Mace Security International Inc.

Moderator: Brianne Sordahl
April 4, 2011
2:00 p.m. ET

Brianne Sordahl: Hello and welcome to today's Mace 2010 fourth quarter results investor conference. My name is Brianne and I will be your event specialist today. Following the presentation, we'll have a question and answer session. You can ask questions at any time during the presentation. Click the ask a question button, type your question in the open area and click ask question to submit.

Questions will also be taken via the phone at the end of the webcast. To ask a question at that time, press star one on your telephone keypad. A copy of the PowerPoint is available on your console located under the presentation assets button. If you should need technical assistance, please type your inquiry in the tech support box on the left side of your screen and click the send button. It is now my pleasure to turn the webcast over to Sarah Din. Sarah, the floor is yours.

Sarah Din: Thank you Brianne. I would like to welcome everyone to Mace Security International's fourth quarter investor conference call. Like Brianne said, my name is Sarah Din and I am the MarCom manager for Mace. Also with us today for this call is Mace chief executive officer and President Dennis Raefield and Mace's chief financial officer Greg Krzemien. Today Greg will be discussing the financial results for the quarter and Dennis Raefield will discuss the market trends, business conditions and the company's plan.

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 the 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 subjected to certain risks, known and unknown, and uncertainties including, but not limited to, economic conditions, limited 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 future period to differ materially from any opinions or statements expressed during this call.

Additional discussions for factors that could cause actual results to differ materially from management’s projected 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 Form 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 report on Form 10-K and quarterly reports on Form 10-Q. You can access these reports on Mace.com through the investor relations section on the website.

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

Greg Krzemien: Thank you Sarah. Good afternoon and good morning to those of you who are joining us from the west coast. Again, thanks for joining us this morning on our year-end and fourth quarter 2010 results conference call. Today I’ll be reviewing and discussing the results for our 2010 year-end as well as the fourth quarter 2010 and I’ll be making certain comparisons to 2009 as well as sequential quarter trends that we’ve seen in 2010.

In the way of some backdrop for those of you who may be new to our calls or to following the company, I’d like to point out a couple of items revolving around our company. First, Mace functions currently in one active segment, that being the security segment. We've discontinued two segments that we operated in in the past, those being the car wash segment and the digital media marketing segment. Most of my comments today will be on the active security segment. However, I will highlight a few items within the discontinued operations.

Speaking about our security segments, we operate in four operating units or distinct divisions. The first is our electronic surveillance equipment operations where we sell both professional and home and small business lines of electronic surveillance equipment, cameras, DVR recorders, monitors, et cetera. We also have an industrial vision or specialty camera sales operation known as IVS.

The next division is our most famous, our Mace personal defense operations where we house the sale of our aerosol pepper sprays as well as other products. The fourth, our newest segment or division to the security segment being the hotel security monitoring division, Mace Central Station or CS, which we acquired in April 2009.

As I previously mentioned, and as we've disclosed in our Form 10-K, again, the digital media marketing operations and the car wash segments are accounted for as discontinued operations in the recently filed Form 10-K. What this means is that as you look at the income statement, all the operations from revenues through expenses have been carved out of the income statement and reported as one line item called the results from discontinued operations. Likewise, the assets and the related liabilities of those discontinued operations are segregated on the balance sheet as assets sold for sale and as liabilities related to assets held for sale. So I just want to point out those items.

Again, I'm going to cover some financial highlights here in a few moments focusing on the security segment and later in the presentation, Dennis will follow up on some of our operational highlights within those security operations and a little bit more of our product development and marketing plans.

The first item I want to go over is our revenues and there should be a slide on the revenues. Our revenues sequentially have improved as we went through 2010. In the fourth quarter, they were up about $322,000 or 6.8 percent over the third quarter of 2010 and relatively flat when you look at the whole year 2010 versus 2009.

For the fourth quarter of 2010 versus the third quarter 2010, we saw some growth mainly in our industrial vision division and our professional and consumer electronic surveillance equipment division. We saw a little bit of decrease in sales in the fourth quarter of personal defense, however, that was still a very strong quarter, it was just that our third quarter was one of the best quarters that division has ever seen. The surveillance monitoring station sales are relatively flat between the third and fourth quarter 2010.

Looking at the whole year 2010 versus 2009, as I mentioned previously, we pretty much saw flat revenues, however, we did see changes within the different divisions that I mentioned. The growth in the personal defense division was about 6.5 percent or about $330,000 year to year. We had seen deterioration in our electronic surveillance equipment operations, professional and small and home business combined of about $1.8 million year to year.

Our industrial vision division was up about $473,000 or about 11.5 percent year to year. Our wholesale monitoring station increased about $883,000 year to year and the reason for the bulk of that increase was the fact that we acquired that operation in April 2009 so it was with us for a whole year in 2010. We owned it about eight months in 2009.

A couple of comments by the segments here, again, as I mentioned, our personal defense, we saw about a 6.5 percent increase. We saw that mainly in our aerosol areas. Our non-aerosol area, where we're selling some small home surveillance security systems and our TG Guard prison type systems where we saw almost doubling growth there from about $140,000 to about, I'm sorry, $140,000 to about $280,000 year to year.

