MACE SECURITY INTERNATIONAL INC
Form 10-Q
November 14, 2007

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

FORM 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2007 COMMISSION FILE NO. 0-22810

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

DELAWARE	**03-0311630**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

401 East Las Olas Boulevard, Suite 1570, Fort Lauderdale, Florida 33301
(Address of Principal Executive Offices)

Registrant's Telephone No., including area code: (954) 449-1300

1000 Crawford Place, Suite 400, Mount Laurel, New Jersey 08054
(Former Address)

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

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” in Rule 12b-2 of the Exchange Act (Check One):
Large accelerated filer __ Accelerated filer __ Non-accelerated filer X

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes __ No X

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

As of November 12, 2007, there were 16,465,253 Shares of the registrant’s Common Stock, par value $.01 per share, outstanding.

Mace Security International, Inc. and Subsidiaries
Form 10-Q
Quarter Ended September 30, 2007

Contents

2

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Mace Security International, Inc. and Subsidiaries
Consolidated Balance Sheets

(In thousands, except share information)

ASSETS	September 30, 2007 (Unaudited)	December 31, 2006
Current assets:		
Cash and cash equivalents	$ 8,095	$ 4,055
Short-term investments	4,040	3,571
Accounts receivable, less allowance for doubtful accounts of $833 and $690 in 2007 and 2006, respectively	3,485	2,223
Inventories	8,519	7,170
Prepaid expenses and other current assets	1,811	1,797
Assets held for sale	4,938	25,745
Total current assets	30,888	44,561
Property and equipment:		
Land	15,151	17,509
Buildings and leasehold improvements	20,277	23,291
Machinery and equipment	7,909	8,325
Furniture and fixtures	645	625
Total property and equipment	43,982	49,750
Accumulated depreciation and amortization	(11,199)	(11,443)
Total property and equipment, net	32,783	38,307
Goodwill	7,250	1,623
Other intangible assets, net of accumulated amortization of $1,084 and $779 in 2007 and 2006, respectively	7,577	2,923
Other assets	112	184
Total assets	$ 78,610	$ 87,598

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

LIABILITIES AND STOCKHOLDERS' EQUITY		**September 30, 2007** (Unaudited)		**December 31, 2006**
Current liabilities:				
Current portion of long-term debt and notes payable	$	4,605	$	1,235
Accounts payable		4,808		4,087
Income taxes payable		676		315
Deferred revenue		235		319
Accrued expenses and other current liabilities		3,205		2,209
Liabilities related to assets held for sale		1,095		9,840
Total current liabilities		14,624		18,005
Long-term debt, net of current portion		8,457		13,087
Commitments		-		-
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 -16,465,253 at September 30, 2007 and 15,275,382 at December 31, 2006, respectively		165		153
Additional paid-in capital		93,876		89,850
Accumulated other comprehensive income		585		413
Accumulated deficit		(39,061)		(33,910)
		55,565		56,506
Less treasury stock at cost-17,371 shares		(36)		-
Total stockholders' equity		55,529		56,506
Total liabilities and stockholders' equity	$	78,610	$	87,598

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

4

Mace Security International, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
(In thousands, except share and per share information)

	Three Months Ended September 30,	
	2007	**2006**
Revenues:		
Car and truck wash and detailing services	$ 3,980	$ 4,185
Lube and other automotive services	818	907
Fuel and merchandise	664	801
Security	5,697	5,724
Digital media marketing	2,802	-
	13,961	11,617
Cost of revenues:		
Car and truck wash and detailing services	3,269	3,420
Lube and other automotive services	632	778
Fuel and merchandise	588	754
Security	3,965	4,064
Digital media marketing	2,599	-
	11,053	9,016
Selling, general and administrative expenses	5,730	4,544
Depreciation and amortization	481	396
Asset impairment charge	-	40
Operating loss	(3,303)	(2,379)
Interest expense, net	(120)	(194)
Other income	98	612
Loss from continuing operations before income taxes	(3,325)	(1,961)
Income tax expense	23	39
Loss from continuing operations	(3,348)	(2,000)
Income (loss) from discontinued operations, net of tax of $0 in 2007 and 2006	119	(269)
Net loss	$ (3,229)	$ (2,269)
Per share of common stock (basic and diluted):		
Loss from continuing operations	$ (0.21)	$ (0.13)
Income (loss) from discontinued operations	0.01	(0.02)
Net loss	$ (0.20)	$ (0.15)
Weighted average shares outstanding:		
Basic	16,213,726	15,275,382
Diluted	16,213,726	15,275,382

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

5

Mace Security International, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
(In thousands, except share and per share information)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenues:		
Car and truck wash and detailing services	$ 12,667	$ 13,882
Lube and other automotive services	2,373	2,582
Fuel and merchandise	2,070	2,642
Security	16,756	18,170
Digital media marketing	2,802	-
	36,668	37,276
Cost of revenues:		
Car and truck wash and detailing services	10,001	10,745
Lube and other automotive services	1,887	2,051
Fuel and merchandise	1,830	2,389
Security	12,204	12,997
Digital media marketing	2,599	-
	28,521	28,182
Selling, general and administrative expenses	13,981	12,910
Depreciation and amortization	1,272	1,193
Asset impairment charge	-	40
Operating loss	(7,106)	(5,049)
Interest expense, net	(523)	(691)
Other income	542	770
Loss from continuing operations before income taxes	(7,087)	(4,970)
Income tax expense	73	117
Loss from continuing operations	(7,160)	(5,087)
Income (loss) from discontinued operations, net of tax of $0 in 2007 and 2006	2,009	(28)
Net loss	$ (5,151)	$ (5,115)
Per share of common stock (basic and diluted):		
Loss from continuing operations	$ (0.46)	$ (0.33)
Income (loss) from discontinued operations	0.13	-
Net loss	$ (0.33)	$ (0.33)
Weighted average shares outstanding:		
Basic	15,589,313	15,274,201
Diluted	15,589,313	15,274,201

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

6

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

(In thousands, except share information)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Treasury Stock	Total
Balance at December 31, 2006	15,275,382	$ 153	$ 89,850	$ 413	$ (33,910)	$ -	$ 56,506
Common Stock issued in purchase acquisition	1,176,471	12	2,895	-	-	-	2,907
Exercise of common stock options	13,400	-	28	-	-	-	28
Purchase of treasury stock	-	-	-	-	-	(36)	(36)
Stock-based compensation expense (see note 6)	-	-	1,103	-	-	-	1,103
Change in fair value of cash flow hedge	-	-	-	(17)	-	-	(17)
Unrealized gain on short-term investments	-	-	-	189	-	-	189
Net loss	-	-	-	-	(5,151)	-	(5,151)
Total comprehensive loss	-	-	-	-	-	-	(4,979)
Balance at September 30, 2007	16,465,253	$ 165	$ 93,876	$ 585	$ (39,061)	$ (36)	$ 55,529

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

7

Mace Security International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating activities		
Net loss	$ (5,151)	$ (5,115)
(Income) loss from discontinued operations, net of tax	(2,009)	28
Loss from continuing operations	(7,160)	(5,087)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	1,274	1,193
Stock-based compensation (see Note 6)	1,086	1,165
Provision for losses on receivables	271	201
Gain on sale of property and equipment	(6)	(462)
Gain on short-term investments	(280)	(221)
Goodwill and asset impairment charges	-	80
Changes in operating assets and liabilities:		
Accounts receivable	(362)	(259)
Inventories	(1,307)	(643)
Prepaid expenses and other assets	(37)	123
Accounts payable	370	(126)
Deferred revenue	(84)	(14)
Accrued expenses	1,320	308
Income taxes payable	(34)	3
Net cash used in operating activities-continuing operations	(4,949)	(3,739)
Net cash (used in) provided by operating activities-discontinued operations	(692)	826
Net cash used in operating activities	(5,641)	(2,913)
Investing activities		
Purchase of property and equipment	(374)	(595)
Acquisition of businesses, net of cash acquired	(7,446)	-
Proceeds from sale of property and equipment	297	1,844
Payments for intangibles	(4)	(12)
Net cash (used in) provided by investing activities-continuing operations	(7,527)	1,237
Net cash provided by investing activities-discontinued operations	18,598	665
Net cash provided by investing activities	11,071	1,902
Financing activities		
Payments on long-term debt and capital lease obligations	(932)	(1,408)
Payments to repurchase stock	(36)	-
Proceeds from issuance of common stock	28	5
Net cash used in financing activities-continuing operations	(940)	(1,403)
Net cash used in financing activities-discontinued operations	(450)	(748)
Net cash used in financing activities	(1,390)	(2,151)
Net increase (decrease) in cash and cash equivalents	4,040	(3,162)
Cash and cash equivalents at beginning of period	4,055	8,360
Cash and cash equivalents at end of period	$ 8,095	$ 5,198

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

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

1. Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Mace Security International, Inc. and its wholly owned subsidiaries (collectively, the "Company" or "Mace"). All significant intercompany transactions have been eliminated in consolidation. The Company currently operates in three business segments: the Car and Truck Wash Segment, supplying complete car care services (including wash, detailing, lube, and minor repairs); the Security Segment, producing for sale, consumer safety and personal defense products, as well as electronic surveillance and monitoring products; and the Digital Media Marketing Segment, providing online marketing services and selling consumer products on the internet. The Company entered the Digital Media Marketing business with its acquisition of Linkstar Interactive, Inc. on July 20, 2007 (See Note 4. Business Acquisitions and Divestitures). The Company's remaining car and truck wash operations are principally located in Texas and Florida. The Company sold its Arizona car wash region in May 2007. The Company also completed the divesture of its Northeast car wash region during the nine months ended September 30, 2007. Additionally, the Company executed a lease-to-sell agreement on December 31, 2005 with Eagle United Truck Wash, LLC ("Eagle") to lease Mace's five truck washes beginning January 1, 2006 for up to two years with an expected sale of the truck washes before December 31, 2007. As a result, the Company does not recognize revenue or operating expenses during the term of the lease other than rental income, depreciation expense and interest expense. In the year ended December 31, 2006 and the three and nine months ended September 30, 2007, the results for the Arizona car wash region, Northeast region car washes and the Company's truck washes have been classified as discontinued operations in the statement of operations and the statement 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 Statement of Financial Accounting Standards ("SFAS") 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (See Note 5. Discontinued Operations and Assets Held for Sale).

