MACE SECURITY INTERNATIONAL INC.

Moderator: (Carl Smith)
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11:00 a.m. ET

Operator: Good morning my name is (Leah) and I will be your conference operator today. At this time I would like to welcome everyone to the third quarter 2012 investor call. All lines have been placed on mute to prevent any background noise. After the speakers remarks there will be a question and answer session. If you would like to ask a question during this time, simply press start and number one on your telephone key pad. If you'd like to withdraw your question, press the pound key. Thank you. (Carl Smith) you may begin.

(Carl Smith): Thank you (Leah). Good morning and thanks for joining us on our third quarter 2012 earnings call. I'm (Carl Smith), Senior Vice President of Mace Security International. Also with us today is my CEO and President John McCann.

I will be covering the financial results of our third quarter and nine months ended September 30, 2012 versus the same period of 2011. Before I begin my discussion of the financial results I need to advise everyone that certain statements and information during this conference call will constitute forward looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. When used during our conference call the words or phrases will likely result, are expected to, will continue, is anticipated, estimate project and intended to or similar expressions are intended to identify forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Such statements are subjected to certain risks known and unknown and uncertainties including, but not limited to, economic conditions, limit of capital resources and the ability of management to effectively manage the business and integrate employer businesses. Such factors could materially adversely affect Mace's financial performance. It could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during this call.

Additional discussions or factors that could cause actual results to differ from materially from management's projected forecasts, estimates and expectations are contained under the heading risk factors in Mace's SEC filings, which includes it’s registration statements and it’s period reports and forms 10K and Form 10Q. All statements made during the conference call should also be considered in conjunction with the financial statements and notes contained in Mace's annual reports and Form 10K and quarterly reports on Form 10Q.

You can access these reports on www.mace.com through the investor relations section of this Web site. You can click on the investor relations button. Now I would like to begin my review of the third quarter financial results of Mace. First, as in the past on other conference calls I'd like to give you a little bit of background on Mace.

Mace currently functions in the securities segment and we have discontinued operations within our previous reported car wash segment with one remaining site as of September 30, 2012. Within our securities segment we basically have three operating units or divisions. We have our Mace personal defense operation, which is in Vermont.

That is where we manufacture and distribute out well-known Mace brand of aerosol pepper spray. We also have our Mace security products which is our electronic surveillance equipment but for professional home and small business. Recently we integrated the distribution of the electronic surveillance products, Mace Security products with the Mace pepper spray business in Vermont.

As a result, what we did is we closed our distribution operation in Texas. Legally we also merged the Mace Personal Defense entity into Mace Security Products, Inc. and changed the name of the combined entities into Mace Personal Defense and Security.

John McCann will probably have additional comments regarding this later on this call. And then finally our third operating unit or division is Mace Central Station, which is our wholesale monitoring operation located in Anaheim, California. As previously mentioned, the car wash segment is accounted for as a discontinued operation.

And then from an accounting and financial reporting standpoint all of the revenues and expenses, including the prior period that was presented in the financial statements posted on the OTC are pulled out of the income statement and line items are reported in one line item on the bottom of the income statement.

Likewise on the balance sheet the assets and related liabilities of the discontinued car wash shop operations that are held for sale are removed from the various balance sheet items and are moved to one line on each side of the balance sheets assets held for sale and liabilities related to assets for sale on the liability side of the balance sheet.

Now I will discuss our quarter and year to date financials. John McCann our CEO will follow with some additional comments on our operations when I'm through with this. OK, for the financial results for the three months ended September 30, 2012 and 2011, revenues were approximately $3.4 million and $3.5 million for the three months ended September 30, 2012 and 2011 respectively. Of the $3.4 million of revenues for the three months ended September 30 approximately $1.8 million or 54percent are regenerated from our personal defense and law enforcement aerosol operations.

Mainly this is our mace pepper brand spray. $1.07 million or 32percent was derived from our wholesale security monitoring operation in California and $490,000 or 14percent of our revenues came from the electronic surveillance equipment operation. Of the $3.5 million revenues for the three months ended last year, $1.4 million or 40percent regenerated from our personal defense and law enforcement aerosol operations with $1.06, close to $1.1 million or 30percent from our wholesale security monitoring operation and about $1 million or 30percent from our electronics surveillance equipment operation.

It should be noted that the electronic surveillance equipment operation included 108,000 last year from our high end digital and machine vision cameras components operation, which we refer to as IVF and that business was sold on October 21, 2011. Overall revenues within the securities segment decreased $128,000 or 3.6 percent in 2012 compared to last year.

This decrease is mainly attributed to a $568,000 decrease or a 53.7 percent in sales from the electronic surveillance electronics equipment operation, which was offset by an almost 31 percent increase or $429,000 in our personal defense and law enforcement operations. And there was also a slight increase of $10,000 or .9 percent in our wholesale security monitoring operation.

It should be noted that the decrease in surveillance equipment revenues attributed to several factors of which we highlighted in our last conference call and will continue through today and that's due to the direct sales of Asian manufacturers, the loss of a key customer in the sale of IVF.

