MACE SECURITY INTERNATIONAL INC.

Moderator: Steve Rolle
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10:00 a.m. ET

Operator: Good morning, my name is (Tiffany) and I will be your conference operator today. At this time, I would like to welcome everyone to the second-quarter results of operations conference 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 star then the number one on your telephone keypad. To withdraw your question, press the pound key. Thank you.

Mr. Steve Rolle, you may begin your conference.

Steve Rolle: Thank you, (Tiffany). Welcome to Mace Security International's second quarter conference call. My name is Steve Rolle, and I am the Corporate Controller for Mace. Also with us today is Mace's Chief Executive Officer, John McCann; and Mace's Chief Financial Officer, Greg Krzemien.

Before I turn the call over to Greg, there are some general housekeeping matters that we want to address. 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, projected and intend 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 subject 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 acquired businesses. Such factors could materially adversely affect Mace's financial performance and could cause Mace's actual results for the future period to differ materially from any opinions or statements expressed during this call.

Additional discussions for factors that could cause actual results to differ materially from management's projected forecast, estimates and expectations are contained under the heading risk factors in Mace's previously filed SEC filings, which include its registration statement and its periodic reports on Forms 10-K and 10-Q. All statements made during this conference call should be considered in conjunction with the financial statements and notes contained in Mace's annual reports on Form 10-K and quarterly reports on Form 10-Q. You can access these reports on www.Mace.com through the investor relations section of the Web site. You can click on the investor relations button.

With that, I would like to now turn the call over to Greg Krzemien.

Greg Krzemien: Thanks, Steve. Good morning and thanks for joining us on our second-quarter 2012 results call. As Steve noted, I will be providing some highlights on the results of our second quarter and our six months ending June 30, 2012, versus the same period of last year in 2011. I will also be making a few comparison references to the first quarter of 2012.

By way of some background, for those who may be new to our calls, Mace currently functions in one active segment, that being the Security segment. We have discontinued operations within our previous Car Wash segment and we had two remaining sites at June 30, 2012. I will make some brief comments in respect to these operations in a few moments.

As to our Security Segment, we currently operate in three operating units or distinct divisions. We have our Mace Personal Defense operations, Mace Personal Defense, Inc., which houses our well-known Mace aerosol pepper sprays. And we also have electronic surveillance equipment operation, Mace Security Products, which sells both professional and mostly home and small-business do-it-yourself type electronic surveillance equipment.

Finally, we have a wholesale security monitoring business, Mace Central Station, or Mace CS, which we entered in April of 2009 with the acquisition of our base business, CSSS. As a point of reference, we also had an Industrial Vision specialty camera operation known as IVS, which we sold in October of 2011.

As I previously mentioned and as we disclosed in our recently filed financial statements, the Car Wash segment is accounted for as a discontinued operations in these financial statements. From an accounting and a financial reporting standpoint, in essence, all of the revenues, all of the expenses, including the prior period of this Car Wash segment are pulled out of the income statement line items and reside in one line item at the bottom of the income statement. This presentation gives a clearer picture of the Company's operations from a current or ongoing Security Segment.

Likewise, on the balance sheet, the assets and the related liabilities of these remaining car washes at June 30 were noted as held for sale, and all the balance sheet amounts are removed from the various balance sheet line items and are housed on the balance sheet either as held for sales or liabilities related to assets held for sale.

What I will be doing this morning is, again, covering our financial highlights. John, our Chief Executive Officer, with follow up my comments with some additional comments and color on our operations.

Before get into the numbers, I just want to mention an important point that we disclosed in our public filings as well as our recent filed financial statements. The Company made a decision in the last couple of months to de-register its shares from the SEC. This decision was made after a lot of contemplation, thoughts, discussions. And the Company really felt that this would provide additional cost savings and allow not only funds but also management time to focus on additional marketing and sales efforts that – or, I shouldn't say focus on, but accelerate marketing and sales plans that the Company had put together. So the Company looks at that as a real positive item.

We are currently traded on the OTC pink market, and as I'm sure all of you are aware, you can go to otc.market.com to find information and trading data on our stock. One thing that we have made a commitment to do is to continue our extremely detailed financial disclosures and keep up our communication with our shareholders. And again, you can see that information on the OTC market's Web site. The press release that we recently issued actually has a link that goes right to our June 30 financial statements.

Going into our numbers, revenues in our second quarter of 2012 were $3 million as compared to $3.5 million in the same period of 2011. This represents a decrease of $506,000, or about 14.6 percent. We experienced this decline largely as result of the absence of about $388,000 of sales from IVS, the company I just mentioned that we sold in October of 2011.

Exclusive of IVS, we have a remaining decrease of about $118,000 in sales. Despite this still remaining decrease, we did realize a significant increase in revenues in our Mace Personal Defense operations of about $155,000 or 13 percent second quarter this year versus last year for about $1.16 million to $1.32 million. Within this division, we also continue to see nice increases in our aerosol defense products, about 11 percent, and we saw a really nice increase, about 77 percent, in our law enforcement sales. We achieved this growth through a continued penetration of our current retailers and increase and focusing on our international and our law enforcement markets.

We also realized an increase in revenues within our wholesale monitoring division of about $73,000, or seven percent, all from internal growth. Our electronic surveillance division experienced a reduction in sales of about $347,000, and this is really due to several factors that we've mentioned before. It includes impact on the sales of increased competition, direct sales by Asian manufacturers, a reduction in spending by many of our customers still with the slacking economy and the decision by management to focus on consumer direct home and small-business products versus the high-end, more complicated professional items which cover a higher price tag but also cover a higher cost of maintaining those relationships.