2. New Accounting Standards

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* ("SFAS 157"). This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material impact on the Company's consolidated results of operations, cash flows or financial position.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards, which require assets and liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees, issued debt and other eligible financial instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material impact on the Company's consolidated results of operations, cash flows or financial position.

3. Other Intangible Assets

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

	September 30, 2007		December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Non-compete agreement	$ 644	$ 78	$ 98	$ 46
Customer lists	2,993	530	1,184	356
Product lists	590	192	590	148
Software	1,472	41	-	-
Patent Costs	5	-	5	-
Deferred financing costs	387	243	387	229
Total amortized intangible assets	6,091	1,084	2,264	779
Non-amortized intangible assets:				
Trademarks	2,570	-	1,438	-
Total intangible assets	$ 8,661	$ 1,084	$ 3,702	$ 779

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

2007	$ 480
2008	$ 757
2009	$ 721
2010	$ 712
2011	$ 712

4. Business Acquisitions and Divestitures

On July 20, 2007, the Company completed the purchase of all of the outstanding common stock of Linkstar Interactive, Inc. (“Linkstar”) from Linkstar’s shareholders. Linkstar is an online internet advertising and e-commerce direct marketing company. Linkstar’s primary assets are inventory, accounts receivable, proprietary software, customer contracts, and its business methods. The acquisition of Linkstar enables the Company to expand the marketing of its security products through online channels and provides the Company with a presence in the online and digital media services industry. The Company paid approximately $10.5 million to the Linkstar shareholders consisting of $7.0 million in cash at closing, $500,000 of promissory notes bearing a 5% interest rate due on January 3, 2008 and 1,176,471 unregistered shares of the Company’s common stock. The Company’s stock was issued based on a closing price of $2.55 per share or a total value of $3.0 million. In addition to the $10.5 million of consideration at closing, the Company incurred approximately $261,000 in related acquisition costs and recorded an estimated accrual of $341,000 for working capital acquired in excess of $100,000, as per the purchase agreement. The purchase price was allocated as follows: approximately (i) $248,000 cash, (ii) $183,000 for inventory; (iii) $1.22 million for accounts receivable; (iv) $80,000 for equipment, (v) the assumption of $1.25 million of liabilities, and (vi) the remainder, or $10.58 million, allocated to goodwill and other intangible assets. Of the $10.58 million of acquired intangible assets, $1.13 million was assigned to trademarks and $5.63 million was assigned to goodwill, neither of which is subject to amortization expense. The remaining intangible assets were assigned to customer relationships for $1.81 million, non-compete agreements for $546,000 and software for $1.47 million. Customer relationships, non-compete agreements, and software costs were assigned a life of nine, seven, and six years, respectively. The acquisition was accounted for as a business combination in accordance with SFAS 141, *Business Combinations*. The proforma financial information presented below gives effect to the Linkstar acquisition as if it had occurred as of the beginning of our fiscal year 2006. The information presented below is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisition actually had occurred as of the beginning of 2006 or results which may be achieved in the future.

Unaudited proforma financial information is as follows (in thousands, except per shares amounts):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenues	$ 14,749	$ 14,696	$ 47,513	$ 44,385
Net Loss	$ (3,556)	$ (2,371)	$ (5,012)	$ (5,439)
Loss per share-basic and dilutive	$ (0.22)	$ (0.14)	$ (0.30)	$ (0.33)

On June 19, 2006, the Company, through a wholly owned subsidiary, sold an exterior-only car wash facility in New Jersey. Proceeds from the sale of this facility were approximately $1.0 million, resulting in a $202,000 gain on disposal.

On September 28, 2006, the Company, through a wholly owned subsidiary, sold a full service car wash facility in Dallas, Texas. Proceeds from the sale of this facility were approximately $1.85 million, resulting in a $461,000 gain on disposal.

In the first quarter ended March 31, 2007, the Company sold seven car washes consisting of: (i) three full service car washes in the Philadelphia area on January 29, 2007 and a full service car wash in Cherry Hill, New Jersey on February 1, 2007 for a total of $7.8 million in cash at a gain of approximately $1.0 million; (ii) an exterior car wash in Moorestown, New Jersey on January 5, 2007 for $350,000 cash, which approximates book value; (iii) an exterior car wash in Philadelphia, Pennsylvania on March 1, 2007 for $475,000 in cash at a gain of approximately $141,000; and (iv) a full service car wash in Fort Worth, Texas on March 7, 2007 for $285,000 in cash at a gain of approximately $9,000.

In the second quarter ended June 30, 2007, the Company sold 14 car washes consisting of: (i) an exterior car wash in Yeadon, Pennsylvania on May 14, 2007 for $100,000 in cash at a gain of approximately $90,000; (ii) twelve full service car washes in the Phoenix, Arizona area representing our entire Arizona region on May 17, 2007 for $19,380,000 in cash at a gain of approximately $413,000; and (iii) an exterior car wash in Smyrna, Delaware on May 31, 2007 for $220,000 in cash at a gain of approximately $202,000.

In the third quarter ended September 30, 2007, the Company sold its two remaining exterior car wash sites in Camden and Sicklerville, New Jersey on August 3, 2007 for total cash consideration of $1.38 million at a gain of approximately $179,000.

5. Discontinued Operations and Assets Held for Sale

On December 7, 2006, the Company signed an agreement with Twisted Cactus Enterprises, LLC to sell its Arizona car washes for $19,380,000 in cash. This transaction closed on May 17, 2007 at a gain of approximately $413,000. Additionally, the Company sold nine of its Northeast region car washes in the nine months ended September 30, 2007 which represent all of the revenues within the Northeast region. The Company executed a lease-to-sell agreement on December 31, 2005 with Eagle United Truck Wash, LLC ("Eagle") to lease Mace's five truck washes beginning January 1, 2006 through December 31, 2007. As a result, the Company does not recognize revenue or operating expenses during the term of the lease other than rental income, depreciation expense and interest expense. Accordingly, for financial statement purposes, the assets, liabilities, results of operations and cash flows of these operations have been segregated from those of continuing operations and are presented in the Company's consolidated financial statements as discontinued operations.

Revenues from discontinued operations were $5,700 and $4.5 million for the three and nine months ended September 30, 2007, and $3.2 million and $11.4 million for the three and nine months ended September 30, 2006, respectively. Operating (loss) income from discontinued operations was $(81,000) and $153,000 for the three and nine months ended September 30, 2007, and $(98,000) and $288,000 for the three and nine months ended September 30, 2006, respectively.

In the third quarter ended September 30, 2007, the Company signed agreements to sell two full service car washes in San Antonio, Texas for total cash consideration of $2.96 million and a full service car wash in Fort Worth, Texas for cash consideration of $1.65 million. The sales of the two full service car washes in San Antonio, Texas were completed in November 2007 for total consideration of $2.96 million at a total gain of approximately $38,000.These three car washes and the Company’s truck washes are presented in the Company’s consolidated financial statements as assets and liabilities held for sale.

Assets and liabilities held for sale are comprised of the following at September 30, 2007 (in thousands):

Assets held for sale:	**Fort Worth, Texas**	**San Antonio, Texas**	**Truck Washes**	**Total**
Inventory	$ 62	$ 81	$ -	$ 143
Property, plant and equipment, net	916	2,884	994	4,794
Intangibles	-	-	1	1
Total assets	$ 978	$ 2,965	$ 995	$ 4,938
Liabilities related to assets held for sale:				
Current portion of long-term debt	$ 180	$ -	$ 10	$ 190
Long-term debt, net of current portion	648	-	257	905
Total liabilities	$ 828	$ -	$ 267	$ 1,095

6. Stock-Based Compensation

The Company has two stock-based employee compensation plans. On January 1, 2006, the Company adopted SFAS 123(R), *Share-Based Payment,* which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. We adopted SFAS 123(R) using the modified prospective method, which results in recognition of compensation expense for all share-based awards granted or modified after December 31, 2005 as well as all unvested awards outstanding at the date of adoption. The cost is recognized as compensation expense over the life of the instruments, based upon the grant date fair value of the equity or liability instruments issued. The Company expects the application of SFAS 123(R) to result in stock compensation expense and therefore a reduction of income before income taxes in 2007 of $1.2 million to $1.3 million. The Company's actual stock compensation expense in 2007 could differ materially from this estimate depending on the timing, magnitude and vesting of new awards, the number of new awards and changes in the market price or the volatility of the Company's common stock.

