

MACE SECURITY INTERNATIONAL INC  
Form 10-Q  
May 11, 2001

=====

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED MARCH 31, 2001                      COMMISSION FILE NO. 0-22810

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

DELAWARE  
(State or other jurisdiction of incorporation or organization)

03-0311630  
(I.R.S. Employer Identification No.)

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

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

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

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

As of May 8, 2001, there were 25,436,427 Shares of Registrant's Common Stock, par value \$.01 per share, outstanding.

=====

Mace Security International, Inc.

Form 10-Q  
Quarter Ended March 31, 2001

Contents

Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

	Page
PART I - FINANCIAL INFORMATION	
Item 1 - Financial Statements	
Consolidated Balance Sheets - March 31, 2001 (Unaudited) and December 31, 2000	2
Consolidated Statements of Operations for the three months ended March 31, 2001 and 2000 (Restated) (Unaudited)	4
Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2001 (Unaudited)	5
Consolidated Statements of Cash Flows for the three months ended March 31, 2001 and 2000 (Restated) (Unaudited)	6
Notes to Consolidated Financial Statements (Unaudited)	7
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	11
PART II - OTHER INFORMATION	
Item 5 - Other Information	19
Item 6 - Exhibits and Reports on Form 8-K	19

1

PART I - FINANCIAL INFORMATION  
Item 1 Financial Statements

Mace Security International, Inc.

Consolidated Balance Sheets

ASSETS	March 31, 2001 ----- (Unaudited)	December 31, 2000 -----
Current assets:		
Cash and cash equivalents	\$ 5,405,457	\$ 4,838,023
Accounts receivable, less allowance for doubtful accounts of \$265,202 and \$260,825 in 2001 and 2000, respectively	873,354	737,547
Inventory	2,161,946	2,256,477
Deferred income taxes	116,728	118,575
Prepaid expenses and other current assets	2,772,446	2,699,996
	-----	-----
Total current assets	11,329,931	10,650,618
Property and equipment:		

Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

Land	33,094,907	32,597,872
Buildings and leasehold improvements	36,541,607	36,739,752
Machinery and equipment	8,425,955	8,223,801
Furniture and fixtures	421,736	257,549
	-----	-----
Total property and equipment	78,484,205	77,818,974
Accumulated depreciation and amortization	(5,873,863)	(5,423,330)
	-----	-----
	72,610,342	72,395,644
Excess of cost over net assets of acquired businesses, net of accumulated amortization of \$1,362,523 and \$1,143,239 in 2001 and 2000, respectively	20,760,974	20,881,085
Other intangible assets, net of accumulated amortization of \$1,271,926 and \$1,223,702 in 2001 and 2000, respectively	1,096,708	1,142,485
Other assets	212,694	1,061,596
	-----	-----
Total assets	\$ 106,010,649	\$ 106,131,428
	=====	=====

See accompanying notes.

2

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2001	December 31, 2000
	-----	-----
	(Unaudited)	
Current liabilities:		
Current portion of long-term debt	\$ 6,330,917	\$ 6,264,630
Current portion of capital lease obligations	134,191	57,633
Accounts payable	2,687,419	2,821,752
Income taxes payable	160,223	190,127
Deferred revenue	179,358	315,743
Accrued expenses and other current liabilities	1,998,903	2,003,370
	-----	-----
Total current liabilities	11,491,011	11,653,255
Deferred income taxes	414,530	272,473
Long-term debt, net of current portion	29,620,836	30,094,300
Capital lease obligations, net of current portion	341,396	268,455
Other liabilities	890,625	965,625
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 25,491,344 and 25,480,590 in 2001 and 2000, respectively	254,913	254,806
Additional paid-in capital	69,978,008	69,905,062
Accumulated deficit	(6,980,670)	(7,282,548)
	-----	-----
Total stockholders' equity	63,252,251	62,877,320
	-----	-----

**Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q**

Total liabilities and stockholders' equity	\$ 106,010,649	\$ 106,131,428
	=====	=====

See accompanying notes.

3

Mace Security International, Inc.

Consolidated Statements of Income  
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
		(Restated)
<b>Revenues:</b>		
Car wash and detailing services	\$ 10,614,432	\$ 9,280,718
Lube and other automotive services	1,205,680	1,182,953
Fuel and merchandise sales	948,814	1,267,082
Operating agreements	60,000	29,481
	-----	-----
	12,828,926	11,760,234
<b>Cost of revenues:</b>		
Car wash and detailing services	7,325,904	6,257,480
Lube and other automotive services	898,498	884,074
Fuel and merchandise sales	855,884	1,083,723
	-----	-----
	9,080,286	8,225,277
Selling, general and administrative expenses	1,837,847	1,652,170
Depreciation and amortization	675,084	562,849
	-----	-----
Operating income	1,235,709	1,319,938
Interest expense, net	(818,581)	(712,954)
Other income	62,750	84,128
	-----	-----
Income from continuing operations before income taxes	479,878	691,112
Income tax expense	178,000	221,000
	-----	-----
Income from continuing operations	301,878	470,112
Loss from discontinued operations, net of \$89,000 applicable income tax benefit	-	(189,645)
	-----	-----
Net income	\$ 301,878	\$ 280,467
	=====	=====
<b>Basic income (loss) per share</b>		
From continuing operations	\$ 0.01	\$ 0.02
From discontinued operations	-	(0.01)
	-----	-----

Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

Total	\$	0.01	\$	0.01
	=====		=====	
Weighted average number of shares outstanding		25,485,313		23,175,411
		=====		=====
Diluted income (loss) per share				
From continuing operations	\$	0.01	\$	0.02
From discontinued operations		-		(0.01)
		-----		-----
Total	\$	0.01	\$	0.01
	=====		=====	
Weighted average number of shares outstanding		25,485,836		24,778,754
		=====		=====

See accompanying notes.

