MACE SECURITY INTERNATINOAL INC

Moderator: Sarah Din
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Operator: Good afternoon. My name is (Valerie) and I will be your conference Operator today. At this time I would like to welcome everyone to the first quarterly earnings 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. If you would like to withdraw your question press the pound key. Thank you.

At this time Mrs. Sarah Din, you may begin your conference.

Sarah Din: Thank you, (Valerie). Welcome to Mace Security International's first quarter investor conference call. My name is Sarah Din and I'm the MarCom Manager for Mace. Also with us today for this call is Mace's Chief Executive Officer and President, Dennis Raefield, and Mace's Chief Financial Officer, Greg Krzemien. Today Greg Krzemien will be discussing the financial results for the quarter. And Dennis Raefield will discuss the market trends, business conditions, and the Company's plans.

Now, 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 required businesses. Such factors could materially adversely affect Mace's financial performance. It could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during this call. Additional discussions 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 includes its registration statements and its periodic reports on Forms 10-K and Form 10-Q.

All statements made during the conference call should also be considered in conjunction with the financial statements and notes contained in Mace's Annual Reports on Form 10-K and quarterly reports on Form 10-Q. You can access all of these reports on Mace.com through the Investor Relations section on the website.

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

Greg Krzemien: Thanks, Sarah. Good afternoon, everyone, and good morning to those on the West Coast. Thanks for joining us on our first quarter 2011 results call. What I'll be doing this morning is covering results for the first quarter of 2011 versus last year's first quarter. And I'll also make some comments on the sequential fourth quarter of 2010.

In a way of a little bit of background for those who may be to our call, Mace currently functions in one active segment, that being the Security segment. We've also discontinued two other segments which we operated in, those being the Car Wash segment and the Digital Media Marketing segment. I will make some brief comments on those two segments later in my points.

As to our Security Segment, again, in the way of some background, we operate in four operating units or distinct divisions. We have our Electronic Surveillance Equipment operations where we sell to both professional and to small business and home users, electronic surveillance equipment. We have our Industrial Vision Source division, which is basically an industrial specialty camera division. We also have our Personal Defense Operation, which is our famous Mace aerosol pepper spray division. And our newest division, which is our Wholesale Security Monitoring Company, Mace CS, which we acquired just about two years ago now, in April of 2009.

As I previously mentioned, and as we disclosed in the 10-Q, the Digital Media Marketing and the Car Wash segments, are discontinued. And with that, we in essence pulled out all of the revenues and expenses of those two segments from the income statement line items. And the net results of those two segments reside on one line on the bottom of the income statement under discontinued operations. So, again, the comments I'll be making on the income statement throughout my points will not include the discontinued operations.

Additionally on the balance sheet, the assets and the liabilities related to those two discontinued segments are, in essence, pulled out of the various balance sheet items, both assets and liabilities, and they're reclassed into two line items called Assets Held For Sale, and the Liabilities Related to the Assets Held For Sale. That way the balance sheet also reflects more current operations versus the discontinued operations.

Again I'm going to cover some financial highlights. Dennis will follow-up with some discussions and add more color to my highlights. So first I would like to start off with some comments on revenues. Our revenues for the first quarter of 2011 were $3,595,000, which were down about 15 percent from the first quarter of last year, which were $4,267,000. The trend that we've noticed over the last couple of years, is that the first quarter is usually the weakest quarter, and the fourth quarter is usually our strongest quarter. Sequentially, our revenues were a little over $5 million in the fourth quarter of 2010, again at about $3.6 million in the first quarter here. In looking at first quarter this year versus first quarter last year, our biggest decline is in our IVS, or Industrial Vision Source division, which is about 60 percent of our revenue decline first quarter to first quarter. And that's the operation that has our smallest profit margin in the 13 percent to 15 percent range. And I'll talk about each division of our Security Segment in a couple of points here.

First, our Personal Defense or our pepper spray aerosol division, first quarter this year versus first quarter last year, it's down about 9 percent. And as we analyze that, some good news, I think, is that on the aerosol side, we actually continued to grow and grew again. Grew about 3 percent in revenues on the aerosol side, which, again, is a very nice profit margin, in the high 40 percents – 48 percent, 49 percent range.

Where we were a little bit soft was mainly in the non-aerosol where we sell a large amount of simple electronic surveillance, more of a home alarm-type system. And we sell those to some distributors mainly. And a lot of that is sometimes timing. So we had a little bit of a soft first quarter with the timing of purchasing of those. And the other place that we had some softness was in the TG Guard, which is our prison assembly for spraying pepper spray. And that's really tied to government spending. And again that was a little bit light in the first quarter. We do know that we have some orders coming up here post- the first quarter.

So, again, we see that every year where the timing is unknown. I think last year we were soft all way through the first half of the year and then we picked up strong in the second half of the year. So we try and budget that as best we can. But again, we're not sure where it's going to fall. So the personal defense stays strong. The pink units are selling extremely well. The guns are selling well. The bear spray is selling well. Our relationships with our top retailers such as Dick's Sporting Goods, Kmart, Auto Zone, Pep Boys, they are doing good. They are continuing to look at new SKUs. And, as I mentioned, aerosol sales are actually up. Our plans are to continue to focus on introducing these newer products into more of the retailers. There is some lag in getting these SKUs into these retailers. We're working hard on that, thinking of other ways to market some products. And we'll talk more about that a little bit later here.

On the professional and the home and small business Electronic Surveillance operation, that was soft from the first quarter of last year and the fourth quarter of 2010 by about 13 percent. Again, we just keep hearing slow construction, slow renovation. Just people not spending the money yet. But we're continuing to work hard from a sales standpoint to try and increase the sales there. But they continue to be soft.