The increase in personal offense in law enforcement operations, and gain this is our aerosol pepper spray business, is attributed significant increases throughout consumer and international sale channels for the quarter and a slight increase in our sporting goods channel. For the quarter ending September 30, 2012, the consumer sales were $643,000, which is an increase of about $286,000 or 80 percent over last quarter. International sales were up $135,000, which was an increase of $86,000 or 178 percent over the quarter last year.

And revenues derived from our sporting goods channel were $782,000 a $32,000 increase or 4 percent over the quarter last year. Revenues increased marginally in our wholesale security division by $10,0000 or almost 1 percent. Lots from continuing operations for the third quarter of 2012 of approximately $700,000 or $.01 per share compared to a loss of continuing operations of $1.9 million or $.04 cents per share in the third quarter of 2011.

The decrease in this operating loss from continuing operations was attributed mainly to the decrease in shelling general and administrative expenses of about $891,000 or 32 percent. And we also incurred an increase in gross profit of $251,000 or approximately 23 percent.

Discontinued operations are comprised of the company's car wash as noted before. The results of these operations as shown is discontinued operation for financial reporting for purposes like I had indicated earlier. These operations generated a loss of approximately $504,000 or a penny per share and $262,000 or 1 cent per share for the month ended September 30 in 2011 respectfully. And that is due to the waiting of the average shares on standing being different from quarter to quarter.

The $504,000 loss in the third quarter of 2012 included expenses associated with the lease assignment and agreement on one of the remaining car and loop facilities. With additional accrued expenses that we need to incur and further monitor and test two car wash locations. Net loss for the three months ended September 30, 2012 was approximately $1.2 million or $.02 cents per share compared to a net loss of approximately $2.1 million or $.05 cents per share for the three months ended last year.

Weighted average shares for computing loss per share for the three months ending 2012, September 30, 2012 and 2011 are $58,946,000.00 for the quarter ending 2012 and $43,572,000.00 for the quarter ending September 30 in 2011. That concludes the three month or the quarterly result comparison. Now we'll discuss the nine month or year to date financial.

Revenues were approximately $9.8 million and $10.6 million for the months ended September 30, 2012 versus last year. This years' sales of $9.8 million of revenues included a $4.9 million – let's see where's my revenues, just bear with me for one second, yeah the $9.8 million of revenues for the nine months ended for September 30 – here we go – $4.9 million of those sales are 50 percent regenerated from our personal defense and law enforcement aerosol operations. $3.2 million or 33 percent came from our whole sale security monitoring operation and $1.7 million or 17 percent from our electronic surveillance equipment operation.

Last year on the $10.6 million of revenues 3.7 million or 35 percent were generated from our personal defense law enforcement aerosol operation with $2.9 million or 28 percent derived from wholesale security monitoring operations and $3 million or 28 percent from our electronic surveillance equipment operation. And it should be noted last year the electronic surveillance equipment operation included $1 million from our high end IVS operation, which again was sold in October 21, 2011.

So then overall revenues within this security segment decreased $797,000 or 7.5 percent compared to 2011. The decreases may only attribute it to the $2.3 million or 57 percent decrease in sales or revenues derived from the electronic surveillance equipment operation, you know and offset by a $1.2 million or 32 percent in our personal defense in law enforcement aerosol operation. Again, our pepper brand spray of pepper spray – our Mace brand of pepper spray and an increase of $340,000 or 12 percent in our wholesale security monitoring operation, which includes the acquisition of a monitoring center TCCI on March 31,2011.

The decrease in surveillance equipment revenue is due to several factors as mentioned in the quarterly results. It includes approximately $1 million in revenues , which were eliminated from IVS. The increase in personal defense law enforcement operation is mainly attributed to significant increase through our consumer sporting and international sales channels. For the nine months ending September 30, consumer channel sales were $1.5 million, an increase of $450,000 or 44 percent over the last year.

Sporting channels were $2.1 million, an increase of $381,000 or 22 percent over last year and international sales were $465,000 an increase of $269,000 or 137 percent over last year. Loss from continuing operations from the nine months ended September 30, 2012 was approximately $1.9 million or 3 cents per share compared to a loss from continuing operations of $4.1 million or 17 cents per share in the nine month ended September 30, 2011.

The decrease in operating loss from continuing ops was attributed to the decrease in SG&A expenses of $1.8 million or 26 percent and an increase in gross profit of $189,000 or approximately 5 percent. Discontinued ops are comprised of the company's car wash operations. Results for these operations are shown as discontinued operations as noted here earlier. These operations generated a loss of approximately $756,000 or 3 cents per share for the nine months ended September 30, 2012 at a loss of $296,000 or 17 cents per share for the nine months ended September 30, 2011.

Current year to date loss includes a cash payment of $275,000 in a transfer of certain inventories and equipment having an approximate book value of $70,000 as consideration to the landlord for the early release of this contractual lease agreement that we were in. net loss for the nine months ended September 30 was approximately $2.5 million or three cents per share compared to a net loss of approximately $4.4 million or 17 cents per share for the nine months ended September 30 of last year.

Weighted average shares in computing the loss per share for the nine months ending were $58,946 and $25,116 for 2012 and 2011 respectfully. Now at this time I'd like to just have a few comments on our balance sheet and some cash flow items. From a balance sheet perspective we continue to maintain a leverage ratio position of $6.6 percent as of September 30, 2012 and that's based on debt of about $1 million in equity of about $15.1 million.