With the change in revenues, our overall gross profit margins improved slightly to about 36 percent in the second quarter of this year from 35 percent last year in the second quarter. Our second-quarter margins in our Personal Defense operations were about 41 percent and our wholesale monitoring about 33 percent and our equipment about 30 percent.

On a year-to-date basis, our revenues in the first six months of this year were $6.4 million as compared to $7.1 million last year. This is a decrease of about $669,000 or about 9.5 percent. Again, we experienced this decline largely due to the absence of the IVS sales; they were about $903,000 last year. So exclusive of IVS sales, we actually had an increase in revenues this year in the first half of about $234,000, or 3.8 percent. We realized this increase mostly, again, within our Mace Personal Defense operation. That's our aerosol-based business. The increase there for the first six months was $706,000 or 30 percent, from $1.3 million to $3.0 million in the first half of this year. More specifically, we realized a 27 percent increase in sales of our aerosol products and about an 11 percent increase in our wireless home security products and about a 184 percent increase in our law enforcement sales, again, very happy with what we've realized there.

We also realized an increase in revenues within our wholesale monitoring of about $330,000 or about 18 percent. This partially is a result of the acquisition at the end of March of last year of The Command Center, Inc. and partially as a result of internal growth. From our electronics surveillance division, again, we saw the reduction in sales here of about $802,000 due to the factors I just mentioned a few moments ago for the second quarter.

With this change of revenue for the first six months of this year, our overall gross profit margins improved year-to-date 38 percent in the first six months of this year from 35 percent in the first six months of last year. So that's a three percent improvement in margins. Again, these improvements are largely as a result of the elimination of IVS, which was a very low-margin distributor type sales. We focused on enhancing our pricing in both the Personal Defense aerosol operation as well as the electronic operations and we really focused on reducing our product purchasing costs as well as our fulfillment and back of warehousing costs.

On an SG&A basis, SG&A costs decreased $387,000 from the second quarter of 2011 to the second quarter of this year, which is a 19 percent decrease. On a six-month basis, we decreased SG&A $908,000 or about 21 percent. Again, this is largely resulting from management's continued cost reduction efforts and personnel as well as other operating costs. Specifically, we had a net reduction in personnel costs of about 25 percent from last June to this June, excluding the car washes and the wholesale monitoring operations. We also sold our Texas warehouse at the end of last year. And with that, we further reduced our costs by merging our warehouse operations for electronic surveillance into our Personal Defense. So, again, we focused on really trying to reduce our back fulfilling type costs, and those costs will be reflected starting with the third quarter of this year.

We also saw significant SG&A reductions within the surveillance operation of about $842,000 or 67 percent through all this consolidation. Our SG&A reductions were about $123,000 or about eight percent in our corporate cost division. So again, we are really happy with what we've seen, though, with the SG&A side.

From an operating loss perspective, our operating loss from continuing operations for the second quarter of 2012 was approximately $728,000 of $0.01 per share compared to a loss from continuing operations last year in the second quarter of about $1 million or $0.07 per share. The loss from continuing operations for the first half of this year, first six months, was approximately $1.24 million or $0.02 per share compared to a loss of $2.24 million or $0.14 per share in the first half of last year. This reduction is a result of the factors I've mentioned, including the improved gross profit margins, the reduction in the SG&A costs. And we also saw about a $104,000 reduction in interest expense in the first half of this year versus last year.

Our discontinued operations, as I previously mentioned, is comprised of the Company's remaining car washes. These operations generated a loss of about

$52,000 in the second quarter and about $72,000 for the whole first half of 2011. Our net loss for the three months ending June of 2012 was approximately $780,000 or $0.01 per share compared to a loss of about $1 million or $0.07 per share last year for the June quarter. Our net loss for six months ending June of this year was approximately $1.3 million or $0.02 per share compared to a net loss of approximately $2.3 million or $0.14 per share for the six months of last year.

At this time I'm going to review a few brief comments on our balance sheet and our cash flow. From a balance sheet perspective, we continue to maintain a low leverage ratio, about 5.8 percent at June 30. This is based on total debt of about $998,000 and equity of $16.2 million. That equity is about $0.28 per share. We had positive working capital of about $10.7 million at June 30, a current ratio of 5.2, which is similar to our working capital of about $11.2 million at December 31, beginning of the year.

With respect to our debt, all our mortgages are paid off, the last one, with our February sale of our Arlington, Texas car wash. What remains as debt of about $914,000 related to our debenture note with Merlin. That is net of about $486,000, which is the value of the conversion options and warrants related to that Merlin note. And we also have a few small capitalized leases to round out our debt position.

From a cash and short-term investment, we had about $7.7 million at June 30, and total assets of about $19.9 million.

Our inventory was reduced by approximately $430,000 in the first half of the year. With that, we had an actual increase slightly of about $110,000 within our Personal Defense operations with the significant sales growth we had there, offset by about a $540,000 decrease related to our electronics surveillance operation. That is a result of reducing our purchasing, as I indicated before, reducing our sales of the professional line of equipment. And we actually – where inventory auctioned, about $280,000 of inventory at reserve net book value and realized that cash in the second quarter.