4

Mace Security International, Inc.

Consolidated Statement of Stockholders' Equity  
(Unaudited)

	Number of Common Shares	Par Value of Common Stock	Additional Paid-in Capital	Accumulated Deficit	To
	-----	-----	-----	-----	-----
Balance at December 31, 2000.....	25,480,590	\$ 254,806	\$ 69,905,062	\$ (7,282,548)	\$ 62,8
Common stock issued in purchase acquisitions.....	12,804	128	74,872		
Shares purchased and retired.....	(2,050)	(21)	(1,926)		
Net income.....				301,878	3
	-----	-----	-----	-----	-----
Balance at March 31, 2001.....	25,491,344	\$ 254,913	\$ 69,978,008	\$ (6,980,670)	\$ 63,2
	=====	=====	=====	=====	=====

See accompanying notes.

5

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

Three Months Ended  
March 31,

-----

Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

	2001	2000
	-----	-----
		(Restated)
Operating activities		
Income from continuing operations	\$ 301,878	\$ 470,112
Discontinued operations, net of income tax	-	(189,645)
	-----	-----
Net income	301,878	280,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	675,084	562,849
Provision for losses on receivables	-	12,361
Deferred income taxes	143,904	98,169
Non-cash expenses of discontinued operations	-	14,235
Changes in operating assets and liabilities:		
Accounts receivable	(71,520)	162,790
Inventory	35,512	(232,685)
Accounts payable	(181,778)	(439,391)
Deferred revenue	(136,385)	(191,610)
Accrued expenses	672	(209,976)
Income taxes	(29,904)	17,360
Prepaid expenses and other assets	43,176	1,342,267
	-----	-----
Net cash provided by operating activities	780,639	1,416,836
Investing activities		
Purchase of property and equipment	(247,346)	(284,024)
Proceeds from sale of property and equipment	466,049	-
Payments for intangibles	(2,447)	(249,928)
Deposits and other prepaid costs on future acquisitions	(6,836)	(101,438)
	-----	-----
Net cash provided by (used in) investing activities	209,420	(635,390)
Financing activities		
Proceeds from revolving line of credit, long term debt and capital lease obligations	-	950,000
Payments on revolving line of credit, long-term debt and capital lease obligations	(420,678)	(790,653)
Proceeds from issuance of common stock, net of offering costs	-	57,778
Payments to purchase stock	(1,947)	-
Net payments on note payable to shareholder	-	(2,927)
	-----	-----
Net cash (used in) provided by financing activities	(422,625)	214,198
	-----	-----
Net increase in cash and cash equivalents	567,434	995,644
Cash and cash equivalents at beginning of period	4,838,023	2,320,804
	-----	-----
Cash and cash equivalents at end of period	\$ 5,405,457	\$ 3,316,448
	=====	=====

See accompanying notes.

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

### 1. Basis of Presentation and Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of Mace Security International, Inc. and its wholly owned subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. These consolidated financial statements reflect all adjustments (consisting of normal recurring accruals), which in the opinion of management, are necessary for a fair presentation of results of operations for the interim periods presented. The results of operations for the three month period ended March 31, 2001 are not necessarily indicators of the operating results for the full year. The Company has restated previous financial information for the three months ended March 31, 2000 to reflect the discontinuance of Innovative Control Systems, Inc. ("ICS") on June 2, 2000. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These interim financial statements should be read in conjunction with the audited financial statements and notes contained in the Company's Annual Report on Form 10-KSB, as amended, for the year ended December 31, 2000.

### 2. Significant Accounting Policies

In June 1998, SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" was issued. Subsequent to this statement, SFAS No. 137 was issued, which amended the effective date of SFAS No. 133 to be all fiscal quarters of all fiscal years beginning after June 15, 2000. In June 2000, SFAS 138 was issued, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS 133". SFAS 133, as amended by SFAS 138, requires that all derivative instruments be recorded on the balance sheet at their respective fair values. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on the designation of the hedge transaction. The Company adopted SFAS 133, as amended by SFAS 138, in the first quarter of fiscal year 2001. Based on the Company's minimal use of derivatives at the current time, the adoption of this standard did not have a significant impact on earnings or financial position of the Company as of March 31, 2001.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), which addresses certain criteria for revenue recognition. SAB 101 outlines the criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. The Company implemented the applicable provisions of SAB 101 in the first quarter of fiscal year 2001. Management believes the Company's revenue recognition policies comply with the guidance contained in the SAB, and therefore, the Company's results of operations were not materially affected.

In May 2000, The Emerging Issues Task Force reached consensus opinions on Issue 00-14, "Accounting for Certain Sales Incentives (Issue 00-14)". Issue 00-14 pertains to the recognition, measurement, and income statement classification of certain sales incentives, including discounts, coupons, rebates, and free products or services received by the customer. The issue requires certain incentives to be classified as a reduction of revenue. Management believes the Company's revenue recording policies comply with the guidance contained in Issue 00-14, and therefore, the Company's results of operations were not materially affected.

### 3. Business Combinations

Since April 1, 1999, the Company has acquired 62 car care facilities and five truck wash facilities through the acquisition of 17 separate businesses

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

including: 43 full service facilities, one self service facility, 11 exterior only facilities and one lube center in Pennsylvania, New Jersey, Delaware, Texas, Florida and Arizona; six facilities were subsequently divested. The five full service truck wash facilities are located in Arizona, Indiana, Ohio and Texas.