We had a positive working capital of approximately $9.7 million as of September 30 and a current ratio of 5.2. With respect to debt during the previous second quarter call all mortgages were paid off with the February sale of an Arlington, Texas car wash and then debt as of September 30, 2012 is approximately $1 million with debenture note with Merlin Partners at about $950,000 and then there is a few small capital leases included in our total debt.

Our cash and short term investments totaled $5.7 million at September 30 and our total assets were $18.5 million. Inventory was reduced by approximately $390,000 from December of the end of last year, December 31, 2011, and then from a cash flow perspective for the nine months ending September 30 2012 used approximately $3.2 million of cash and operating activities and approximately $1.7 million in investing activities. This included about $3 million to purchase short term investments offset by a $1.6 million net proceeds from an Arlington, Texas car wash.

So far the financial perspective that pretty much covers what I wanted to go over from the financial statements but before I turn the call over to John I'd like to thank you for supporting Mace and joining us this morning and at this time I will turn the call over the John McCann our CEO and President.

John McCann: Thanks Carl. So I'll keep my comments brief. You know basically we've done a lot there was a lot of overhead that needed to be adjusted and we, you know we're in the process of doing that. You know the results reflect some of the onetime severance payments and et cetera that I've put in in the press release. So I'm not going to get into any details on that side but I will say that there – we have a lot of activities going on the marketing side. We've released the press release this week about a licensing deal that we put together to secure outcomes on a digital fingerprint machine in a growing market that we're excited about.

We're working on a couple of other activities in the same range and then on the consumer product side of the business we're working diligently on more distribution and a couple exclusive deals that we're not at liberty to mention yet but we're mostly closing in on them. One thing I will mention that we will be featured on Fox News on January 3rd at 7:30 p.m. on the Willis Report. We filmed our marketing and sales operations up in Vermont and our manufacturing operations just this past week. So I think that will be great for the brand.

And everything we're doing is really with that in light of growing and enhancing the brand image and actually looking at what other costs we can take out. So really I'll turn it over to questions at this point because I think that will be probably the easiest way to make sure we've giving the information that people want to hear. (Leah) I guess I'll turn it back to you if you want to get the question queue going.

Operator: At this time I would like to remind everyone in order to ask a question press star and then the number one. We'll pause for just a moment for the Q and A roster. Our first question comes from the line of Andrew Shapiro.

Andrew Shapiro: Hi good morning. I got several question on if you get up back in queue although I don’t know how many people are on the call here. You highlighted nonrecurring charges in your press release that I want to better understand to see how close you've come towards break even operating results and when you might actually get to this promise land that we've been waiting for so long

So first off is the reference $370,000 charge for severance, legal and moving all included in this Q3 reported loss?

John McCann: Yes.

Andrew Shapiro: OK. And where was it all classified. Is it in SG&A or is there a portion of it that was in the cost of good sold line items we can back that out and figure out what your true operating margins and gross margins were?

John McCann: Those severances would all be in SG&A.

Andrew Shapiro: All 370?

John McCann: Yeah.

Andrew Shapiro: OK. And are there any other nonrecurring charges or charges during the September quarter that you feel will be falling off the income statement going forward?

John McCann: We encourage some moving costs and facility closing costs that, you know, will not reoccur.

Andrew Shapiro: And that's not part of 370?

John McCann: No that would have been inclusive of the 370.

(Carl Smith): Yeah inclusive as a 370 really Andrew if I broke it down it's about $50,000 to $60,000 with a moving expenses. There's about $10,000 in legal expenses and the remainder is severance payments made out.

Andrew Shapiro: So are there any other nonrecurring charges above and beyond the 370 that are in this current Q3 loss in continuing operations?

John McCann: Well, you know, you can look at two ways. You know you're going to have some reoccurring costs that are going to be eliminated during the close down of facilities that we incur year to date and consolidations and elimination of those facilities, which both resulted in a reduction of personnel and facility cost.

So they're not one time charges like a severance but they're recurring charges that wont reoccur.

Andrew Shapiro: Right, right. That's – that's above and beyond the 370 or that is in the 370?

John McCann: No that's above and beyond the 370.

Andrew Shapiro: And is there any kind of quantification you feel as you're internally projecting to the board when you're going to get this thing to break even, is there some quantification you can apply to those charges you kind of feel like are in run off that will come out of –- if we were to reverse engineer Q3 and try to get to what is our real burn rate this quarter.

John McCann: It's two fold because there is a couple of other actions and activities that are on their way that will help that will most likely hit in the fourth quarter to I have an office in Walnut Creek that I inherited that is going away in the end of the fourth quarter and all those expenses. So to your point what we're doing is not only what we have done, what we're looking at doing to look at what the burn rate needs to be and what the rate of sale needs to be in order to determine profitability.

I can tell you my goal personally and I'm hoping to achieve this is by the end of the first half of next year we are at profitability because to your point to what I've looked at is the current run rate where it needs to be and then what I need to do to get there. And some of the activities have happened so the big one like the (Horsham) move is a tremendous savings on the company.

I'm still negotiating, because I'm in a short term month to month situation today, I'm still negotiating that situation. Central Station I'm in negotiations with the current leaseholder, at that facility so to answer your question and not try to sound like we're not trying to answer your question is there is many things in flux right now but ultimately what you want to know is when do we get to profitability and my goal is by the first half of next year we will be profitable.

