercial letters of credit. There were five commercial letters of credit outstanding for inventory purchase under the revolving credit facility at December 31, 2010 totaling $399,000.

Maturities of long-term debt and capital lease obligations including debt related to discontinued operations, are as follows: 2011 - $2,223; 2012 - $801; 2013 - $285; and 2014 - $160.

11. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	As of December 31, 2010	As of December 31, 2009
Accrued compensation	$ 235	$ 302
Accrued acquisition consideration	951	766
Other	1,719	1,960
	$ 2,905	$ 3,028

F-22

12. Interest Expense, net

Interest expense, net of interest income consists of the following (in thousands):

	Year Ended December 31, 2010	Year Ended December 31, 2009
Interest expense	$ (65)	$ (51)
Interest income	14	44
	$ (51)	$ (7)

13. Other Income

Other income consists of the following (in thousands):

	Year Ended December 31, 2010	Year Ended December 31, 2009
Investment income	$ 1	$ -
Rental income	4	-
	$ 5	$ -

14. Stock Option Plans

During September 1993, the Company adopted the 1993 Stock Option Plan (the "1993 Plan"). The 1993 Plan provides for the issuance of up to 630,000 shares of common stock upon exercise of the options. The Company has reserved 630,000 shares of common stock to satisfy the requirements of the 1993 Plan. The options are non-qualified stock options and are not transferable by the recipient. The 1993 Plan is administered by the Compensation Committee (the "Committee") of the Board of Directors, which may grant options to employees, directors and consultants to the Company. The term of each option may not exceed fifteen years from the date of grant. Options are exercisable over either a 10 or 15 year period and exercise prices are not less than the market value of the shares on the date of grant.

In December 1999, the Company's stockholders approved the 1999 Stock Option Plan (the "1999 Plan") providing for the granting of incentive stock options or nonqualified stock options to directors, officers, or employees of the Company. Under the 1999 Plan, 15,000,000 shares of common stock are reserved for issuance. Incentive stock options and nonqualified options have terms which are determined by the Committee with exercise prices not less than the market value of the shares on the date of grant. The options generally expire ten years from the date of grant and are exercisable based upon graduated vesting schedules as determined by the Committee.

As of December 31, 2010, 3,152,374 options have been granted under the 1993 and 1999 Plans including 3,141,874 nonqualified stock options.

Activity with respect to these plans is as follows:

	2010		2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding beginning of period	3,205,208	$ 2.18	3,362,999	$ 3.22
Options granted	130,000	$ 0.74	433,000	$ 0.84
Options exercised	-	$ -	-	$ -
Options forfeited	(80,333)	$ 1.14	(183,835)	$ 1.71
Options expired	(102,501)	$ 4.58	(406,956)	$ 9.52
Options outstanding end of period	3,152,374	$ 2.07	3,205,208	$ 2.18
Options exercisable	2,873,708		2,795,209	
Shares available for granting of options	3,867,788		3,814,954	

Stock options outstanding at December 31, 2010 under both plans are summarized as follows:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Number Exercisable	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price
$0.58-$0.85	239,000	5.4	$ 0.75	158,667	8.0	$ 0.79
$0.90-$1.32	808,334	3.1	$ 1.16	616,667	4.1	$ 1.22
$1.38-$2.06	776,792	5.1	$ 1.60	770,126	5.2	$ 1.60
$2.08-$3.10	1,007,915	4.5	$ 2.60	1,007,915	4.5	$ 2.60
$3.18-$4.45	79,833	3.5	$ 4.30	79,833	3.5	$ 4.30
$5.00-$5.60	240,500	3.8	$ 5.31	240,500	3.8	$ 5.31

During 2010, the Company granted a total of 130,000 stock options at a weighted average fair value of $0.44. Also, during the year ended December 31, 2010, a total of 181,000 shares vested at a weighted average fair value of $1.00. As of December 31, 2010, there are a total of 279,000 options that remain non-vested at a weighted average fair value of $0.88.

In 2004, the Company issued warrants to purchase a total of 383,000 shares of the Company's common stock at a weighted average price of $6.65 per share which expired in 2009.