The place we had the biggest deviation or decrease in sales, again Industrial Vision Source, or IVS. Unfortunately we had the departure during the quarter of the main salesperson, the manager of that division, which hurt our sales. We also had some slowing down in purchasing from Sony, one of our main vendors there. We came off a very strong fourth quarter where we had some one-time international sales that we filled up through the end of the fourth quarter and they weren't repeated in the first quarter. So we are definitely the softest in that division. As I mentioned, 60 percent of the decrease was there. We are continuing to maintain a sales presence there going into the second quarter here and really the end of the first quarter. We put a technical salesperson there who is maintaining sales. And as we recently disclosed in our 10-Q, we are exploring selling that division. It's actually probably the division that in the whole security segment that doesn't quite fit security per se, and we are entertaining discussing to people about divesting of that division.

The last division within our securities segment, our Wholesale Monitoring Operation. We're happy, that's stable, it's growing. It's up over first quarter last year. Last year was an interesting year, as we mentioned a few weeks ago in our year-end call, where we terminated relationships with numerous acquired slow-paying customers. We also brought in new customers last year. Some of those new customers we brought in with some incentives so the revenues were a little bit light. And we're working on increasing those and growing those. We did go up from about 33,000, 34,000 end-users at the beginning of 2010 to about 41,000-plus, at March 30. March 31 we acquired The Command Center Inc., TCCI, which added another level of dealers, about 70 dealers, and brought in additional accounts. So at March 31, going into the second quarter, we now have 470 dealers in the Wholesale Monitoring operation, with about 63,000 to 64,000 end-users. So we're really excited about the growth that we're seeing and we expect to continue to see in that division.

A couple of comments on gross margin. The interesting thing to point out here is that our gross margin in the first quarter of 2011 was actually greater than the gross margin in the first quarter of last year, despite the revenues being down, as I mentioned a few moments ago. In fact, our first quarter 2011 margins are at about 35 percent versus about 29 percent in the first quarter of last year, and about 30 percent, 31 percent in the fourth quarter of last year. So we're excited about that. A couple of main reasons for that is, again, 60 percent of our revenue decrease was in the IVS division which is in your 13 percent to 15 percent margin range. So that mix obviously helped. We have worked, as we mentioned in prior calls, to improve our selling price on products, reduce our returns and discounts, buy smarter.

Just a couple of points here, and I'm just going to mention a couple of product margins. In our professional division, last year in the first quarter our product margin was at about 29 percent. We're about 39 percent now. And the home and small business was about 49 percent and it's about 55 percent now. So that helps our overall margin picture. And really, the latest division, our Monitoring company, even though we're not selling products, we're selling services, and the margin on our service last year in the first quarter was 31 percent. And we spoke on other calls about making enhancements to the operations, to the software, to the way we run the business, and that's paid off. Our margins are now up in the 38 percent range in the first quarter of this year, again versus 31 percent first quarter of last year and 34 percent in the fourth quarter of last year. So really excited about where the margins are going.

A couple of quick points on SG&A. As you can see, if you look at the first quarter income statement, we reduced the SG&A from about $2.8 million in the first quarter of last year, to about $2.2 million in the first quarter of this year. That's about $630,000 or about 22 percent. I always like to look at it without unusual things or notable things. Most notable was we still had some legal costs last year relating to the arbitration matter that we were dealing with. We had more significant severance costs last year as we're still doing massive reductions in staff. So if I back out unusual items in both first quarter this year and last year, we're still down about $500,000 in SG&A or about 20 percent. So we're happy with that. Even sequentially, we're down over $100,000 in SG&A between the first quarter of this year and the fourth of last year. So we're continuing to look at that.

We're continuing to reduce costs. Headcount is obviously a big part of that. Just on the continuing security operations and corporate, in June of '08 we started with about 173 employees and now we're at about 111, so that's about a 36 percent discount. And we were at about 126 at the beginning of last year. So we continue to look to keep that low.

Other things that resulted in the SG&A drop, our corporate costs are down $200,000. Really worked on professional costs, legal costs, insurance costs. Anything we could look at. Maintain travel lower. On the MSP division, particularly there we reduced the overhead by about $300,000 between the first quarter of last year and this year. And, really, when you look at our two growing divisions right now, our Mace personal defense and the monitoring stations, even in those growing operations our SG&A costs have remained about the same or even reduced a little bit. So we're happy with the SG&A results. We spoke about the gross margin improvements, the reduction in SG&A costs. And considering we didn't have any arbitration costs this year versus the large arbitration accrual we did last year in the first quarter, our operating loss is down from $6.3 million to $1.2 million.

A few comments on discontinued operations. As I mentioned earlier, we have two segments that have been discontinued. The Digital Media Marketing segment and the Car Wash segment. We look at this year's loss from discontinued operations, it's about $60,000. And what that is mainly related to is the loss on the sale of the Lubbock site that we sold in March and some costs to prepare that site for final sale.

The operations actually broke even in the Car Wash segment for the first quarter from a cash flow standpoint. In fact, actually made a little bit of cash flow, some interest expense actually brought it to break even. So we're happy that they're at least maintaining positive cash flow while we are trying to sell the remainder of them. Last year in the first quarter Car Wash had a loss of about $270,000 and the Digital Media had a loss of about $268,000, which, again, has been eliminated with the sale of the Digital Media segment in November of last year.

A few comments on the balance sheet. Our working capital is at about $6.4 million. Working a current ratio of 1.9-to-1. Our debt between the beginning of this year and the end of the first quarter remains just about the same, $3.46 million. Make-up is different. We did borrow the $1.4 million to buy TCCI on March 31. And going the other way we paid down the December borrowings we did with the Merlin Fund by $675,000 on the sale of the Lubbock Car Wash in March, along with paying down the mortgage on the Lubbock Car Wash, and just our routine payment on other debt. So we borrowed $1.4 million in the quarter and we paid down debt by $1.4 million in the quarter, and we made about the same at March 31.

Our net assets less the liabilities, related to assets held for sale. They decreased from about $4.2 million to about $3.3 million from the end of the year, 2010 to the end of the first quarter. The $900,000 decrease is directly related to the sale of the Lubbock Car Wash in March that I mentioned. Also on the balance sheet, our intangibles increased by about $1.3 million, totally related to the TCCI acquisition at the end of March. And our net worth is at about $12.8 million or $0.81 per share.