So, some nice growth there and particularly we introduced our new pink products in '09 and they've done very well for us in 2010. There are pepper sprays in the pink colors. Our bear spray has sold very well this past year. Wireless systems that I mentioned have sold very, very well this past year.

We've picked up some new clients. We added Pep Boys as a large retail client in addition to Auto Zone which we've had and really all our sporting goods clients have continued to take on new SKUs and have grown, so again, very happy with the progress there.

The surveillance equipment operations, as I said Dennis will make some comments on new products and some marketing plans there, but what we've seen in 2010 we're still struggling through the economy woes that a lot of companies tied to construction and renovation are still seeing some lagging on.

From the wholesale monitoring side, which again, is our new, exciting division to the security segment, as I mentioned, we've had the operation since April of 2009. We saw some great growth in volume of new end users throughout 2010. This operation basically, at the end of 2010, had about 400 dealers and about 40,000 end user accounts.

We saw growth of about 1,000 end user accounts in 2010 alone so we were very happy with the growth we saw there. That really is a net of purging some old accounts that we acquired that we have had some trouble with on the payment side and really acquiring some new accounts that pay the bills on time and we're really excited about that growth that we're picking up there.

Next section is our gross margins. A couple of comments there, a biggest comment really is that our gross margins have been holding. We saw gross margins right around 31 percent on a blended total security segment in the fourth quarter as well as the third quarter of 2010. For the whole year of 2010 versus 2009, both years were right around 30 percent.

Dennis and our sales team and our operations team have been working very hard to improve margins or at least not let them deteriorate. Things such as new products, better pricing on buying them as well as selling them, working real hard to reduce returns and discounts, all these things are definitely helping us hold the margins and hoping it will allow us to increase them as we go into the next year here.

By division, we have really a mixed bag of margins that get to this blended rate. Our personal defense margins are in the 45 percent range. Our electronic surveillance equipment is in the mid-30 range and bringing up the low side, our IVS division is in the 15 percent range. Wholesale monitoring is in the 33 to 35 percent range. Again, obviously our goal is to continue to improve in the sales in our higher margined areas and continue to work on increasing those margins.

Next item I want to speak about a little bit is the SG&A costs, something that we've worked on very hard in the last couple of years. The slide that I put together is an attempt to neutralize the SG&A costs to really show what they've done over the last couple of periods due to the significant volume of notable items that we've been dealing with in the last couple of years.

So we reported SG&A costs in the, for the year in December '10 of $9.6 million versus 2009 of about $12.7 million. When I back out as I call notable items, we have SG&A costs of about $9 million for 2010 versus about $10.8 for 2009. So that's a decrease of about $1.8 million or a little over 16 percent from year to year. Then the notable items that I'm discussing here is about a net $550,000 in 2010 and about $1.9 million in 2009. So for us the good news is the notable SG&A costs, which still do cost us cash flow, have reduced significantly year to year but they still did play a role in 2010 and we're really looking forward to cutting those expenses down to almost nonexistent for 2011.

The bigger things in the notable items for 2010 were about $355,000 to finalize the legal expenses relating to the ex-CEO arbitrations. We had about $224,000 of severance costs with some more personnel reductions we did during the year. We incurred about $180,000 of Vermont EPA costs including the $100,000 we accrued at the end of the year for the fine that we agreed to with the U.S. Attorney.

Going the other way, we had a pick-up of about $276,000 which was a relief from some contingent purchase price relating to the Mace CS acquisitions. Again, we’re looking forward to reducing and eliminating these unusual SG&A items and continuing to reduce the cash out for SG&A costs as we go forward here.

Next slide is on operating losses. The point here is that as we continue to work through coming out of the recession and as our sales remain fairly steady between 2010 and 2009, we did have the opportunity to reduce our operating losses. What I wanted to show here is that, again, trying to neutralize the operating loss so we could evaluate it. I backed out any asset impairment charges or the arbitration costs that we incurred in 2010 and 2009.

Those costs were non-cash impairment charges and the $4 million of costs related to the arbitration settlement totaled about $5 million in 2010 and $462,000 in 2009. Then those notable SG&A items I just mentioned on the prior slide, about $550,000 for ’10 and $1.9 million for 2009. Removing those items, we have an operating loss of about $4.1 million versus an operating loss of about $5.7 million for 2009. So that’s a reduction in our loss of about $1.6 million or 28 percent as we continue to try and improve our op results by reducing our cost of operations.

Next slide is on our headcount reduction. What we attempted to do here was to try and again show where we are today versus where we were in the middle of 2008 when Mr. Raefield took over as CEO. What we've done in this slide is we've neutralized for the disposition of our digital media marketing segment by not having them in these counts as well as the car wash segment. So this is really non car wash, non-digital media marketing and it does include a pro forma as if we did have the Central Station back in 2008.

So, basically looking at it on our current operations, today our security segment with the corporate, we went from about 173,000 employees, 173 employees, in the middle of 2008 to 109 employees currently. So that's a reduction of about 37 percent of our headcount and again, that excludes changes that we had previously made in the car wash and the digital media marketing. So we're continuing to be very critical in those areas. We continue to look for opportunities to save SG&A costs.