From a cash flow perspective for the six months ending June, we used about $1.6 million of cash in operating activities. We had used cash of about $535,000 in investing. This includes $2 million, actually, to purchase short-term investments offset by $1.6 million of net cash proceeds from the February sale of the Arlington wash. We also used about $80,000 of cash for financing activities, which mainly consisted of routine payments on debt.

Going into 2011, at the end of last year the Company had NOLs of about $51.3 million which expired through about 2031.

Before I turn the call over to John, I just want to give a brief update on the two car wash operations that we had at June 30. The update was disclosed in the press release as well as the subsequent events for the note to our financial statements. The two sites we had at June 30 were a lease side, as we refer to it as our Ft. Worth site. And we were fortunate enough to enter into an arrangement with a third party to have them assume the lease. That lease still had several years of payments on it, and that car wash was – continued to bleed or lose cash flow. So we negotiated a cash payment of about $275,000, transferred some of the inventory and equipment as well. And for that, we were released out of the future lease payments on that lease as well as relieving ourselves of some of the future negative cash flow. That was all completed approximately August 10, the first week of August. So we will see a significant decreasing operating loss for the third quarter with that site gone.

Also very recently here, on August 29, we were able to lease the last site we have, which is our small site in Arlington, Texas, to a third party for $4000 a month plus reimbursement for real estate taxes. And so that turns that site into a monthly cash drain, into a $4,000 monthly positive cash flow. And we also, with that, have an agreement of sale that provides the personal leasing at a one-year option to purchase the property. So he's doing well with it so far and he's very excited about pursuing the purchase of the property as he secures financing.

With that, again, I like to thank everybody for joining us, and I will turn the call over to Mr. McCann, our Chief Executive Officer and President. John?

John McCann: Thanks, Greg, and thanks, Steve, for the introductions and the beginning. So I will be brief. I just wanted to comment that we have significant work left to do. We've made significant progress in bringing the Company to profitability. Our goals still remain the same, that we want to dominate the Personal Defense and home security segmentation of the business as well as continue to grow our monitoring business, which you can see by the results we are doing.

There's a lot of reorganization that we've embarked upon that is not completed, so I really won't comment about that. We have an internal goal in mind which wraps around us going into the tier 2 SEC reporting status for the benefit of cost savings, and also being able to utilize that money to advertise and really push the brand. We're working on some licensing deals that are getting close, but they are not completed yet that I think will also enhance brand and also bring in positive cash flow.

So if you look at the comparables to a year ago, we are doing much better than a year ago, but we're not where we want to be in terms of EBITDA, and also within terms of sales.

On the Personal Defense and the security side, we're doing a lot of consolidations of facilities to make sure that we are in the right facilities, we can ship to our customers in a timely fashion and also take advantage of leveraging the brand across different channels of distribution. And then with regard to Central Station, it's the same thing. We have 500 loyal dealers that we have not leveraged our brand through the other categories we compete in, in order to gain some efficiencies there, too.

So with all those things, we have a lot of sales initiatives in place. We have some advertising initiatives in place that throughout the third and fourth quarter you will start to see and I think will have a very positive effect on our business.

In the past month we have secured some new business with some key customers that, once those are finalized, we will be more than happy to share with everybody. But that will be a positive impact on the bottom line.

And then lastly, we are still in the process of renegotiated every lease that we own today, to make sure that it's more favorable or as favorable as potentially possible. That includes the corporate headquarters that we are reviewing, the final of where we will be, because we need to be that as cost-effective as possible. The same with our Central Station facility. We have completed a new lease with our Vermont facility that should save us, on an annualized basis, anywhere from $20,000 to $30,000 a year. And with our Florida operations, we are looking to do the same thing in the last half of this year.

So that's really it. There's a lot of work to be done. I think there's a lot of positive efforts that have been achieved thus far. Eliminating the car washes from our portfolio was a big priority of mine, and I was pleased that we were able to get that done. We still have the one car wash, number seven, as we call it, that we need to finalize a transaction. But right now, it's going in a very positive way, which I think will bode well for the future.

So that's really it. I guess we'll just open it up to some questions, to (Tiffany), if she wants to do that. We're more than happy to take any questions.

Operator: At this time, I would like to remind everyone, in order to ask for questions, please press star then the number one on your telephone keypad. Your first question comes from the line of (Spencer Lehmann).

(Spencer Lehmann): I just want to thank you for making the commitment to shareholders to continue with news releases and information on your Web site. We don't blame you for deregistering because it's for small companies. The government has made it so difficult and so expensive. We certainly understand. But a lot of small companies didn't think that going dark also gives them an excuse not to keep the shareholders informed. So we appreciate you respecting and honoring the shareholders and keeping us informed. I thank you.

John McCann: Sure, well, and Spencer, and just to add to that comment, and I appreciate that, it is – when I took over, I saw the cost savings that were there just because of the government regulations, good bad or indifferent. I won't comment on that. But then we internally have taken this – and this really comes from our

Chairman of the Board – we are not going dark. We're going to a limited reporting status. And we feel it's our obligation and our duty to make sure that we report anything that we think is prevalent and needed. And that's why this conference call – we will continue to do quarterly calls. We will continue to post information.

We are – and I will comment quickly – we are enhancing our Web site. So I do apologize; we've had some issues with the Web site going down. We have a new teams that's maintaining our Web site. It's actually beneficial to the Company because they are working on the backside, as you call it. So it's a small fee up front. But then as we sell more on our Web site, they will be partnered with us because then they can make their money on the more we do and the better our Web sites are. So it's kind of a very advantageous situation.

