MACE SECURITY INTERNATIONAL, INC.

Moderator: Steve Rolle
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Operator: Good morning. My name is (Tiffany), and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply please press star, then the number one on your telephone keypad. If you would like 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 2011 Results Conference Call. My name is Steve Rolle and I'm 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's 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 Security Litigation Reform Act of 1995. When used during this 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 Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks, known and unknown, 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. It could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during the call.

Additional discussions for factors that could cause actual results to differ materially from management's projected forecasts, estimates, and expectations are contained under the heading "Risk Factors," in Mace's SEC filings, which include its registration statements 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 Maces' annual reports on Form 10-K and quarterly reports on 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 and good morning everybody and thanks for joining us again on our fourth quarter and year-end results call Steve mentioned. I'll be covering results for the fourth quarter and the year-end versus the same periods in the prior year. From time to time may also do some comparisons to the sequential quarters in 2011.

In the way of some background for those who may be new to our calls, Mace currently functions or operates in one active segment, that being our Security segment. We discontinued in the past two other segments; those being the Car Wash segment, which we currently, as of today only own two remaining sites, and our Digital Media Marketing segment, which we sold back in November of 2010. I'll make some brief references to these discontinued operations towards the end of my comments.

As to our Security segment, I want to kind of highlight that we operate in three operating units or distinct divisions. We have our electronic surveillance equipment operation, named Mace Security Products, Inc., where we sell both professional and more do-it-yourself type home and small business electronic surveillance equipment.

Our most noted division is our Mace Personal Defense Operation, which is our famous Mace Aerosol Pepper Spray division. And we also operate in a third division, our Wholesale Security Monitoring business Mace Central Station, Inc. We entered that business in April of 2009 with our first (stop) based acquisition.

Up to about October of last year, we also had an additional division known as Industrial Vision Source, which was really a distributor of specialty cameras and conferencing call equipment. We sold that as I just mentioned in October 2011.

As I previously mentioned also, we've recently filed our Form 10-K. And in that 10-K you'll notice that these discontinued operations, the digital media marketing and the car wash segments are accounted for as discontinued operations. And in essence, all of the line items in income statement from revenues through all the expenses including the prior period or stripped out of those line items, and the bottom line of the net results, where the discontinued operations are reflected as one-line item on the bottom of the income state. This way the income statement provides a pure picture of just the continuing security segment.

Additionally on the balance sheet, all those assets and liabilities related to the discontinued operations which are held for sale are segregated and pulled out into two separate balance sheet line items which I'll talk about in a few moments.

Again, what I'd like to do now is cover some financial highlights on the results for 2011 and the balance sheet, and then John will follow up my comments with some additional discussions on our operations and adding a little bit more color to my financial comments.

First off, I'd like to talk a few minutes about the balance sheet; a couple of points of interest. We have working capital of about $17.6 million at the end of 2011, and about $23.3 million in assets – I am sorry the working capital of

$11.2 million, the net worth was $17.6 million at the end of the year. That net worth of $17.6 million is about $0.30 per share of our stock outstanding. In that total assets and working capital, we had about $7.9 million of cash at the end of 2011. As far as debt goes, as of the end of 2011, we had recorded debt of about $1.53 million, obviously the lowest debt we've had in many, many years.

This was versus about $3.5 million as of the beginning of the year. This $1.53 million is net off about $550,000 of the value of the conversion options and certain warrants related to $1.1 million debenture note. That difference is recorded as equity in our financial statements and it's accreted as a non-cash interest charge over the life expectancy of the $1.4 million debenture note. So we'll continue to accrete that $550,000 into interest expense – non-cash interest expense and increase the note balance through 2016 which is the new maturity date for the $1.4 million debenture.

As far as the debt goes, as I mentioned it was about $3.5 million at the beginning of the year, about $1.5 million at the end of the year. That decrease of just a little under $2 million is net of a few things. We borrowed about $1.35 million at the end of 2010 to resolve some issues with our prior CEO from Merlin Fund. We paid that debt off during the year. So in 2011, we had that reduction of $1.35 million. We borrowed another $1.4 million from Merlin to affect the acquisition of a security monitoring tuck-in company in March 2011. We paid down some debt through the sale of assets. We sold Lubbock Car Wash in 2011 and we sold our Texas warehouse in 2011, paying down those mortgages, and we had routine debt payments of about $275,000. So all in – the net of all that was bringing our debt down by just a little under $2 million.

With this debt reduction, sitting today, we are down to about $1 million of recorded debt. Again, that's more like a $1.5 million when you look at the roughly $0.5 million of remaining unamortized conversion options and warrant value that's in equity. So out of that $1.5 million on a gross basis, $1.4 million is the Merlin note mentioned that we – we took out in March to buy our tuck-in operation, and the remainder balance of about $130,000 is just some minor small capitalized leases and equipment notes for our security segment. So again we're just about debt free at this point with the asset sales and with the rights offering that we did last year. So, you know, we're really happy to report that.

With this debt pay down, just want to mention a couple of things, our relation with JP Morgan Chase continues to be strong. With the pay down of the debt we restructured some of our agreements. We eliminated a covenant in the past, which was to maintain at least $1.5 million of cash balances, reserves in the company. We do have a cash collateral count of about $439,000 right now that has some restrictions against it by the bank to collateralize our Letters of Credit, some line of credits that we have with – with Chase. And you know, we'll continue to work with them on that item as well as we – you know, focus on – on becoming cash flow positive in the future here.

From a balance sheet standpoint, one last thing I'll mention is our assets held for sale decreased about $3.9 million from beginning of the year to the end. That was a result of the sale of the Texas warehouse in December, the Lubbock Car Wash in March that I mentioned previously. And we also did some write downs of our remaining two carwashes in the third and fourth quarter for the tune of about $511,000. So that really was the – was the reduction in assets held for sale. And our current liabilities related to assets held for sale dropped about $1.5 million in 2011. And that's directly related to paying off the mortgages for the Lubbock Car Wash and the Texas warehouse that we sold in December.