The next slide is a picture of the operating losses on the income statement, backing out again the arbitration award of $4.6 million, the notable SG&A items, and the asset impairment charges from 2010 and similarly from 2009, any impairment charges and SG&A notable items, and again, just showing the results on the operating loss from continuing operations decreasing pretty significantly.

The other thing I wanted to mention is that we had a loss of about $8.3 million from discontinued operations in the current year versus $2.8 million in the prior year. Just to give you some idea of what's in that number, $7.2 million of the current year number is non-cash impairment charges. Almost $7 million related to digital media marketing segment and another $200,000 for car wash versus impairments of about $2.4 million in 2009, about $1 million related to digital media marketing and about $1.4 million relating to the car wash write down. So, losses actually after impairment charges were about $1.1 million for the current year. The bulk of it related to digital media marketing and the car washes basically breaking even and on the prior year about $400,000, the bulk of it really on that side from the car washes and digital media breaking even in 2009.

A couple of items on the balance sheet side, there's a picture of our balance sheet. I want to point out at the end of the year, we had about $2.5 million, almost $2.6 million worth of cash at the end of the year. We had working capital of about $7 million at December 31, a (current) ratio of about 1.78:1. Our total debt was just a little under $3.5 million and that’s found in three places on our balance sheet in the current portion of debt.

The bulk of our liability is related to assets held for sale for about just a little under $2 million of that number is debt and then our long-term debt of just $113,000. So most of our debt is current either because it’s a current note or because it relates to the assets that are held for sale and expected to be closed and paid off in the next several months.

The equity is at $13.9 million. If we're looking at tangible book value, that would be about $10.1 million. Our equity per share is about 88 cents a share. Our tangible book value is about 64 cents a share. So that gives us some feeling for the balance sheet, again, about $23 million worth of total assets.

A little bit on cash flow, on our cash flow statement, in our 10-K, we indicated we used cash of about $10 million in operations, the bulk of that from operating losses, a lot of it from the discontinued operations. We generated about $3.8 million of cash in investing activities really from the sale of assets in 2010 and we used about, or netted around $280, $680,000 of cash from financing. That's really a mix of new debt of about $1.4 million and paying down debt of about $585,000 during the year. So that leaves us with a decrease of about $5.7 million of cash in '10 and leaving us with about the $2.6 million balance at the end of 2010.

From a CapEx standpoint, we've incurred CapEx of about $360,000 in total in 2010, $348,000 of it was in our continuing operations, a very small piece, about $12,000 from discontinued operations. Our depreciation for the year is roughly about $770,000, about $582 from continuing operations and about $188,000 from discontinued operations.

A couple of other things I just wanted to mention before I let Dennis take over. From an asset disposition standpoint, we sold our Linkstar operation, which is a digital media marketing segment, a major component, in November. We previously disclosed that for a price of about $1.1 million. We netted cash at the time of the sale of about $950,000 and that was after a 10 percent hold back for six months and after some closing costs.

We also sold a small self-service car wash in the fourth quarter in Arlington, Texas area for a price of about $350,000. We netted about $295,000 of cash after paying off debt and closing costs on that transaction. We've announced a couple of weeks ago, and disclosed in the 10-K, we sold our final Lubbock, Texas car wash March 8 for $1.7 million. From that, we paid off the mortgage of that, was related to that site of about $675,000.

We also paid down our note that we had borrowed from Merlin Partners at the end of 2010 to help pay off the Paolino arbitration award. If you remember, we borrowed about $1,350,000 and with that borrowing, we agreed to pay down 50 percent of that note when we sold the Lubbock car wash and 50 percent of the net when we sold a large car wash in Arlington, Texas. So we did pay down half of that note in March and we had costs at closing on that transaction. So we netted about $300,000 on that car wash sale.

That leaves us with three car washes as we sit at the end of the first quarter. The larger car washes are Colonial number one car wash. That has a sale price of about $2.1 million. We have waited for, and we did receive a couple of weeks ago, a letter from the TCEQ saying everything related to the tank, that removal is fine and clear. We provided that over to the buyer and the buyer is now working on finalizing his paperwork and financing and we hope to close on the sale of that car wash during the month of April here.

With that sale of about $2.1 million, we'll pay off final mortgages on that car wash to Chase Bank of about $660,000 and we'll also use some of the net proceeds to pay off the other $675,000 of the Merlin Partner note. We also have two other remaining sites that we're marketing. A small site in Arlington that we're looking to sell in the $750,000 range and a small lease site in the Fort Worth area that we're looking to sell for a couple of hundred thousand dollars that's basically a lease site so we don't have a large monetary expectation on that site.

As far as the other major asset for sale, we have our Texas warehouse that we've listed last fall, very actively being shown by our realtors especially in the first couple of months of 2011. We've had no serious offers to date, but we have had a lot of interest and we've had people that are doing some analysis and looking at it for a second and third time. So we're hopeful that we'll be able to sell that at a good price in the near future. We have it listed at about, a little over $2 million. It's on the books for about $1.7 million so it gives us some room there and we hope to net, after paying off mortgages, somewhere in the $1 to $1.2 million range.

As far as NOL carry-forwards, an important number to the company, we currently have about $51.3 million of NOL carry-forwards before tax affecting of course. They go out to 2030 so with that significant NOL carry-forward, the company would be protected from paying cash taxes when we return to profitability.