A couple of comments on the cash flow statement. What I'd like to mention is that we had use of cash in operations of about $591,000. In there, we did have some positive cash pick-up on the receivables side. A little bit under $400,000. So we really put a strong effort on making sure we're maintaining collection on our receivables. We did grow inventory by $200,000 in the first quarter by adding our new product line towards the end of the quarter. We brought some shipments in. We did have a use of cash in investing of about $300,000. That's really the net of buying TCCI less the sale of the Lubbock Car Wash. And we had a positive $600,000 in financing activity, which again was borrowings for TCCI less some of the paydowns I previously mentioned.

On the CapEx side, we incurred minimal CapEx in the first quarter, about $45,000. And a majority of that was related to technology. Our depreciation and amortization for the first quarter was about $120,000. About $113,000 was in the Security segment and about $7,000 was related to corporate.

A few other items and then I'll wrap up here. Just an update on the Car Wash front. I mentioned a couple times now we did sell Car Wash in the first quarter, the last Lubbock, Texas site that we had under agreement since about June of last year. We did net cash of about $300,000 on that. We paid down off the $1.7 million, we paid down $675,000 on the December Merlin borrowing we did. And we also paid off the mortgage related to that property, which was about $670,000. So after closing costs, we netted about $300,000 in cash.

We have 3 car washes remaining today. We have 1 under agreement, our big site in Arlington, which we've extended, as disclosed in the 10-Q, to May 31 to allow the buyer to finalize his financing, which he's doing as we speak. That site is under contract for $2.1 million. It has about $680,000 of mortgages. Plus we intend to use some of the proceeds to pay down the remaining $675,000 on the Merlin note we borrowed in December. The other two sites we own that we are continuing to market is a site in Arlington, and a leased site in Fort Worth. Those two sites, we hope to net somewhere in the $800,000 to $900,000 range and there's no debt on those sites.

Last major item for sale is the Texas warehouse. We continue to talk to the broker. They continue to show it. I probably get an e-mail at least twice a week that they're showing it. We're still asking in the $49 a foot or about $2 million range. It's on the books for about $1.7 million. We have a mortgage for about $540,000 on that property. And we're going to continue to market it at the asking price to leave some negotiating room. But, again, we are showing it frequently so we're hopeful that we'll have a serious bite on it here shortly.

Last comment on the tax side. We disclosed at the end of the year our NOL carry-forwards were about $51 million. They're obviously about $52 million now. And they expire starting next year through 2031. So significant coverage against any cash payments on taxes in the future.

Thank you for listening. I will now turn the call over to Dennis, our CEO. Dennis?

Dennis Raefield: Good morning and good afternoon, everyone. Thank you, Greg. Since I am in London at the International Client Securities show, Greg, I notice, I crossed off my list, took all but 5 items that he answered. He wasn't sure I was going to be able to get through on the call. So I'll finish up with the few things he didn't talk about.

Number one, I want to go to our strongest performer which is Mace Central Station. Continues to be strong, performing well, exceeding our expectations. We grew to over 10 percent of revenues in the last 3 quarters. We are at a solid 10 percent, 11 percent every quarter and growing. And this was before we did the acquisition. So we are very, very pleased with that group. In addition to it, I'm starting to focus sales efforts. We've hired an additional salesperson because we are getting such good press about our performance in that group. And the performance with our customers.

As well as the integration, which is now underway of TCCI. It's on track, it's going well. We expect to be fully integrated 90 days after the close, so about another 60 days from now. So this has turned into being our leading and shining star and we will continue to push with it. After we finish the rights offering, as we announced and mentioned previously, a lot of the use of the funds in the rights offering will be to add additional central stations via acquisition. So we're going to be doing both organic growth and acquisition growth, and that will be one of the major uses for the new money that is raised for the Company.

In addition to MCS, the Personal Defense division, I'm happy with and satisfied with it. Still needs to grow more and faster. It was a little soft, as he said. We just came off a good April and we're hoping that the second quarter will be stronger and stronger.

In the MPD, our Mace Personal Defense, we are working hard to get the first order for our Shipboard Defense System partner. And they are very close to getting an order for the first ship, a trial ship that we'll be putting on the pepper spray to repel boarders. This is a continuing problem with the pirates and there are no other effective solutions. Ship owners have been trying different things such as using hot water to repel boarders. It doesn't work. They continue to resist, wanting to arm the ships with weapons for fear of escalation. So the pepper spray remains, so far, to be the only solution that is effective and not fatal. So we hope that that first order will come through and we'll be able to see some revenue from it.

In addition, MSP has been our disappointment and we've had a weak first quarter, again, after a very strong fall season. And we thought it would continue and it did fall back. So I have done another reorganization in this group to try and get our costs to match our revenues. We've done another cost-out just recently, since the close of the quarter. And yet we continue to roll out our new products. I will be announcing a new product line that ties Mace Security Products with our Central Station by around June 5 to 10, it should be done. Something quite exciting that we're working on. In addition to that, I previously announced the MaceBuddi, which is a GPS tracker and panic button that you can carry. That is underway for rollout the beginning of Q3. Might be the end of Q2, but probably the beginning of Q3. And that is moving along well. That is our partnership with a UK manufacturer called Buddi, and we're bringing it into the United States as MaceBuddi.

In addition, we launched our first line of standalone burglar alarm panels called MaceAlert Solo in the MSP division. So we continue to launch higher margin and higher quality products. As Greg mentioned already, our gross margins are very significant. We've raised them not 1 or 2 points, but 5 to 10 points in all of our divisions so we're pleased with the gross margin. I'm very displeased with the top line revenue growth. And as I said we have reorganized again to see if we can find another way to increase our top line. I think that Greg already talked about our gross profit being the highest it's ever been in Q1, 35 percent. And our SG&A costs continuing to drop. We even dropped from Q4 to Q1. Q4 was $2.33 million and now we're down to $2.2 million. So we continue to work on that.