From a cash flow standpoint, just wanted to point out a couple of quick things. Our cash flow or our cash balance had rather increased about $5.3 million from the beginning to the end of the year. The three main segments of our cash flow statement is our operating section, which we decreased cash about $2.9 million through the losses, reduced some by – by some positive impact on other working capital items. Our investing activity generated about $286,000 and that really was positive effect of generating cash from the sale of the Lubbock Car Wash and the Texas warehouse, less the cash that we paid for the tuck-in operation bought in March for our monitoring company. And we generated net cash of about $7.9 million in the financing side, and that's the effect of the $8.2 million we generated through the rights offering and the security sale that we did in the August timeframe of this past year, less the net effect of – of the pay down of debt of about $300,000 that wasn't related to debt paydown from assets held. So again nice to have a cash balance back up in the high $7 million to $8 million range.

I am going to make a couple of comments on revenue, our next focus in our income statement. For the fourth quarter versus the fourth quarter of last year, our revenues dropped about just a little under $1.8 million or about 35 percent. The key point there I think is that the bulk of that drop is in the IVS division, which we – which we sold. And the reason why we sold that obviously was largely because of the drop in revenue, which was affected by a couple of key events that happened last year.

We lost our distributorship with Sony as we previously disclosed. We had difficulty getting product from other distributors with some of the disasters that went on in Asia earlier in the year. And then we lost our General Manager of that operation earlier in the year. So with those items, we – we sold IVS. That was our lowest margin producing division in the Security segment, producing product margins in the 13 percent to 15 percent range. So again we exited that business, and that reflects about 82 percent of the drop in revenues for the quarter-to-quarter.

For the year, our revenues dropped about $4.5 million or about 24 percent, and probably about 78 percent, 79 percent of that drop again was because of the IVS operation which deteriorated during the year, and we ultimately sold in the October timeframe.

With that I am going to drill down a little bit by the divisions on the revenue. On the Mace Personal Defense Operations, on a quarter-to-quarter basis for the fourth quarter we are up in revenues about 5.4 percent, which we're really, really excited on that. From the third quarter of '11 to the fourth quarter of '11 we were up sequentially in those quarters by about 11 percent. So again, just really happy with the growth we've seen in the fourth quarter in that you know, one of our key divisions.

Our growth was strong on the aerosol side. In the fourth quarter, we had about 5 percent growth in aerosol. That was offset slightly by some decreases in our non-aerosol which is a small wireless electronic component. We feel based on what we are seeing that that was just a temporary item, just needs of major customers. And that's – you know, that's gone back on a stronger track here.

On a year-to-date basis, we were down slightly in the Mace Security Products division – I am sorry, the Mace Personal Defense division by about 2 percent. And in – you know, aerosol which is our main product was strong with almost a 6 percent increase 2011 over 2010. Again where we saw the softness was in the non-aerosol home security wireless system. And somewhat in our T.G. Guard which is our big embassy type, prison type pepper spray dispensing system. Again, you know, based on what we know about current operations, you know, we feel pretty strong that they were temporary decreases which have started turning the quarter at the end of the fourth quarter, and we feel good about them as we speak there.

Looking at the electronic surveillance operation, that's where we saw our – you know, one of our biggest decreases. On a quarter-to-quarter basis for the fourth quarter, down about 31 percent, down almost 50 percent for the year. That's – that's the operation that we've done a lot of strategic things to last year, I guess I would say we felt the pain the last couple of years and into 2011 from slower construction, competition increasing especially from the Asian manufacturers selling directly here. We lost a significant customer in early part of 2011. And really as a management group, we started to focus more on the do-it-yourself home and small business type of equipment, which requires less attention, less service, less overhead than the higher cost, more needy professional line of business. So, some of the reduction was also just focusing more on consumer retail type products and growing that and letting the professional that we weren't getting a good margin on move aside.

So with that we made some more significant cost reductions. Towards the end of the last year I mentioned, I think in the last quarter call that we reduced some more overhead, some more positions, we've challenged our expenses in that operation. We sold the warehouse in December and moved to a leased facility about a third of the size, which saved us about $100,000 on an annual basis.

So when you really take all these costs, we feel we've cut back the expenses in our operations probably about $600,000 on an annualized basis. So with that cut back, and despite the drop in revenue, we are in a position where we are achieving close to breakeven results now in that operation, which is, you know, one of the goals we set out.

Again IVS, I mentioned, we sold that in October for about $517,000, disclosed that in the 10-K. With that, we recorded a gain of about $56,000. So we are able to monetize that operation which have low margins and was really deteriorating. One of the key components of that was an earnout for $100,000, which we corresponded with the buyer and we've agreed that the company has earned that $100,000 and we are currently just working out some post closing, minor things with tables of receivables and wrapping that transaction. But good news on the IVS front in the sale of that division.

Lastly and but not least by any means is our Wholesale Monitoring division. Mace CS – Mace Central Station, which is comprised of two items. I mentioned we got into this business in April of '09 by the acquisition of Central Station Security Systems, CSSS. We bought a tuck-in in March of this past year called TCCI, The Command Center Inc. And with those two operations we now operate a security monitoring wholesale, which means we deal with dealers versus the end-user. We have about 490 dealers currently with the two operations combined. And with that we have end connections of a little over $70,000. So our operation has grown nicely the end connections. At December of '10 it was only about $43,000 end connections. So again, you know, growing nicely and you know, we are pleased with that.

Our revenues for three months to December of fourth quarter of '11 versus the fourth quarter of '10 is up about $225,000 or 30 percent, and for the year, we're up about $650,000 or 24 percent. And probably 90 percent of that growth relates to the acquisition of the Accounts for TCCI, however, we still did see some organic growth besides that. So we are – we are very pleased with that.

Looking across profit margins for a couple of minutes. You know, I am happy with what we're seeing here when I looked at it from a three month basis. And as reported, we had gross profit of about $1.3 million for the fourth quarter. That was about 41 percent gross profit margin. For the same period last year, we had about 31 percent gross profit margins. We improved by 10 percent. For the whole year we were at about $4.9 million as reported.

And as I mentioned last quarter, and we disclosed in the K, we wrote down inventory, we took charge of about $200,000 in the third quarter for some inventory that we are liquidating currently as we speak through some auction mechanisms. If I exclude that $200,000 our one notable kind of item, our margins for the year would be about 37 percent for the Asia versus about 30 percent for the whole year. So a nice 7 percent improvement for the year, 10 percent when you just look at the fourth quarter. And it's largely related to a couple of things. Large part of it is mix, but getting rid of the IVS sales, which I mentioned were 80 percent to 90 percent of our decrease for the reported periods.