At this point, I'm going to turn the call over to Dennis Raefield, our CEO and president. Dennis?

Dennis Raefield: Good morning everyone. Thank you Greg for giving us those details. Because we have so many participants today, I'm going to, I've added a few slides just to go over a quick history. I'll blow through them very quickly, but I would like to get everyone up to the same place. For those of you that don't know us, we are listed over the counter in the QB listing. The QB is a very high quality market moving area that requires us to report 10-K and 10-Q information the same as NASDAQ.

We do have 2,700 plus shareholders and no stockholder has more than a 12 percent stake. Greg already gave you the, our market cap and our tangible net worth of over $10 million so I wanted to make sure everyone knows this.

A quick background on the company, it was incorporated in 1993, started out as a defense security company doing pepper spray and other law enforcement hand grenades and stun grenades and things like that. There was a change of control in 1999 when the new leadership came in and changed the strategy to become a car wash company then later went back in the security products and digital marketing. Our 2010 revenue, as Greg said, was about $18.4 million.

There was a change in the board makeup in 2007 and three new board members were added. The resulting combination of that was a CEO termination and then after that, an arbitration because of the terms of the termination.

Here's some background on executive management, just a quick slide on my background in the security industry. I am a security industry focused person, had my own business and then sold it to Pinkerton then went to Honeywell and did some other things before I came on the board of Mace and then became the CEO.

Greg Krzemien, our CFO, has ten years in the big four and 20 years as a public company CFO and he's been 12 years with Mace. I kept him on after I became CEO because of his experience in quality.

Our operating team, our four key individuals, George Martinez who is our managing director and VP of product development. He handles all the product side of Mace Security products and he came from GE most recently. Morgan Hertel runs our Central Station. He has 20 years of experience in central station business, an industry leader and speaks at all of the conventions and trade shows as an expert.

Eric Vorbeck is our new national sales manager for the products division. He came from Northern Video, which has now been acquired by Tri-Ed. Finally, our founder Jon Goodrich is president of the Mace personal defense division, the pepper spray, and he has 35 years of experience.

Mace was a really deeply troubled company. It had three diverse business segments that there was no synergy between them, that's digital media marketing, car washes and security. The security products had poor quality and a lot of old technology. We had multiple operating plans. The company had lost money since its inception, lots of channel conflicts, selling the same products into multiple channels and we pretty much upset our, pretty much upset most of our channels to market.

We did change out the management team and then we got into a recession. Our business is very significantly in the security products section, very significantly construction business and is suffering from the downturn in both the commercial and the residential market. That is where the whole security products division gets their income from. It's starting to rise slowly, but it is still a weak construction market, especially commercial. The central station business and the pepper spray businesses are not as affected by any construction markets at all.

I guess the good news to take out of this is that we did survive the recession. We settled all of our legal issues, which were not insignificant, both the EPA issue and Vermont and our lawsuit or arbitration was settled with our ex-CEO. We are now executing the strategic plan to become security focused. Many of the shareholders were very confused by this triple mini conglomerate strategy that we had before. Now we're security, security, security and we have a very strong brand name and we are now really working hard to leverage that brand name.

In 2010, our goal was to divest all of this non-security divisions, the Linkstar digital media. Operating divisions started to lose tremendous amounts of money due to credit card processors not wanting to process online trading the way it was done in Linkstar. We sold and got out of it. It was a huge part of our loss and we continue to exit the car washes. We have four left. As Greg said, two are under contract and we moved them to discontinued operations and we will be out of them very, very shortly when we close the next big one. We have lots of options with the remaining two.

Our goal in 2011 is to get to a profitable run rate by year end and self-sustaining from cash flow and we are raising funds for acquisitions. We'll talk about that in just a moment. We are also starting to release new products that will leverage the combination of our central station with our video and access products. That's been a formidable adventure and we have done it and I'll be talking about some of those a little bit later in the slide show.

We plan, after we raise money from a rights offering, to continue acquisitions of wholesale central stations, one that will be redundant on the east coast and the rest all over the country for account growth. Our goal is to become, in 2012, the market leader in providing security for these three segments because we are now very closely focused on security.

Our strategic core is now security. It is 100 percent of our business, 30 percent is personal defense pepper spray, 20 percent is central station, 50 percent is security products. We have divested in the digital media marketing and the car wash has moved into discontinued operations, as I said earlier.

So, we have these three Mace cores, central station, security products, personal defense and to me the fourth leg of this stool is a fantastic, dedicated Mace team that has survived a lot of pain and uncertainty to move into where we're going now.

So those three products are there shown with some pictures. I'm going to talk first about the central station monitoring service. This is getting a big focus of our attention now. It is located in Anaheim, California on the, if you're watching the webinar, these are pictures of the actual central station, not stock photos, very professional, tremendous infrastructure for growth.

It is a UL and ETL listed alarm center. It is wholesale. We only sell to dealers. We don't install systems. We only monitor for other people. We're up to 400 dealers and 40,000 accounts. When we acquired it, as Greg mentioned, we had about 360 dealers and 36,000 accounts. Some of them we flushed out because they were slow payers and now we have a much better cash flow situation as well as profit. One of the things that's special about this central station is that it does alarm monitoring as a traditional central station, but it does a tremendous amount of video and access control remote monitoring. That's what makes it special.