Andrew Shapiro: Right that's the bottom line –

John McCann: I think –

Andrew Shapiro: I'm trying to get to the (inaudible) an I have the impression that we would get to (inaudible) prior to the first half of next year and more likely by the end of this year. So now I'm trying to work through to find out if that’s – that's the case. Are we talking about apples and oranges when you refer to profitability versus (interposing).

John McCann: On profitability I'm going broad strokes I'm looking at positive (viva da). You know this is the conversation we had even at the last board meeting when that would be – if when I walked in I thought I was with you, I thought by the end of the year sure. You know you do this you do that but now you know looking at all the layers and all the different activities that had to take place and the time frames in which they had to take place and then you've got to throw in the economic factors of the world as it is today, you know, it took a little bit longer than I would like.

But I think we are on the right path because if you net out just some of the activities in this quarter, you know, we're closer than we've ever been and coupling on because there will be some onetime charges again, you know, in the fourth quarter like the Walnut Creek facility. There is a couple of other identified individuals that were absorbing roles and duties that will hit in the fourth quarter and that will lean into the first quarter again.

But if we continue the sales trajectory plus some of the marketing, some of the other distribution opportunities we're taking advantage of if everything goes right it will be sooner than the first half of next year but it's safe to say that the first half of next year it will be positive (Viva da). That's my goal.

Andrew Shapiro: OK is there a quantification of what you'd say your quarterly costs are that are in, we'll call it, run off?

John McCann: We can work on that. Like I think we have some – we have some things that we have working spreadsheets that can indicate that.

Andrew Shapiro: OK and then you referenced the 100,000 for moving out of Texas into Vermont hand 400,000 in annual savings from the relocation of the corporate HQ beginning in the current December quarter because it was a, you know, a October/November event.

So does that $500,000 of expected annual amounts, OK, does that include the payroll cost savings associated with the downsizing of headcount as well as the change in personalities you're talking about reabsorbtion of roles in this restructuring? And if not what is kind of the range of the annual cost savings in addition to the $500,000 you've already specifically mentioned in this release?

John McCann: Right. So it does include and I took the conservative side of that number so the range, you know, if you threw on a range of an additional 50 percent off of that number that's what on the aggressive side of that anticipation. (Interposing) in raw terms, right, there was four people in Texas in a warehouse facility – warehouse facility averaged at about $15,000 to $17,000 a month. It completely eliminated absorbed into Vermont.

We still have on individual, our IT director is still in the state of Texas, we're looking, you know, and he knows and we've worked on some parameters with him, he's aware of his role and where the future of that role lies. So that's another situation.

Obviously in (Horsham) we removed ourselves from a lease that once again ran into $15,000 to $20,000 range a month with the additional storage facilities that we had, et cetra and that we also took that accounting executive staff from, I believe, it was nine heads to five or six heads.

Andrew Shapiro: Right.

John McCann: And then adjustments with, you know, the company. So all those were taken account of now, you know, I still have three other operating facilities, Florida, Vermont and the Central Station that I'm working on because there's some lien techniques that could be applied to each one of those. We've already started, quite honestly, in the central station.

I'm very pleased with the results because on a year to year basis on our Mar side, you know, we're up tremendously and we're continuing that positive momentum. There, you know, it's simple things that we're factoring in as dumb as it sounds because it's a flexible schedule. So now, you know, I'm looking for a tremendous reduction in my overtime costs out of that facility because we are – we implemented a flexible schedule in accordance with California law that took six months that something that should have taken 30 days to do.

But never the less you know I believe it was the middle of October we were able to implement a flexible schedule that organization was running probably about $6,000 to $8,000 a month in overtime.

I'm looking to not completely eliminate it but cut that number in half. So there is a little variables there that, you know, you applied the same techniques to everyone and then drive out the cost that do not – do not add to the bottom line but at the same time, because the brand at an awareness level has a high awareness level but a low identification level, you also then have to redistribute some of those expenditures into your marketing or sales.

And, you know, like we did an example is the Stern Advertising helped us with our PR releases. Both the licensing deal and along with the release that we put out today. So we made sure – we tried to make it a little easier, a little more information and a little bit of flow.

The next step is obviously the conference call we're still using the same style that we did prior, you know, we're also looking at that to make sure that we maximize efficiency. And that's like Carl's goal and my goal is to grow the brand but maximize efficiencies.

Andrew Shapiro: OK, let me back out – I have other questions let me back out in case there is someone else that's been patiently waiting but please come back to me.

John McCann: Absolutely.

Operator: Thank you if you have any questions press star one. The next questions is from the line of Andrew Shapiro.

Andrew Shapiro: All right well then I'll continue through here. Your release highlighted and made the phrase upcoming product initiatives licensing partnership and marketing campaigns without, you know, violating competitive restrictions et cetera can you at least expand on what areas each of these might be focused on. For example if it's upcoming product initiatives are we dealing in the personal defense product area, the central station area, can you comment a little – give a little more color on that and where your focusing growth there. Same thing going with the licensing partnership phrase as well as your marketing campaign phrases.