But it is definitely important to make sure that our investors are informed of what we are doing, because I can tell you we have tremendous plans, and a lot of these plans are coming into place. And it is going to be an exciting company as we move forward, especially top line but, more importantly, bottom line.

(Spencer Lehman): OK, thank you again.

Operator: Andrew Shapiro.

Andrew Shapiro: A few things that you could help me with – first off, what is the scope and the timing that you expect to see of the cost savings from the deregistration?

John McCann: Well, some of the timing is immediate because not having stocks, so we don't have to bring the auditors in for the second, third or fourth quarter analysis, which on a basis wise, that's $15,000 a quarter. So we're going to take that three times savings. Then also with mailings and other initiatives, there's a lot of cost savings there. And then, during the last half of the year but basically by the first quarter there's some people savings and some other negotiations with service providers with us that will have a more advantageous position.

So by the end of this year, we will have an idea of the savings. And on a go-forward basis next year, 2013, we will be able to realize those savings.

Andrew Shapiro: Well, in the analysis that the Board asked management to provide, because somewhere there was an analysis how much could we save, can you provide a general range of what, after everything is all said and done, you guys think you can cut out of the cost structure as result of the deregistration?

John McCann: Sure. On a just preliminary basis, what was presented at the Board level was over $250,000 on an annualized basis of savings.

Andrew Shapiro: OK, once it all kicks in?

John McCann: Once it all kicks in. And then I think not included in that is a little bit more on the people side and structure side.

Andrew Shapiro: That would be above and beyond the $250,000?

John McCann: Yes, sir.

Andrew Shapiro: So we have a $600,000 a quarter burn rate that we are at, still, which is still unacceptably high. As you mentioned, there's more work to be done. And how and when do you plan to get rid of this burn rate and return the Company to sustained profitability? Can you identify or have you identified and can you share with us the cost cut areas in general and beyond the deregistration to get there, or must revenues and gross profits grow in order to get there?

John McCann: I've identified them, but since it's ongoing, I would be a little hesitant to share all of it. With regard to overhead expenses, like we are pushing to see a margin increase like on our business in Vermont with the pepper spray, because I think there's things that we can do more efficiently that we are working hard to achieve. There's things that we outsource that we should internalize, and there are some other procedures that we are putting in place. We have a new gentlemen running the facility. He comes from Under Armour; his name is Eric Crawford – tremendous experience in our space, tremendous experience working with a great company like Under Armour. So he brings a lot to the table as Vice President of those sales and operations.

Then with regard to all of our facilities, we are going to shrink our footprint with regard to real estate tremendously, and then we are also shrinking our footprint with regard to people. And I think, with those two things in mind, it's going to help us tremendously with the burn rate.

With regard to profitability, my goal is as soon as possible. But realistic, taking into account all the changes and all the other things that we have to have in effect, ideally I would look to the first quarter of 2013 of us be profitable.

Andrew Shapiro: Good, and I appreciate the sensitivity of getting into any greater detail on it, but this is helpful.

John McCann: I think by October, Andrew, a lot of this will be in place, and I think when we do a fourth-quarter call, we will be able to show that analysis.

Andrew Shapiro: OK, good, then I'll reserve the follow-up on that one. Can you give us an idea of the gross margin percentages that you see for each of the three respective new product areas, and what you think the potential margin range for each is, given any of your near-term mix shift goals and other product goals?

John McCann: That might get into a little sensitive because we are doing a couple things differently. I think if you look at our historic rate, I would say that my expectations are to be at least 10 percent better than our historic rate, which drops immediately to the bottom line. The facility in Vermont, for example – we shrunk the square footage and then we also negotiated a better lease. We were paying the electric bill, now the lease owner is going to pay the electric bill and we're going to be able to negotiate that rate on a go-forward basis.

So there's a lot of moving parts within it that are somewhat sensitive. With regard to Central Station, we've gone to a flexible schedule which then will allow us to actually be more effective in turnaround time with our valued customers and clients and also staff less people. And so I'll have people working four 10s instead of five-eights. And we will be able to overlap and do some other things.

And then we've also added to our business development staff on the West Coast. And as you can see from the numbers, we're trying to do more with our valued customers and also trying to get as much low-hanging fruit as we possibly can, but at the same time looking at is there strategic acquisitions we can do. And if you do some of these, it will affect that margin because you have these fixed costs as they are. But then as you add or layer and then become more efficient, this will all have a goal in mind with margin.

We are also just – Carl, who has come on board as VP of Finance, we are working on a compensation plan that generally doesn't affect the gross margin at that level. But what it does is we will be incentifying people on making money, not just on selling products, but making money. And I think ultimately that will also have an effect on the margin.

Andrew Shapiro: You mentioned Carl as VP of Finance. Is there any more things you can elaborate on, on that? That's a new name for me.

John McCann: Well, Carl is on the call, so I can let him speak. But he is bringing in the staff and part of restructuring of our corporate overhead is to be a little bit leaner and meaner, not that anybody didn't do a great job in the past. But we're looking at the new realities of being both a consumer products company and a traditional security company. So Carl could just – he's with me now – just say a couple words about this staff.

Male: Well, they're recently hired. Currently, right now, they are working in the Horsham office. I personally come with over 20 years of experience in the consumer products arena, if you will. I worked for Seiko International and served in executive levels in finance in both Seiko and Mr. Coffee. So, that's my experience.