I brought in a new management team. It's the best performing division. It has steady growth and it is RMR, recurring monthly revenue and its growth is in the strong in the two digits, in the mean teens and it's a small group. That's part of the problem, it doesn't have a big topline, but it is a good strong contributor. It's running well. It has steady growth at all times, such a very powerful contributor.

I'm very excited to announce something that happened Friday. On Friday, we, or excuse me Thursday afternoon, we acquired another wholesale central station. This is our first of our acquisition strategy. On March 31, a couple of days ago, we bought the entire company of a company called The Command Center Inc., TCCI. This is also in the Orange County area, actually in Riverside County.

We picked up another 20,000 accounts and 70 dealers and a monthly RMR of about $70,000 per month, $840,000 a year to our topline. We will be incorporating this into our existing operations and I'll be glad to answer questions about it later. This has been something we've been working on. We have a whole strategic plan to acquire additional central stations I'll talk about a little bit later and we believe that this is a significant part of the future of Mace.

Our security products division, this has been the toughest for us. It's 50 percent of our revenue and when we came, all we sold was video surveillance and we are a construction oriented business. In 2009, we added access control. In 2010, we added intrusion detection and perimeter protection trying to round out our line for our dealers.

In 2011, we are now adding IP video, which is a new direction of internet protocol video to be able to view video over the internet as well as storage plus we are starting to release our first central station products that help work better with our central station. We'll talk about those in just a second. For 2012, we'll be moving into the Cloud and much more remote managed access, which is where we think there's significant growth.

So our Mace security products have been hurt by the recession in 2008, 2009. We are now seeing the revenue recurring. I changed out senior management last June to improve sales and there are new marketing and sales teams in place. October, November, December were our best months in the year as we did see significant growth in those months of clean, high margin business.

Just to give you a quick view of it, we sell a product called MaceView. This is sold at the lower end of the market. Our sales are very aggressive in this area. We also have MacePro, which is our professional line sold only to authorized dealers and very protected line. We have new products in that line as well. Then we did a whole new brand packaging to get more interest in the line. Some of this ends up in retail stores like B&H Video in New York City carries all of this. They wanted the products packaged.

Then we created an entire channel specific branding and as you see here on this, we went down market to Mace DIY. This will be, you'll see in more of the high volume stores. It’s a DIY product that can be installed by homeowners as well as going up at the upper end. So we have now segregated our product lines to be different for different channels.

This is completely new for Mace. We’ve been working on it for a couple of years, but now it is very refined because we do not want to have channel conflict.

To give you a teaser of what we’re releasing this month, in April is wireless cameras. These are cameras you plug in the wall, but they run on wireless. They run on 802.11 and with night vision and IR and a heavy megapixel, 1.3 megapixel is a very high quality image. As you see there, we’ll be releasing in June a wireless monitor so that you can actually carry the monitor around the house if you're at home and be able to still monitor the cameras in any room without having to wire it into the wall or have it in a fixed spot. We think this is going to really revolutionize the home market. We’re calling it Easy Watch IP. It will be a self-learning product that you don’t need any skills to install.

I’m just going to skip over this slide, but we have ongoing improvements to our regular line, a lot of products coming out here in April and May that will be showing at the new show. We’re going to a trade show tomorrow and showing this product to flesh out the line so that dealers have no reason to go anywhere else. In the future, we’re doing a lot of new products called NVRs, network video recorders, which is basically a PC that you can install someplace with servers to remotely store and manage your video data.

One of the most exciting things we’re doing is that we have entered into the central station and self-monitored security solution. We just released a new product and we’re moving towards the PERS, personal emergency response system, you see that on the right. These are two way voice and wrist and neck panic alarms and these will come out after July of this year. We’ve been testing them. There's a lot of this product on the market. Most of it doesn’t work very well and the stuff that we are introducing, the products we’re introducing are excellent as far as quality. It's absolutely imperative that you do not have quality problems when you're dealing with this segment of the market.

This is probably the most exciting thing I'm going to talk about. We have signed an exclusive North American agreement with a U.K. company called Buddi and we will be releasing a product. Its tentative code name is the Mace Buddi and this is a device you wear on your belt or in a pendant. It is similar to a help, I've fallen down and can't get up device that you see on the marketplace, but this is not restricted to your home. This uses GSM telephone. You can track where the person is at any time.

It's good for somebody with Alzheimer's. It's good with a child that may have a learning disability. It's good for adults. It's good for someone who is traveling. You can squeeze the buttons on the side and connect audibly to our central station as well as knowing where the person is, we will know where they are. Future versions will allow two way conversation, but we're very excited about this. This low monthly fee, recurring revenue device and we think it's the real future of technology tied with the central station.

We just released our MaceAlert Solo wireless alarm system. This is an alarm system for the DIY market. We launched it in Q4. This product has no wiring at all except the power cord to it. Everything is battery, last five years, panic devices, motion detectors, door contacts at a very, very low cost. This retails at $99 and it's sold through distribution and will be showing up on amazon.com. We're starting to penetrate this DIY market with these kinds of products.

Just to show you where we're going in the future a little bit, vehicle recorders on the right, this clamps to your windshield and shows you to the right, to the left, the front and the back of your car and if you're involved in an accident, you can replay this. In addition, wireless alarm cameras that will call the central station when there's motion in front of them and give a picture to the operator. So a tremendous amount of central station enabled products.