Beginning in 2007, for the purpose of calculating an expected forfeiture rate, the Company classifies option grants into two categories, Director and Officer grants, for which a forfeiture rate of 0% is assumed, and all other option grants, for which a forfeiture rate of 33% is assumed. These forfeiture rates are based on actual forfeitures experienced by the Company over the past six years. Prior to 2007, a forfeiture rate of 0% was used for all option grants.

Stock-based non-cash compensation expense for the three and nine months ended September 30, 2007 of $767,000 and $1.1 million, respectively, includes a $648,000 non-cash compensation charge related to a forthcoming grant of fully vested options to Louis D. Paolino, Jr., the Company's Principal Executive Officer, pursuant to the terms of his employment agreement dated August 21, 2006. Mr. Paolino's employment agreement provides for fully vested stock option grants at the signing date and on the first and second anniversary dates of the employment agreement. Under the provisions of the employment agreement, the Company accounted for the forthcoming grant to Mr. Paolino based on the effective service inception date of August 2007 and accrued the $648,000 as an estimate based on the value of the prior year grant. The actual amount of the forthcoming grant due to Mr. Paolino per the terms of his employment contract will be based on an independent compensation study commissioned by the Company's Compensation Committee which has not been completed. The Company expects to grant the stock options during the fourth quarter of 2007. Any adjustment to the amount of the estimated stock-based compensation charge based on the compensation study and actual grant date will be recorded in the fourth quarter of 2007.

The following summarizes the option activity for the three months ended September 30, 2007 and 2006:

	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Shares granted	300,000	480,000	445,000	862,000
Risk-free rate	4.96% to 5.16%	4.82% to 4.96%	4.80% to 5.16%	4.36% to 5.14%
Dividend yield	0%	0%	0%	0%
Expected forfeiture rate-Directors and Officers	0%	0%	0%	0%
Expected forfeiture rate-All other	33%	0%	33%	0%
Expected volatility	52%	44%	52%	44%
Weighted average expected life of options	10 years	10 years	10 years	10 years
Weighted average fair value of option grants	$ 1.67	$ 1.45	$ 1.73	$ 1.51
Non-cash compensation expense (in thousands):	$771	$785	$1,103	$1,172
Continuing operations-Selling, General & Administrative (including $648,000 of effective service inception date compensation)	$767	$778	$1,077	$1,151
Continuing operation-cost of revenues	2	3	8	10
Discontinued operations	2	4	18	11
Total	$771	$785	$1,103	$1,172

As of September 30, 2007, total unrecognized stock-based compensation expense is $620,000, which has a weighted average period of approximately one year to be recognized.

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.

7. Commitments and Contingencies

The Company is obligated under various operating leases, primarily for certain equipment, vehicles, and real estate. Certain of these leases contain purchase options, renewal provisions, and contingent rentals for the proportionate share of taxes, utilities, insurance, and annual cost of living increases. Future minimum lease payments under operating leases with initial or remaining noncancellable lease terms in excess of one year as of September 30, 2007 for continuing operations are as follows: 2008 - $763,000; 2009 - $765,000; 2010 - $634,000; 2011 - $635,000; 2012 -

$482,000 and thereafter - $1.0 million. Rental expense under these leases was $670,000 and $661,000 for the nine months ended September 30, 2007 and 2006, respectively.

The Company subleases a portion of the building space at several of its car wash facilities either on a month-to-month basis or under cancelable leases. During the nine months ending September 30, 2007 and 2006 revenues under these leases were approximately $53,000, and $62,000, respectively. These amounts are classified as other income in the accompanying statements of operations.

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

Certain of the Company's executive officers have entered into employee stock option agreements whereby options issued to them shall be entitled to immediate vesting upon a change in control of the Company. Additionally, the employment agreement of the Company's Principal Executive Officer, Louis D. Paolino, Jr., dated August 21, 2006, entitles Mr. Paolino to a payment of 2.99 times Mr. Paolino's average total compensation (base salary plus any bonuses plus the value of any option award, valued using the Black-Scholes method) over the past five years, upon termination of employment under certain conditions or upon a change in control. The employment agreement also provides that if Mr. Paolino receives the change of control bonus, his employment agreement can then be terminated without an additional payment.

On March 13, 2006, the Company was served with a search warrant issued by the United States District Court for the District of New Jersey relating to a criminal immigration investigation. A search of the Company's headquarters and four out of the Company's 48 car washes was conducted by representatives of the United States Department of Investigations and Customs Enforcement and certain other agencies. Three of the car washes searched were located in Pennsylvania and the fourth was located in New Jersey. Documents were seized and a number of car wash employees of Car Care, Inc., a wholly-owned subsidiary of the Company, were taken into custody by the United States immigration authorities. The Company was also served with a federal grand jury subpoena seeking similar documents. The Company has responded to the subpoena. The Company has been informed by the government that it is a subject of the government's investigation. The Company's Audit Committee retained independent outside counsel ("Special Counsel") to conduct an independent investigation of the Company's hiring practices at the Company's car washes and other related matters. Special Counsel provided a written summary of findings on April 18, 2006 to the Company's Audit Committee. The investigative findings included, among other things, a finding that the Company's internal controls for financial reporting at the corporate level are adequate and appropriate, and that there is no financial statement impact implicated by the Company's hiring practices, except for a potential contingent liability. Beginning on April 21, 2006, Special Counsel began to receive for review, some additional and previously requested but unavailable documents and information, including the documents the government seized on March 13, 2006. On May 18, 2006, Special Counsel issued its Review of Information Supplemental to Internal Investigation which stated that the review of the additional documents and information had not changed the conclusions contained in the April 18, 2006 summary of findings.

From March 13, 2006 through September 30, 2007, the Company incurred a total of $2.1 million of legal, accounting and consultant costs due to the criminal immigration investigation of the Company. Of the $2.1 million, $602,000 of costs were incurred in the nine months ending September 30, 2007 and $1.35 million in the nine months ending September 30, 2006. Also included in the $2.1 million of total costs were $433,000 of legal, consulting and accounting costs associated with an Audit Committee investigation of the criminal immigration allegations from March 13, 2006 through December 31, 2006. The Audit Committee investigation was completed by December 31, 2006 and no costs associated with the Audit Committee investigation were incurred during 2007. In accordance with the Company's By Laws, the Company is obligated to indemnify and advance legal costs for its officers and directors.

The Company has incorporated additional internal control procedures at the corporate, regional and site level to further enhance the existing internal controls with respect to the Company's hiring procedures at the car wash locations to prevent the hiring of undocumented workers. There is a possibility that the United States Attorney for the Eastern District of Pennsylvania may prosecute the Company at the conclusion of its investigation. Violations of law may result in civil, administrative or criminal fines or penalties. Due to the ongoing nature of the criminal investigation, it is not possible at this time to predict the outcome of the investigation or the impact of costs of ultimately resolving this matter on the Company's results of operations or financial condition. However, any fees, expenses, fines or penalties which might be incurred by the Company in connection with the hiring of undocumented workers may have a material impact on the Company's results of operations and financial condition. The Company has made no provision for any future costs associated with the investigations or any future costs associated with the Company's defense or negotiations with governmental authorities to resolve these outstanding issues.

The Company is a party to various 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.

8. Business Segments Information

The Company currently operates in three segments: the Security Segment, the Digital Media Marketing Segment and the Car and Truck Wash Segment.

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

	Security	Digital Media Marketing	Car and Truck Wash	Corporate Functions*
Three months ended September 30, 2007				
Revenues from external customers	$ 5,697	$ 2,802	$ 5,462	$ -
Intersegment revenues	$ 4	$ -	$ -	$ -
Segment operating loss	$ (272)	$ (571)	$ (48)	$ (2,412)
Segment assets	$ 18,811	$ 12,983	$ 41,878	$ -
Goodwill	$ 1,623	$ 5,627	$ -	$ -
Capital expenditures	$ 57	$ 8	$ 128	$ 1
Nine months ended September 30, 2007				
Revenues from external customers	$ 16,756	$ 2,802	$ 17,110	$ -
Intersegment revenues	$ 6	$ -	$ -	$ -
Segment operating income (loss)	$ (1,650)	$ (571)	$ 421	$ (5,306)
Capital expenditures	$ 142	$ 8	$ 218	$ 6
Three months ended September 30, 2006				
Revenues from external customers	$ 5,724	$ -	$ 5,893	$ -
Intersegment revenues	$ 19	$ -	$ -	$ -
Segment operating loss	$ (375)	$ -	$ (27)	$ (1,977)
Segment assets	$ 21,012	$ -	$ 52,656	$ -
Goodwill	$ 1,728	$ -	$ 1,092	$ -
Capital expenditures	$ 66	$ -	$ 190	$ 4
Nine months ended September 30, 2006				
Revenues from external customers	$ 18,170	$ -	$ 19,106	$ -
Intersegment revenues	$ 27	$ -	$ -	$ -
Segment operating income (loss)	$ (967)	$ -	$ 1,108	$ (5,190)
Capital expenditures	$ 201	$ -	$ 387	$ 7

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

9. Use of Estimates

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

10. Income Taxes

The Company recorded income tax expense of $73,000 and $117,000 from continuing operations for the nine months ended September 30, 2007 and 2006, respectively. Income tax expense reflects the recording of income taxes on income at an effective rate of approximately (1)% and (2)% in 2007 and 2006, 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, fixed asset adjustments and changes to the valuation allowance. It is management's belief that it is unlikely that the net deferred tax asset will be realized and as a result has been fully reserved. Additionally, the Company recorded no income tax expense related to discontinued operations for either of the nine month periods ended September 30, 2007 or 2006.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that, based solely on its technical merits, is more likely than not to be sustained upon examination by the applicable taxing authority. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company implemented this new standard as of January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company's consolidated results of operations, cash flows, and financial position.