Andrew Shapiro: OK, I guess you guys will do some release on this at some point.

John McCann: Yes. I think part of it is, as we do a complete restructure, then we will announce the entire staff and some of the other changes that we're making to gain greater efficiencies.

Andrew Shapiro: OK, and then hopefully you can maybe put some quantification ranges on it too.

John McCann: Yes, sir.

Andrew Shapiro: I have other questions, but in case someone else is in the queue, let me back out. But please come back to me.

Operator: Again, if you would like to ask for question, please press star one.

We have a follow-up question from Andrew Shapiro.

Andrew Shapiro: OK, well I'm going to ask a bunch here. On inventory, while your inventory turns greatly improved from last year at 100 days, they remain at the same level as last quarter. This still seems kind of high, but maybe for the nature of your business it's not. What is the realistic goal to get your inventory days levels down to?

John McCann: That I'd have to defer because we are still growing our sales with some new distribution and some new customers. So they might be higher than we would like on a basis rate. But then, with Eric coming on board, it's one of the tasks that I gave him to look at what is the right amount of inventory and the efficiencies that we can gain out of the facilities in order to really have an effective rate.

On the Central Station side, we've built up some inventories with a couple suppliers – Videofied and et cetera – because we were running a little too tight with what we wanted to do, especially with that product line. It's a tremendous product line that fits a niche need, but it also – adding more to that sales department with Michael Calio, we needed to make sure that we had inventory to support as they went out and sold.

I'll put that as a to-do for me to get back to you because Eric has been on board two weeks now. And I was just up in Vermont yesterday, just speaking on the very subject. So to give you a better answer, I'd rather take a little time and do a little bit of an analysis because our goal still is – there's big fish out there that we are not doing business with that we should be doing business with.

Andrew Shapiro: What have been the steps you've taken and response so far for bringing in what would be very high margin revenues, licensing this Mace brand-name? It's something I've been after from your predecessors for some time, and I'm trying to understand what our next milestones are to measure if there's any progress being made.

John McCann: Well, internally I'm measuring myself every day. I can tell you that. But I agree with you. There's a tremendous amount. We will be in a position within the next two weeks to announce a licensing deal that I think will be pretty dynamic. A gentleman who has over 30 years of government work and especially in the optical area has brought us a product that is tremendous. He has over five or six patents on the product. We will be licensing it under the Mace name and then begin to realize the value of that.

There is several other companies that were – I would call in second or third stages of negotiations that we are going to be able to procure a license from. And then we have a hit list of over 30 individual companies that we have met with. We participated in a licensing show in Las Vegas. It's the largest licensing show in the United States. We've engaged a company called Creative Licensing Group out of New York that is actively pursuing this from every angle possible. We are trying to stay true to our core of Personal Defense, home security and stay within those bandwidths. We have some litmus tests out there to make sure that they are brand enhancing and not brand diminishing opportunities.

Andrew Shapiro: But you are not limiting what you would license the Mace brand-name on because you want to be – you have to keep internally our ability to market and sell all things to all people in security?

John McCann: We are not limiting that. We are just making sure that the partners will adhere to the brand values that we've set out. We've given each company a style guide that we want them to maintain.

Andrew Shapiro: Were there any nonrecurring charges or redundancies during this current Q2 you just reported for us to consider? And if so, did they flow through cost of goods sold or SG&A on income statement?

Greg Krzemien: I'll take that one, John. We had about $50,000 worth of SG&A items that I guess I would say are nonrecurring in the second quarter. The bulk of that, probably about $44,000, was revenue related to public consulting agreements we had with some senior type executives that left the Company but we kept them on board, on a consulting arrangement, for a couple of months to make sure we had a smooth transition.

Andrew Shapiro: So partial – just exit costs? And they were costs?

Greg Krzemien: Basically, yes. (Inaudible) It was nominal.

Andrew Shapiro: Last quarter it was a $100,000 gain that reduce SG&A, right?

Greg Krzemien: Last quarter was actually two different pieces. There was about $81,000 of expenses, again, that were exiting type costs and some moving costs. That was offset by a $100,000 gain on the IVS sale, that additional contingent consideration that kicked in. So net, it was about $20,000 to the good, unusual items in the first quarter, and about $50,000 going the other way. So year to date it's almost a moot point.

Andrew Shapiro: OK, some questions on Central Station and the other segments. On Central Station, in the past you've provided – and I don't know if you can or will provide updated figures as to the end of the most recent quarter for the number of monitored accounts and security dealer/client numbers?

Greg Krzemien: Yes, that's something that we are actually going through some computer transitions right now in our billing system. And I have numbers are fairly accurate, but I would hate to quote them. As soon as we have that conversion completed and get very accurate numbers out of the system, I think will provide that, Andrew.

John McCann: Yes, but on a go-forward basis, we will continue to provide that. We upgraded our software systems in order to create more efficiencies, both for the client and for internally. We had some manual things that we had to do in the past, but now once it's fully implemented, the software systems that we have should provide that. But we will definitely do that, and we can even post on the Web site what they are today.

Andrew Shapiro: If you post them, then maybe you could put up the historicals as well so one can see the trends.

John McCann: OK.

Andrew Shapiro: To what extent is – you had a little less than three percent revenue increase from last quarter, sequential revenue growth in Central Station. To what extent is this increase the result of incremental monitored accounts and/or security dealer/client numbers versus any increase in your RMI or your recurring monthly revenue rates?