And really focusing more on our Mace Personal Defense, which has a gross profit margin of 46 percent to 47 percent range. Our Central Station went at 35 percent plus range, and our Professional and Home and Small business electronic where in the 28 percent range for the year. When I look at the fourth quarter, those margins are pretty much the same for MPD, Mace Personal Defense, and for the monitoring station. But when I look at the professional and home and small business electronics, we are up to about 36 percent margins there versus 28 percent for the year. So that's the impact of these changes we started making towards to the end of the year, and the increase in the profitability there. So we are very pleased where our gross profit margins have gone.

SG&A costs, continue to work on those. If I look at reported SG&A cost for the year, down just a little over $900,000 or about 11 percent. But when I back out what I call the notable items, you know, last year we had in 2011, we had some severances or Dennis, our ex-CEO, and for John up in Vermont, Goodrich who retired. We also had some other fees that we spent in the third quarter to clean up some matters. In the prior year, we had some notable items. But when I back those out, our SG&A has dropped on a kind of recurrent basis, we __notable items by about $1.3 – almost $1.4 million or about 15 percent from 2011 – 2010 to 2011. And when I look at the quarter, again, we reported a decrease of about $760,000 or about 31 percent in SG&A costs. But to be fair when I back on notable items, that decrease is about – about $540,000 or about 25 percent to 26 percent. So the percentage decrease is much more significant again in the fourth quarter, as we continue to make some – some hard decisions in the third and fourth quarter of last year, you know, which will carry in to the future year.

SG&A cost, you know, we worked on them on the corporate side. We're down for the year about 20 percent there. MSP, we are down about 30 percent for the year. And on the Central Station, we are up a little bit on SG&A costs. We've added about $60,000 to $70,000 a quarter with the acquisition of the Command Center in March. But again net-net you know, we've seen some nice reductions in SG&A costs.

Operating losses, again I'll mention some comments on a, shall we say, without – without the notable items to bring it more to comparable basis. So when I eliminate that at both years and impairment charges, the arbitration costs that we incurred in 2010 with our CEO from a couple of years ago, our operating loss actually despite the drop in revenue that I mentioned stayed at about 22 percent of revenues. So that was encouraging and when I look at it from a fourth quarter standpoint, it improved the loss for the fourth quarter – operating loss as a percentage of revenue, we have down about 10 percent, but it was almost 14 percent in the prior year fourth quarter. So definitely making some good headway there. That impact still reflects definitely right directly towards our EBITDA, our cash flow.

Our EBITDA for the most recent quarter being December, we had that to negative $270,000. And we backed out some notable items, we headed down to about $220,000 of negative EBITDA. Coming off the year, having negative cash flow of about $3.6 million and about $2.4 million less notable items. So considering our negative cash flow without notable items, was about $2.4 million for the year, and only $221,000 for the fourth quarter. We definitely made some strides there.

Headcount, we are down from about 120 people at the beginning of the year to about 110 at the end of the year. So we continue to look at that and make changes and adjustments as needed.

Just a couple of comments on discontinued operations. As I mentioned that's all pulled down to the bottom of the financial statement. Our loss over the current year, was reported at $621,000. I want to point, and I mentioned earlier that $511,000 was writedowns of the remaining two carwashes. We wrote down one of the washes by about $450,000. We're getting very aggressive at moving that last owned carwash. We have it written down to get rid of it within the next two months to three months at most. If we get rid of that at a better price, that will be good, but we wanted to make sure that we had it a conservative position. We also wrote off about $60,000 related to our leased site. So that site is now on the books at zero. So without these impairments or cash flow drain, it was about $110,000 last year from a carwashes. And $72,000 of that was cost related to getting the sites that we did so last year ready for sale. So really our – our operating loss was about $30,000, $40,000 for the year, excluding those – those – those notable costs.

So you know, we have the discontinued operations under control, and as I mentioned, we are focusing very aggressively on getting rid of those last two sites in the next couple of months here. In 2010, the loss was a lot bigger from discontinued operations, almost $8.3 million, but again a bulk of that was impairment charges on the digital media company and on the carwashes. But we started a cash flow drain in 2010 of about $1.1 million from discontinued operations. So narrowing that to almost nothing last year was a good feat.

A couple of comments on asset sales and I'd kind of mentioned these through my other comments, but we sold in the last couple of quarters, we sold the IVS division, as we mentioned we recorded a gain on that. We also sold our Texas warehouse, I mentioned that. We recorded a small gain on that, and paid down debt. And as a subsequent event, we disclosed the sale of our

Colonial One carwash in Arlington, Texas. That we sold for $2.1 million and we paid off debt of a little over $0.5 million and we netted cash of about $1.575 million and a small gain on that. So you know, we are happy to move that and added some cash to the – to the bank accounts here. So, it brings us in a stronger you know, networth and working capital position.

One last comment I'll make our operating losses NOLs were at about $51.3 million. They expire anywhere from 2012 to 2031. So again, we have – we have definitely some intrinsic value built in those operating losses as we proceed into the future here.

With that I am going to turn the call over to – to John McCann, again John is our President and our CEO and then John will add some additional color to my comments, and to the operations, John?

John McCann: Thanks Greg. So I really don't have a lot of comments, because this is about 2011 and I started in the middle of January of 2012, other than to say I am very excited to be on board. It's a tremendous brand. I've visited all the divisions and we've a tremendous amount of opportunity. Yes, we still have some work to do on the cost cutting side, and some synergies that we can – we can create. But then we have a tremendous amount of growth potential for the future.

So that's really it. We can turn it over to questions to kind of keep this rolling along. I think Greg covered a lot of the financials. So, I will turn it back over to you Greg, if there's any questions.

Greg Krzemien: OK (Tiffany), we will be happy to open up for questions.

Operator: At this time, I'd like to remind everyone, in order to ask a question, please press star one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Andrew Shapiro.

Andrew Shapiro: Hi good morning. I have a few questions. I'll ask a few, get out in the queue, let others ask or please come back to us.

Trying to stick to the big picture here initially. You said your cash flow for Q4 had, your burn had been brought down to less than $250,000. Are there seasonal factors in there? Or is that kind of your current steady state burn rate? And were there months in which you were positive within the quarter? Have you got into a positive cash flow month yet, and when you do think you might be having some positive cash flow quarters?