Of the 17 car and truck wash acquisitions completed through September 30, 2000, 15 were accounted for using the purchase method of accounting. Accordingly, assets acquired and liabilities assumed have been recorded at their estimated fair values at the dates of acquisition and their results of operations are included in the accompanying consolidated statements of operations since the date of acquisition. The excess of purchase price over the estimated fair market value of identifiable net assets acquired is being amortized on a straight-line basis over twenty-five years from the date of acquisition. The purchase price allocations are based on preliminary estimates as of the acquisition dates and are finalized within one year from the date of acquisition.

On March 24, 2000, the Company, through a wholly owned subsidiary, acquired all of the truck wash related assets of Red Baron

7

Truck Washes, Inc. ("Red Baron") with a total of five operating locations in Arizona, Indiana, Ohio and Texas. Consideration consisted of 568,421 registered shares of common stock of the Company and the issuance of a secured \$1 million promissory note to the seller. The transaction has been accounted for using the purchase method of accounting.

On June 5, 2000, the Company, through a wholly owned subsidiary, acquired certain assets of Sparsupco, Inc. (the "Beneva Car Wash"). Consideration consisted of 130,712 shares of common stock of the Company and \$20,000 of cash. The Beneva Car Wash is located in Sarasota, Florida. The transaction has been accounted for using the purchase method of accounting.

On July 10, 2000, the Company, through a wholly owned subsidiary, completed the acquisition of substantially all the assets of Superstar Kyrene, a full service car wash in the Phoenix, Arizona area, in exchange for 56,521 unregistered shares of common stock of the Company, cash consideration of approximately \$824,000 and the assumption of approximately \$926,000 of debt. The transaction has been accounted for using the purchase method of accounting.

On July 26, 2000, the Company acquired, through a wholly owned subsidiary, substantially all of the assets of Blue Planet Car Wash ("Blue Planet"), a full service car wash in the Dallas, Texas area, in exchange for 250,008 unregistered shares of common stock, and the assumption of approximately \$1,554,000 of debt. This transaction has been accounted for using the purchase method of accounting.

#### 4. Operating Agreements

During the three months ended March 31, 2000, the Company managed one car wash location under an operating agreement, under which the Company was entitled to all profits generated from the operation of the location. Operating agreements generally arise from pending acquisitions that will be closed pending completion of certain conditions. The pretax result earned under the operating agreement is presented in the accompanying statements of operations as revenue from operating agreements net of all operating expenses. No locations were operated under operating agreements during the three months ended March 31, 2001.

The results of operations subject to operating agreements in the three months ended March 31, 2000 were as follows:



## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

	Three Months Ended March 31, 2000
	-----
Revenues	(In Thousands)
Car wash and detailing services	\$ 191
Lube and other automotive services	-
Fuel and merchandise sales	18
	-----
	209
Cost of revenues	
Car wash and detailing services	196
Lube and other automotive services	-
Fuel and merchandise sales	11
	-----
	207
Selling, general, and administrative expenses	13
Depreciation and amortization	-
	-----
Operating loss	\$ (11)
	=====

In addition to the above results, the Company is currently being paid \$20,000 per month, which started in February 2000, under a Management Agreement which allows Mark Sport, Inc., an entity controlled by Jon E. Goodrich, a director of the Company, to operate the Company's Security Products Division.

### 5. Discontinued Operations

On May 4, 2000, the Board of Directors of the Company approved a plan to sell its computer products and services subsidiary, ICS. Accordingly, the operating results of ICS have been segregated from continuing operations and reported on a comprehensive basis as a separate line item on the consolidated statement of operations entitled "Discontinued Operations". On June 2, 2000, the Company sold ICS in exchange for the return of 450,000 shares of common stock of the Company and \$295,500 of future goods and services from ICS. Revenues and loss from discontinued operations related to the discontinued ICS operations for the three months ended March 31, 2000 were \$358,233 and \$189,645, respectively.

### 6. Commitments and Contingencies

As disclosed in the Company's 1994 Form 10-KSB, on January 25, 1994 a suit was filed by Carmeta Gentles on her own behalf

8

and as a personal representative of the estate of Robert Gentles in Ontario Court (General Division), Ontario, Canada, claiming intentional or negligent manufacture and distribution of the Mark V Mace(R) brand defense spray unit and that its contents contributed to the suffering and death of Robert Gentles while in the Kingston Penitentiary in October 1993. The Company was added as a third party defendant on February 8, 1995. The plaintiff seeks five million dollars in damages. The Company forwarded this suit to its insurance carrier for defense. Based on discussions with the Company's counsel and insurance carrier, the Company does not anticipate that this claim will result in the payment of damages in excess of the Company's insurance coverage.

On December 13, 1999, the Company was named as a defendant in a suit filed in the state of New York by Janeen Johnson et. al. The litigation concerns a claim

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

that a self-defense spray manufactured by the Company and used by a law enforcement officer contributed to the suffering and death of Christopher Johnson. The Company forwarded the suit to its insurance carrier for defense. The Company does not anticipate that this claim will result in the payment of damages in excess of the Company's insurance coverage.

Although the Company is not aware of any substantiated claim of permanent personal injury from its products, the Company is aware of reports of incidents in which, among other things, defense sprays: have been mischievously or improperly used, in some cases by minors; have not been instantly effective; or have been ineffective against enraged or intoxicated individuals. Incidents of this type, or others, could give rise to product liability or other claims, or to claims that past or future advertising, packaging or other practices should be, or should have been, modified, or that regulation of products of this nature should be extended or changed.