In 2010, the Company issued warrants to purchase a total of 314,715 shares of the Company's stock at an exercise price of $0.20 per share in connection with a Promissory Note with Merlin Partners, LP. The warrants were accounted for under the equity method at a Black-Scholes' fair value of $.20 per share or a total value of $63,274. No warrants to purchase common stock related to the note have been exercised through December 31, 2010. These warrants were issued with an expiration date of December 28, 2015.

During the exercise period, the Company will reserve a sufficient number of shares of its common stock to provide for the exercise of the rights represented by option holders.

15. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	As of December 31,	
	2010	2009
	(In thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	$ 268	$ 447
Inventories	467	436
Net operating loss carryforwards	19,851	14,249
Deferred revenue	3	7
Car damage reserve	1	7
Federal tax credit	5	53
Vesting stock options	1,354	1,324
Other, net	37	111
Total deferred tax assets	21,986	16,634
Valuation allowance for deferred tax assets	(22,234)	(18,421)
Deferred tax liability after valuation allowance	(248)	(1,787)
Deferred tax liabilities:		
Property, equipment and intangibles	248	1,787
Net deferred tax assets	$ -	$ -

At December 31, 2010, the Company had U.S. federal net operating loss carryforwards (“NOLs”) of approximately $51.3 million. The U.S. federal net operating loss carryforwards expire as follows:

Year of Expiration	Amount
(In thousands)	
2011	$ 625
2012	1,530
2018	1,393
2019	4,507
2020	3,241
2021	1,584
2022	2,797
2023	4,114
2024	5
2025	934
2026	6,823
2027	15
2028	2,489
2029	6,078
2030	15,172
	$ 51,307

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 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. Utilization of our net operating loss and tax credit carryforwards may be subject to annual limitations due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss or tax credits before utilization. The Company increased its valuation allowance against deferred tax assets by $3.8 million in 2010 and $3.4 million in 2009 with a total valuation allowance of $22.2 million at December 31, 2010 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 in its fiscal year ended December 31, 2010, and the uncertainty of and the ultimate extent of growth in the Company's Security Segment.

The Company follows the appropriate accounting pronouncements which prescribe a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on recognition, classification, interest and penalties, disclosure and transition. At December 31, 2010, the Company did not have any significant unrecognized tax benefits. The total amount of interest and penalties recognized in the statements of operations for each of the years in the three-year period ended December 31, 2010 was insignificant and when incurred is reported as interest expense.

The components of income tax expense (benefit) are:

	Year Ended December 31, 2010	2009
	(In thousands)	
Current (principally state taxes)	$ 30	$ -

Deferred		-		-
Total income tax expense (benefit)	$	30	$	-

F-26

The significant components of deferred income tax expense (benefit) attributed to the loss for the years ended December 31, 2010 and 2009, are as follows:

	Year Ended December 31, 2010	2009
	(In thousands)	
Deferred tax (benefit) expense	$ 1,789	$ (993)
Loss carryforward	(5,602)	(2,396)
Valuation allowance for deferred tax assets	3,813	3,389
	$ -	$ -

A reconciliation of income tax benefit computed at the U.S. federal statutory tax rates to total income tax expense is as follows:

	Year Ended December 31, 2010	2009
	(In thousands)	
Tax at U.S. federal statutory rate	$ (6,073)	$ (3,833)
State taxes, net of federal benefit	26	26
Nondeductible costs and other acquisition accounting adjustments	2,312	418
Realization of federal tax credit	(48)	-
Valuation allowance for deferred tax assets	3,813	3,389
Total income tax expense	$ 30	$ -

F-27

16. Loss Per Share

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

	Year Ended December 31, 2010	2009
Numerator (In Thousands):		
Net loss	$ (18,098)	$ (10,951)
Denominator:		
Denominator for basic loss per share - weighted average shares	15,749,465	16,202,254
Dilutive effect of options and warrants	-	-
Denominator for diluted loss per share - weighted average shares	15,749,465	16,202,254
Basic loss per share:		
Net loss	$ (1.15)	$ (0.68)
Diluted loss per share:		
Net loss	$ (1.15)	$ (0.68)

The dilutive effect of options and warrants of 6,370 and 9,811, at December 31, 2010 and 2009, respectively, have not been included in the calculation of diluted earnings per share because they are anti-dilutive.

17. Concentration of Credit Risk

The Company maintains its cash accounts in high quality financial institutions. At times, these balances may exceed insured amounts.