Greg Krzemien: I'll initially answer Andrew and I'll let John add anything he'd like. And I think you are correct, we did have our cash burn, again less a couple of notable items down to less than $250,000 for the quarter. I think your question was on seasonality. There's a little bit of seasonality. I think you know, what we see a little bit is sometimes in the Mace Personal Defense operation, and I think it has to do probably more with the holidays than anything. You know, the September quarter is usually our strongest there, with supporting goods and lot of the retail stock – retail stocking up for the holidays. You know, but we do have a little bit of a low in the fourth quarter, more because of the holidays. So I think there's a little bit of seasonality but not much.

You know, as far as, you know, do we have any months in December quarter that we actually got cash flow positive? I'll say no, but we got close. But none – you know, but it's getting exciting that we are getting closer. You know, I think we'll continue to have some small burns for a couple of quarters here and you know, we're really working towards trying to eliminate those as we get towards the end of the year and (get ourself). I mean that's I think I feel comfortable saying at this point, and I'll let John add anything he'd like to add.

John McCann: Great. The only other thing I'd add is that it's a daily reminder that we need to be cash flow positive and so our goal is to be cash flow positive as soon as possible. And we are working on a goal as we speak.

Andrew Shapiro: Now your predecessor, the interim CEO made a bunch of cuts following the substantial cuts that Dennis Raefield put in place. And some of those cuts might impact the topline and others were trimming the fat now, maybe trimming muscle. Do you feel having been in here John for I guess it's three months now, that the company is down to the bone, or that there are still pockets of inefficiency or consolidation or synergistic cost cutting activities that can be created and without maybe giving the timing of that, do you have maybe a quantification or a scope of how much additional cost or improved profitability you might be able to create without the assumption of further revenue growth?

John McCann: So to start at the beginning, I think there's some more efficiencies that can be had within the organization. I don't think we've cut to the bone that's affected sales. I think there is a little bit of maybe tweaking of roles and responsibilities that will help us. And then I'd be remised to quantify it at this point. I think there is some ideas I have that I am working on currently, but I don't want to quantify it. But to answer it, I think we can continue to grow the brand, and yet there's some more efficiencies that we can drive towards.

Andrew Shapiro: OK, and with the few of the remaining things here to get rid of, Greg or John, the status of the two remaining carwashes are – here we are in March, you mentioned the desire, goal that this will – some of this will be extricated from you know, matter of months, maybe quarters, it sounds like before the end of summer. And I think that there's seasonality issue involved anyway. So out of these washes, presently profitable as a whole, profitable individually one of them, and the other one burning, what's the cost to extricate out of these things before we could, let's say, be done with a segment that has a lot of human resource and many other SG&A cost to go along with it from the corporate side.

John McCann: That's a good point. So I'll just you know, let Greg talk about the financials, because we are working on that. Our goal would be as soon as profitable but no later than the back half of the year to have moved the last two carwashes. We are working very aggressively to make it work. We put in place five or six different strategies. And I think we will be successful within the coming week to be able to move them. That's the exact timing because of you know, with any acquisition and what not, there's always obstacles and delays. But our goal, I think is pretty solid and I think we can achieve that. Greg can talk a little bit about the financial because we have looked at both ways. If we didn't operate then what's the cost there, and operating, what's the cost. So I'll let him talk a little bit about that.

Greg Krzemien: Yes sure, thanks John. You know, Andrew, we've spoken I think before in the past is that we – what we do every month when we look at these operations, we know exactly you know, what the cost would be if we lock the doors. You know, you may see real estate taxes. We have the least payments on one of the sites, you know, some minimum – minimum utilities, car service. Just those minimum costs, we look at that and we are definitely operating at a smaller loss by keep them going than shutting down. Our loss, we seem to not been able to – to contain it to zero. We seem to obviously to have some weather factors, but we have been able to contain in kind of the $5000 to $12,000 a month cash flow drain and – and I think that's really the reason why – and obviously we've been committed to getting rid of these by trying to get rid of them sooner than later even if we have to take a bigger cut to that, but again trying to maximize the cash we get for them. So we are – you know, we are trying to do everything to keep them as tight as possible, losing the least amount of money. But you know, (admittedly) that are stores are small cash grain that we watch you know, very closely.

Andrew Shapiro: All right. I have additional questions, but let me back out in the queue in case there's others, but please come back to us and don't terminate the call, because I've got more.

Greg Krzemien: OK. Thanks Andrew. (Tiffany) is there other callers?

Operator: Yes sir, the next question comes from the line of (Darmin Willis).

(Darmin Willis): Good morning gentlemen.

Greg Krzemien: Good morning (Darmin).

(Darmin Willis): I mentioned on the last call about a rush to get into the commercialization of pepper spray in our such as Wal-Mart, Target, K-mart et cetera that I'd thought that would be great potential force under the present environment, and it seems like we still have not moved toward that yet. Is there any reason with your commercial experience that we haven't moved there?

John McCann: It's a timing issue, like with – with respect to K-mart and Sears we have – we had a small little program and we have been to able to expand that very nicely. So this upcoming year, you know, we basically triple the offering. With Dick's we have expanded our offerings too. So we've increased our distribution at those clients. With respect to Target, you know, we have a long list of customers that we are going after. There's some (inaudible) right now to make sure we are successful. And I think you know, before the back half of this year, we will have breakthrough distribution on some of those accounts. It's two-fold though, because at the same time we are gaining distribution, we want to make sure that we have sellthrough and sell out, that we are also working on the marketing of the brand, to make sure that not only just have the distribution but people A, know where to find it, B, are looking for it and C, know how to use it. So at the same time, we are working with you know, for example Target, I'll up there in a couple of weeks and we've had some nice conversations but no distribution yet, to get some distribution going. But we want to make sure the sell-in, and the sell-out both occur.

(Darmin Willis): All right. Do you think in this present environment, where more pepper sprays are being used and possible continued class warfare that – that almost a major protection for anyone, not being a gun of course would be the ability of just many, many individuals, college women, et cetera using the Mace spray, and it being almost a must item to you know, have. How is the – is that – is that philosophy way off or seemingly the timing for just the use of almost a necessity for people to have that as protection is appropriate. Is my philosophy off?

John McCann: No, no I think, I think your philosophy is right on. I think you know, there's couple of things that we have to do and it's apropos I just met with the Vermont State Police Department, a retired officer to kind of start that process of education. You know, what – in the world today, you'd rather a person have Mace than a gun. You know, because both people can (rely) in that type of environment. And so what we're trying to do, and we will do, is to educate the public that the product is safe. It's the best deterrent, not only gives you personal safety that you have it, than it is also a great deterrent because if you bring it out, you are less likely for something to happen. But with that we are trying to make sure that we educate the public because to your point, you might have reached that point, but I don't think everybody has reached that point yet. And we want to make sure that when they do reach that point that they go for the product, that they go for Mace.