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

Certain of the Company's executive officers have entered into employment agreements whereby they will be entitled to immediate vesting provisions of issued options should the officer be terminated upon a change in control of the Company. Additionally, the employment agreement of the Company's Chief Executive Officer, Louis D. Paolino, Jr., entitles Mr. Paolino to receive a fee of \$7,000,000 upon termination of employment under certain conditions including upon termination as a result of a change in control.

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.

### 7. Business Segments Information

The Company currently operates in the Car Care segment, supplying complete car care services (including wash, detailing, lube, and minor repairs), fuel, and merchandise sales and receives revenues under a Management Agreement related to the Company's previously operated Security Products segment. In the first quarter of 2000, the Company entered into a Management Agreement with Mark Sport, Inc., a Vermont corporation. Mark Sport, Inc. is controlled by Jon E. Goodrich, a director of the Company. The Management Agreement entitles Mark Sport, Inc. to operate the Company's Safety and Security Products Division and receive all profits or losses for a seven-month term beginning January 1, 2000. The Agreement was extended for two six month periods through July 31, 2001, as provided for in the original Management Agreement. In exchange, Mark Sport, Inc. pays the Company \$20,000 per month beginning February 2000 and continuing through the term of the Management Agreement as extended. Additionally, Mark Sport, Inc. must pay the Company an amount equal to the amortization and depreciation on the assets of the division at the end of the term of the Agreement. During the term of the Agreement, Mark Sport, Inc. must operate the division in substantially the same manner as it has been operated prior to the Management Agreement.

Additionally, during 1999 and through June 2, 2000, the Company operated in the computer hardware and software products and services segment through its subsidiary, ICS. ICS was sold on June 2, 2000 and accordingly has been classified as discontinued operations.

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

Financial information regarding the Car Care and Security Products segments is as follows:

	Car Care	Security Products
	-----	-----
	(In Thousands)	
Three months ended March 31, 2001		
Revenues from external customers	\$ 12,769	\$ 60
Intersegment revenues	-	-
Segment income	\$ 264	\$ 38
Segment assets	\$ 102,567	\$ 3,444
Three months ended March 31, 2000		
Revenues from external customers	\$ 11,720	\$ 40
Intersegment revenues	-	-
Segment income	\$ 443	\$ 27

### 8. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Such estimates include the Company's estimates of reserves such as the allowance for doubtful accounts receivable and inventory valuation allowances.

### 9. Income Taxes

The Company recorded a tax expense of \$178,000 for the three months ended March 31, 2001. Tax expense reflects the recording of income taxes at an effective rate of 37%. 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 the use of net operating loss carryforwards.

### 10. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended	
	3/31/01	3/31/00
	-----	-----
Numerator:		
Income from continuing operations.....	\$ 301,878	\$ 470,112
Loss from discontinued operations.....	-	(189,645)
Net income.....	\$ 301,878	\$ 280,467
	=====	=====
Denominator:		
Denominator for basic income (loss) per share - weighted average shares.....	25,485,313	23,175,411
Dilutive effect of options and warrants.....	523	1,603,343
	-----	-----

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

Denominator for diluted income (loss) per share - weighted average shares.....	25,485,836 =====	24,778,754 =====
Basic income (loss) per share:		
From continuing operations.....	\$ 0.01	\$ 0.02
From discontinued operations.....	-	(0.01)
	-----	-----
Total.....	\$ 0.01 =====	\$ 0.01 =====
Diluted income (loss) per share:		
From continuing operations.....	\$ 0.01	\$ 0.02
From discontinued operations.....	-	(0.01)
	-----	-----
Total.....	\$ 0.01 =====	\$ 0.01 =====

10

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

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

We need to raise additional capital. At March 31, 2001, we had negative working capital of approximately \$161,000. Additional capital will be needed if acquisitions of car washes or other businesses continue to be made. Our capital requirements also include working capital for daily operations and significant capital for equipment purchases. To the extent that we lack cash to meet our future capital needs, we will be required to raise additional funds through bank borrowings and additional equity and/or debt financing, which may result in significant increases in leverage and interest expense and/or

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

substantial dilution. If we are unable to raise additional capital, we will need to reduce substantially the scale of our operations and to curtail our business plan.

We have a history of losses, we have working capital deficits and we may incur continuing charges. We have reported net losses and working capital deficits in prior fiscal years and we have expended substantial funds for acquisitions and equipment. In connection with financing acquisitions and business growth, we anticipate that we will continue to incur significant debt and interest charges. Several of our debt agreements, as amended, contain certain affirmative and negative covenants and require the maintenance of certain levels of earnings before interest, taxes, depreciation, and amortization to debt service. If our operating earnings are not sufficient to maintain the required ratios, we would be in default of our loan agreements. In addition, we will recognize goodwill amortization charges in connection with our acquisitions that are accounted for under the "purchase" method of accounting. The amount of goodwill recognized is the amount by which the purchase price of a business exceeds the fair market value of the assets acquired. Goodwill is amortized over a period not to exceed 25 years depending on the business acquired, resulting in an annual non-cash charge to our earnings during that period. As we continue to acquire additional businesses, our financial position and results of operations may fluctuate significantly from period to period.

Our business plan poses risks for us. Our business objective is to develop and grow a full service, integrated car care business through some acquisitions and through the internal development of our car wash facilities. We have repositioned our company from a company involved primarily in the production of consumer defense products to a company that provides car wash and car care services. This strategy involves a number of risks, including:

- Risks associated with growth;
- Risks associated with acquisitions;
- Risks associated with the recruitment and development of management and operating personnel; and
- Risks associated with lack of experience in the car care service industries.