11. Related Party Transactions

The Company's Security Segment leases manufacturing and office space under a five-year lease with Vermont Mill, Inc. ("Vermont Mill"). Vermont Mill is controlled by Jon E. Goodrich, a former director and current employee of the Company. 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 believes that the lease rate is lower than lease rates charged for similar properties in the Bennington, Vermont area. On July 22, 2002, the lease was amended to provide Mace the option and right to cancel the lease with proper notice and a payment equal to six months of the then current rent for the leased space occupied by Mace. Rent expense under this lease was $95,184 for nine months ending September 30, 2007 and 2006.

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

At September 30, 2007, we had borrowings, including capital lease obligations and borrowings related to discontinued operations, of approximately $14.2 million, substantially all of which is secured by mortgages against certain of our real property. Of such borrowings, approximately $5.7 million, including $1.1 million of long-term debt included in liabilities related to assets held for sale, is reported as current as it is due or expected to be repaid or up for renewal in less than twelve months from September 30, 2007. Current debt includes $500,000 of notes payable to Company shareholders issued as part of the consideration for the acquisition of Linkstar Interactive, Inc. payable in February 2008 with accrued interest at 5%. Current debt also includes the reclassification of approximately $3.2 million of 15 year amortizing mortgage loans related to several Texas car washes from long term liabilities to current liabilities as a result of such loans being due in February 2008. The Company intends to renew these loans with the current lender.

We have three letters of credit outstanding at September 30, 2007, totaling $1,149,000 as collateral relating to workers' compensation insurance policies. We maintain a $500,000 revolving credit facility to provide financing for additional electronic surveillance product inventory purchases. There were no borrowings outstanding under the revolving credit facility at September 30, 2007. The Company also maintains a $300,000 guidance line for commercial letters of credit for the importation of inventory. There were no outstanding commercial letters of credit under this commitment at September 30, 2007.

Our most significant borrowings, including borrowings related to discontinued operations, are secured notes payable to JPMorgan Chase Bank, N.A. ("Chase"), the successor of Bank One, Texas, N.A. in the amount of $11.1 million, $6.1 million of which was classified as non-current debt at September 30, 2007. The Chase agreements contain affirmative and negative covenants, including the maintenance of certain levels of tangible net worth, maintenance of certain levels of unencumbered cash and marketable securities, limitations on capital spending and certain financial reporting requirements. The Chase agreements are our only debt agreement that contains an expressed prohibition on incurring additional debt for borrowed money without the approval of the lender. As of September 30, 2007, our warehouse and office facility in Farmers Branch, Texas, 15 car washes and one truck wash were encumbered by mortgages.

The Company entered into amendments to the Chase term loan agreements effective September 30, 2006. The amended debt coverage ratio with Chase eliminated the Company's requirement to maintain a ratio of consolidated earnings before interest, income taxes, depreciation and amortization to debt service. The Chase term loan agreement also limits capital expenditures annually to $1.0 million, requires the Company to provide Chase with a Form 10-K and audited financial statements within 120 days of the Company's fiscal year end and a Form 10-Q within 60 days after the end of each fiscal quarter, and requires the maintenance of a minimum total unencumbered cash and marketable securities balance of $5 million. If we are unable to satisfy these covenants and we cannot obtain waivers, the Chase notes may be reflected as current in future balance sheets and as a result our stock price may decline.

Our ongoing ability to comply with the debt covenants under our credit arrangements and refinance our debt depends largely on our achievement of adequate levels of cash flow. Our cash flow has been and could continue to be adversely affected by weather patterns and economic conditions. In the future, if our cash flows are less than expected or debt service, including interest expense, increases more than expected, we may be out of compliance with the Chase covenants and may need to seek waivers or amendments.

If we default on any of the Chase covenants and are not able to obtain further amendments or waivers of acceleration, Chase debt totaling $11.1 million at September 30, 2007, including debt recorded as long-term debt at September 30, 2007, could become due and payable on demand, and Chase could foreclose on the assets pledged in support of the relevant indebtedness. If our assets (including up to 15 of our car wash facilities and one truck wash as of September 30, 2007) are foreclosed upon, revenues from our Car and Truck Wash Segment, which comprised 53% of our total revenues for fiscal year 2006 and 46% of our total revenues for the nine months ended September 30, 2007, would be severely impacted and we may be unable to continue to operate our business.

13. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Numerator:				
Net loss	$ (3,229)	$ (2,269)	$ (5,151)	$ (5,115)
Denominator:				
Denominator for basic earnings per share - weighted-average shares	16,213,726	15,275,382	15,589,313	15,274,201
Dilutive effect of options and warrants	-	-	-	-
Denominator for diluted earnings per share - weighted-average shares	16,213,726	15,275,382	15,589,313	15,274,201
Basic and diluted loss per share	$ (0.20)	$ (0.15)	$ (0.33)	$ (0.33)

The effect of options and warrants for the period in which we incurred a net loss has been excluded as it would be anti-dilutive. The dilutive effect of options and warrants excluded was 299,921 and 301,212 for the three months ended September 30, 2007 and 2006, respectively, and 417,857 and 325,163 for the nine months ended September 30, 2007 and 2006, respectively.

14. Equity

On August 13, 2007, the Company's Board of Directors authorized a Stock Buy Back Plan to purchase shares of the Company's common stock up to a maximum value of $2.0 million. Purchases will be made in the open market, if and when management determines to effect purchases. Management may elect not to make purchases or to make purchases less then $2.0 million in amount. Through September 30, 2007, the Company purchased 17,371 shares on the open market which are included in treasury stock at a total cost of approximately $36,000.

15. Florida Security Division

In April 2007, we determined that the former divisional controller of the Florida Security division embezzled funds from the Company. We initially conducted an internal investigation, and our Audit Committee subsequently engaged a consulting firm to conduct an independent forensic investigation. As a result of the investigation, we identified that the amount embezzled by the employee during fiscal 2006 was approximately $240,000, with an additional $99,000 embezzled in the first quarter of fiscal 2007. The embezzlement primarily occurred from a local petty cash checking account and from diversion of customer cash payments at the Florida Security division. Additionally, the investigation uncovered an unexplained inventory shortage in 2006 in the Florida Security division of approximately $350,000, which may have been due to theft. We filed a civil complaint against the former employee in June 2007 and intend to pursue all legal measures to recover our losses. Selling, general and administrative expenses include $99,000 in the quarter ended March 31, 2007, representing embezzled funds at our Florida Security division. If we recover any of the embezzled funds, such amounts will be recorded as recoveries in future periods when they are received.

16. Subsequent Events

On November 8, 2007, the Company signed an agreement to sell four of its six full service car washes in Florida for total cash consideration of approximately $10.9 million. The closing date under the agreement is 60 days from the signing of the agreement. The closing is subject to closing conditions and final due diligence of the buyer.

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

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

Forward-Looking Statements

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Forward-Looking Statements"). All statements other than statements of historical fact included in this report are Forward-Looking Statements. Although we believe that the expectations reflected in such Forward-Looking Statements are reasonable, we can give no assurance that such expectations will prove to be correct. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, number of acquisitions, and projected or anticipated benefits from acquisitions made by or to be made by us, or projections involving anticipated revenues, earnings, and levels of capital expenditures or other aspects of operating results. All phases of our operations are subject to a number of uncertainties, risks, and other influences, many of which are outside our control and any one of which, or a combination of which, could materially affect the results of our operations and whether Forward-Looking Statements made by us ultimately prove to be accurate. Such important factors that could cause actual results to differ materially from our expectations are disclosed in Part II, *Item 1A Risk Factors* of this report. All subsequent written and oral Forward-Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the important factors described below that could cause actual results to differ from our expectations. The Forward-Looking Statements made herein are only made as of the date of this filing, and we undertake no obligation to publicly update such Forward-Looking Statements to reflect subsequent events or circumstances.

Summary of Critical Accounting Policies

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

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

Revenue Recognition and Deferred Revenue

The Company's recognizes revenue in accordance with Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements." Under SAB No. 104, the Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, the fees are fixed and determinable, no significant obligations remain and collection of the related receivable is reasonably assured.

Revenues from the Company’s Security Segment are recognized when shipments are made and title has passed. Shipping and handling charges of $257,000 and $339,000 in the nine months ended September 30, 2007 and 2006, respectively, are included in selling, general and administrative (“SG&A”) expenses.

Revenues from the Company’s Digital Media Marketing Segment are recognized when shipments are made, services are performed, title has passed, persuasive evidence of an arrangement exists, the fees are fixed and determinable, no significant obligations remain and collection of the related receivable is reasonably assured. Consistent with the provisions of the Emerging Issues Task Force (“EITF”) Issue No. 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent”, the Company records as revenue the gross amount received from advertisers and the amount paid to the publishers placing the advertisements as cost of sales. Shipping and handling charges of $93,000 are included in SG&A expenses for the three and nine months ended September 30, 2007.

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

Advertising and Marketing Costs

The Company expenses advertising costs in its Security and Car Wash Segments, 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 amoritize over the expected life of a customer, based on the Company's application of Statement of Position ("SOP") 93-7. Under SOP 93-7, a company could capitalize and amortized direct-response advertising costs in a stable, established market where a company can demonstrate a history of profitability in the related product or advertising campaign. The Company's determination is that neither the history nor stable market criteria are currently met.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, highly liquid short-term investments with original maturities of three months or less, and credit card deposits which are converted into cash within two to three business days.