Eventually, where we see us is tremendous amount of our central station remote video monitoring over IP. This is our vision, this is where we see the future and this is where we tie Mace Security products, always been a tough margin business and construction business, to our Central Station, which is a recurring business.

I will talk a little bit about the pepper spray division, just to keep you up to date on it. This is our famous Mace brand of pepper spray, the leading pepper spray in the country. We sell bear sprays, pepper sprays and law enforcement spray. We are growing seven to 10 percent per year under current marketing plans and we make more than eight percent EBITDA every year quality provided for the marketplace, one of the products, defense sprays, law enforcement, international and some home protection and alarm things.

The reason we segregate international is the laws are very different in different countries, such as the U.K., there is no pepper spray but there are other, except for law enforcement. You go to Germany and it is a home market like the U.S., anyone can purchase it. So it's quite a complex international marketplace.

We released this last year our Mace Pepper Gun. We now have a men's only version that's called the Camo version. There is a women's version and a law enforcement version. So we see significant growth in this product. This is a reloadable, reusable, a gun that sprays 25 feet and we have significant market uptake on this product. It's really an excellent way for home defense and excellent thing to carry in the mountains as well when you are camping, although it is built for spraying people and not animals.

We have rebranded our Mace name. I think our marketing brand wasn't being exploited enough. This is a snapshot of the new branding packaging. This has been going through consumer focus groups right now, but we are starting to get a family of products and this is getting a new management focus now that I have settled the CEO arbitration and we see significant revenue upside in this marketplace.

We would like to see Mace in every car door, Mace in every nightstand and Mace in every purse. We think there's really an unlimited upside. It’s just getting it done and getting into the right retail markets.

So, Mace, our continued vision is to protect all of you, yourself, your family, your home, and your business, and integrate products and more RMR services to not just to sell boxes, which is getting tougher and tougher, but to solve customer problems.

I'd like to do a quick summary of where we are. We sold Linkstar. That was a major P&L cash drain in 2010. We looked to be at breakeven cash flow in Q3. Our last car wash was closed in Q2. The warehouse is up for sale. We'll have very little debt, except our line of credit that we use overseas and our operating leases that we need every day.

So, in summary, we’ve survived the recession. We’ve built a solid management core. We’re focused. We’ve settled all of these legacy issues which were significant. Our strategy is clear and I think tying RMR to our product strategy is a winner.

We'd like to talk about how we're going to go forward. While we may have settled all of these arbitrations and things, we did it at the cost of a lot of our cash. It was significant. We were very low on cash near the end of the year, and in fact, borrowed money from our future car wash sales to make sure that we settled our CEO arbitration.

We did not want to have the kinds of cascading problems that would happen had we not paid the arbitration award. We are coming out with a rights offering that we expect to raise between $9 and $12 million. Merlin Partners, which is co-owned by one of our board members and a major investor, has agreed to purchase $4 million of Mace common stock, after the rights offering concludes, at the regular rights offering per share cost. They have a strong belief in where we're going and what we're doing and our clear focus and so they're going to backstop this for $4 million, which I think is a significant statement.

What are we going to do with this money? It is not going to be used to fund operating losses. That’s what we’re, my job to get out of. We expect to use most of this for more wholesale monitoring stations and do what I call tuck-in acquisitions. These accounts can be absorbed into our existing infrastructure with minimal staff and technology. Our central station management feels we can add about half a million new accounts, which is 24 million in annual revenue, before we would have to restructure our capital infrastructure that we already have.

So we have a tremendous base of infrastructure and office and staff to be able to grow this with acquisitions. So while we're growing organically at a good clip, this is a much better way to grow as well and this is the use of the funds.

The second use of the funds will be in personal defense because up until now it has always been very conservative in its marketing programs. We believe we have less than one percent of U.S. households. Even though we're the number one brand and the name brand, there is a tremendous upside to this and to do that requires marketing. So we're still growing seven to 10 percent a year and generating eight percent EBITDA, but without a significant marketing effort. So some of the funds would be used for this.

We believe there is a lot of upside to the pepper spray that has not been utilized. What will we do with it? Mace videos, user training videos, reality videos, we have some already. Mace point-of-purchase displays, part of the problem in the Mace world is that we're in the back of the store. We need to get up to the checkout stand and point-of-purchase and make an investment in short videos.

We have already started a strong Facebook and Twitter presence, fan club testimonials and becoming on our website, an information source on personal security, something other than just trying to sell products.

Lastly, I would just say that we've settled our legacy issues. We are finalizing the recapitalization of the company with a rights offering. We are very clear it's time to execute. We've put a lot in our past and I am ready to answer questions, Greg and I. Thank you for listening with us. Thank you for hanging in there. I think it's a pretty exciting time and I am the most positive I've ever been since I have been here.

So ((Ashley)) I will turn it over to you. Do you have any calls in the queue and she'll explain to you how to get into the queue.

Operator: To ask a question over the phone, just press star then the number one on your telephone keypad. If you would like to ask a question on the web, just type your question into the ask a question window and press ask question to submit.

We do have a question from the line of Andrew Shapiro.