John McCann: I don't know, Greg, if you – I can comment quickly. A lot of it is (inaudible) go ahead, Greg.

Greg Krzemien: Are you looking for the second quarter versus second quarter, Andrew, or year to date versus year to date?

Andrew Shapiro: Second quarter versus second quarter.

Greg Krzemien: OK, we'll second quarter versus second quarter, we are up about $74,000. And in that $74,000, about $27,000 is really the sale of the new products that we had mentioned, the Videofied products which we then get some more and more off of it. So out of the $74,000 increase about $47,000 of it is RMR increase, which is about 4.5 percent from last year's second quarter.

Andrew Shapiro: Actually, I misspoke.

Greg Krzemien: So we're not losing any accounts.

Andrew Shapiro: Yes. I misspoke. I actually was just tracking how your performance was this June quarter versus the March quarter.

Greg Krzemien: Oh, OK, I'm sorry.

Andrew Shapiro: No, that was my mistake. It was a little shy of three percent revenue increase from the prior quarter. And I'm just trying to get a feel for trend and whether this is rates or pricing on product or if it's incremental accounts and client numbers, because I'm trying to follow the return on our personnel investment we are making and marketing there.

Greg Krzemien: Sure. And I think it's a little bit of both. And John could expand on that, but we definitely have not seen a decrease. And we've grown new accounts. Again, I just don't want to try and quote an exact number. And John has done a good job working with Michael (Calio) and the other folks out there, again, selling not only Videofied equipment, but selling the RMR that goes with it and some other products. So it's really a combination of picking up some new accounts and really selling some additional product to the accounts that we've had. John, I don't know if you want to add anything to that?

John McCann: No, it's really twofold. You've got to realize that product revenue sales are generated by the business development department. So part of it is that we picked up some nice small accounts – not huge, but Laura has done a very good job of being aggressive with somebody that has 10 or 15 or 20 or even one. But then also, on top of it, besides our base monitoring plan that we sell, we sell Videofied or ViSonic or some of these other products, SureView, as added to sale.

And so whether we place the products and gain the RMR or we sell the products directly, it falls into both. And the goals I set forth for the business development crew out there is to value add sell, so make sure that our current clients and new clients know that we do more than just basic monitoring, that we have at least six different solutions beyond basic monitoring. I think they've done a good job of going out to our current clientele and then also – not big accounts, I would call them, but smaller accounts and reinforcing that.

I've seen our top five customers with regard to the Central Station, and I will visit two of them again just to reinforce some of the things we're trying to do and also leverage the brand a little bit on our DVRs and our cameras and some of the things that were doing our products division to make sure that they know these products are available to them, too, as a dealer, and then structure deals that way.

So you will see we are not only going after more RMR with current but also trying to attract the right customers that we can partner with for the long-term, then also looking at what other products that we can sell as we are talking to especially our dealer network effectively.

Andrew Shapiro: And what's the status and geographic or product line focus of acquisition opportunities into the Central Station segment? It was one of the main premises for which the rights offering was used to bring in new money to make acquisitions on our existing capacity there that were estimated to drop 80 percent to the bottom line.

John McCann: Right. Well, we put no geographic restrictions on it. It is – I thought we would've closed an acquisition by this time. It is slower and more arduous than I would have imagined coming on board. We are actively pursuing several. One is a little closer with some paperwork being passed back and forth. But – so there's no geographic restrictions that we're putting on ourselves. We're looking at if it makes sense on a redundancy side or a duplication side or a sharing side. We've made it clear with the people we are talking to and the folks that we are using that we are open ended on how we could work together because we bring values that they might not have today and we could work on a sharing, or if they want to be fully absorbed into our central, we are more than willing to do that, too.

So it is just – there's unfortunately, in this space – and Greg can speak to the past history – there's not a lot of transactions on the monitoring side. There's a lot of transactions on the alarm side. There seems to be some movement even on the monitoring side coming up, which sometimes sparks more movement because there's been several announcements that I've seen that – Vivant is up for sale, ADT is putting off some of their monitoring business. So I'm hoping that as the giants shake the trees, that there will be some things that will be able to take advantage of.

Andrew Shapiro: OK, Personal Defense segment – well, actually, let me back out in case there's someone else in the question queue. But I have a few more segment questions, so come back to me.

Operator: Again, if you would like to ask a question, please press star one.

And you have a follow-up question from Andrew Shapiro.

Andrew Shapiro: Fine, I'm going to carry it over the goal line here. Personal Defense segment – the Personal Defense segment revenues are up from last year, but they're down from last quarter. Yet last year's second quarter wasn't really seasonally weak. Is there seasonality that went into play here in the Personal Defense segment? Or, why did your successes from Q1 from Q4 reverse themselves here in Q2?

John McCann: I think a lot of it, from having talked to a lot of the top retailers that the we are doing business with, is they were getting squeezed on their inventory, their open to buy, as they call it. And consequently, even though our sales on a POS basis, so sales out their doors were still very strong, they were carrying tight loads of inventory. I know several of them are public, and so they were told by their upper management that that's great, but you're open to buy has now shrunk.

Andrew Shapiro: Do you have visibility into their sell-through, or are you running blind?

John McCann: No, no, no. Depending on the account, we have some visibility, a lot through the buyers through conversations. We have their visibility, and then some via our EDI. We have a reverse link that gives us visibility on their sell-through.