(Darmin Willis): Right.

John McCann: And I think we have the brand name. Now we just have to really have the marketing strategy behind it, and we are working on a variety of ideas to do that; identifying the market, making sure that we speak to the market needs, then work on an advertising vehicle whether it be a direct response or advertising or sponsorships that allow people associate our brand with personal safety and home defense and then have the right distribution with the right retailers so they know where to buy it. So I think you are 100 percent right because given a situation of Florida, given other situation, if Mace have been used instead of lethal weapon, a non-lethal remedy is clearly more desirable than a lethal weapon.

(Darmin Willis): How – how far along do you think the market is in understanding that there are alternatives to the lethal weapon and that you know, it just seem so you know, if I had daughters in college right now, I'd want them to have, you know, Mace spray in their pocketbook. So what do you think it's going to take to move us over the goal line on that and with that seems like that would move our company into an entirely different ball game?

John McCann: Yes, your second point, it would absolutely move us into entirely different ball game. And the first point, I think we are getting very, very close. I think more people are aware, not only in the world of personal defense but like also if you just jogging with animal attacks and what not that are becoming more common than ever before. We make a jogger unit, for example that does extremely well for people that are jogging. But I think we are – we are not there yet, but we are very, very close. And what we are trying to do through PR efforts and marketing efforts is to raise that level of awareness in a positive way. And then also you know, we are putting together kits, what we are calling training kits. So you get a unit that's inert, it's pressurized water. So you can shoot it, you can spray it, you can be comfortable with it. Then you get a real unit that you can put in your pocketbook – pocketbook and be able to use. So I think – I think we are very close. I would say around the corner. I think with the recent events, we are closer than ever before and for us, internationally we are at more markets. Italy and some other markets are now opening up to civilians being allow to carry Mace. So that's also to our benefit.

We do have some work to do. I would say it's on the lobbying end of the industry for non-lethal technologies in general, non-lethal devices, non-lethal products, that we have to work some government officials to raise that level of awareness too, which I think will help us. And we are also working on some strategies to do that with not only Mace Security International, but with our competitors to make sure that you know, laws and legislation, you know, work in our favor.

(Darmin Willis): Last – last question. There's no legal issues relative to caring Mace by someone just walking into a store and buying. Is there?

John McCann: Just in Massachusetts and New York. They are only two that are known today which seems so much illogical if you look at – you can walk in New York with a gun, but you can't walk in with Mace. And I'd much rather somebody have Mace than a gun.

(Darmin Willis): Right. I appreciate your time. Appreciate the job you are doing, and look forward to the company. I think it's turned the corner and really moving to the next level.

John McCann: Thank you, Sir.

Greg Krzemien: Thanks (Darmin).

Operator: You have a follow-up question from Andrew Shapiro.

Andrew Shapiro: A few. So if I could follow-up a little bit more on this rolling out the new products and plans if you could. Last year, there was a patent pending on your pepper gel. Did that patent get a shoot or when is the application and patent expected to be issued?

Greg Krzemien: Yes, we are still working on that Andrew. And you know, we hope to have some news on it in the next – you know, in 2012. These processes are very slow. You know, we have to keep kind of going back and proving certain things to them about you know, the uniqueness of the product. So that – that is still pending. It has not gotten all the way through, but it's something you know, that we are – we're continuing to work on, and you know, hopefully we will get through in the next year.

Andrew Shapiro: So your feedback is that – that is the back and forth would be within the year?

Greg Krzemien: (Inaudible).

John McCann: (inaudible)

Greg Krzemien: But more to it, Andrew, with that or without, it's the marketing and others to make sure people understand that this is the best way, like I can speak from, just yesterday meeting with the Vermont State trooper. He thought gel would be tremendous. So in his classes that we've started more sponsoring in the state of Vermont, with him and some of his associates. He is bringing the jai to those classes, and explaining to somebody that this is the best way to do it. And I think that will help also. But with the patent, it's going to be – you know, we have to push back to the patentor and the examiner to make sure they follow-up and give us the information that we need. So I like your work, trying to get to more exact timeframe as to when that can happen, but it's like I said, it's working with government agencies which can be quick or...

Andrew Shapiro: Yes. No I was wondering just on the particular milestones, just like there's always FDA, product milestones, things like that, just to follow with progress. Within your new products, it looks like you have some new products, a pen defender and a key guard self defense spray. What are these and are there any other new recent products that you are rolling out?

John McCann: I can't speak to the product history as much, because they are all somewhat new to me, but I can't speak to you that the pen has been very effective in smaller locations where – where people want something that they can grab quickly. The key guard has been very good, because it allows people to just have it on their key chain. What we've done is to expand some of the colors, some of hottest selling items right now are in your pink line and our jogger models where you know, they are easily accessible in our hand and also readily available. You know, our next step is – there's quite a few products, we are doing SKU rationalization over all the products. So I'd say it's – we are more looking at the distribution base, of growing our distribution base than analyzing the products. And because there are some products that should leave the assortment while other products will get a different focus.

Andrew Shapiro: In terms of speaking of distribution, and moving out from the personal defense side to a segment that is in security but has dogged this company for the last few years, and you were at not one but several attempts to build the direct sales force and grow the direct sales force to moving out and that's in the – we call it the video surveillance segment. And maybe that's in the higher end, the professional side. The results have – haven't been great in the last year. I know it's before you are watching all, you are coming from a consumer side, what are your thoughts that you formulated your plans regarding the distribution or the growth of that – that – the video surveillance segment, or is it something that we will be kind of further shrunk down? Are we going to make another shot at investing in direct sales? Is it something we will be using third party distribution? What's your mindset towards this?

John McCann: Right. Well it's two-fold is that still George and I who has been running that division and has a lot of product knowledge and experience, or still formulating a plan. At the same time, like I was just down with him. He has two people that are doing a lot of direct sales today and doing it more successfully that we have in the past. But to say exactly it might be a combination, but on the direct side, I can tell you from both the securities products to the high end surveillance all the way down to the personal defense products, it is a goal to strategically build our direct to consumer channel of trade, because we can control the message, we can control their branding, we can also control our margins a little bit better. So as we build out some distribution we will still maintain and try and grow a direct-to-consumer segmentation. And our advertising will fit in with that with a drive to web and a drive to an 800 number. So we can capture some of these sales as we put some of our advertising efforts around our commercial efforts.