18. Commitments and Contingencies

The Company and its former Chief Executive Officer, Louis D. Paolino, Jr., have settled the various legal actions they had filed against each other. The settlement was entered into on October 26, 2010. As part of the settlement, the Company paid Mr. Paolino $2,300,000 on November 1, 2010 and the additional $2,310,000 on December 29, 2010 (the "Second Payment"). With Mace's final payment under the Settlement Agreement, all legal actions between Mr. Paolino and the Company have been dismissed with prejudice and mutual releases between the Company and Mr. Paolino became effective. As previously disclosed in the Company's filings under the 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"). The Arbitration Awards were confirmed on October 8, 2010 by the Court of Common Pleas of Philadelphia County. As of the quarter ended March 31, 2010, the Company recorded an accrual of $4,500,000 million for the payment of the Arbitration Awards, increased to $4,600,000 in the quarter ended June 30, 2010. The Court also ruled that Mr. Paolino had until December 8, 2010 to exercise 1,769,682 stock options which were cancelled by the Company upon Mr. Paolino's termination. These stock options were not exercised by Mr. Paolino by December 8, 2010 and accordingly expired and became null and void.

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

The United States Attorney for the District of Vermont (the "U.S. Attorney") conducted an investigation of the Company relating to possible violations of the Resource Conservation and Recovery Act ("RCRA") at the Company's Bennington, Vermont location. On November 16, 2010, the U.S. Attorney filed a one count indictment charging 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). Mr. Goodrich is the President of Mace Personal Defense, Inc., the Company's defense spray division located in Bennington, Vermont. The Company has resolved the indictment through a Plea Agreement entered into between the Company's subsidiary, Mace Personal Defense, Inc. and the U.S. Attorney. The Plea Agreement was made under Fed. R. Crim. P. 11(c)(1)(C), and provides in part, for (i) Mace Personal Defense, Inc., to plead guilty to one count of violating 42 U.S.C. § 6928(d)(2)(A) (Storage of Hazardous Waste Without a Permit); (ii) Mace Personal Defense, Inc. to pay a fine of $100,000 (the "Fine") and a court assessment of $400, the Fine to be paid $34,000 on sentencing, and two additional installments of $33,000 each, at six months and twelve months from January 4, 2011; (iii) the Company to guarantee the payment of the Fine; (iv) the United States to dismiss the indictment against the Company at time of sentencing of Mace Personal Defense, Inc.; and (v) the United States not to prosecute Mace Personal Defense, Inc. (excluding the guilty plea) or the Company for any criminal offenses known to the United States Attorney's Office of Vermont as of the date of signing of the Plea Agreement committed by the Company or Mace Personal Defense, Inc. in the District of Vermont relative to the storage, shipment, handling or disposal of hazardous waste, including any associated record keeping or reporting offenses. The Plea Agreement is not final until it is accepted by the Court. A hearing date for sentencing has been scheduled for May 26, 2011. In addition to the Company incurring $83,000 in legal expenses in 2010 relating to this matter, the Company has recorded an accrual of $100,000 at December 31, 2010 as a result of its agreement to pay a $100,000 Fine as part of the Plea Agreement.

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.

19. Asset Impairment Charges

Management periodically reviews 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. Assets classified as held for sale are measured at the lower of carrying value or fair value, net of costs to sell.

Continuing Operations

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 June 30, 2009, December 31, 2009, June 30, 2010, and December 31, 2010. We recorded an impairment charge to trademarks of approximately $80,000 and an impairment charge of $142,000 to customer lists, both principally related to our consumer direct electronic surveillance operations as of June 30, 2009 and an impairment charge of $30,000 for trademarks related to our high end digital and machine vision cameras and professional imaging component operations at December 31, 2009. With continuing deterioration in 2010, we recorded an additional impairment charge of $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.

In the fourth quarter of 2008, we consolidated the inventory in our Fort Lauderdale, Florida warehouse into our Farmers Branch, Texas facility. Certain of our administrative and sale staff of our Security Segment's electronic surveillance products division remain in the Fort Lauderdale, Florida building, which we listed for sale with a real estate broker. We performed an updated market evaluation of this property, listing the facility for sale at a price of $1,950,000. We recorded an impairment charge of $275,000 related to this property at December 31, 2008, and additional impairment charges totaling $210,000 in 2009 to write-down the property to our estimate of net realizable value based on updated market valuations of the property. On December 4, 2009, the Company sold the Fort Lauderdale, Florida building, subject to an Agreement of Sale entered into on October 5, 2009, and recorded a loss of $107,000 in the fourth quarter of 2009 after closing costs and broker commissions.