Andrew Shapiro: So you didn't see a reduction or a sequential falloff in their sell-through, it was just they worked down their inventories?

John McCann: They worked down their inventories. We have, unfortunately, several situations where we knew stores were out of stock, but the buyer was somewhat handcuffed in what he could do because in general terms, in a retailer, if shoes were overbought they could care less if they are out of stock. Shoes were overbought. So the buyer's open to buy is gone. And so they are sacrificing sales because they have to get their inventory right. And several of them had – they had their conference calls, and so they wanted to make sure their inventory levels, like you had mentioned to me, how many days inventory outstanding do you have, were in line with expectations.

Andrew Shapiro: So here we are; it is now September. You are almost done with the current third quarter. So as the current third quarter is going on, did you see the buyers come back and return and replenish their inventory, or are they still on a tight leash?

John McCann: We have seen some, and some – we have large open orders in future months that we can easily pull the trigger and move them up if the buyers request. But we see some spacing of orders, in order to keep their inventories in line with the expectations of their upper management. And I just happened to be at Dick's Sporting Goods last week, and we are moving along. We are looking at some ideas to expand, but the buyer did indicate that he is strapped on how much he can bring in and then we can bring it in. And if it was up to him, he would be bringing a lot of our product in. Unfortunately, he doesn't make all those decisions.

Andrew Shapiro: So, can you detail any new products or end retail locations or new distribution agreements that have been cut over the last few months that would be incremental for the coming year in personal assurance?

John McCann: Sure. We are the now exclusive provider of products for Ace Hardware Stores. So we are now in their catalog, we are in their warehouses. We will be the only self-defense spray that they are carrying, and they are looking at some other non-aerosol products that fit in that genre, which I think is a nice win. Ace not only owns stores, but has many partners and mom and pops, as we like to affectionately called them, that are run. So that is a nice pick up for us. It's a nice win.

We also – there is for grocery stores, dealers, associated grocers and drugstores that we've gained distribution on that we have already shipped them out their first orders. Some of them have taken, which is nice for us, a 36-count shipper pack that they've taken floor space that was not turning a profit into a profitable venue for them, and then also added us to their sections. And then we are very close to a large retailer, but we don't have that confirmation yet that would be a nice win for us also.

So there's a lot of – we participate in a couple shows that the organization hadn't participated in, in the past, namely GMDC and ECRM, which cater actually to the drug and grocery accounts. And by doing that, we are able to get into some stores that it makes much sense for them to carry our product, and now we figure out a venue in which to make that happen.

Andrew Shapiro: Does any either trade press or joint press release action of these kind of items make any sense? If you are exclusive to Ace, wouldn't Ace in their system want to be part of or issue a release saying that we now are carrying Mace brand products, just because our brand has some, I don't know, cachet or following?

John McCann: It's somewhat of a sensitive area that they really didn't want to – what they do is the people – as they put it, the people that need to know, they are making sure they know. So they're doing e-mail blasts, they're doing flyers, they're doing communications with the – I think it's 4008 dealers out there. But then on a generalized basis, they just don't do that because then it's – they don't want to upset somebody else or then say, OK, well, you did it for him, why don't you do it for me? They could end up constantly writing press releases every day of the week with a lot of the great things that they are trying to do and compete in a tough environment.

Andrew Shapiro: And would they allow you to do – issue said press release?

John McCann: We are working with them to see if we could do something like that to announce it because we just – we just formalized it within the last couple weeks.

Andrew Shapiro: OK, and how about new products to go through your existing distribution channels?

John McCann: Well, there are several new – like we have a new pink jogger that we are pretty excited about that we just finalized. We're working in our Muzzle brand. We've rebranded some of our Muzzle, which is our canine, also our bear products that we've added bear like to Ace. Ace didn't carry bear spray before; now they will be carrying bear spray in the right applications. And then the pink jogger – we've added to several different accounts, which is a product that we didn't have prior; we had a regular pink self-defense, but now we have a smaller pink jogger.

So those are some of the new ones. There's a couple of new products that we are finalizing as we speak, so I'm a little remiss to talk about them right now.

Andrew Shapiro: OK, and what about the status and/or product line focus of acquisition opportunities in your Personal Defense segment?

John McCann: There is several that we are actually – Eric has some very good contacts that we are taking advantage of. There's several in the space, and we are having ongoing conversations with them, that if we can do, it would make perfect sense in the world to expand our range and our pipeline and also our distribution. So yes, they are ongoing. There's nothing that I can report today, but they are ongoing. And it falls into that personal defense/home security genre. And then it fits also with what we want to try and do in licensing. So there's several categories that our brand name makes sense. It doesn't make sense for me, then, to go and start from zero into X category. But it does make sense that somebody that has a number one or number two position in that category, to bring in Mace as the upper end brand in that category so they can do some channel management and product differentiation.

Andrew Shapiro: On the Mace Security products segment, can you discuss revenue trends continuing in this segment and what is being done to improve sales as well as further cost cuts for that?

John McCann: Well, now that I've initiated some of the other changes that are underway, this is the next hurdle that I need to face. We need to re-energize that sales force. It's a different category that we need to sell. Not only do you have a retail, but you also have a commercial. And with Eric and George, quite honestly, we're working on what makes the most amount of sense to enjoy some efficiencies.