Andrew Shapiro: Hi, several questions, I'll ask a few and back out of we could.

Dennis Raefield: Sure Andrew, good morning or good afternoon.

Andrew Shapiro: Hi, so in the liquidity section of your recently issued 10-K, the company mentioned a current negative cash flow from operations was around $250,000 a month. I'm trying to understand, was this a trailing 12 months December rate, was it the actual rate in December or is it a more current Q1 rate? How have things improved in terms of your negative cash flow since it seems you've displayed a slide that said you wouldn't hit breakeven until Q3 now?

Greg Krzemien: The $250,000 a month was a picture of where we were in the fourth quarter that we're reporting on of 2010.

Andrew Shapiro: OK, and last quarter's conference call in October, in November, you said that in October, each and every division was profitable, each and every subsegment was profitable and it's not clear whether this continued for the months of November and December respectively since you do have this negative cash flow number that you refer to and can you provide some insight how the rest of Q4 went and how the first few months Q1 have gone so far?

Greg Krzemien: I'll take, Dennis, the first part of it which we did have much stronger sales in October and November. They did get a little weak in December and I'll let Dennis expand on that a little bit further. As far as being cash flow from operations on the divisional level, that was true for the fourth quarter. What we didn't cover completely was our corporate overhead costs and pretty much the $250,000 negative monthly drain was plus or minus our corporate overhead that wasn't being quite covered.

Andrew Shapiro: OK. And is that corporate overhead, I noticed in your slide you also showed flat SG&A when you back out all of the notables, as you call it. When you back that out, SG&A in Q4 was flat rather than continuing kind of its decline. Are we down to the bone and thus we can't cut any more or do you have some more SG&A that can go especially now that the audit and the 10-K are done and the two other divisions are pretty much out?

Dennis Raefield: Well, I'll give you part of it. We still have some savings to come from car washes when we sell the last ones. We've sold one of the two under contract. We have to keep the car wash SG&A up until we close the large one, which is the Colonial number one, so there is a little bit more there. We are certainly down, you can't take out costs forever. We are down, as a public company, we are down to, pretty close to the bottom. We have a little bit more to do in car washes and we don't have a lot more to do in any of the other segments at this state. I think we're pretty much done unless we decide to restructure significantly in another direction.

Andrew Shapiro: OK, one last question and I'll back into the question queue. As a segue from what you just described, on the remaining wash under contract, that's one of the Arlington Texas ones, is there anything more that Mace needs to do or anything more you need from the state of Texas to get this sale completed and if not, how much time under contract does the buyer have to close this deal and then lastly, or connected to that, you mentioned that once it's sold, you had some options to deal with the remaining two washes and are you prepared or can you discuss those options now?

Dennis Raefield: OK, I'll answer that. There is nothing more that we need to do. We just received the final TECQ, it's the Texas Environmental Quality review of our site, and they have cleared the site, which is what was a requirement, a bank requirement to close.

So the bank and the buyer are working now to finalize that. They wouldn't do an appraisal until they had that clearance, because the bank just had an absolute requirement. So now we have that. There's nothing more for us to do. We don't anticipate any problems, but we of course, no deal is done until it's closed, but there is nothing more that Mace can do to close it.

As Greg said, he’s planning to close it in April. Once that's closed, we have the option to continue running the other two. We have pushed, taken some significant costs out of the remaining car washes, such that we've told them that if they want to stay open they must be cash flow positive and profitable or we just shut them down. We do have the option to shut them down now if they're not making money, and they actually made money last month again, so they know that the pressure is on them and they've restructured so that there shouldn't be an issue if we don't sell them. We can either shutter them or run them as long as they are positive. I am not going to run them at a loss. I can't take any cash strains to this company.

Andrew Shapiro: OK, I’ll back out in the question queue. I do have many more questions so please come back to me.

Dennis Raefield: Absolutely.

Operator: We do have another question from the line of (Robert Taplinger).

Dennis Raefield: Good morning (Robert).

(Robert Taplinger): Am I on?

Dennis Raefield: Yes you are (Bob).

(Robert Taplinger): Dennis, good morning, good afternoon. I’m excited. I thought this is one of the better presentations that Mace has ever had. I do have a couple of questions please. I’m not sure the share count now fully diluted, I think Greg said there was a $10 million tangible net worth. Where does that put our per share book value at now?

Greg Krzemien: Our per share book value (Bob) is right at 88 cents a share and on a tangible, it's like 64 cents a share.

(Robert Taplinger): OK, next question is, as far as the rights offering that you had touched upon, was the $4 million that, I forget the name of the fund, is going to commit to, is that in the event of up to $4 million of unsubscribed rights, they will take up to $4 million to make it as close to 100 percent subscription as possible or does that assume 100 percent subscription and that they will, there will be additional shares created that they will take $4 million of, dollars' worth of?

Greg Krzemien: It's the latter (Bob), that if everybody subscribes, they would still commit to do $4 million so they're just not taking up the excess so there could possibly be some new shares.

(Robert Taplinger): Why is, this isn't a judgmental question, I just don't know the answer to it, why would the rights offerings to existing shareholders not be increased to the point to absorb that $4 million and if the current shareholders choose not to exercise those rights, then this group can step in to buy up to $4 million worth? It seems like they may be given some kind of a preference, which they may deserve, but I'm just not sure of the, of how to think about that.