John McCann: Sure, so in broad strokes it's across all the brands. We had never, like the gold book for example, with respect to our Central Station. We had never advertised in the gold book. This year we did. No now it's already generating some positive responses because we felt comfortable with the systems we had put in place, the people we had put in place, (Michael Joseph) who is the general manager of Central Station is doing an outstanding job of not only helping sales but also making sure that we're as efficient as possible.

With respect to majority of the product initiative and what we're trying to do, it is with our consumer products we merge as a cost savings, again, these security products and the personal (inaudible) because at the end of the day your shipping widgets and boxes to consumers, you know, if you could do it out of one location versus two, obviously it makes more sense and if you're going to similar locations or you can adapt to the locations you need to go to, that also makes sense.

So with regard to product initiatives we have several product initiatives and it really goes across all the line again. There's video surveillance products, there's purse products that we haven't taken advantage of with the central station that we're now branching out into. Then also with our security products there's some new technologies because of (George Martinez) one of the gentlemen that had over 12 years experience with GE Securities is on board and now more directed towards product development and product ideas, we're working on that.

Then at the same time our consumer products, our pepper spray business has been over skewed and under developed I call it, so we did a SKU rationalization, we eliminated many old SKUs and then we modernized some of the SKUs we have. But the best example I can say is that now the current team is focused on the idea of mace as a brand. Mace is not a product, Mace is brand.

So what we've done is when we go to market we talk about our central station we talk about securities in our consumer products and our personal defense products and we talk about Mace being the brand for protection, security and safety. And there are products that we've envision that we started working on that were hoping to launch, you know, early first quarter of next year that will incorporate a consumer aspect of it, a monitoring aspect of it and it will be a joint sale. So my ideal situation will be not only do I make – the company makes them money on selling a product, it also has an RMR component to that product that fits ideally into the market place.

That is going to take education, training and knowledge but when you look at the emergence of (pers), this (pers) emergency response systems, you look at the transformation of whets going on with different security products. The time is right and we're well positioned as a company to take advantage of some of these opportunities.

On the marketing side we are advertising, which we hadn't done in the past so the shot show for example that's coming up we've taken out trade ads and consumer ads in the different targeted marketing segmentations, hunting, fishing, law enforcement, and that – those ends and then also on the consumer side again there's shows that the company hadn't invested in the past that were going to. ECM is an example of one. We went to GMCD, which is a general merchandise distributor counsel that focuses on grocery, drug and that channel of trade.

So I hope that answers that but really the – it's not like we're taking 100 percent investment and doing it towards this or that. What we're looking at is that what makes sense for the brand and then trying to make sure that we maximize that with our efforts.

Andrew Shapiro: And can you expand – you've expanded now in the marketing campaigns and the product initiatives, are you able to expand at all on the direction or the product areas that you're willing to seeking licensing in?

John McCann: Well we're – it's across the board really. Like I had mentioned before the creative licensing group has been brought on board and it's really in that same world what I've asked them and a good example of it is Secure Outcome which is a finger print machine, great technology, lacked the brand name, brand awareness. You know, we've put that together into a deal that I think works well for both Secure Outcomes and for Mace. And then if you look at security safety, home protection, those are the areas that we're looking at.

We're trying to stay true to the brand in the efforts of building the brand into synominence with protection safety and defense. So all the companies that we're talking to are in that gendre. I do have to say that disappointed in the lack of progress on some fronts but unfortunately a couple of the companies were in the New York/New Jersey area and they did, they did get hit pretty by the storm, so the company that we were dealing with and we were going hot and heavy they – half their staff went to half days and still are on half days because now they're just trying to stay afloat with what they need to do business wise and they're put off some of their new motions so they can kind of get everything back in order.

But I anticipate that one time disaster event, you know, God forbid that we'll you know be able to heat some of these conversations back up after the holiday.

Andrew Shapiro: Now with respect to the new secure out comes licensing partnership on the finger print machine for I guess it's primarily law enforcement segment is that pretty much basically small police departments have federal funds available for upgrading and this is an upgrade type of product for them?

John McCann: Correct. But then also there's huge opportunities within the framework of it that we're exploring. Whether it be kiosk, a store front, there are several opportunities with that. The majority of it would be in the law enforcement field but, you know, growing trend in our nation and across the world is that whether you're coaching CYO basketball or rec basketball you have to now be fingerprinted and training because unfortunately the nature of the world today so we say there is a huge opportunity even if a new business venture about teaming up with somebody that wanted to franchise and open stores.

I happen to stop in on a deal in the West Coast and told me that he probably fingerprints probably 20 people a day using the technology. He purchased a machine and started his own business. So for us we see there's a tremendous opportunity. The technology lends itself to be portable, it's encrypted, it scans into the FBI database and it also scans into Interpol's database so once you've used this system you're pretty much set.

Versus you'll roll the ink and roll systems that the police departments did and then if the police department had competitor systems, the cost is higher than this. And this is just the start of what (Jack Harper) their CEO envisions as products. And the beauty for us is all the products he rolls out from this point forward will be branded (Macex) brands. So yes it's definitely towards that police law enforcement but I think there is tremendous potential of expansion.

Andrew Shapiro: Now do we get paid on a per use basis or per machine basis?

John McCann: Per machine basis.

Andrew Shapiro: So on a per machine basis and this is just basically like a royalty payment so it would be almost 100 percent margin revenue?