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

We have a limited operating history regarding our car wash and car care service businesses. Since July 1999, our main business has been the acquisition and operation of car wash and car care service facilities, which now accounts for substantially all of our revenues. Because of our relatively limited operating history with respect to these businesses, we cannot assure you that we will be able to operate them successfully.

11

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

Our stock price is volatile. Our common stock's market price has been and is likely to continue to be highly volatile. Factors like fluctuations in our quarterly revenues and operating results, our ongoing acquisition program, market conditions and economic conditions generally may impact significantly our common stock's market price. In addition, as we continue to acquire additional

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

car wash businesses, we may agree to issue common stock that will become available generally for resale and may have an impact on our common stock's market price.

The Company may get "delisted" from the Nasdaq National Market, which would restrict liquidity of the stock. On April 19, 2001, the Company was advised by Nasdaq that its common stock had failed to trade above one dollar for thirty consecutive business days, and was therefore not in compliance with Marketplace Rule 4450(a)(5) of the Nasdaq National Market. Nasdaq advised the Company that it had until July 18, 2001, to maintain a bid price of at least one dollar for ten consecutive business days or be delisted. The Company maintained a minimum bid price of at least one dollar for ten consecutive business days ending May 4, 2001. On May 11, 2001 the Company was advised by Nasdaq that it was in compliance with Marketplace Rule 4450(a)(5) and was not subject to being delisted.

If the Company's stock is delisted, the liquidity of its stock could be impaired, not only in the number of shares of the Company's stock which could be bought and sold, but also through delays in the timing of transactions, reduced numbers of security analysts' and the news media's coverage of the Company and lower prices for the Company's stock than might otherwise be obtained.

If the Company receives a delisting notice from Nasdaq, the Company's stock may be traded over-the-counter, more commonly known as OTC. OTC transactions involve risks in addition to those associated with transactions in securities traded on the Nasdaq National Market. OTC companies may have limited product lines, markets or financial resources. Many OTC stocks trade less frequently and in smaller volumes than Nasdaq-listed stocks. The values of these stocks may be more volatile than Nasdaq-listed stocks. If the Company's stock is traded in the OTC market and a market maker sponsors the Company, the Company may have the price of its stock electronically displayed on the OTC Bulletin Board, or OTCBB. However, if the Company lacks sufficient market maker support for display on the OTCBB, it must have its price published by the National Quotations Bureau LLP in a paper publication known as the "Pink Sheets". The marketability of the Company's stock will be even more limited if its price must be published on the "Pink Sheets".

Risks of Acquisitions. Our strategy to grow in part through acquisitions depends upon our ability to identify suitable acquisition candidates, and to consummate acquisitions on financially favorable terms. This strategy involves risks inherent in assessing acquisition candidates' values, strengths, weaknesses, risks and profitability and risks related to the financing, integration and operation of acquired businesses, including:

- i. adverse short-term effects on our reported operating results;
- ii. diversion of management's attention;
- iii. dependence on hiring, training and retaining key personnel; and
- iv. risks associated with unanticipated problems or latent liabilities.

We cannot assure you that acquisition opportunities will be available, that we will have access to the capital required to finance potential acquisitions, that we will continue to acquire businesses, or that any acquired business will be profitable.

We may not be able to integrate businesses we acquire and achieve operating efficiencies. Our future growth and profitability depend substantially on our ability to operate and integrate acquired businesses. Our strategy is to achieve economies of scale and brand-name recognition in part through acquisitions that increase our size. We cannot assure you that our efforts to integrate acquired operations will be effective or that we will realize expected results. Our failure to achieve any of these results could have a material

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

adverse effect on our business and results of operations.

We face potential liabilities associated with acquisitions of businesses. The businesses we acquire may have liabilities that we do not discover or may be unable to discover during our preacquisition investigations, including liabilities arising from environmental contamination or prior owners' non-compliance with environmental laws or other regulatory requirements, and for which we, as a successor owner or operator, may be responsible.

12

We face risks associated with our consumer safety products. We face claims of injury allegedly resulting from our defense sprays. We cannot assure you that our insurance coverage will be sufficient to cover any judgments won against us in these lawsuits. If our insurance coverage is exceeded, we will have to pay the excess liability directly. We are also aware of several claims that defense sprays used by law enforcement personnel resulted in deaths of prisoners and of suspects in custody. While we no longer sell defense sprays to law enforcement agencies, it is possible that the increasing use of defense sprays by the public could, in the future, lead to additional product liability claims.

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

Consumer demand for our car wash services is unpredictable. Our financial condition and results of operations will depend substantially on consumer demand for car wash services. Our business depends on consumers choosing to employ professional services to wash their cars rather than washing their cars themselves or not washing their cars at all. We cannot assure you that consumer demand for car wash services will increase as our business expands. Nor can we assure you that consumer demand will maintain its current level.

We must maintain our car wash equipment. Although we undertake to keep our car washing equipment in proper operating condition, the operating environment found in car washes results in frequent mechanical problems. If we fail to properly maintain the equipment, the car wash could become inoperable resulting in a loss of revenue to us from the inoperable location.

Our car wash and car services face governmental regulation. We are governed by federal, state and local laws and regulations, including environmental regulations, that regulate the operation of our car wash centers and other car services businesses. Car wash centers utilize cleaning agents and waxes in the washing process that are then discharged in waste water along with oils and fluids washed off of vehicles. Other car services, such as gasoline and lubrication, use of a number of oil derivatives and other regulated hazardous substances. As a result, we are governed by environmental laws and regulations dealing with, among other things:

- i. transportation, storage, presence, use, disposal and handling of hazardous materials and hazardous wastes;
- ii. discharge of stormwater; and
- iii. underground storage tanks.