We are in a time of difficulty from this cash flow perspective. Our staff has done a great job of being able to keep the business running while we wait for some of the delayed cash coming from the Car Wash. The delayed cash when it comes in, plus the rights offering, we should be back on track. The goal of our board and our management is not to take the rights offering money and use it to run a business that is having operating losses but to get to a break-even or profit business, and focus most directly on the Mace Central Station and the Mace Personal Defense Division, and get the Mace Security Products division to be stable and not losing money. We are not intending to continue to let that bleed us, which it has done for a long time as we've tried to right it. It was the most severely impacted. It is significantly lower than it was but still not satisfactory.

So Greg has answered most of the other issues I was going to talk about. We were not sure if I was going to be on the call. So I think I would like to open it up for questions at this time for Greg or I. And I'm ready for questions.

Operator: At this time I would to remind everyone in order to ask a question to please press star then the number one on your telephone keypad. And we will pause for just a moment to compile the Q&A roster. And there is a question from the line of Andrew Shapiro,

Andrew Shapiro: Yes, hi. A few questions and I'll back out into the queue and then come back because I have a list here. Last quarter you mentioned that the goal is to get to a profitable run rate by year end and have self-sustaining cash flow. With regards to the profitable run rate, what was the perspective? Was this from an EBITDA perspective, or net of your CapEx, as you have some requirements in your monitoring business? And are you still on pace for achieving that kind of year-end goal?

Dennis Raefield: Greg, I'll answer it as far as I can and then you can take over. I don't think we have a significant CapEx spending in any part of the Company, including the Central Station. That's been done. We have a basis now to grow the Central Station without significant CapEx. But, I think that we're talking about on an EBITDA run rate basis that was our goal, to get there before year end. It's been the goal since the beginning, of course, and it has alluded us. But, I don't think that CapEx is a significant piece of it.

Right now, the issue is that we have shrunk the corporate G&A to about the bottom we can do and be a public company. The board is committed to remaining a public company. Therefore, we have to do an infusion and move it towards a top line revenue recognition, and spread the corporate load around across a broader revenue stream. That's the issue that we have.

I will get the Security Products division to break even. I've got a commitment to the board to do whatever I need to do to not have it drain our new resources. And the other two divisions are making money. Getting them to make enough money to cover the corporate overhead is, of course, much (inaudible).

Andrew Shapiro: So, Dennis, are you saying that absent an acquisition or additional top line growth, those are necessary or essential in order to get to a profitable run rate?

Dennis Raefield: Yes, they are.

Andrew Shapiro: OK. And then, if that's the case, can you just give us the size or numbers of potential acquisitions into the alarm call monitoring business that you are in line for, once this rights offering, and if this rights offering, can succeed?

Dennis Raefield: Yes, be glad to talk about that. One of the advantages of the Central Station acquisition, in addition to being highly accretive, is that, because we have a very established base of operations with the first acquisition, it has the square footage and the infrastructure and the modernization that we've done already to be able to do tuck-in acquisitions.

The TCCI acquisition we are predicting to be above 50 percent EBITDA. Every dollar of revenue will be 50 percent EBITDA very, very shortly. We expect us to be in that position within the 3 month transition. After that, the additional ones we are predicting conservatively between 70 percent - 75 percent EBITDA for each $1 of revenue because we have the infrastructure.

And as you know in the Central Station monitoring business, the cost of adding 1 more account is really zero cost of goods sold. That is not really true on a macro scale. But that's why we have about 25 percent cost of goods sold for additional monitoring salaries and some licenses and some other telephone fees, but it is very conservatively a 70 percent EBITDA.

So, that is the best way we can spend our money. We have 3 additional acquisitions in the queue. And we can trigger those once the rights offering – we'll do them one at a time, but probably 1 per quarter and have 3, which will add about $10 million worth of revenue, and theoretically significant profits to the bottom line.

Andrew Shapiro: That would seem to be enough to cover the corporate overhead, then, if you got those done sequentially?

Dennis Raefield: Exactly. Now it depends on what order. A couple of them are $2 million - $3 million acquisitions, and 1 is a $5 million. If I do that $5 million last, of course, it's not quite as good as if I did the $5 million first. And you can imagine that I'm focusing on the $5 million first.

Right now I'm having to keep them moving along, but hold them off until the rights offering is completed. But that is intention for the bulk of the rights money, is to immediately go into generating top line revenue, and profits of course.

Andrew Shapiro: I have more questions. I will back out into the queue, in case someone else has got some questions. Come back to me, please.

Dennis Raefield: Of course.

Operator: And the next question will come from the line of (Kent Roas).

(Kent Roas): Good morning, Dennis. How are you? If you could tell me what are the alternatives to a rights offering that the Company explored?

Dennis Raefield: Right now, I am looking at the hottest new things that are coming on the marketplace, trying to bring to the US ahead of my competition.

(Kent Roas): Well, you haven't missed much sunshine in California, Dennis. If you tell me, what are the alternatives to a rights offering that the Company explored?

Dennis Raefield: The company explored several opportunities. We have had requests to take the Company private. The board decided unanimously that they felt we should remain public as that was the best way for our very loyal and existing shareholders to recover. Even though it's much simpler to be a private company in today's regulatory and cost environment. We felt that we owed it to our investors to not have them be crammed down in a private offering.

Of course, a rights offering also has its issues. And we looked at raising some individual investor offerings in selling stock in private sale. But, again, it tended to not favor the broader shareholder base that we have. And so, we did look at those. We've had people interested in the Company. And some people remain interested in the Company and see the potential.

But, we have not exploited the Mace brand and we need to do so. I didn't think about it with answering Andrew's question, but the rest of the money will be used for marketing the Mace name with the Mace pepper spray and additional personal safety items. But, we do not intend to make huge investments in products unless they're Central Station related.

We intend to make our investments in marketing the personal defense, personal safety products and the Central Station. And that's the other area that we think has been underexploited. But, everyone felt that taking this private was not giving our existing shareholder base as much opportunity as a rights offering would be.

(Kent Roas): I appreciate that. That's helpful. If I could follow up, I would. A couple of other questions. If Andy wants to jump back in, I'll step out of the queue, as well.

Dennis Raefield: Go ahead and ask another 1. We always let Andrew talk until he has got all of his questions out, anyway.