John McCann: Correct.

Andrew Shapiro: OK.

John McCann: Yeah I'll have some miscellaneous expenses you know associated with selling but most of it will be margin.

Andrew Shapiro: And the selling of it is – does his company have a sales and distribution channels or is secure outcomes relying upon Mace and our particular maybe limited sales and distribution channels unless we increase our sales and distribution costs.

John McCann: There is a combination. He has the sales force, he has distribution opportunities and then we are incorporated into our product line. And so as we go to the shot show we will also have this, you know, featured in our booth and he'll have people there selling it and my salespeople are training on how to sell it also.

Andrew Shapiro: OK. Now regarding this Fox News thing? Is this – are we advertising on this show or this is an interview? What is this all about?

John McCann: It was an opportunity that was brought to us. We actually paid for the production and then we don't't' have to buy the time. They're going to – they're going air us – they guaranteed us an airing at 7:30 pm on the Willis Report. So what it is they sent a crew out to our facility and under their manufacturing marvels segment we'll be on at 7:30 January 3rd on Fox Business News network but then I'll own the rights to what they film.

Andrew Shapiro: OK.

John McCann: So for a very small – and I mean like a very small cost we were able to negotiate, you know, they told me that they're – they're looking at several million homes that they broadcast the show into but then for me then I have the rights to this segment. So it's a combination for all the production but then we don't pay for the air time.

Andrew Shapiro: But what products are being featured. Is it the pepper spray?

John McCann: Yeah, we –yeah we had them film the manufacturing facility in Vermont.

Andrew Shapiro: OK, so pepper spray and all that. All right and then, – can you give us – are you getting to a point where there's kind of respective general gross margin ranges for your I guess three respective product areas or –

John McCann: Yeah Carl can do a quick commentary. I can even follow up with you but I know our highest grossing margin right now is our personal fence product. Because we control the manufacturing, we can control the flow. We are increasing the margins under security products because we've been able to negotiate a little bit better, we've been able to be true to what we've told some factories. Unfortunately most of those are produced in Asia not domestically. So, you know, there's a little bit of fluctuation.

But I can tell you we were also improving our margin on our central station business because we're improving our costs. That's really almost on us because the better we control our costs in our central stations the more efficiently we can offer it.

Andrew Shapiro: OK.

John McCann: But on a scale nothing can compare to what we can do on our personal defense side of the business.

Andrew Shapiro: Let me back out again incase someone's come into queue I do have a few more questions to finish up with so come back to me.

John McCann: Sure.

Operator: OK no further questions at this time. Your line is open Mr. Shapiro.

Andrew Shapiro: Thanks, on inventory I saw your inventory returns greatly improve from prior year's sequentially, what's the realistic goals to get levels down to are you at that point or do you feel that there is even more improvement to squeeze out of there.

(Carl Smith): No I personally thing the levels right now at the end of September may be a little bit of high just for the October, November, December preparation in shipping. But, you know, the significant reduction (inaudible) do to taking a real close look at the electronic surveillance inventory that we kept on hand and you know we're really monitoring that closely any time, you know, regardless of the magnitude of the product that's being purchased, you know, we get a couple of approvals on there just to make sure that the product is a product that is currently moving and we keep that inventory in line.

(Carl Smith): I would say the inventory levels as of today are pretty much what we would be looking at. The Vermont they turn their inventory very quickly. They're a just in time operation and you know we really focus on the electronic surveillance equipment inventory and will continue to focus in on that. But as far as the levels go I think they're pretty much in line with where they should be.

John McCann: Yeah and two fold so you have the checks and balances that we put in play, you know Carl is really reviewing almost down to very small numbers on purchasing just to make sure it's justified. Second thing is we're trying to make sure that we have a partnership so we have – we have an account purchase name before we buy any large pieces or parts and the third thing is we're looking at some synergenistic ideas where we have shared parts, if you would, from our personal defense products to our security products that if we have shared internal parts so we have three or four uses for one, you know, holding or case or et cetra that will further help us with the efficiencies that we are trying to create on the inventory side.

Andrew Shapiro: OK. Now the electronic surveillance equipment revenues dropped below $500,00 for the September quarter. Is this the line that has formalistically now merged into personal defense. That's the subsidiary?

John McCann: Yes.

Andrew Shapiro: OK.

John McCann: So we're able to maximize our (NOLs) we 're not really losing any of the (NOLs) by merging those too Carl had independent analysis done to make sure that we protected that. It made sense from a reporting point of view and it also because I moved instead of having a duplication of shipping we moved all the shipping operations up to Vermont.

In the quarter we did suffer because of all that movement and that is one of the areas on the sales side that I'm talking with the current team that needs to be restructured and focused one because there is low hanging fruit I would call it between our over 500 dealers that we now have from the central station to the millions of doors out there that are looking for both monitored and non monitored solutions.

And so that is within the next 60 days there will be some more announcement on what we're doing there in order to take advantage of the market.

Andrew Shapiro: Will you continue though to break out the revenues of those types of products, the electronic surveillance from personal defense and aerosol?

John McCann: Yeah, Carl set it up so it would be a line item. So we have it under surveillance because then as, you know, as I tried to detail out in the press release and with Carl's help we look at the different channels plus we look at this as a product line under surveillance is how we categorize it.