If any of the previously mentioned substances were found on our property, however, including leased properties, or if we were found to be in violation of applicable laws and regulations, we could be responsible for clean-up costs,

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

property damage and fines or other penalties, any one of which could have a material adverse effect on our financial condition and results of operations.

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

Our operations are dependent substantially on the services of our executive officers. If we lose one or more of our executive officers, the loss could have a material adverse effect on our business and results of operations. We do not maintain key-man life insurance policies on our executive officers.

Our Preferred Stock may affect the rights of the holders of our common stock; it may also discourage another person to acquire control of Mace. Our Certificate of Incorporation authorizes the issuance of up to 10,000,000 shares of Preferred Stock. No shares of Preferred Stock are currently outstanding. It is not possible to state the precise effect of Preferred Stock upon the rights of the holders of our common stock until the Board of Directors determines the respective preferences, limitations and relative rights of the holders of one or more series or classes of the Preferred Stock. However, such effect might include: (i) reduction of the amount otherwise available for payment of dividends on Common Stock, to the extent dividends are payable on any issued shares of Preferred Stock, and restrictions on dividends on Common Stock if dividends on the Preferred Stock are in arrears, (ii) dilution of the voting power of the Common Stock to the extent that the Preferred Stock has voting rights,

13

and (iii) the holders of Common Stock not being entitled to share in the Company's assets upon liquidation until satisfaction of any liquidation preference granted to the Preferred Stock.

The Preferred Stock may be viewed as having the effect of discouraging an unsolicited attempt by another person to acquire control of Mace and may therefore have an anti-takeover effect. Issuances of authorized preferred shares can be implemented, and have been implemented by some companies in recent years with voting or conversion privileges intended to make an acquisition of the company more difficult or costly. Such an issuance could discourage or limit the stockholders' participation in certain types of transactions that might be proposed (such as a tender offer), whether or not such transactions were favored by the majority of the stockholders, and could enhance the ability of officers and directors to retain their positions.

Some provisions of Delaware law may prevent us from being acquired. We are governed by Section 203 of the Delaware General Corporation Law, which prohibits a publicly held Delaware corporation from engaging in a "business combination" with a person who is an "interested stockholder" for a period of three (3) years, unless approved in a prescribed manner. This provision of Delaware law may affect our ability to merge with, or to engage in other similar activities with, some other companies. This means that we may be a less attractive target



## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

to a potential acquirer who otherwise may be willing to pay a price for our common stock above its market price.

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

There are additional risks set forth in the incorporated documents. In addition to the risk factors set forth above, you should review the financial statements and exhibits incorporated into this report. Such documents may contain, in certain instances and from time to time, additional and supplemental information relating to the risks set forth above and/or additional risks to be considered by you, including, without limitation, information relating to losses experienced by Mace in particular historical periods, working capital deficits of Mace at particular dates, information relating to pending and recently completed acquisitions, descriptions of new or changed federal or state regulations applicable to Mace, data relating to remediation and the actions taken by Mace, and estimates at various times of Mace's potential liabilities for compliance with environmental laws or in connection with pending litigation.

Results of Operations for the Three Months Ended March 31, 2001 Compared to the Three Months Ended March 31, 2000

### Revenues

#### Car Care Services

The Company owns full service, exterior only and self-service car wash locations in New Jersey, Pennsylvania, Delaware, Texas, Florida and Arizona, as well as truck washes in Arizona, Indiana, Ohio and Texas. The Company earns revenues from washing and detailing automobiles; performing oil and lubrication services, minor auto repairs, and state inspections; selling fuel; and selling merchandise through convenience stores within the car wash facilities. Revenues generated for the three months ended March 31, 2001 for the car care segment were comprised of approximately 83% car wash and detailing, 9% lube and other automotive services, 8% fuel and merchandise.

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

Weather can have a significant impact on volume at the individual locations. However, the Company believes that the geographic diversity of its operating locations minimizes weather-related influence on its volume.

14

#### Security Products

The Company is currently being paid \$20,000 per month under a Management Agreement which allows Mark Sport, Inc. an entity controlled by Jon E. Goodrich, a director of the Company, to operate the Security Products segment. Total revenues under the Management Agreement were \$60,000 for the three months ending March 31, 2001.

#### Computer Products and Services

The Company's computer products and services subsidiary, ICS, was sold in June of 2000 and has accordingly been reflected as discontinued operations in 2000.

### Cost of Revenues

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

### Car Care Services

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

### Selling, General and Administrative Expenses

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

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

At March 31, 2001, capitalized costs related directly to proposed acquisitions that were not yet consummated were approximately \$54,000. The Company periodically reviews the future likelihood of these acquisitions and records appropriate provisions against capitalized costs associated with projects that are not likely to be completed.

### Depreciation and Amortization

Depreciation and amortization consists primarily of depreciation of buildings and equipment, and amortization of goodwill and other intangible assets. Buildings and equipment are depreciated over the estimated useful lives of the assets using the straight-line method. Goodwill is amortized on a straight-line basis over 25 years. Other intangibles are amortized over their useful lives ranging from three to twenty years, using the straight line method.

### Other Income and Expense

Other income and expense includes gains and losses on the sale of equipment and rental income received on renting out excess space at the Company's car wash facilities.