(Kent Roas): Thank you. So, when we spoke earlier this year on the phone, not on a conference call, but just you and I, you indicated to me then that the board had not considered a sale of the Company. So, in the interim they have explored a sale of the Company either going private transaction or a sale to a third party?

Dennis Raefield: No, let me be a little clear. We were approached by people and the Board was unanimous in not wanting to go down and investigate those options. But, we've had phone calls from people who wanted to take it private and make those discussions, and I went to the board and they said we would like to pursue the public option.

So, we did not continue on any investigation. When I got the phone calls, I got the Board together and said, do we want to look at all of these different options, do we want to take it private. And the Board decided that we would like to continue down the public option, if we could. As I said, to protect the large shareholder base that we've had for a long time.

(Kent Roas): So, you were very clear then these offerors, you didn't get into a price discussion, but you were led to believe that the rights offering was going to better than a sale of the Company?

Dennis Raefield: Mace Security International Inc - CEO, President: Well, there is lots of betters. And first of all, we didn't get into any price discussions. What I had were expressions of interest and I took them to the board. But they weren't bound by numbers or offers in that way. Better in which way? Better for shareholders?

I think that was our decision, that the shareholders that were here had a better chance to recover if we're successful in what we're doing with our new strategy. It certainly is more difficult for me to be a public company because of the fixed public costs that I cannot seem to trim much more. Whether it's D&O insurance, whether it's audit costs, legal costs, filing fees, SEC fees. Even, because we've stayed on the OTCQB, we have the same kinds of costs we had before.

So, it would be much easier to be a private Company and not be reporting and do things like that. But we just felt that that wasn't the direction; we should see if we could raise the money. We've obviously got a back stop, and some guarantees from a major investor, and several investors have all said they want to participate in the rights offering. And we thought this was the fairest way to take care of the people who still believed in where we were going.

(Kent Roas): How about those shareholders that are perhaps not as confident? For those shareholders that do not subscribe to the rights offering, do you have a sense of how dilutive the offering is going to be to their share in the Company?

Dennis Raefield: I'm not sure. I'm going to let Greg answer how much we have. The rights offering has not been approved yet by the SEC and I don't know that Greg can talk about what the terms will be.

Greg Krzemien: Obviously, Dennis, it's hard to estimate how dilutive when we really don't know how many people will participate. So, it's just a difficult question to answer at this time.

(Kent Roas): So, the question I have is, when you looked at how dilutive it might be to those shareholders who do not subscribe, how do you compare that with the other alternatives, the potential offerors, again compare those to alternatives? Did you compare those to alternatives for those shareholders that do not subscribe versus the sale of the Company?

Dennis Raefield: All I can say is that if you do not participate, certainly there's going to be dilution. That's the issue with a rights offering. If you take a private transaction, then those tend to be highly dilutive to existing shareholders without a chance to participate or protect their position.

So, did we analyze? It's difficult to analyze. The word I have from the people who communicate with me is that they're interested in maintaining and resisting dilution and maintaining their want to invest. I think they still have faith that there is a lot of value in the Mace brand name. We've fought a terrific fight to clean up what was a very, very troubled Company. We're not out of the woods yet.

But, we do not have our heads in the sand and I continue to react and change things so I think there is support for going forward. And so, from what I've seen, no one has called me and said they're not going to go forward. Those people do not usually communicate. So, I have no way of knowing. But, the people that communicate with me want us to get the rights offering out and done and want to maintain their position.

So, I really have a skewed sense of input. I don't have input from the quiet people who are saying, I don't have faith in you any more and your management team and where we're going and the Board. So, I only hear from the ones that are supportive and it looks like there is lots of people who want to go forward.

(Kent Roas): Would they go forward if the rights offering was less dilutive? In other words, if they had to pay a premium to the current stock price as opposed to getting the new stock at what could potentially be a sizable discount?

Dennis Raefield: Good question. And that's not my area of expertise. I'm a guy who tries to run a Company and make a profit. So, I don't know how I would answer that question. I can see if there is a way to get you an answer and maybe post it at the next call. But, that will be as we announce the rights offering.

I haven't stated that it is going to be a discount. I don't know if it's been officially stated where it's going to be. Greg, we haven't said anything, have we, where it's going to be?

Greg Krzemien: No, the Board has not yet to decide the final price of the rights offering.

Dennis Raefield: I would be glad to get you the e-mail addresses of the Board members. You can get them from Greg and send them an e-mail with your ideas and they'd be glad to consider them.

(Kent Roas): I appreciate that. Both Dennis and Greg, I appreciate your efforts on behalf of this Company. Thank you.

Dennis Raefield: Thank you.

Operator: And the next question will come from the line of Andrew Shapiro.

Andrew Shapiro: Some follow-up questions. Your Press Release said you've taken additional cost reduction and control steps. You said so in your script as well, Dennis. What is the scope of the quarterly or annual cost cuts you just instituted and what subsegments did these cuts come from?

Dennis Raefield: OK, Greg can give you the amount. They came from the sales and overhead department of MSP. We didn't take anything out of Central Station or the personal defense. They are performing. We took it out of finance and we took it out of MSP, because they are the ones that were not succeeding in their revenue lines. And we took it out of sales and management.

Andrew Shapiro: And if I say it's about $500,000 - $600,000 on an annual basis? [inaudible]

Dennis Raefield: It's significant. Basically we took out the non-performing salespeople that we added to raise the top line and took them back out because they didn't perform.

Andrew Shapiro: So, this, Dennis, might be the second or third iteration of salespeople who didn't perform after a period of time getting excised. Have you taken a different thought or approach to the idea of our products and whether a direct sales approach really makes any sense at all to bear the costs and infrastructure of having the direct sales approach rather than maybe a different type of approach?

Dennis Raefield: I actually am looking into different type of approach. I'm on my second lack of success with the direct sales approach. Previously we didn't have quality. We had very poor quality issues, as you know. And when we took over, we fixed that.

We now have, not only do we have equivalent or top-ranking as far as the quality of our products, we're making more money on them and the pricing has actually lowered. We've lowered in tune with the market but we've bought so well and improved the way we deal with the Asian suppliers, that we're making higher profits.