Andrew Shapiro: OK.

(Carl Smith): Right, it's almost like we're migrating from a three segment to a two segment –

John McCann: Yeah.

(Carl Smith): – and then within that one segment we have two product lines it you will.

Andrew Shapiro: OK, now the – there was some language here that says look the notwithstanding, of course ,the sale of the IVS revenue segment, you know the revenues in the surveillance got dropped – they got cut in half from prior years but was referenced is two things that I seen referenced in multiple quarters. One is competition from Asian manufactures and the other one is loss of a key customer.

And since I've seen it for so many quarters I have to ask are we losing more than one key customer or when does this anniversary such that we're not having such year over year declines anymore and frankly the same thing goes with competition from Asian manufacturers. I mean how – how low or how much market share can we feed to the Asian manufacturer quarter in and quarter out?

John McCann: Two things I think probably after this quarter you'll see the loss of the key customer dissipate –

Andrew Shapiro: Good.

John McCann: Asian manufacture I think we just – we copied and pasted to be honest with you. And we can kind of remove that because the factories that I've talked to that are now dealing with that factories that George had experience with are coming up with products that are unique for us that will eliminate that, they will bring us competitiveness in that segment.

Part of, you know the goal within that segment is not only do you have DYI opportunities or dealer network opportunities but then you still have retail opportunities that we need to restructure that selling group in order to take advantage of. And in the past it hadn't been done. In the future it will be done.

Andrew Shapiro: You're talking about going back in the highly competitive big box area with these products are you?

John McCann: No I think there's some strategic retailers that we can do some business with that would be cost effective. We can bring them a difference from what they're doing today and be able to strategically grow with them,. If you look at some of our dealers, our 500 dealers there's some solutions out there that we can provide that can be both monitored or not monitored but they can help us on the integration side.

So I think it will be a combination. I'm not, you know I'm not (interposing) get into a boxing match with a 500 pound gorilla.

Andrew Shapiro: No that's tried and failed by this company before. That's why I'm, you know, you're not going to compete with Asia in the big boxes.

John McCann: Correctamundo.

Andrew Shapiro: Now you had very little revenue growth versus prior year in the call center. In our call monitoring area, yet we made a bunch of personnel changes. It's a new marketing initiatives et cetera beat over the last several quarters and I'm just wondering how much time it should be taking to gain some traction in terms of number of installed users, a number of dealers, customers and you know bottom line revenue generation.

John McCann: It's a slower build to be honest with you like being newer to the business that is a slower build in that business. I can't tell you on the RMR side in April of 2011 when new purchased or we started recognizing the revenues from PCCI so you had some very strong months from the – starting in April 2011 through December of 2011 where those – those – that merger happened.,

Andrew Shapiro: All right I understand the year over year numbers had growth –

John McCann: Right.

Andrew Shapiro: – and now we've anniversaries the acquisition.

John McCann: Right.

Andrew Shapiro: I'm talking about evidence of organic growth.

John McCann: Well but see I think you got to look at it two fold. In that world the average attrition rate the 11 percent and we're showing positive growth it's almost a doubling down affect because not only are – -are we keeping we're also adding because like generic, you know, organically we added about 800 customers in the quarter which isn’t a huge number but in a very highly competitive world you know the growth rate that we had – I'm not saying I'm happy with it but I'm not also displeased that we're able to achieve that and when I look at year over – year to year RMR if I trapped the quarter versus the prior quarter you know the results are we're up close to 40,000 and that's after the integration of TCCI.

To your point though we have several opportunities that we're pursuing. There's a couple changes that I'm still making within the Central Station in order to create even more efficiencies but kind of twofold just in wrapping it up is with everyone else having a high attrition rate and us having growth you've got to say OK an that's not a bad thing.

And then also organic growth in that industry I would say, you know, it could anywhere from six months to 12 months because I personally have been elaing with two opportunities since, you know, January 20. I started on January 20 I've been pursuing so we're continuing to pursue that.

But I am pleased that – and we've changed the relationship with our dealers and we're trying to change the relationship with our dealers partner. You know we view that what we do and they do we do together. So instead of it being a buy – sell relationship and I'm going to show for price we're trying to partner with them to make sure that they recognize the resource we bring to them they also we try to recognize who we can efficiently play in their field and I'm happy to report that that's improved.

There are several marketing initiatives on that side that we're not ready to talk about yet but I think, you know there will be an opportunity for the brand to play a bigger role with some of your dealer networks and hopefully throughout the first half of next year but I can't guarantee you versus going to a retailer this is – it's a longer pipeline for sale.

Andrew Shapiro: OK. When you refer to two opportunities you've been working on since January you're talking about acquisitions and consolidations that in this fragmented industry or something else?

John McCann: Well one of them is an acquisition but the other on is just acquiring. Acquiring like bringing over a larger player, a larger dealer into the central.

Andrew Shapiro: OK OK. And last question on the car washers discontinued ops but it was a sizeable recognition of a half a million dollars of loss, was the lease buyout in Texas that was highlighted or discussed in the last conference call (interposing) that was expense in the last quarter or that is the bulk of the $500,000 expense this quarter.

John McCann: Yeah that was the bulk.

(Carl Smith): Yeah that was the bulk of it.