Short-Term Investments

At September 30, 2007, the Company had approximately $4.0 million of investments classified as available for sale in three funds which are stated at market value. The Company may exit one of the funds at the end of any calendar quarter with 30 days advanced written notice and the other funds may be exited with one business day's notice. In the nine months ended September 30, 2007 and 2006, the Company realized a total gain of $280,000 and $221,000, respectively on these investments. Additionally, a cumulative unrealized gain, net of tax, of approximately $585,000 is included as a separate component of equity in Accumulated Other Comprehensive Income at September 30, 2007.

Impairment of Long-Lived Assets

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

Goodwill

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, the Company completes its annual impairment tests as of November 30 of each year. In addition, an impairment test is conducted whenever there is an impairment indicator. The Company's annual impairment testing corresponds with the Company's determination of its annual operating budgets for the upcoming year. The Company's valuation of goodwill is based on a discounted cash flow model applying an appropriate discount rate to future expected cash flows and management's annual review of historical data and future assessment of certain critical operating factors, including security product sales and related costs, car wash volumes, average car wash and detailing revenue rates per car, wash and detailing labor cost percentages, weather trends and recent and expected operating cost levels. Estimating cash flows requires significant judgment including factors beyond our control and our projections may vary from cash flows eventually realized. Adverse business conditions could affect recoverability of goodwill in the future and, accordingly, the Company may record additional impairments in subsequent years.

Other Intangible Assets

Other intangible assets consist primarily of deferred financing costs, non-compete agreements, customer lists, software costs, product lists and trademarks. In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, 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. Deferred financing costs are amortized on a straight-line basis over the terms of the respective debt instruments. 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. 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.

Stock-Based Compensation

The Company has two stock-based employee compensation plans. On January 1, 2006, the Company adopted SFAS 123 (R), *Share-Based Payment,* which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. We adopted SFAS 123(R) using the modified prospective method, which results in recognition of compensation expense for all share-based awards granted or modified after December 31, 2005 as well as all unvested awards outstanding at the date of adoption. The cost is recognized as compensation expense over the vesting period of the instruments, based upon the grant date fair value of the equity or liability instruments issued. In the nine months ended September 30, 2007, the adoption of SFAS 123(R) resulted in stock compensation expense and therefore a reduction of income from before income taxes of $1.1 million ($1.08 million in continuing operations-SG&A, $8,000 in continuing operations-cost of revenues and $18,000 in discontinued operations). SG&A stock compensation expense includes a $648,000 non-cash compensation charge related to a forthcoming grant of fully vested options to Louis D. Paolino, Jr., the Company's Principal Executive Officer, pursuant to the terms of his employment agreement dated August 21, 2006. Mr. Paolino's employment agreement provides for fully vested stock option grants at the signing date and on the first and second anniversary dates of the employment agreement. Under the provisions of the employment agreement, the Company accounted for the forthcoming grant to Mr. Paolino based on the effective service inception date of August 2007 and accrued the $648,000 as an estimate based on the value of the prior year grant. The actual amount of the forthcoming grant due to Mr. Paolino per the terms of his employment contract will be based on an independent compensation study commissioned by the Company's Compensation Committee which has not been completed. The Company expects to grant the stock options during the fourth quarter of 2007. Any adjustment to the amount of the estimated stock-based compensation charge based on the compensation study and actual grant date will be recorded in the fourth quarter of 2007.

In the nine months ended September 30, 2006, SFAS 123(R) resulted in stock compensation expense and therefore a reduction of income before income taxes of $1.17 million ($1.15 million in continuing operations-SG&A expense, $10,000 in continuing operations-cost of revenues and $11,000 in discontinued operations) in the nine months ended September 30, 2006. The Company expects the application of SFAS 123(R) to result in stock compensation expense and therefore a reduction of income before income taxes in 2007 of $1.2 million to $1.3 million. The Company's actual stock compensation expense in 2007 could differ materially from this estimate depending on the timing, magnitude and vesting of new awards, the number of new awards and changes in the market price or the volatility of the Company's common stock.

Supplementary Cash Flow Information

Interest paid on all indebtedness was approximately $1.2 million and $1.5 million for the nine months ended September 30, 2007 and 2006 respectively. Income taxes paid were $81,000 and $146,000 in the nine months ended September 30, 2007 and 2006, respectively. The Company issued 1,176,471 shares of common stock with a market value of $3.0 million and $500,000 of promissory notes bearing a 5% interest rate due on January 3, 2008 in connection with the acquisition of Linkstar Interactive, Inc.

Introduction

Revenues

Security

Our Security Segment designs, manufactures, markets and sells a wide range of products. The Company's primary focus in the Security Segment is the design of electronic surveillance products and components that it produces and sells, primarily to installing dealers, system integrators and end users. Other products in our Security Segment include, but are not limited to, less-than-lethal Mace defense sprays, personal alarms, high-end digital and machine vision cameras and imaging components, as well as video conferencing equipment and monitors. The main marketing channels for our products are industry trade shows and publications, outside sales representatives, catalogs, the internet and sales through a call center. Revenues generated for the nine months ended September 30, 2007 for the Security Segment were comprised of approximately 35% from our professional electronic surveillance operation in Florida, 20% from our consumer direct electronic surveillance operations in Texas, 26% from our machine vision camera and video conferencing equipment operation in Texas, and 19% from our personal defense and law enforcement aerosol operation in Vermont.

Digital Media Marketing

Our Digital Media Marketing Segment is an online marketing and e-commerce business which has two business divisions: (1) online marketing and (2) e-commerce. The segment uses proprietary technologies and software to provide marketing services to third party advertisers and to sell products on the internet.

Our online marketing division, Promopath, is an online affiliate marketing company that drives customer acquisitions or leads for advertising clients principally using the cost-per-acquisition ("CPA") model. Promopath helps companies create effective performance driven marketing campaigns and provides design, brand and technical support services in order to achieve these goals. Promopath works with many large publishers to reach many areas of interactive media. Promopath's advertising clients are typically established direct-response advertisers with well recognized brands and broad consumer appeal such as Blockbuster, Discover credit cards and Columbia House DVD. Promopath generates CPA revenue; both brokered and through co-partnered sites, as well as, list management and lead generation revenues. CPA revenue or "Cost per Acquisition" in the digital marketing marketplace refers to paying a fee for the acquisition of a new customer, prospect or lead. List management revenue is based on a relationship between a data owner and a list management company. The data owner compiles, collects, owns and maintains a proprietary computerized database composed of consumer information. The data owner grants a list manager a non-exclusive, non-transferable, revocable worldwide license to manage, make use and have access to the Data pursuant to defined terms and conditions for which the data owner is paid revenue. Lead Generation is referred to as CPL "Cost per Lead" in the digital media marketplace. Advertisers purchasing media on a Cost per Lead basis are interested in collecting data from consumers expressing interest in a product or service. Cost per Lead varies from Cost per Acquisition in that no credit card information needs to be provided to the advertiser for the publishing source to be paid for the lead.

Our e-commerce division is a direct-response product business that develops, markets and sells products directly to consumers through the internet. We reach our customers predominately through online advertising on both the Promopath platform as well as third-party websites. Our products include: Vioderm™, an anti-wrinkle skin care product (www.vioderm.com); Purity by Mineral Science™, a mineral cosmetic (www.mineralscience.com); and TrimDay™, a weight-loss supplement (www.trimday.com); as well as Mace's pepper sprays and surveillance products. We continuously develop and test product offerings to determine customer acquisition costs and revenue potential, as well as to identify the most efficient marketing programs.

Revenues within our Digital Media Marketing Segment from the acquisition date, July 20, 2007, were approximately $2.8 million; consisting of $1.7 million from our online marketing division and $1.1 million from our e-commerce division.

Car and Truck Wash Services

At September 30, 2007, we owned 21, and leased two, car wash facilities including full service, exterior only and self-service car wash locations in Texas and Florida as well as truck washes in Arizona, Indiana, Ohio and Texas. We earn revenues from washing and detailing automobiles; performing oil and lubrication services, minor auto repairs, and state inspections; selling fuel; and selling merchandise through convenience stores within the car wash facilities. Revenues generated for the nine months ended September 30, 2007 for the Car and Truck Wash Segment were comprised of approximately 74% car wash and detailing, 14% lube and other automotive services, and 12% fuel and merchandise. Additionally, our Arizona car wash region, our Northeast car wash region and our truck washes are being 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. Revenues from discontinued operations were $4.5 million and $11.4 million for the nine months ended September 30, 2007 and 2006, respectively. Operating income from discontinued operations was $153,000 and $288,000 for the nine months ended September 30, 2007 and 2006, respectively.

The Company executed a lease-to-sell agreement on December 31, 2005 with Eagle United Truck Wash, LLC (“Eagle”) to lease Mace’s five truck washes beginning January 1, 2006 through December 31, 2007. Pursuant to the terms of the agreement, Eagle must pay Mace $9,000 per month to lease the Company’s truck washes, and is responsible for all underlying property expenses. On or before December 31, 2007, Eagle is obligated under the agreement to purchase the truck washes for $1.2 million consideration, consisting of $280,000 cash and a $920,000 note payable to Mace secured by mortgages on the truck washes. When issued, the $920,000 note will have a five-year term, with principal and interest paid on a 15-year amortization schedule. If Eagle does not fulfill its obligation to purchase the truck washes, the Company will regain possession of the truck washes and Eagle will be obligated to pay $200,000 as liquidated damages. As a result, we do not recognize revenue or operating expenses during the term of the lease other than rental income, depreciation expense and interest expense.