So, it's not a matter that we're losing business from lack of quality or from being too high priced, which you might infer when you say our gross margin. The issues are that our customers are complacent, they're happy where they are. It is difficult to move them. It has proven more difficult to move them than we thought it would be.

Because we're in a recession, they are distracted trying to get new business and do not want to even consider new lines. We failed to show them enough difference of moving to our brand over the existing brands they have.

When you're growing, people will give you 10 percent - 20 percent as a trial of their existing business. They'll move things away from the suppliers. When they are in a contractive or recession business, they really are staying with their current suppliers. We're not able to influence them with that sales effort, it hasn't succeeded.

And so, what I've looked at is to say what is the size of the business we continue to get on a regular basis and let's accept the reality for the short-term that we need to not waste our Company assets trying to move a mountain that isn't ready to move yet until this recession picks up and things start to recover.

And we are seeing some small recovery from our competitors. Not significant. Some of them are flat, some are still falling, but a few are moving upwards. And we're not. So, that's a major issue for me.

And that's why I am abandoning the idea that I can convince and use traditional sales efforts, and coming up with some alternative ideas that we're working on right now. I'm not ready to announce what they are, Andrew. But, I've got to keep changing the game up until I get success.

Andrew Shapiro: Right. Now this IVS segment has continued to deteriorate and it's the biggest thorn in our side. Can you update us on the status of this Sony distribution arrangement, which is now month to month, and what impact or importance it would have in what Greg has said is the Company's intent now to sell the business? And also, what kind of cash flow, if any, did this division generate last quarter? Or what are its net assets to get a feel for what Mace might take away through the sale of this business?

Dennis Raefield: OK, let me just say I'm in negotiations. The price is fair. We're in negotiations with several interested parties. The price is fair.

The issue with Sony is a second issue in that even though we have now back orders with Sony, Sony is out to 14 weeks because of the tsunami. So, we are actually forced to source from different people than Sony, and Sony is being marginalized in the marketplace because they can't deliver. And they say that the peak of the back orders has not yet hit. But, that it is going to continue to erode in delivery.

So, Sony is actually becoming a smaller issue in IVS. IVS last quarter still was a positive because it has a very low cost of operations. But, it is a very, very low margin business. We start at 15 percent margin, gross margin, and generally run in the 12 percent - 13 percent. That's actually blended in our overall MSP margins because they're so high and it actually drains them down.

But, it has been covering its cost. And because of that, it is an interesting purchase by our two interested parties. They want it because it will allow them to have some economies of scale that we do not have. I would rather not talk about it publicly, the values and the prices because I do have two competing people who are interested in it. And we're moving to get it sold And so, I think it is a lack of focus.

Andrew Shapiro: Instead of talking price, which I understand why, can you talk a little bit better about the timing of when this will come to a head? And I'm assuming that as the assets are not listed right now as held for sale, but would be for the June quarter?

Dennis Raefield: Greg?

Greg Krzemien: Yes, that's correct, Andrew. As of March, they were not. And we do a valuation under several different criteria. But depending on where the discussions are, in the June quarter they very well could be reclassed assets held for sale.

Andrew Shapiro: Right. But, how about the timing of when this auction, so to speak, would come to a head if you have parties interested in its, I don't want to call it simple business, but it's somewhat of a simple situation?

Greg Krzemien: Dennis, do you want to take that since your more talking to the interested parties?

Dennis Raefield: I would say that it is much sooner than later and I do not want to quantify it. I'm waiting for a second bidder to respond and we're going to make a decision, I think, between the two of them. They're very likely on the call and I don't want to give one of them an edge over the other. So, I would say it's not going to be long. And that's as close as I want to get.

Andrew Shapiro: OK. And in terms of a fairly simple, less-complex sale, the warehouse has been for sale for a while. You've had the broker, you've had people looking. What is the status here of closing the bid/ask spread and getting the warehouse monetized and the mortgage paid off and move on?

Dennis Raefield: We've had that discussion twice. The broker is the 1 who has resisted us lowering the price. He believes that we will get a price in that price range,. We've had some offers that are lower than we want to accept and we've turned them down. And he wants us to hold out. And you're right, I could sure use the cash right now.

Andrew Shapiro: The broker is not paying 12 percent interest on his Merlin loans.

Dennis Raefield: The Merlin loan is not connected to the warehouse. But, obviously, if we sold the warehouse we could –

Andrew Shapiro: But we have debt and the broker doesn't. That's all.

Dennis Raefield: We're so close with Colonial One to closing, that that hopefully is a non issue. I think Colonial One will close long before we would close on the warehouse. Even if we sold it tomorrow, it would be 60 days, 90 days away from close. (inaudible) to pay off Merlin, although obviously if we sold it we could use the cash, we would not retire the debt.

Andrew Shapiro: Right. I'm just saying the broker doesn't have any debt. So, while he might encourage getting a higher brokerage fee, this Board of Directors and the Company has to evaluate its cost of capital and alternative uses of cash. For example, taking the warehouse proceeds and closing on, or buying one of these other call monitoring businesses that would be highly accretive sooner.

Dennis Raefield: Good point. We did discuss it last time and we discussed whether or not to lower the price and we've decided to hold out a little longer at this price. But, at some point, we obviously do not just take one data point in.

Andrew Shapiro: And you expect the Arlington sale to close by the end of this month?

Dennis Raefield: I think that's what Greg said just a little while ago on the call.

Operator: And again ladies and gentleman if you would like to ask a question at this time please press star then the number one. And the question will come from Andrew Shapiro.

Andrew Shapiro: OK, I have a few more follow-ups.

Dennis Raefield: Can I ask you to hold the question for just 10 seconds? Hold on, just 1 second.

Andrew Shapiro: I'll ask Greg a question. Why is this Chase loan covenant to maintain $1.5 million cash balances still in place when Chase's loan balances are now down to $1.3 million? And what's the timing on fixing this discontinuity?

Dennis Raefield: Go ahead, Andrew.