Andrew Shapiro: OK so the lease buy out was a Q3 event and then you do have some expenses, not as many now for me to ask about but you do have some additional costs that are coming through on that discontinued ops line above and beyond what was referenced before as the lease buyout cost.

John McCann: Correct.

Andrew Shapiro: Can you discuss?

John McCann: Just some ongoing costs that we became aware of related to some – some sites with regards to monitoring and testing some –

(Carl Smith): Yeah I think it's kind of unfortunately in the car wash business it's some of the ordinary things you have to go through on a regularized basis.

Andrew Shapiro: What sites are these that we still have an obligation on? I thought we got out of everything but I guess two.

(Carl Smith): Well one of them is the existing site that we currently have another one is a past site that we had some further obligations that we uncovered as we were looking cleaning these up and making sure that everything was copasetic with – it's not a huge amount but it's a little bit that we're just wary of and we're making sure that we're properly protected on in the future.

The site that we own we are actively trying to market it. We thought we had a lease deal. The lease deal fell apart. Unfortunately the gentlemen stopped making a payment so we seized the property and we now have it locked down but we're selling it beyond just the car wash. We're selling it for the real estate value of the site, which his above what we have on the book.

Andrew Shapiro: Oh the leas to – the lease to buy deal fell off and now you're just selling it as real estate and so do you have – what's happening is this is just another impairment charge?

(Carl Smith): No – no we're still above book value and according to the real estate people that I've been working with and et cetra that we'll be able to not have an impairment on it as of today. You know –

Andrew Shapiro: Right.

(Carl Smith): The lease deal to me was tremendous because we were covering all of our expenses and then he had a nice buy price built into it so now we're just –

Andrew Shapiro: Now we have property expenses that are flowing through while we market the property for sale which is we still own it and it is now for sale?

(Carl Smith): Correct.

Andrew Shapiro: And the other one is the lease buy out which we are done on?

(Carl Smith): We're done – we're done.

Andrew Shapiro: So we're down to one property but it's now just real estate for sale because the lease to buy deal fell?

(Carl Smith): Correct.

Andrew Shapiro: OK now, now I understand that. All right.

John McCann: Yeah like you said we'll have some nominal facility costs just to keep it, you know, just the electricity running and somebody to walk in and manage the property.

(Carl Smith): Complying with Texas ordinances and regulations.

Andrew Shapiro: Now although that's a pretty far less regulated state than (inaudible) into Texas. In the past – (inaudible) on the last call we asked or some symmetric on your central station you guys thought you'd be able to prepare and have ready for Q3 and then going forward which involved a number of monitored accounts and the number of security dealer clients so that we could compare those to past numbers and monitor in what ways you are growing the business, is that something you provide for Q3 and going forward – can you provide it for Q3 first I mean do you have it off hand and is that something you can provide going forward?

John McCann: You know it done internally and respectfully we're making sure that it's not a competitive advantage if we say too much if we say too much. I do want to be as transparent as possible, but at the same time as you understand that is an old boy's network and they will use every piece of information you give them for free to their advantage and we are the only publically really you know reporting central station out there that delves into number and being on the small side of where we want to be I can't tell you on a year to year basis both on the account side, on the RMR side we are growing.

Where I need to continue to do is drive costs down, you know, I’m not happy with some of the costs on a regularized basis. We've put in some policies and procedures to eliminate costs but you know basically have three major costs, right? Your lease, your phones and your people and so I'm looking at two of those three things I still need to continue to fix.

The lease I'm working on, the phones I'm working on, the people with changing the flexible schedule, changing some of the internal schedule and changing some of the people I'm pretty happy with some of the results that we've been able to generate there. And at the same time we are looking at the sales business development crew over there in saying OK how can we maximize what we need to do across all of our businesses. Our consumer business, which I call our security products and our personal (inaudible) in our central station and our wholesale business then saying oaky.

How can we maximize what we're doing on one side to the benefit of the other side to greater efficiencies. So I know we talked about it and I just – I want to provide the information but I also want to make sure that I'm not shooting myself in the foot as providing it too.

Andrew Shapiro: OK, and the reason we only knew to even ask for it was it had been provided in the past so you could probably check on the past did it than cause some competitive issue for you or not.

John McCann: Right and as we're – some of it like you can imagine moving files and whatnot like we're looking at the different things to say OK how was it provided and why did it kind of dissipate a little bit. But yeah we'll look at a way of how we can do that because you know what we – and what we talked about at the board meeting what we're trying to do is make sure people understand that there is tremendous moment growing here. There was a lot to do, more than I anticipated to be honest starting and there is a lot yet to do but the enthusiasm to do it hasn't left.

I lifted a quote from Lawrence Taylor that he said when I didn't want to hit anybody I knew it was time to stop. And here we still are interested in growing and we've identified what we think we need to do in order to make it happen. AT the same time the brand and I stress the brand has tremendous potential. There is just tremendous potential. And part of it is making sure that we pave the roads and claim the streets so we can drive down them with the brand.

Andrew Shapiro: Great, thank you much. I'm. done.

John McCann: OK,.

Operator: There are no further question at this time.

John McCann: Well thank you very much.

Clark: Great thank you everyone.

John McCann: All right bye (Leah). Thank you,

Operator: This does conclude today's conference call you may now disconnect.

END