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

Weather has had a significant impact on volume and revenue at individual locations.

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. Product warranty costs related to the Security Segment are mitigated in that a significant portion of customer product defect claims are covered by the supplier of the products.

Digital Media Marketing

Cost of revenues within the Digital Media Marketing Segment consist 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 and fringe benefits; and e-commerce product costs.

Car and Truck Wash Services

Cost of revenues within the Car and Truck Wash Segment 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.

Selling, General and Administrative Expenses

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

We capitalize direct incremental costs associated with business acquisitions. Indirect acquisition costs, such as executive salaries, corporate overhead, public relations, and other corporate services and overhead are expensed as incurred.

Depreciation and Amortization

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

Other Income

Other income consists primarily of rental income received on renting out excess space at our car wash facilities and includes gains and losses on the sale of property and equipment and 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, fixed asset adjustments and changes to the valuation allowance.

Liquidity and Capital Resources

Liquidity

Cash and cash equivalents and short-term investments were approximately $12.1 million at September 30, 2007. The ratio of our total debt to total capitalization, which consists of total debt plus stockholders' equity, was 20.3% at September 30, 2007, and 29.8% at December 31, 2006.

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

As of September 30, 2007, we had working capital of approximately $16.3 million. At December 31, 2006, working capital was approximately $26.6 million. Our working capital decreased by approximately $10.3 million from December 31, 2006 to September 30, 2007 principally due to the purchase of Linkstar in the current quarter ending September 30, 2007 and the reclassification of approximately $3.2 million of mortgage loans related to several Texas car washes from non-current to current as a result of this debt being up for renewal in February 2008. Although we expect that we will be successful in renewing this debt for an additional five years, there can be no assurances that this will occur.

During the nine month periods ending September 30, 2007 and 2006, we made capital expenditures within our Car and Truck Wash Segment of $320,000 and $724,000, respectively, including $102,000 and $337,000 of capital expenditures related to discontinued operations, respectively. We estimate aggregate capital expenditures for our Car and Truck Wash Segment, exclusive of acquisitions of businesses, of approximately $150,000 for the remainder of the year ending December 31, 2007. In years subsequent to 2007, we estimate that our Car and Truck Wash Segment will require annual capital expenditures of $350,000 to $400,000. This estimate could differ depending on the timing of the sale of the remaining car washes. Capital expenditures within our Car and Truck Wash Segment are necessary to maintain the efficiency and competitiveness of our sites.

Capital expenditures for our Security Segment were $142,000 and $201,000 for the nine month periods ending September 30, 2007 and 2006, respectively. We estimate capital expenditures for the Security Segment will be approximately $20,000 for the remainder of 2007.

We expect to invest significant resources and capital to grow our new Digital Media Marketing Segment. We expect to continue to invest in engineering staff and in the development of new services and technologies within our online marketing division as well as additional products within our e-commerce division. Further, we may need to expend additional capital resources in member acquisition costs and in integrating new technologies to improve the speed, performance, features, ease of use and reliability of our consumer services in order to adapt to rapidly changing industry standards. As usage of our websites increases, we will need to increase networking equipment to maintain adequate data transmission speeds, the availability of which may be limited or the cost of which may be significant. Our online marketing division will also require the infusion of additional capital as we grow because our advertising customers, which are billed at the end of the month with payment terms of approximately 45 days, where as we typically pay our website publishers in approximately 15 days. Additionally, as we introduce new e-commerce products we develop, upfront capital spending is required to purchase inventory as well as pay for upfront media costs to enroll new e-commerce members.

We intend to continue to expend significant cash for the purchase of inventory for our Security Segment and the e-commerce division of our Digital Media Marketing Segment as we grow and introduce new video surveillance products and e-commerce products in 2007 and in years subsequent to 2007. We anticipate that inventory purchases will be funded from cash collected from sales and working capital. At September 30, 2007, we maintained an unused $500,000 revolving credit facility with Chase to provide financing for additional inventory purchases. The amount of capital that we will spend for the remainder of 2007 and in years subsequent to 2007 is largely dependent on the marketing success we achieve with our video surveillance systems and components and in our e-commerce internet business.

On March 13, 2006, the Company learned that the United States Attorney for the Eastern District of Pennsylvania is conducting a criminal investigation regarding the alleged hiring of undocumented workers at the Company's car washes. From March 13, 2006 through September 30, 2007, the Company incurred a total of $2.1 million of legal, accounting and consultant costs due to the criminal immigration investigation of the Company. Of the total $2.1 million, $603,000 was incurred in the nine months ending September 30, 2007. Also included in the $2.1 million of costs was $433,000 of legal, consulting and accounting expenses associated with an Audit Committee investigation of the criminal immigration allegations from March 13, 2006 through December 31, 2006. The Audit Committee investigation was completed by December 31, 2006 and no costs associated with the Audit Committee investigation were incurred during 2007. In accordance with the Company's By Laws, the Company is obligated to indemnify and advance legal costs for its officers and directors. In accordance with the Company's By Laws, the Company is obligated to indemnify and advance legal costs for its officers and directors. Due to the ongoing nature of the criminal investigation, it is not possible at this time to predict the outcome of the investigation or the impact of costs of ultimately resolving this matter. However, we believe that additional legal and other costs and expenses through the remainder of 2007 and in years subsequent to 2007 may be significant as we work to resolve the criminal investigation. In addition, we may be required to make substantial payments for fines, penalties or settlements in connection with the resolution of alleged violations of laws. Any such expenses or payments could have a material adverse effect on our liquidity and capital resources.

Despite our recent operating losses, we believe our cash and short-term investment balance of approximately $12.1 million at September 30, 2007, cash flow from operating activities, cash provided from the sale of assets, and the revolving credit facility will be sufficient to meet our security, digital media marketing and car wash operations capital expenditure and operating funding needs through at least the next twelve months and provide for growth in 2008.

In December 2005 through September 30, 2007, we sold 26 car washes with total cash proceeds generated of approximately $22.4 million, net of pay off of related mortgage debt. In October 2006, the Company announced that management determined that better value for the car washes can be obtained by individual car wash site sales or sale of car washes by operating region. We believe we will be successful in selling additional car washes and generating cash. Cash from car wash sales have been used to fund operating needs and expansion of our Security and Digital Media Marketing Segment. If the cash provided from operating activities does not improve during the balance of 2007 and in future years and if current cash balances are depleted, we will need to raise additional capital to meet these ongoing capital requirements.

In the past, we have been successful in raising capital by selling common stock, obtaining mortgage loans and selling car wash properties. Our ability to raise additional capital can be adversely impacted by our stock price. Any failure to maintain the required debt covenants on existing loans could also adversely impact our ability to raise additional capital. We are reluctant to sell common stock at market prices below our per share book value. Our ability to raise additional capital will be limited if our stock price is not above our per share book value and if our cash from operating activities does not improve. Currently, we cannot incur additional long-term debt without the approval of one of our commercial lenders which requires the Company to demonstrate that the cash flow benefit from the use of any new loan proceeds exceeds the resulting future debt service requirements.

Debt Capitalization and Other Financing Arrangements

At September 30, 2007, we had borrowings, including capital lease obligations and discontinued operations, of approximately $14.2 million. We had three letters of credit outstanding at September 30, 2007, totaling $1,149,000 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. There were no borrowings outstanding under the revolving credit facility at September 30, 2007. The Company also maintains a $300,000 guidance line for commercial letters of credit for the importation of inventory. There were no outstanding commercial letters of credit under this commitment at September 30, 2007.

Several of our debt agreements, as amended, contain certain affirmative and negative covenants and require the maintenance of certain levels of tangible net worth, require the maintenance of certain unencumbered cash and marketable securities balances, contain limitations on capital spending and certain financial reporting requirements.

At March 31, 2007, the Company had notes payable with Capmark Finance Inc. in the amount of $8.5 million which were reported as a current liability included in liabilities related to assets held for sale at March 31, 2007. We repaid this debt on May 17, 2007 with proceeds from the sale of the Arizona car washes to Twisted Cactus Enterprises, LLC.

The Company entered into amendments to the Chase term loan agreements effective September 30, 2006. The amended loan agreements with Chase eliminated the Company's requirement to maintain a ratio of consolidated earnings before interest, income taxes, depreciation and amortization to debt service. The Chase term loan agreements also limit capital expenditures annually to $1.0 million, requires the Company to provide Chase with a Form 10-K and audited financial statements within 120 days of the Company's fiscal year end and a Form 10-Q within 60 days after the end of each fiscal quarter, and requires the maintenance of a minimum total unencumbered cash and marketable securities balance of $5 million. If we are unable to satisfy these covenants and we cannot obtain waivers, the Chase notes may be reflected as current in future balance sheets and as a result our stock price may decline.

If we default on any of the Chase covenants and are not able to obtain amendments or waivers of acceleration, Chase debt totaling $11.1 million at September 30, 2007, including debt recorded as long-term debt at September 30, 2007, could become due and payable on demand, and Chase could foreclose on the assets pledged in support of the relevant indebtedness. If our assets (including up to 15 of our car wash facilities and one truck wash as of September 30, 2007) are foreclosed upon, revenues from our Car and Truck Wash Segment, which comprised 53% of our total revenues for fiscal year 2006 and 46% of our total revenues in the nine months ended September 30, 2007, would be severely impacted and we may be unable to continue to operate our business. Even if the debt were accelerated without foreclosure, it would be very difficult for us to continue to and we may go out of business.