Discontinued Operations

As noted in Note 4. Business Acquisitions and Divestitures, in the accompanying financial statements, the agreements of sale related to the three car washes the Company owned in Austin, Texas were amended to modify the sale price to $8.0 million. This amended sale price, less costs to sell, was estimated to result in a loss upon disposal of approximately $175,000. Accordingly, an impairment loss of $175,000 was recorded as of September 30, 2009 and included in the results from discounted operations in the accompanying consolidated statement of operations. The sale of the Austin, Texas car washes was completed on November 30, 2009. 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 at March 31, 2010. Finally, 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. We have determined that, due to further reductions in car wash volumes at these sites resulting from increased competition and a deterioration in demographic in the immediate geographic areas of these sites, current economic pressures, along with current data utilized to estimate the fair value of these car wash facilities, future expected cash flows would not be sufficient to recover their carrying values.

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. We updated our forecasted cash flows of these reporting units during the second quarter of each year. These updates considered current economic conditions and trends, estimated future operating results for the launch of new products as well as non-product revenue growth, and anticipated future economic and regulatory conditions. Based on the results of our assessment of goodwill impairment at June 30, 2009 and June 30, 2010, the net book value of our Digital Media Marketing Segment reporting unit exceeded its fair value at both measurement dates. With the noted potential impairment at June 30, 2009 and 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 $5.9 million at June 30, 2009 and $2.8 million at June 30, 2010, which were less than the recorded value of goodwill at these respective dates. Accordingly, we recorded impairments to write down goodwill of this reporting unit by $1.0 million and $3.1 million at June 30, 2009 and June 30, 2010, respectively. 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 5. 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 accompanying 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.

20. Related Party Transactions

The Company's Security Segment leases manufacturing and office space under a lease between Vermont Mill and the Company. The lease, as extended, expires on November 14, 2011. Vermont Mill is controlled by Jon E. Goodrich, a former director and current employee of the Company. The original lease was entered into in November 1999 for a five year term. In November 2004, the Company exercised an option to continue the lease through November 2009 at a rate of $10,576 per month. The Company amended the lease in 2008 to occupy additional space for an additional $200 per month. The Company also leased from November 2008 to May 2009, on a month-to-month basis, approximately 3,000 square feet of temporary inventory storage space at a monthly cost of $1,200. In September 2009, the Company and Vermont Mill extended the term of the lease to November 14, 2010 at a monthly rate of $10,776 per month and modified the square footage rented to 33,476 square feet. The Company entered into a Lease Extension Agreement on December 20, 2010 to extend the lease through November 14, 2011 at a monthly rate of $11,315 and to provide an option to further extend the lease to May 14, 2012 at the same monthly rate. Rent expense under this lease was $129,857 and $135,318 for the years ended December 31, 2010 and 2009, respectively.

The Company funded a portion of the payment to Mr. Paolino by borrowing $1.35 million from Merlin Partners, LP ("Merlin"). The loan which had an original maturity date of March 28, 2011 was extended to April 28, 2011. The loan was payable in two installments of $675,000 each upon the closing of each of two car washes that were under agreements of sale at December 31, 2010. The Company made a payment of $675,000 to Merlin upon the sale of the Lubbock, Texas car wash on March 8, 2011. The Company expects to pay the remaining balance owed plus accrued interest from the proceeds generated by the sale of a Dallas, Texas area car wash that is under an agreement of sale and expected to close in the second quarter of 2011. Merlin is a fund managed by Ancora Advisors, a subsidiary of the Ancora Group. Richard Barone, a Company director, is Chairman of the Ancora Group. The loan bears interest at a rate of 12% per annum, and is secured by second liens on the Dallas, Texas area car wash and a security interest in the trade name "Mace". As part of the consideration for the financing, Merlin was also granted a Common Stock Purchase Warrant (the "Warrant") to purchase up to 314,715 shares of the Company's common stock at an exercise price of $0.20 per share, expiring December 28, 2015. The Warrant contains anti-dilution provisions providing that Merlin will receive additional warrants exercisable into 2% of any common stock of the Company issued by the Company through December 28, 2011. The exercise price of the Warrant will be adjusted lower to equal the stock issuance price of any stock issued through December 28, 2011 at a price below $0.20.