Greg Krzemien: Sure. We're looking at some liquidity covenant monitoring. It's not like they are trying to collateralize the loan, it's more they want us to at least be that liquid as a Company for just overall security. We also have letter of credits with them of a couple of hundred thousand dollars. And the whole intention is that we will discuss it as soon as we pay down 1 of the two mortgages that are left, basically the Arlington Car Wash or the Texas warehouse. So, I'm getting close to those discussions, Andrew.

Andrew Shapiro: OK. And can you discuss whether or not the other car washes are carrying their weight and the prospects for their sale or shuttering?

Greg Krzemien: As I mentioned, overall as a Car Wash segment, we were positive cash flow in the first quarter. I will say that the Colonial number 1 car wash that's for sale is by far the strongest cash flow out of those. The other two car washes, 1 of them is making a little bit of cash flow. Nothing to write home about but it is not draining us. The other 1, the leased site, is still bleeding us a little bit. But a heck of a lot less than what the monthly lease payment is.

So, it's just something we have to carry until we get to the end of some kind of arrangement with somebody to take over that property, and we continue to look for someone. When we close the number 1 site, the Arlington site sale, the person who is buying that had expressed an interest in hopefully taking over that lease site once he starts operating. So, we'd like to try and get rid of that.

But, right now they are making money. Even without number 1 it would probably be close to break-even. Could be a little bit of a loss depending on the weather per month because we are just so tied to the weather, unfortunately.

Dennis Raefield: I reported previously, that after we close number 1 and we lose that positive cash flow, they will be run on a break-even or close basis. We constantly evaluate it every month and they're still above the (inaudible) shutdown.

Andrew Shapiro: All things going according to plan, that measurement is going to start in two weeks so it's coming up.

Dennis Raefield: You're right. And as I said, we would keep it open, we would have kept it open, just number three and number six – number three and number seven, we would have kept them open all quarter anyway. They made money. If we didn't have good weather, and they can swing the other way, but we do not have the funds to carry them. But, we know exactly, and measure exactly, what is the point at which we close them or run them, and all of the management knows that.

Andrew Shapiro: OK. Since I note that SG&A declined from prior year, and part of the decline was described as variable, relative to lower year-over-year sales. With the absolute SG&A dollar expenses this quarter similar to your most recent December quarter, despite the sizable drop in sequential revenues, can you explain what SG&A costs increased sequentially and if that increased level should be expected to remain or come back down?

Greg Krzemien: I'll take a first answer to that, Dennis. And I think you're exactly right on target, Andrew. As Dennis said, we did add, going into the beginning of this year, we made a conscious destination to try some new sales staff, and we added a new sales manager. And as Dennis also has indicated, that didn't quite work out well.

So, we cut back a lot of those costs here on the beginning of the second quarter. So, despite us cutting some other costs and keeping a tight rein on a lot of the costs, we did have positive increases in some of the sales levels. Which, again, is now taken back down here at the beginning of this quarter.

Dennis Raefield: In addition, Q1 includes the audit costs, which are significant.

Greg Krzemien: That is true. That is a significant 80 percent of the audit costs do happen in the first quarter. A little bit is in the fourth quarter of the prior year for planning and interim work. So, when you look at it sequentially from December into the first quarter of this year, the last quarter of last year I think had $20,000 worth of audit fee, and the bulk of the audit fee was in the first quarter of this year.

Andrew Shapiro: So, you do not accrue for that? That's expensed as incurred?

Greg Krzemien: Yes. Accounting guidance requires it to be expensed as it's incurred, correct.

Andrew Shapiro: OK. With the acquisition of TCCI, the call center that you just acquired, and the 22,500 end-user accounts and nearly 70 security dealer clients, your total for Mace CS, this new number of 63,500 and 4,700. But if you back out those acquired numbers, it seems like the numbers for the, we'll call it now legacy monitoring business, run flat. Run flat or may even be down sequentially but you have culled your base. So, is there growth going on in the legacy geography or the legacy business?

Dennis Raefield: Absolutely. I don't know where you're getting that number. When we took over the business, we had 34,000 accounts – correct, Greg? – and now we're at 41,000.

Andrew Shapiro: No, I'm comparing it sequentially. I'm just comparing it from the December quarter where we had the numbers of Mace CSS. And then when TCCI was acquired, you have this new number. And if you back it out, basically March's numbers are the same as December's numbers, not prior year. I know you've grown it from prior year.

Greg Krzemien: We had in the first quarter, we had a net growth of about 800 accounts. So, that was our growth in the first quarter so it did go up a little bit in the first quarter, Andrew. Net of deletions.

Andrew Shapiro: Can you explain the sizable increase in inventory while at the same time revenues have declined? And which segment is filling up with inventory? And are there future margin implications from this buildup or risk of obsolescence write downs?

Greg Krzemien: Basically what that was, Andrews, was, as Dennis has been reporting, we have some new lines that came in for the home and small business, and some new lines for the professional. And we got shipments of some of that, a lot of that, in the first quarter. And the sales were, as we said, a little bit softer.

So it just built a little bit. But again it built by, I think, some $300,000 and it was mostly in the MSP, the electronics surveillance sector. We really haven't seen any building in any of the other divisions.

Andrew Shapiro: So, we should expect to see your turns improve in the inventory relative to the sales numbers start dropping for the third quarter?

Greg Krzemien: Yes, I think you're going to see improvements there. We're also, obviously, continuing. And it's not a new thing this quarter, but we've always, back in the olden day, we would try to sell the boat to buy inventory. Now we do not do that any more. We try and share containers, we buy a month or two out. And Dennis can maybe add some color to that.

But, our idea is not to try and load up the balance sheet with a lot of inventory and to buy more just in time. But still efficiently. And I think you will see the turnover improvement.

Dennis Raefield: And what we're doing, Andrew, is we're buying inventory of these new product lines that we're buying. And they have minimums that we have to buy to take them on. But, we're not overbuying but some of these are brand new items. When we buy a brand new item, it doesn't necessarily sell immediately because you have to launch and introduce it. But, you do have to get an initial stock quarter to get a Mace name on it and a Mace box and all that, with a whole new product line.