15

### 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 the use of net operating loss carryforwards.

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

Three Months Ended March 31,	
2001	2000
	(Restated)

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

Revenues	100.0%	100.0%
Cost of revenues	70.8	69.9
Selling, general and administrative expenses	14.3	14.1
Depreciation and amortization	5.3	4.8
-----		
Operating income	9.6	11.2
Interest expense, net	(6.3)	(6.0)
Other income	0.5	0.7
-----		
Income from continuing operations before income taxes	3.8	5.9
Income tax expense	1.4	1.9
-----		
Income from continuing operations	2.4	4.0
Loss from discontinued operations	-	(1.6)
-----		
Net income	2.4%	2.4%
=====		

### Revenues

#### Car Care Services

Revenues for the three months ended March 31, 2001 were \$12.8 million as compared to \$11.7 million for the three months ended March 31, 2000, an increase of \$1.1 million or 8.9%. Of the \$1.1 million increase, approximately \$1.4 million was from wash and detail services, which was partially offset by a decrease of approximately \$350,000 in fuel and merchandise sales. Of the \$12.8 million of revenues for the three months ended March 31, 2001, \$10.6 million or 83% was generated from car wash and detailing, \$1.2 million or 9% from lube and other automotive services, and \$1.0 million or 8% from fuel and merchandise sales. Of the \$11.7 million of revenues for the three months ended March 31, 2000, \$9.3 million or 79% was generated from car wash and detailing, \$1.2 million or 10% from lube and other automotive services, and \$1.2 million or 11% from fuel and merchandise sales. The increase in total revenue in 2001 is attributable to (1) revenues earned at a car wash and five truck washes the Company acquired subsequent to the first quarter of 2000, and (2) internal growth through a focus on selling detailing and additional on-line services which increased the average wash and detailing revenue per car by 12% or \$1.45 to \$13.34 in the quarter ended March 2001 from \$11.89 per car in the first quarter of 2000.

During the three months ended March 31, 2000, the Company managed one car wash location under an operating agreement, under which the Company was entitled to all profits generated from the operation of that location. The income earned under the agreement is shown as revenue net of related operating expenses. Gross revenue generated by the location under an operating agreement for the three months ended March 31, 2000 was \$209,000. No locations were operated under operating agreements during the three months ended March 31, 2001.

#### Security Products

During the three months ended March 31, 2001, pursuant to a Management Agreement, the Company was paid \$60,000. This amount is included under revenues from operating agreements. The Company was paid \$40,000 under this Agreement for the three months ended March 31, 2000.

### Cost of Revenues

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

### Car Care Services

Cost of revenues for the three months ended March 31, 2001 were \$9.1 million or 71% of revenues with car washing and detailing costs at 69% of respective revenues, lube and other automotive services costs at 75% of respective revenues, and fuel and merchandise costs at 90% of respective revenues.

Cost of revenues for the three months ended March 31, 2000 were \$8.2 million, or 70% of revenues. However, because income earned under operating agreements is shown as a net figure in revenue, already reduced by cost of revenues, the cost of revenue percentage for this segment is better analyzed on a gross method. With revenues and cost of revenues for locations under operating agreement shown on a gross basis, total cost of revenues for the three months ended March 31, 2000 was \$8.4 million or 71% of revenues for this segment, with car wash and detailing costs at 68% of respective revenues, lube and other automotive services costs at 75% of respective revenues, and fuel and merchandise costs at 85% of respective revenues. Although the Company increased its average wash and detailing revenues per car by \$1.45 or 12% since the first quarter of 2000, the Company's current margins were consistent with the prior year due to a 5.1% reduction in car wash volume due largely to inclement weather in the current year. In the March 2001 quarter, approximately 59% of the Company's operating days within its markets were rainy or cloudy as compared to 38% in the March 2000 quarter.

### Security Products

During 2000 and 2001, pursuant to a Management Agreement, no costs were incurred by the Company.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2001 were \$1.84 million compared to \$1.65 million for the same period in 2000, an increase of approximately \$190,000 or 11%. SG&A costs as a percent of revenues were 14.3% for the three months ended March 31, 2001 as compared to 14.1% in the first quarter of 2000. Approximately one-third of this increase is as a result of SG&A costs incurred at the six additional locations acquired since the first quarter of 2000. The remainder of the increase is primarily the result of increases in advertising, insurance costs and business taxes. This increase was partially offset by a reduction of administrative costs as a result of efficiencies gained through consolidating all regional back office activity into the Mt. Laurel, New Jersey corporate office.

### Depreciation and Amortization

Depreciation and amortization totaled \$675,000 for the three months ended March 31, 2001 as compared to \$563,000 for the same period in 2000. This increase is primarily attributable to the six additional sites acquired since the first quarter of 2000 and two sites transitioned from an operating agreement to being owned since the first quarter of 2000.

### Taxes

The Company recorded a tax expense of \$178,000 for the three months ended March 31, 2001. Tax expense reflects the recording of income taxes at an effective rate of 37%. 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 the use of net operating loss carryforwards.

### Liquidity and Capital Resources

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

The Company's business requires substantial amounts of capital, most notably to pursue the Company's acquisition strategies and for equipment purchases and upgrades. The Company plans to meet these capital needs from various financing sources, including borrowings, internally generated funds, and the issuance of common stock as the market price of the Company's stock improves.

As of March 31, 2001, the Company had a working capital deficit of approximately \$161,000 and cash and cash equivalents of \$5.4 million. For the three months ended March 31, 2001, net cash provided by operations was approximately \$781,000, net cash used in financing activities was approximately \$423,000 and net cash provided by investing activities was approximately \$209,000 resulting in an increase in cash and cash equivalents for the quarter of approximately \$567,000. Capital expended during the period included approximately \$250,000 for the purchase of operating equipment, real estate, and intangibles.