Andrew Shapiro: OK, and – and where does that then place I guess we'll call it the dealer end of this, and how does that then fit going across the country to where our call monitoring business is and (inaudible) synergies?

John McCann: Yes, you know, there's a tremendous amount of synergy with what we have now with the central monitoring business, because when you go into a retailer and you say not only do I produce products, I distribute products, I market markets, I also protect people on the backside with our monitoring station. That's – that's very helpful because it allows us to show that we are deep in to security systems, and we understand the segmentation of the business. The only thing is, is that quite honestly, we've not done a good job marketing. You know, the first part of selling something is marketing, knowing the brand, knowing the message, knowing what you are going after, knowing who the consumer is, to now having spent quite a bit of time at Anaheim with those folks. We are putting together messaging that will allow us to grow that end of the business. I still think there is a tremendous amount of growth left in that business, because we do have the technologies. We are not maxed out in our capabilities within the arena to add more dealers. So we were just at the ISC West show. We had very good conversations with several dealers about using us at their Central Station.

At the same time, I think one of the first times, we have also talked to those dealers about being becoming a dealer for selling our Mace products over the counter at their locations, and working on ways to allow them to sell Mace pepper spray to the 2000 you know, or 20,000 connections that they currently have and creating a pipeline there where we really capture the synergies of the Mace brand. So your point on the Central Station side is two-fold. We can leverage that business with our other businesses yet, and but with some marketing efforts behind it, which synergistically I can grab from within the organization that exists today. We can create a better message of why our Central Station versus somebody else's Central Station.

Andrew Shapiro: Greg, in your script, and your discussion, moving back and forth for the full fiscal year and then some comments you made on the Q4, you made some references to sequential gains of this subsegment and that subsegment and it was a little bit confusing and I was just wondering if you can clarify because when we compared full year versus nine months results, because I don't believe you really provided it either in the press release or in the 10-K, but in the press release either, the fourth quarter results.

We are getting some flat to down performance sequentially from Q3. Can you – can you clarify when you talked about sequential gains where these subsegments within personal defense itself? And then do you have some specific personal defense professional you know, video surveillance and then the call monitoring fourth quarter revenue mix breakouts so that we could understand which ones were up year-over-year, I mean – excuse me, sequentially to hone in on asking about some areas here where there was growth or where there was weakness and why?

Greg Krzemien: Sure. I will try and highlight. I think your question is on the revenues of all the different segments. If I look at – I will start with MPD, I mean for the fourth quarter, we were up about $79,000 or about 5.4 percent over the fourth quarter of the prior year, and what I also mentioned was sequentially we were up about 11 percent plus from the third quarter of 2011 to the fourth quarter of 2011. And quite frankly, the first two quarters of Mace Personal Defense operation were fairly week. I mean we made some management changes there. We had a major sales person who passed away. And we had to hire somebody to recover our International law-enforcement operations and so I – you know, for the year we were down a little bit on that operation by about 2 percent year-to-year. But again in 2011, we showed sequential growth every quarter, with about 11 percent growth from the third to the fourth quarter.

Andrew Shapiro: Yes I am most interested in the trends – how are we trending here in Q4 versus Q3, unless there is seasonality, just to know – this is a company that's constantly in transition. You know, you went from you know, the new three-year CEO, replaced Paolino to an interim CEO who did his things, and now we have John who hasn't even had a impact on the reported numbers to-date. And so I am just wanting to make sure that we are continuing on the right track by subsegment or where we are not to you know, understand where and how and what's being done about it. So...

Greg Krzemien: Yes I think you were (inaudible) mentioned on MPD. Let me just kind of look at revenues by quarter. Maybe that will help Andrew. But in MPD the – again personal defense we are about $1.1 million in the first quarter of last year. $1.164 million in the second quarter. $1.395 million, almost $1.4 million in the third and $1.542 in the fourth.

Andrew Shapiro: That's what I wanted, the fourth quarter. OK great.

Greg Krzemien: Yes, so we had a nice job, and as John mentioned we did a lot of you know, good things in Vermont in the third and fourth quarter. Started by Mike and John has just taken it, you know, continues to take it another level.

Andrew Shapiro: OK.

Greg Krzemien: You know, one of the things that we didn't mentioned there was the packaging, you know, that's a new fresh look in addition to adding some new product ideas, we you know, we've revamped that and made it more – an image I guess I'll say it's looks similar and we've done a lot of work on that and we've gotten great responses from our retailers on that already. So you know, we really focused on not only getting as John said, more SKUs in stores. We focused on working with our retailers on getting more space within the stores and we focused on retailers on just getting more their stores.

Andrew Shapiro: OK.

Greg Krzemien: So you know, we've done really good positive things there and John is you know, working hard with the team and...

Andrew Shapiro: What about the quarterly revenues of the other two continuing subsegments?

Greg Krzemien: Sure. In Mace Security Products which is the electronic surveillance that – that has gone down. But you know, for really two reasons that the biggest part is again the IVS operation, you know, dwindled significantly in that operation during 2011 with the loss of a distributor, with the loss of general manager and it really just (eat out). We just got a plan. We just sold in – in October. You know, so you know, that went from $1.6 million in the first quarter to $1.3 million roughly in the second quarter to about $1 million in the third quarter, to about $700,000 in the fourth quarter, which at that point, we had none of the IVS operations in there.

And we definitely lost some revenues on the professional dealer side, you know, with the loss of a big customer that we had, and really somewhat of a conscious decision that we started to focus more on the do-it-yourself, consumer side of the business, which entailed or enabled us rather to cut back the operating cost there. Those professional deals required a lot more handholding and customer service, and people to manage it. So kind of moved more towards consumer oriented products which is you know, worked nicely with our Vermont Personal Defense operation and is clearly John's expertise and forte, you know...

Andrew Shapiro: So electronic surveillance subsegment – Greg, so electronic surveillance subsegment during Q4 did only $700,000 in revenues. Is that right?

Greg Krzemien: That's correct.

Andrew Shapiro: OK, and it's run rate for the coming year, we are – you know, we are done with March. Can you just give a focus on that about the run rate that that subsegment is kind of looking at, about a $2.8 million a year kind of run rate?