The Company's ongoing ability to comply with its debt covenants under its credit arrangements and refinance its debt depends largely on the achievement of adequate levels of cash flow. If our future cash flows are less than expected or our debt service, including interest expense, increases more than expected causing us to default on any of the Chase covenants in the future, the Company will need to obtain amendments or waivers from Chase. Our cash flow has been and could continue to be adversely affected by weather patterns, economic conditions, and the requirements to fund the growth of our business. In the event that non-compliance with the debt covenants should occur, the Company would pursue various alternatives to attempt to successfully resolve the non-compliance, which might include, among other things, seeking additional debt covenant waivers or amendments, or refinancing debt with other financial institutions. If the Company is unable to obtain waivers or amendments in the future, Chase debt currently totaling $11.1 million, including debt recorded as long-term debt at September 30, 2007, would become payable on demand by Chase upon expiration of current waivers. There can be no assurance that further debt covenant waivers or amendments would be obtained or that the debt would be refinanced with other financial institutions at favorable terms. If we are unable to obtain renewals on maturing loans or refinancing of loans on favorable terms, our ability to operate would be materially and adversely affected.

The Company is obligated under various operating leases, primarily for certain equipment and real estate within the Car and Truck Wash Segment. Certain of these leases contain purchase options, renewal provisions, and contingent rentals for our proportionate share of taxes, utilities, insurance and annual cost of living increases.

The following are summaries of our contractual obligations and other commercial commitments at September 30, 2007, including 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)	$ 14,156	$ 4,795	$ 7,499	$ 554	$ 1,308
Capital leases (2)	1	1	-	-	-
Minimum operating lease payments	4,675	817	1,470	1,190	1,198
	$ 18,832	$ 5,613	$ 8,969	$ 1,744	$ 2,506

	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)	$ -	$ -	$ -	$ -	$ -
Standby letters of credit (4)	1,149	1,149	-	-	-
	$ 1,149	$ 1,149	$ -	$ -	$ -

(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 $960,000.
(3) The Company maintains a $500,000 line of credit with Chase. There were no borrowings outstanding under this line of credit at September 30, 2007.
(4) The Company maintains a $300,000 guidance line for commercial letters of credit with Chase for the importation of inventory. There were no outstanding commercial letters of credit under this commitment at September 30, 2007. Outstanding letters of credit of $1,149,000 represent collateral for workers' compensation insurance policies.

Mace currently employs Louis D. Paolino, Jr. as its President and Chief Executive Officer under a three-year employment agreement dated August 21, 2006. The principal terms of the employment agreement include: an annual salary of $450,000; three annual stock option grants fully vested on the date of each grant; certain bonus payments for the sale or purchase of businesses; a car at a lease cost of $1,500 per month; provision for certain medical and other employee benefits; and prohibition against competing with Mace during employment and for a three-month period following a termination of employment. Mr. Paolino's employment agreement also provides for a payment of 2.99 times Mr. Paolino's average total compensation (base salary plus any bonuses plus the value of any option award, valued using the Black-Scholes method) over the past five years, upon termination of employment under certain conditions or upon a change in control. Additionally, if Mr. Paolino receives the change of control bonus, his employment agreement can then be terminated without an additional payment. Of the three stock option grants provided for in Mr. Paolino's employment agreement, the first grant, exercisable into 450,000 shares of the Company's common stock, was made on August 21, 2006. The second grant is expected during the fourth quarter 2007 and the third grant is expected be made on or about August 21, 2008. Because the grants are fully vested on the date of grant, they do not provide an incentive against Mr. Paolino resigning his employment.

Cash Flows

Operating Activities. Net cash used in operating activities totaled $5.6 million for the nine months ended September 30, 2007. Cash used in operating activities in 2007 was primarily due to a net loss from continuing operations of $7.2 million, which included $1.1 million in non-cash stock-based compensation charges and $1.3 million of depreciation and amortization. Cash was also impacted by an increase in accounts payable and accrued expenses of $1.7 million, an increase in accounts receivable of $362,000 and an increase in inventory of $1.3 million. Net cash used in operating activities totaled $2.9 million for the nine months ended September 30, 2006. Cash used in operating activities in 2006 was primarily due to a net loss of $5.1 million from continuing operations partially offset by $1.2 million in non-cash stock-based compensation charges and increases in accounts receivable and inventory totaling $900,000.

Investing Activities. Cash provided by investing activities totaled approximately $11.1 million for the nine months ended September 30, 2007, which includes cash provided by investing activities from discontinued operations of $18.6 million related to the sale of 23 car wash sites in the nine months ended September 30, 2007 offset by the acquisition of Linkstar Interactive, Inc. of $7.4 million. Cash provided by investing activities totaled $1.9 million for the nine months ended September 30, 2006, which includes capital expenditures of $394,000 related to ongoing car wash operations and corporate and $201,000 for the Security Segment offset by proceeds from sales of property and equipment of $1.8 million and $665,000 provided from discontinued operations.

Financing Activities. Cash used in financing activities was approximately $1.4 million for the nine months ended September 30, 2007, which includes $932,000 of routine principal payments on debt from continuing operations and $450,000 of routine principal payments on debt related to discontinued operations. Cash used in financing activities was $2.2 million for the nine months ended September 30, 2006, which includes routine principal payments on debt of $1.4 million from continuing operations and $748,000 from discontinued operations.

Results of Operations for the Nine Months Ended September 30, 2007
Compared to the Nine Months Ended September 30, 2006

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

	Nine Months Ended September 30, 2007	2006
Revenues	100.0%	100.0%
Cost of revenues	77.8	75.6
Selling, general and administrative expenses	38.1	34.6
Depreciation and amortization	3.5	3.2
Asset impairment charge	-	0.1
Operating loss	(19.4)	(13.5)
Interest expense, net	(1.4)	(1.9)
Other income	1.5	2.1
Loss from continuing operations before income taxes	` (19.3)	(13.3)
Income tax expense	(0.2)	(0.3)
Loss from continuing operations	(19.5)	(13.6)
Income (loss) from discontinued operations	5.5	(0.1)
Net loss	(14.0)%	(13.7)%

Revenues

Security

Revenues within the Security Segment were approximately $16.8 million and $18.2 million for the nine months ended September 30, 2007 and 2006, respectively. Of the $16.8 million of revenues for the nine months ended September 30, 2007, $5.9 million, or 35%, was generated from our professional electronic surveillance operation in Florida, $3.3 million, or 20%, from our consumer direct electronic surveillance equipment operations in Texas, $4.4 million or 26%, from our machine vision camera and video conferencing equipment operation in Texas, and $3.2 million, or 19%, from personal defense and law enforcement aerosol operation. Of the $18.2 million of revenues for the nine months ended September 30, 2006, $7.2 million, or 39%, was generated from our professional electronic surveillance operation in Florida, $3.7 million, or 21%, from our consumer direct electronic surveillance equipment operation in Texas, $4.8 million, or 26%, from our machine vision camera and video conference equipment operation in Texas, and $2.5 million, or 14%, from our personal defense and law enforcement aerosol operation. The decrease in revenues within the Security Segment was due to a decrease in sales of our consumer direct electronic surveillance and machine vision camera and video conferencing equipment in Texas and our professional electronic surveillance operation in Florida. The decrease in sales in our professional electronic surveillance operation was partially a result of sales of discontinued and refurbished products at lower selling prices, the inability of some of Mace’s vendors to supply high volume products in a timely manner, competitive pressures and the impact on operations and management of the Florida embezzlement investigation. The decrease in sales of our consumer direct electronic surveillance operations in Texas was largely a result of increased competition and inventory shortages of certain components. The Company’s machine vision camera and video conferencing equipment operation was impacted by competition and certain large customers purchasing direct from its main supplier. This decrease in revenue was partially offset by a $721,000 or 29% increase in revenue in our personal defense and law enforcement aerosol operations with a noted increase in sales in our Mace aerosol defense sprays and TG Guard® products.

Digital Media Marketing

Revenues within our Digital Media Marketing Segment from July 20, 2007, the date we acquired the segment, were approximately $2.8 million; $1.7 million from our online marketing division and $1. 1 million from our e-commerce division.

Car and Truck Wash Services

Revenues for the nine months ended September 30, 2007 were $17.1 million as compared to $19.1 million for the nine months ended September 30, 2006, a decrease of 2.0 million or 10%. This decrease was primarily attributable to a decrease in wash and detail services and fuel and merchandise sales. Of the $17.1 million of revenues for the nine months ended September 30, 2007, $12.7 million or 74% was generated from car wash and detailing, $2.4 million or 14% from lube and other automotive services, and $2.0 million or 12% from fuel and merchandise sales. Of the $19.1 million of revenues for the nine months ended September 30, 2006, $13.9 million or 73% was generated from car wash and detailing, $2.6 million or 13.5% from lube and other automotive services, and $2.6 million or 13.5% from fuel and merchandise sales. The decrease in wash and detail revenues in 2007 was principally due to the sale of car washes and reduced car wash volumes in the Texas and Florida market due to unfavorable weather. Overall car wash volumes declined by 141,000 cars, or 17%, in the first nine months of 2007 as compared to the first nine months of 2006, 15% excluding the impact of a car wash volume reduction of 15,000 cars from the closure and divestiture of two car wash locations since September 2006 included in continuing operations. Partially offsetting this decline in volume, the Company experienced an increase in average wash and detailing revenue per car to $18.28 in the first nine months of 2007 from $16.69 in the same period in 2006 as the Company focused on increasing detailing and add on wash services to compensate for the reduced car wash volume.