17

The Company's acquisition program and operations to date have required substantial amounts of working capital, and the Company expects to continue to expend funds to support its acquisition program and capital needs for equipment. The Company estimates aggregate capital expenditures, exclusive of acquisitions of businesses, of approximately \$750,000 for the remainder of the year ending December 31, 2001.

At March 31, 2001, the Company had borrowings of \$36.4 million. The Company does not have any letters of credit outstanding nor does it maintain a revolving credit facility. During 2000, the Company refinanced on a long term basis under favorable terms the majority of its short term debt related to its 1999 and 2000 acquisitions. In February 2000, the Company entered into a \$4.8 million term loan with Bank One, Texas, NA ("Bank One") to refinance the remaining balance of a short term promissory note related to the Genie acquisition and entered into several new loan agreements with Bank One to finalize the assumption of notes held by Bank One relating to the Colonial acquisition. Additionally, in November 2000, the Company entered into a \$6.7 million three year term note (15 year amortization basis) with Bank One to refinance a \$1.3 million convertible promissory note to Bullseye Properties assumed in connection with the acquisition of Eager Beaver, a \$2.1 million SouthTrust Bank note maturing in May 2001, and a \$1.0 million promissory note related to the Red Baron Truck Wash acquisition. The Bank One term note also provided approximately \$800,000 for the purchase of the leased Beneva Car Wash property and approximately \$1.6 million of additional funding, net of loan closing costs, for capital improvements and working capital.

The Company also has various other long term mortgage notes up for periodic review during 2001. The Company is currently working on renewals of the notes with the related financial institutions which the Company expects to receive; however, no assurances can be given that the loans will be renewed. Several of the Company's debt agreements as amended contain certain affirmative and negative covenants and require the maintenance of certain levels of tangible net worth and the maintenance of certain debt coverage ratios on an individual subsidiary and consolidated level. The Company is currently in compliance with these covenants.

On April 5, 2000, the Company executed a master facility agreement with Fusion Capital Fund II, LLC ("Fusion") pursuant to which Fusion agreed to enter into up to two equity purchase agreements, each with an aggregate principal amount of \$12.0 million. The equity purchase agreements allow the Company to suspend the purchasing of its common stock by Fusion if the price of the Company's common stock is less than \$7.00 per share. The Company is currently not permitting the purchase of its common stock under the equity purchase agreement due to the current low trading value of the Company's common stock and the potentially

## Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

dilutive effect of such stock purchases. When the Company agrees to the purchase of its stock, Fusion has the right to purchase from the Company shares of common stock up to \$12.0 million at a price equal to the lesser of (1) 140% of the average of the closing bid prices for our common stock during the 10 trading days prior to the date of the applicable equity purchase agreement or \$7.00, whichever is greater or (2) a price based upon the future performance of the common stock, in each case without any fixed discount to the market price. As long as the Company has not suspended Fusion from purchasing its stock, the equity purchase agreement requires that at the beginning of each month, Fusion will pay \$1.0 million to the Company as partial prepayment for the common stock. Once the \$1.0 million has been applied to purchase shares of our common stock, Fusion will pay the remaining principal amount upon receipt of our common stock. The first equity purchase agreement was executed by Fusion on April 17, 2000. Proceeds from purchased shares through March 31, 2001 totaled approximately \$1.3 million. The second equity purchase agreement will be executed after delivery of an irrevocable written notice by the Company to Fusion stating that we elect to enter into such purchase agreement with Fusion. The second equity purchase agreement may be entered into only after the principal amount under the first equity purchase agreement is fully converted into the Company's common stock.

### Seasonality and Inflation

The Company believes that its car washing and detailing operations are adversely affected by periods of inclement weather. The Company has mitigated and intends to continue to mitigate the impact of inclement weather through geographic diversification of its operations.

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

### Year 2000

The Company completed its year 2000 remediation plan prior to the end of 1999. Although we believe our year 2000 remediation plan was adequate to address the year 2000 issue, the Company is continually acquiring new businesses and locations, which may require an on-going process to convert, assess, and if necessary, remediate newly acquired systems. This issue is part of our standard due diligence when evaluating potential acquisitions so that remedial efforts, if any, can be evaluated and scheduled.

18

## PART II OTHER INFORMATION

### Item 5. Other Information

On April 19, 2001, the Company was advised by Nasdaq that its common stock had failed to trade above one dollar for thirty consecutive business days, and was therefore not in compliance with Marketplace Rule 4450(a)(5) of the Nasdaq National Market. Nasdaq advised the Company that it had until July 18, 2001 to maintain a bid price of at least one dollar for ten consecutive business days or be delisted. The Company maintained a minimum bid price of at least one dollar for ten consecutive business days ending May 4, 2001. On May 11, 2001, the Company was advised by Nasdaq that it was in compliance with Market Place Rule 4450(a)(5) and was not subject to being delisted.

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits:

Edgar Filing: MACE SECURITY INTERNATIONAL INC - Form 10-Q

NONE

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

On April 23, 2001, the Company filed a report on Form 8-K dated April 19, 2001, under Item 5 to report communication received from Nasdaq regarding the Company's failure to maintain a minimum bid price of \$1.00 over the prior 30 consecutive trading days.

19

SIGNATURES

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

Mace Security International, Inc.

BY: /s/ Louis D. Paolino, Jr.  
-----

Louis D. Paolino, Jr., Chairman, Chief Executive Officer and President

BY: /s/ Gregory M. Krzemien  
-----

Gregory M. Krzemien, Chief Financial Officer

BY: /s/ Ronald R. Pirollo  
-----

Ronald R. Pirollo, Controller (Principal Accounting Officer)

DATE: May 11, 2001

20