Greg Krzemien: We are looking at slightly more than that Andrew, you know, I am not going to say significantly more but we are looking at more than that, and it really it's the strategy of you know, it kind of hit its low point in the fourth quarter. We are seeing revenues you know, not going any lower than that, and we are going to continue to work on improving that by – by rolling again the do-it-yourself home and small business. You know, we have some great products that George developed in the past, a nice unit that have good shop presence.

Andrew Shapiro: OK.

Greg Krzemien: And working, as John said, to integrate those more with our – our other businesses you know, we – you know, our expectations are to grow from where we I guess hit bottom in the fourth quarter.

Andrew Shapiro: And how about wholesale alarm call monitoring? What about its quarterly results which should be – have been aided by the most recent acquisition?

Greg Krzemien: Yes, we hit about 800,000 in the first quarter and that was before acquisition. Our revenues were just a little over $1 million in the June quarter which had the acquisition in there, jumped to about a $1 million $60,000 in the third quarter. So we added some dealers – in that quarter end we added some – we had some equipment sales, a product called (Video Pie) which is a nice product that one can install in our house and it can be monitored by our Central Station, upon motion, video monitored and – so it's a nice product that we started selling.

So we had some impact of that, and our sales were roughly the same in the fourth quarter. No real growth, you know, but we did get some – we did have some new dealers enter in the fourth quarter, and traditionally when we have a new dealer entering, as we spoke before, we do have a couple of months discount that we provide. So you know, what without getting a lot of detail on the revenue for the – for 2012, you know, we – I'll say that will come in to 2012 a little bit stronger, you know, than we left 2011 because of those new dealers that we added in the discounts...

Andrew Shapiro: And what was fourth quarter again for the call monitoring subsegment?

Greg Krzemien: About $1 million $50,000.

Andrew Shapiro: $1 million $50,000. So flat with Q3.

Greg Krzemien: Yes, roughly yes. It was off a couple of thousand, it was really more because of the (Video Pie) product sales that are kind of a little bit – you know, not that they are significant dollar, but you know, they kind of go up and down $5000 to $10,000 a month. So, we were relatively flat.

Andrew Shapiro: OK. And IVS was in your Q4 results or it was below the line as they sold business?

Greg Krzemien: It was in our – it was in our Q4 results.

Andrew Shapiro: And what was IVS' I guess one – one month, six weeks or so contribution?

Greg Krzemien: I think the total sales were about $17,000, if I remember correctly for the whole fourth quarter (inaudible) two weeks into the quarter. (inaudible) pretty much not there.

Andrew Shapiro: And its operating loss for the fourth quarter was what?

Greg Krzemien: For IVS?

Andrew Shapiro: Yes IVS, I was just wondering if it caused the loss or not for the – if it contributed to the...

Greg Krzemien: No, no, not really. Yes, I mean we got about 13 percent margin. So – and you know, there's not a lot of overhead that ran with that company. So it wasn't bleeding, Andrew, just wasn't contributing...

Andrew Shapiro: It was a non-impact in Q4.

Greg Krzemien: Yes, it was a non-impact.

Andrew Shapiro: And its departure – and its departure in Q4 similarly is a non-impact for Q1.

Greg Krzemien: Yes, the biggest impact is a positive one in that our profit margins you know, have gone up, but as far as the loss of any cash...

Andrew Shapiro: I am focused on cash flow. I don't – you know, margins are nice. But at the end of the day, we got to stop the burn rate here sooner rather than later. So...

Greg Krzemien: Yes, no real impact.

John McCann: No real impact, Andrew.

Andrew Shapiro: I will back out again in the queue. I have a few more questions, so please come back.

Greg Krzemien: OK (Tiffany), do we have any other questions?

Operator: There are no further questions.

Greg Krzemien: We will let Andrew back in the queue then.

Operator: Andrew your line is open.

Andrew Shapiro: Great thank you. Now when we are taking a look at your 10-K ‘12 results versus your nine month Q3 results, we are coming up with like a $650,000 cash outflow from investing for acquisition of a business, net of cash, et cetera. Are we looking these numbers right? Or was there some kind of investment of cash outflow that’s allocated or classified as such?

Greg Krzemien: Andrew I am not sure I have that on my fingertips. I do know we paid out some amounts. Don’t remember what (inaudible) payments on the CSS’ acquisition.

Andrew Shapiro: OK and that would – that would – that’s where...

Greg Krzemien: It could have been – it could have been that difference, you know.

Andrew Shapiro: (inaudible) paid down. What covenants now are you remaining subjected to with the Chase borrowings and how much is still borrowed from them?

Greg Krzemien: Right now with Chase we have actually borrowed, well I believe, less than $20,000, $30,000 of – of actual debt outstanding. We have Letter of Credits with them. We have our line of credit which are reduced to $250,000 at the end of the year, you know, a line out there that we weren’t using and we really use it very sparingly for our international Letter of Credits for employing some of our inventory. And we have about $150,000 worth of outstanding Letter of Credits for some of our insurance coverages. So – no we have that off the book type of exposure but actually debt is less than $25,000 at this point.

Andrew Shapiro: So they shouldn’t have any covenants.

Greg Krzemien: We have very minor covenants. We have the covenants – you know, we have a $1 million CapEx covenant and covenants that provide financial statements and you know, we are also working on those. We just – we are trying to get a lot of stuff done in the year and now working with the...

Andrew Shapiro: Well I certainly understand the financial statement one, but for a bank that has that kind of loan or credit line with us, I don't see how they should have their fingers in our CapEx budget in – for anything.

Greg Krzemien: As I kind of mentioned, that's one of the things we are working on with them is actually (inaudible).

Andrew Shapiro: (inaudible) upon our esteemed large shareholder Chairman. He could up a phone and probably clear up matter pretty darn quickly. Because that seems – and we are a public company. It's a little ridiculous on that.

Greg Krzemien: It's not even a matter of cleaning it up, Andrew, it's a matter of getting paper work done at this point, and that's what we are working on. So...

Andrew Shapiro: Now this Vermont – the Vermont lease option extension comes up in May of 2012, which is also when the owner of the property in our former divisional heads being sentenced on his – on the environmental charge. Are there plans to continue the lease and does it depend on his sentencing in any way?

John McCann: I've had some conversations with him. We are not really make it depended on the sentence then. It's kind of – I don't want disruption in the business. So I think we will work on short term solution, within that facility and then – then we will work on a longer-term solution for the pepper spray manufacturing.