21. Subsequent Events

On March 8, 2011, the Company completed the sale of its remaining car wash it owned in Lubbock, Texas for a sale price of $1.7 million. The net book value of this car wash was approximately $1.7 million. The cash proceeds of the sale were approximately $300,000 net of payment of the related mortgage for $670,000, a payment of $675,000 towards the $1.35 million promissory note with Merlin, and closing costs. The sale resulted in a net loss of approximately $54,000 after customary closing costs and broker commissions.

On March 25, 2011, the Company and Ancora executed a Placement Agent and Dealer-Manager Agreement, under which Ancora will act as the placement agent for the planned Rights Offering approved by the Company's Board of Directors on December 23, 2010. The Company also entered into a Securities Purchase Agreement on March 25, 2011 with Merlin Partners, LP, a hedge fund which is under common control with Ancora. In accordance with the Securities Purchase Agreement, Merlin and up to three assignees of Merlin, will purchase $4,000,000 of the Company's common stock, valued at the per share exercise price used in the Rights Offering at the conclusion of the Rights Offering.

22. Selected Quarterly Financial Information (In thousands, except per share information) (Unaudited)

Year Ended December 31, 2010

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Revenues	$ 4,267	$ 4,353	$ 4,727	$ 5,048	$ 18,395
Gross profit	$ 1,251	$ 1,259	$ 1,460	$ 1,551	$ 5,521
Loss from continuing operations	$ (6,276)	$ (1,378)	$ (974)	$ (1,172)	$ (9,800)
Loss from discontinued operations	$ (539)	$ (3,509)	$ (3,932)	$ (318)	$ (8,298)
Net loss	$ (6,815)	$ (4,887)	$ (4,906)	$ (1,490)	$ (18,098)
Diluted loss per share:					
Continuing operations	$ (0.40)	$ (0.09)	$ (0.06)	$ (0.07)	$ (0.62)
Discontinued operations	$ (0.03)	$ (0.22)	$ (0.25)	$ (0.03)	$ (0.53)
Net loss	$ (0.43)	$ (0.31)	$ (0.31)	$ (0.10)	$ (1.15)

Year Ended December 31, 2009

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Revenues	$ 4,177	$ 4,458	$ 4,821	$ 5,135	$ 18,591
Gross profit	$ 1,235	$ 1,273	$ 1,473	$ 1,612	$ 5,593
Loss from continuing operations	$ (1,680)	$ (2,538)	$ (1,890)	$ (2,026)	$ (8,134)
Income(loss) from discontinued operations	$ 82	$ (794)	$ (468)	$ (1,637)	$ (2,817)
Net loss	$ (1,598)	$ (3,332)	$ (2,358)	$ (3,663)	$ (10,951)
Diluted loss per share:					
Continuing operations	$ (0.10)	$ (0.16)	$ (0.12)	$ (0.12)	$ (0.50)
Discontinued operations	$ -	$ (0.04)	$ (0.03)	$ (0.11)	$ (0.18)
Net loss	$ (0.10)	$ (0.20)	$ (0.15)	$ (0.23)	$ (0.68)

All quarters have been restated to reflect our car wash segment and the digital media marketing segment as discontinued operations, consistent with our presentation at December 31, 2010.

EXHIBIT INDEX

Exhibit No.	Description
11	Statement Regarding Computation of Per Share Earnings.
21	Subsidiaries of the Company.
23.1	Consent of Grant Thornton LLP.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
10.31	Promissory Term Note Agreement dated December 28, 2010, between the Company and Merlin Partners, LP in the amount of $1,350,000 and related Security Agreement and Common Stock Purchase Warrant.
10.32	Line of Credit Note in the amount of $500,000 and related Amendment to Credit Agreement dated December 17, 2010 between the Company, its subsidiary, Mace Security Products, Inc., and JP Morgan Chase Bank N.A.
10.33	Securities Purchase Agreement dated March 25, 2011, between the Company and Merlin Partners, LP.
10.34	Placement Agent and Dealer-Manager Agreement dated March 25, 2011, between the Company and Ancora Securities, Inc.