We have a whole new line of monitors, we have a whole new line, as I said, of a stand-alone alarm panel. The first thing you do is bring the stock in and then you launch the product. You can't prelaunch it very well because you get instant orders from it and they'll be back ordered and then they'll go away. So, you will see that we now have enough inventory to handle, and you will see the turns increase because these things didn't exist before.

They are a new product. And they're really cutting edge, so I'm not worried about their obsolescence. The cycle is always quick in electronics, but we don't over order. We do have to get minimums to get started with a private label brand like Mace. But, I would say we're not just in time, we're usually in time. So, we run it pretty tight and especially with our tight cash right now. We're only buying what we need to be able to launch a new product.

Operator: And again ladies and gentleman if you would like to ask a question at this time please press star then the number one on your telephone keypad at this time. And again that is star one. And again our question will come from Andrew.

Andrew Shapiro: OK. I only have a few more questions and then I'll finish up because it sounds like there is no one else waiting to ask. Your 10-Q referred to the LinkStar business as just the e-commerce component. And there is language inferring that a much smaller part of the business, the Promopath business, remained with Mace. What business and assets and cash flow stream, if any, remains with Mace? And what are the plans for this Promopath business?

Greg Krzemien: Sure. You're right, Andrew, the business that remains that we did shut down simultaneously with selling LinkStar was Promopath which was the media marketing division. And basically the main asset there is some software which we have on the books for a minimal amount, I believe $50,000 or less. I do not have it right in front of me.

We are more actively looking to sell that. We do have the same broker involved that helped sell LinkStar. We are actually entertaining and doing demos on the software, as we speak. And we are hoping to monetize. I really have no idea how much. I would like to get $100,000 - $200,000 for it, but we'll see what we can monetize on it.

Andrew Shapiro: OK. And if someone can update us on the status of the Personal Defense President, John Goodrich, legal situation, and the Company's continued or prospective legal costs?

Dennis Raefield: All I can tell you is that I think it's May 26, which is coming up, is our plea date. I believe that's the correct date, Greg? And at that date we will be pleading guilty to the 1 charge, as we previously reported and the paperwork I've seen.

Of course it's never over until the judge says it's over. But the probation department has recommended no probation for us. They said we've been a good corporate citizen. And the district attorney requests the federal attorney that is prosecuting the case, and the request for our $100,000 fine has been supported on all levels.

So, we believe our end will go through on that date. On that same date, Mr. Goodrich is entering his plea and we don't know what it will be, but we assume it is the same intention to plead not guilty. And that's all I know.

Greg Krzemien: Our costs were pretty minimal on that in the first quarter, Andrew. I think our legal costs were maybe in the $12,000 range for the first quarter.

Andrew Shapiro: Right. But, if we have certain indemnification obligations for Mr. Goodrich, and if there was a penalty assessed, would the Company have an obligation on that penalty, or just the legal?

Greg Krzemien: Just the legal. And then there is even decisions on that that the Board would need to make.

Andrew Shapiro: OK. And the rights offering S-1 has been filed and it's out there available on Edgar and I have read through it very carefully. One of the sections of the S-1 talks about the prospective registration of shares of Mace stock for sale to the public in the event that a sufficient amount of the shares are not subscribed to or oversubscribed to by existing shareholders.

In light of that language, and maybe even if that language wasn't in there, when the SEC approves this S-1, is the Company allowed to, and does the Company plan on conducting any kind of road shows related to telling the Company story and marketing this rights offering and potential sale of shares?

Greg Krzemien: I'll just say that we haven't planned anything formally, Andrew. We haven't ruled it out, but we haven't planned anything yet at this point.

Andrew Shapiro: And is there a timing? Have the comments from the SEC arrived, and you guys are responding? Or where do things stand with respect to the registration process?

Greg Krzemien: The SEC, as you know, has 30 days to review the S-1 registration statement and that is exactly where we're in right now. We have heard from them, which they have to communicate with us within so many days, and they are indicating they're doing their review. Of course, I asked them how fast can you get back to us and, of course, the answer was, we have 30 days. So, that's where we are, Andrew.

Andrew Shapiro: OK. I think that's all of my questions. One final question, Dennis. If you could explain or discuss a little bit more on the logistics and the timing of this shipboard defense?

It sounds like there is one prototype that's being built. How long might it take to build the pipes and the dispensing system? And is there a feel for how much each ship would require in terms of the sale of Mace product to be part of the defense system?

Dennis Raefield: Sure. From what I know, and of course SDS is a separate Company that is using us as a supplier and trying to use some of our brand professionalism to help sell this. It is difficult to get ship owners to make a decision. They attacked originally the large tanker fleets and ended up in marine bureaucracy.

So, they have now gone to smaller ship owners who are having problems who don't have the big pockets of insurers to pay for things. So, they are trying to get one in operation and that's their plan. The hard part is to get someone to pull the trigger on that purchase order. It's not particularly an expensive purchase order compared to the kind of losses they're taking. So, a shipboard purchase order is in the $50,000 to $100,000 range.

And our chemical in it and what we would provide is $5,000 to $10,000 of that number. And they s very quickly, they built a working prototype that is on a fake ship wall and they're taking videos, and they're working on trying to get something that is more than an animation, and have a real operating system. It isn't a big deal to make the piping under the system. The concept is relatively easy.

I think the decision-making of ship owners is the tough issue and that's as close to it as we are. They're much closer now. They've shown it with us, they've shown it at 3 maritime shows and the booth was really packed. You could see that the interest was there and the alternatives are few for the ship owners. Getting them to make a decision seems to be the tough part of that business.

Andrew Shapiro: So, instead of having animation, could they fund a video production via paying a few pirates to take an attempt at the ship wall on Mace?

Dennis Raefield: I think they are planning to have land pirates take an attempt at a giant wall with piping on it that looks like a ship. That's what they're working on right now. I haven't seen the video, but they are trying to get a working model they can take people to and put it in the shipyards in Connecticut where ship owners can take a look at it, and take a video. But that is as much as I know.

That concludes our first quarter conference call. And I appreciate your attendance. And we're working hard to try and recover that shareholder value.

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

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