Andrew Shapiro: And you had a little bit of turnover – over at Central Station. Over the last year you made one acquisition. Obviously the rights offering was partially marketed with the concept of these new monies would come in and get allocated towards acquisitions of accounts that would then get added to our existing state-of-the-art platform that had substantial excess capacity that take on more accounts. And a lot of time has passed. It seems some acquisitions that were thought to be reachable weren't – we are exercising the investment discipline in what we want to look to imbibe.

But can you give us a little bit of a layout or thoughts or I don't if Mr. Brown is on the line or not, what the Board of Directors is thinking with respect to areas of focus for allocating the monies that were raised in the rights offering, so that we could accelerate this company's return to sustainable profitability, but also so we could start optimizing the value of the company's sizable NOLs which is a follow-up question Greg, as to what that NOL balance is now; the tax NOLs are up to?

John McCann: Going to do last part first Greg, the NOLs?

Greg Krzemien: Yes, the NOLs would add to about $51.3 million.

Andrew Shapiro: OK $51.3 million which unless return sustainably profitable are worthless. But if we could return to sustained profitability the sky is no limit as to how long and how much shield we have from taxation, that $51 million goes a long way.

John McCann: Exactly. I guess for Richard, I am sure he can you know, he can cover up the past. But I can tell you with the departure of Morgan – Morgan's working with us to close out some of the software implementations and et cetera that we had initiated last year. I can tell you that now spending some time with the staff out there that the business development director, the gentlemen that's running our administration and a couple of the other folks are tremendous. And basically it's like a new day out there (inaudible) went out they can be aggressive, the can go out. I know I have spent more time that I had anticipated.

The Anaheim location, but I feel energized about what we are capable of doing out there and so with that regard we are you know, we are aggressively looking at what opportunities exist in that space and how we can go after them. And I know Michael who has over 28 years of experience in that operations is like a fresh college graduate in his approach to dealers, new opportunities and also new territories. So from that standpoint, but we are looking at that – has the sustainability and profitability built into it. And I think we can do that.

Andrew Shapiro: So no particular acquisitions on the near-term horizon identified for bringing in new...

John McCann: Not close enough to speak to. Not close enough that I'd be comfortable speaking to.

Andrew Shapiro: OK.

John McCann: But I can tell you that we – we have some plans and if they come to fruition it would be tremendous in my opinion.

Andrew Shapiro: Are the issues that you are finding is that there are acquisition opportunities that exist that are either too big or the price multiples, the RMR multiples are too high or there's just still a shortage of acquisitions period?

John McCann: I think you can say all three, you know, but I think my – and this like you know, three months, then a couple of visits out there. One is attitude, because there's always a deal out there, if you want to work hard enough to get it. Two is allocation of resources that when, probably that one guy really trying to do that work and look for it. And three is being aggressive, you know, from me on down, you know, selling what we do, marketing what we do, explaining what we do to other folks.

I don't know if that was really done in the past, to be honest you, Andrew. I don't think people realized what capabilities we have within that discipline and I don't think we ever talked about the great people that we have running that end of the business. So in my mind, it'd be too early for me to surmise to say it's this, that or the other thing. I do know I am bringing a much more aggressive don't-say-no attitude to that organization and they've responded extremely well.

Andrew Shapiro: I saw that the days outstanding on those inventories improved, but they still seem a quite high at year-end Greg. What are the remaining risks of this industry and what division is the biggest remaining risk in NY? I am assuming it's video surveillance. I don't think monitoring really got inventory. And someone mentions on the call earlier about close out auctions and things like that. Have the risk in that inventory valuation at year-end already been taken into account or is there a potential write down coming?

Greg Krzemien: Yes Andrew, I think the risk is minimized. As you mentioned there's no real inventory in the monitoring station. The Vermont operation personal defense type of spray has very minimal risk. We – we pretty much buy just in time our products and we almost manufacture just in time for shipments. So there's really minimal risks there. The bulk of the inventory as you mentioned is definitely in the surveillance side of the business. You know, at the end of the – at the end of the year, we have that down to about $1.3 million worth reserves.

But if you look at it – if you try and pull that apart about $250,000 give or take of that number is really the net amount of a much larger number that we have currently staged for – and is actually in the process of being auctioned off. We have about a $1.6 million of inventory again written down to somewhere in the neighborhood of about $0.85 on a dollar, that we are auctioning off. And you know, we hope to get that completed within the next couple of weeks, saying that you know, what will be left at Mace Security Products is a little bit less than $1 million worth of products, you know, which you know, is equivalent to still a slower turn than we'd like.

More recent products that we've developed or purchased in the last you know, say six to nine months. So I think – I think our risk has been minimalized. I think we have you know, good reserves, you know, adequate and I really don't see – usually pretty conservative and I don't see us having future losses or hits on the inventory. And I think we will turn what we have, now we really got to strip down to products that we are not currently selling any more and really focusing on those more current products.

Andrew Shapiro: And that's taken though as of the end of the year, but these auctions are occurring now in Q1 ended March or are they actually going to be Q2 ended June?

Greg Krzemien: Yes, the auction will be actually in Q2, it actually kicked off on Sunday morning. We are going through a process, we are doing an electronic auction with an auction company, and we will go through several stages of that and then – in a couple of weeks we will end up with whatever is remaining a physical option at our warehouse. So our goal is by – by you know, the middle to – I guess you know, say third week of April to be concluding with the option.

Andrew Shapiro: OK, and write downs and reserves are taken as needed by the December quarter reporting?

Greg Krzemien: That's correct. We you know, we try to estimate as best working with the auction company, you know, what – what we think our potential results are, and we've recorded those write downs as of the end of the year, really recorded most of them in third quarter and minor final adjustment in the fourth quarter.

Andrew Shapiro: I think that's all the major questions I have. I have small nits and nats from you know, yearend trying to figure out fourth quarter stuff. I'll give you a call offline and hopefully they are immaterial enough that you can answer.

Greg Krzemien: Thank you Andrew.

John McCann: Thank you.

Greg Krzemien: (Tiffany) is there any more questions that came in the queue.

Operator: There are no questions at this time.

Greg Krzemien: All right. Well, thank you very much everyone for joining our call. Again this call will be available on the – on site for the next couple of – next couple of weeks. There's a dial-in number in our press release that we put out last week, with that dial-in number. But it will be available through May 5, if you want to re-listen to anything. And as always if you have any questions, you know, please contact John McCann or myself and we will try and be as helpful as possible. Again, thank you very much, and have a good day.

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

END