I've unburdened them with the Texas facility, which on an annualized basis should be about $150,000 worth of cost saving. So his overall operating expenses will be decreased. We're going to decrease the space, his footprint, significantly on a cost basis, most likely hopefully starting in the November period. Now, it's structure-wise, what is the right structure to go to market with, and how do we do it? And at the same time, is it better for us to do it, or is it better to work with a partner to do it?

So I would call this one – all the options are on the table. The goal is to – on a top-line basis, we should be doing at least $0.5 million worth of sales. On a bottom-line basis, we should be in the 15 percent to 20 percent margin on that business when it's all said and done. And then we have to look at how do we get there.

Andrew Shapiro: OK, a few car wash follow-ups – to what extent was the Fort Worth Colonial wash lease liability on your balance sheet at the end of June, before you are paying to get out of that lease? Was there any lease liability on the balance sheet?

Greg Krzemien: No, that was in operating lease, Andrew. We did have – I'm going to estimate – I think if you look at our future payments, we probably had about $800,000 plus in gross payments to pay over the next couple years, but it was an operating lease, so there's nothing on the balance sheet.

Andrew Shapiro: But on a quarterly or annual basis, what was that location costing us?

Greg Krzemien: That was probably costing us about, give-and-take, depending on the weather, I'd say on average probably about a $7000 to $8000 a month loss. So we're looking at about a $100,000 cash drain on an annual basis that we essentially eliminated by paying for (inaudible) –

Andrew Shapiro: 2016 was the old lease?

Greg Krzemien: 2016 was –

John McCann: Yes, 2016 the lease was effective, so we had several years left on the lease. We also internally, on a net basis it cost us less than the 275. But it was definitely – because the losses were only going to increase because there was investments that were going to have to be made, significant investments in the equipment and in the site itself that would have been our responsibility based on the terminology of the lease.

(Inaudible) and we – the gentleman that we worked with – I've got to say, we hammered out for months to get it done, and I was pleased to get it done, because it was not easy.

Andrew Shapiro: And the Arlington, Texas wash, what's the purchase option price on that wash, and what happens if the tenant doesn't exercise his purchase option?

Greg Krzemien: Sure. The option price is $460,000. There's not a lot of skin in it, Andrew. I think our non-refundable deposit was $5000. We were just happy to eliminate that loss, turn that loss of about $6000 to $7000 a month into a $4000 a month profit. And I think the gentleman is really motivated to buy it. So again, it's about a $460,000 purchase price, and he set a minimal deposit was put up.

Andrew Shapiro: And if he doesn't exercise the purchase option, here he is – we are not in charge of that property for a year; he runs it down. Do we end up reacquiring it at a bigger loss rate? What happens if he doesn't exercise the purchase option?

Greg Krzemien: I'll let John speak also, but our plans would be not to reopen it. We would just, at that point, shutter it and then just settle for real estate value.

Andrew Shapiro: OK.

John McCann: Correct. The idea was, is that we had put a goal out there that Greg and I and the organization was working to that no later than September 1 we would be out of the car wash business. And if we hadn't struck this deal, we were going to shut down the car wash and then just look at the real estate value to see if we could move it at all.

On the backside of this, you're right; there is a risk that he won't. But right now, he is. We have a gentleman that helped us broker the deal that is also still pursuing other sale options on it. But the gentleman that took it over has shared his plans with us. We think they are pretty sound plans, that if he can come up with the financing, it would be tremendous.

Andrew Shapiro: And lastly, how much is this Chase credit line available and drawn, Greg? And how much is deposited with an held by the bank as restricted cash?

Greg Krzemien: Yes, the line of credit is $250,000. Our deposit with the bank is approximately $400,000, $420,000, something in that range, $420,000. And the collateral really is for several things. It's for – since we have no tangible collateral anymore with Chase, the collateral covers the $250,000 line of credit, which at the end of June we had one small letter of credit out there for less than $20,000. It also covers our letter of credits we have posted against some of our insurance programs, and it also covers our MasterCard program where we have a line there of about $40,000 to $50,000. So that collateral, restricted cash balance, covers those three things.

Andrew Shapiro: Yes, but doesn't that seem like the restricted cash balances in excess of the entire loan?

Greg Krzemien: It is not. When you add up the letter of credits for the insurance, when you add up the MasterCard line and when you add up the $250,000 line, it's actually to the dollar, the cash collateral.

Andrew Shapiro: I guess it's great to bank business, if one can get it. No risk (inaudible) –

Greg Krzemien: Based on this under – like we are reviewing all our different bank relationships, Andrew. It's another phase in the process, to make sure that we are where we need to be and should be. But it's a good point and worth investigating, I think. The last time, Greg had done a great job of working with Chase on reducing some of their requirements.

Andrew Shapiro: Yes, it's always a lagging indicator. It seems the requirements are always in excess of what their risk is.

John McCann: Absolutely, I couldn't agree with – and that's universal with all the banks (inaudible) banks and insurance companies.

Andrew Shapiro: All right, I have no further questions for now. Thank you.

Operator: We have no further questions at this time.

John McCann: Well, (Tiffany), you did a great job.

Greg Krzemien: Thanks, (Tiffany). And just as we put in the press release, the call can be listened to on playback through October 7, 2012, and the numbers to call in are listed on the press release. And in a few days, we will have the transcripts, as well, posted to our Mace Web site. So, again, thank everybody and we'll talk to you soon.

Operator: This concludes today's conference call. You may now disconnect.

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