Cost of Revenues

Security

During the nine months ended September 30, 2007 cost of revenues was $12.2 million or 73% of revenues as compared to $13.0 million or 71% of revenues for the nine months ended September 30, 2006. The slight increase in cost of revenues as a percentage of revenues is due to a change in customer and product mix and an increase in sale of discontinued products and refurbished items at lower profit margins.

Digital Media Marketing

Cost of revenues within our Digital Media Marketing Segment from July 20, 2007, the date we acquired the segment, were approximately $2.6 million; $1.6 million related to our online marketing division and $960,000 related to our e-commerce division.

Car and Truck Wash Services

Cost of revenues for the nine months ended September 30, 2007 were $13.7 million, or 80% of revenues, with car washing and detailing costs at 79% of respective revenues, lube and other automotive services costs at 80% of respective revenues, and fuel and merchandise costs at 88% of respective revenues. Cost of revenues for the nine months ended September 30, 2006 were $15.2 million, or 80% of revenues, with car washing and detailing costs at 77% of respective revenues, lube and other automotive services costs at 79% of respective revenues, and fuel and merchandise costs at 90% of respective revenues. This slight increase in car washing and detailing costs as a percent of revenues in 2007 was the result of an increase in cost of labor as a percent of car wash and detailing revenues from 52.3% in 2006 to 53.3% in 2007 as a result of reduced volumes.

Selling, General and Administrative Expenses

SG&A expenses for the nine months ended September 30, 2007 were $14.0 million compared to $12.9 million for the same period in 2006. SG&A expenses as a percent of revenues were 38% for the nine months ended September 30, 2007 and 35% for the nine months ended September 30, 2006. The increase in SG&A costs is primarily the result of the growth in infrastructure and an increase in marketing and advertising costs within the Security Segment, which added an additional $58,000 of SG&A costs in 2007, the acquisition of Linkstar which added SG&A costs of $684,000 in 2007 and a commission paid related to the Linkstar acquisition which added SG&A costs of $310,000 in 2007. In April 2007, we determined that our former Florida security based divisional controller embezzled funds from the Company. The Company initially conducted an internal investigation, and our Audit Committee subsequently engaged an independent consulting firm to conduct an independent forensic investigation. As a result of our investigation, we estimated that the amount embezzled by the employee during fiscal 2006 was approximately $240,000 and $99,000 embezzled in the first quarter of fiscal 2007. SG&A expenses for the nine months ending September 30, 2007 also include approximately $310,000 of legal, consulting and accounting fees related to the Florida embezzlement investigation. This increase was partially offset by a decrease in costs related to the ongoing immigration investigation. SG&A expenses include $603,000 of legal, consulting and accounting fees in the first nine months of 2007 relating to the ongoing immigration investigation as compared to $1.35 million in the first nine months of 2006. SG&A costs also include non-cash compensation expense of approximately $1.1 million and $1.2 million in the nine months ended September 30, 2007 and 2006, respectively.

Depreciation and Amortization

Depreciation and amortization totaled $1.27 million for the nine months ended September 30, 2007 as compared to $1.19 million for the same period in 2006. The increase in depreciation and amortization expense was related to amortization expense on Linkstar acquired intangible assets.

Interest Expense, Net

Interest expense, net of interest income, for the nine months ended September 30, 2007 was $523,000 compared to $691,000 for the nine months ended September 30, 2006. The decrease in net interest expense is due to an increase in interest expense of approximately $53,000 as a result of increasing interest rates offset by and an increase in interest income of approximately $191,000 with the Company's increase in cash and cash equivalents.

Other Income

Other income for the nine months ended September 30, 2007 was $542,000 compared to $770,000 for the nine months ended September 30, 2006. The 2007 other income includes $280,000 of earnings on short-term investments and the recovery of a previously written off acquisition deposit of $150,000. The 2006 other income includes a $461,000 gain on the sale of a Dallas, Texas car wash and $221,000 of earnings on short term investments.

Income Taxes

The Company recorded tax expense of $73,000 for the nine months ended September 30, 2007 and $117,000 for the nine months ended September 30, 2006. Tax expense (benefit) reflects the recording of income taxes at an effective rate of approximately (1)% in 2007 and (2)% in 2006.

Results of Operations for the Three Months ended September 30, 2007
Compared the Three Months ended September 30, 2006

Revenues

Security

Revenues within the Security Segment were approximately $5.7 million for both the three months ended September 30, 2007 and 2006. Of the $5.7 million of revenues for the three months ended September 30, 2007, $2.1 million, or 36%, was generated from our professional electronic surveillance operation in Florida, $1.2 million, or 20%, from our consumer direct electronic surveillance equipment operation in Texas, $1.3 million, or 24%, from our machine vision camera and video conferencing equipment operation in Texas, and $1.1 million, or 20%, from personal defense and law enforcement aerosol operation. Of the $5.7 million of revenues for the three months ended September 30, 2006, $2.0 million, or 35%, was generated from our professional electronic surveillance operation in Florida, $1.2 million, or 21%, from our consumer direct electronic surveillance equipment operation in Texas, $1.5 million, or 27%, from our machine vision camera and video conference equipment operation in Texas, and $1.0 million, or 17%, from our personal defense and law enforcement aerosol operation. A decrease in our consumer direct electronic surveillance and machine vision camera and video conferencing equipment in Texas was offset by a $160,000, or 3%, increase in our professional electronic surveillance operation and a $150,000, or 16%, increase in revenue in our personal defense and law enforcement aerosol operations. The decrease in sales of our consumer direct electronic surveillance operations in Texas was largely a result of increased competition and inventory shortages of certain components. The Company's machine vision camera and video conferencing equipment operation was impacted by competition and certain large customers purchasing direct from its main supplier.

Digital Media Marketing

Revenues within our Digital Media Marketing Segment from July 20, 2007, the date we acquired the segment, were approximately $2.8 million; consisting of $1.7 million from our online marketing division and $1. 1 million from our e-commerce division.

Car and Truck Wash Services

Revenues for the three months ended September 30, 2007 were $5.5 million as compared to $5.9 million for the three months ended September 30, 2006, a decrease of $431,000 million or 7%. This decrease was primarily attributable to a decrease in wash and detail services. Of the $5.5 million of revenues for the three months ended September 30, 2007, $4.0 million or 73% was generated from car wash and detailing, $818,000 or 15% from lube and other automotive services, and $664,000 or 12% from fuel and merchandise sales. Of the $5.9 million of revenues for the three months ended September 30, 2006, $4.2 million or 71% was generated from car wash and detailing, $907,000 or 15% from lube and other automotive services, and $801,000 or 14% from fuel and merchandise sales. The decrease in wash and detail revenues in 2007 was principally due to the sale of car washes and reduced car wash volumes in the Texas and Florida market due to unfavorable weather. Overall car wash volumes declined by 41,000 cars, or 16%, in the third quarter of 2007 as compared to the third quarter of 2006 (15% excluding the impact of a car wash volume reduction of 4,000 cars from the closure and divestiture of a car wash location in March, 2007 included in continuing operations). Partially offsetting this decline in volume, the Company experienced an increase in average wash and detailing revenue per car to $18.97 in the third quarter of 2007 from $15.87 in the same period in 2006 as the Company focused on increasing detailing and add on wash services to compensate for the reduced car wash volume.

Cost of Revenues

Security

During the three months ended September 30, 2007 cost of revenues were $4.0 million or 70% of revenues as compared to $4.1 million or 71% of revenues for the three months ended September 30, 2006. The slight decrease in cost of revenues as a percentage of revenues is due to a change in customer and product mix.

Digital Media Marketing

Cost of revenues within our Digital Media Marketing Segment from July 20, 2007, the date we acquired the segment, were approximately $2.6 million; $1.6 million related to our online marketing division and $960,000 related to our e-commerce division.

Car and Truck Wash Services

Cost of revenues for the three months ended September 30, 2007 were $4.5 million, or 82% of revenues, with car washing and detailing costs at 82% of respective revenues, lube and other automotive services costs at 77% of respective revenues, and fuel and merchandise costs at 89% of respective revenues. Cost of revenues for the three months ended September 30, 2006 were $5.0 million, or 84% of revenues, with car washing and detailing costs at 82% of respective revenues, lube and other automotive services costs at 86% of respective revenues, and fuel and merchandise costs at 94% of respective revenues. This slight increase in car washing and detailing costs as a percent of revenues in 2007 was the result of an increase in cost of labor as a percent of car wash and detailing revenues from 56.0% in 2006 to 56.9% in 2007 as a result of reduced volumes.

Selling, General and Administrative Expenses

SG&A expenses for the three months ended September 30, 2007 were $5.7 million compared to $4.5 million for the same period in 2006. SG&A expenses as a percent of revenues were 41% for the three months ended September 30, 2007 as compared to 39% in the third quarter of 2006. The increase in SG&A costs is primarily the result of the acquisition of Linkstar which added SG&A costs of $684,000 in the third quarter of 2007, an increase in the legal, consulting and accounting fees related to the ongoing immigration investigation from $217,000 in the third quarter of 2006 to $355,000 in the third quarter of 2007 and a $310,000 commission paid related to the Linkstar acquisition. SG&A costs also include non-cash compensation expense of approximately $767,000 and $778,000 in the three months ended September 30, 2007 and 2006, respectively.