Greg Krzemien: Bob I appreciate your comments. I will also say that in the rights offering, we plan on doing a three to one, and if someone exercises the three to one and there are some people who do not exercise it, we'll also give other individuals the right to invest additionally up to certain levels, which we have not quite determined all those yet, but we'll have some leeway for others to also do more above their three to one up to a certain level.

(Robert Taplinger): When do you plan this rights offering to take place?

Greg Krzemien: I think we may have disclosed that we would like to get it done in the second quarter here. We're actually finalizing the preparation of the registration statement now. We would like to get it filed in the next couple of weeks. So our whole goal is to have it done by the end of the second quarter.

(Robert Taplinger): Yes, I'm not sure if you answered my question. I don't think you tried to evade it, but I'm not sure if you answered it, that I understood it. For this group getting the $4 million worth over and above the current shareholders and their rights offering, what entitles them to that? I'm not saying that they're not entitled to it, but what's your thinking there?

Greg Krzemien: Dennis, I'll let you take that one.

Dennis Raefield: Wow. That's the thing, I think there was, what'd I say, when the board went back and forth, we actually asked Merlin to put the money in hard so that people would know that there was an investment done and that there was an investment account on in the business rather than just as originators of backstop. That's not my area of expertise, so I'm probably the wrong one to ask, but we went back and forth and thought it was a stronger offering to show more support for the company to have them, have investors know that there was going to be a $4 million purchase either way.

(Robert Taplinger): OK, I have enough trust in your integrity Dennis.

Dennis Raefield: I can't answer it better than that because it's not, I'm an operating guy and not a finance offering guy.

(Robert Taplinger): I understand. Dennis, I'll tell you, I know you and I have enough trust in your integrity that there isn't anything wrong or fishy about it. I just, I'm trying to understand it a little bit better. Here's my final question and I don't know if you can answer it, but I'd like, even if you can't answer it, to give me the benefit of your thinking on it. A lot of times a company when they need to raise money, they'll do it through a rights offering because they think it's the fair way to avoid potential dilution to the existing shareholders.

However, a lot of those rights offerings come with the implication that you better subscribe to these rights or else your stock is going to be cut off at the knees and you're going to, it's sort of like an implied you better do it or else it's going to cost you a lot of money not to. For those who don't subscribe to the rights offering, and I'm not sure what my thinking will be on it, but for those who do not describe, subscribe, how badly do you feel their current shareholdings will be undermined?

Greg Krzemien: (Bob), that's a fair question and that's why we did look to do a rights offering to try and have everyone have the opportunity to keep their relative ownership. Really it depends on who participates. It's kind of hard not knowing if we're going to have 50 percent participation or 80 percent participation, how hard someone will be hurt. So I'm not sure I can answer that question honestly just not knowing how the rights offering is going to work out.

(Robert Taplinger): Could you give us some theoreticals, like if 40 percent of the people subscribe, if 80 percent of the people subscribe, some won't have the money and some have cast their vote in favor of Mace by not selling their stock, have retained ownership of their stock. There's different ways people have showed loyalty to the company and some may choose not to show additional loyalty by putting in more money. We've suffered a lot.

Greg Krzemien: (Bob), I really don't have calculations in front of me right now to have those different scenarios, but we'll basically have four times as many shares so obviously someone could be diluted to 25 percent of what they've had at this point. Let's assume everybody does except that person. My quick calculation would be they diluted to 25 percent of what they had. You can go from there.

(Robert Taplinger): OK and I guess my final question is with this additional $4 million, will they get any additional warrants or rights or benefits over and above what we will get?

Greg Krzemien: Not to my knowledge. At this point, we haven't planned on them getting any additional benefits by agreeing to do a minimum of $4 million.

(Robert Taplinger): OK, well – I'm glad that they are there for support and again, I compliment you on the first really exciting conference call we've had in a long time. Good luck.

Greg Krzemien: Thank you (Bob).

(Robert Taplinger): All right fellas, bye-bye.

Operator: We do have another question from the line of Richard Barone.

Richard Barone: Can everyone hear me?

Greg Krzemien: Hi Richard.

Dennis Raefield: Yes Richard, how are you?

Richard Barone: Good, good, I just wanted to see if I could add to the answer to that question that was just asked. I think one of the reasons for the rights offering is the fact that most investors in Mace have an average cost approaching $2 a share or over $2 a share. By subscribing to these rights, they'll lower their average cost substantially, perhaps down to around 40 to 60 cents a share and have a real opportunity, not only to break even, but to actually profit from their investment in Mace.

So that was part of the thinking behind the rights offering. It wasn't just to raise the money which the company desperately needs, but it was to actually do a favor for the shareholders. The $4 million commitment is a commitment to assure, or pretty close to assuring, that the Company will raise at least a minimum of $9 million. Without $9 million, this company will not have the opportunity to succeed, so we must get to at least that level.

The $9 million level is a minimum level. We're going to be much better off if we're in around $11 or $12 million. So there was a lot of thought put into that number and that $4 million commitment assures that we're going to be just fine in terms of the money we think we're going to need. So that was sort of the thinking behind that commitment of $4 million. I have no other questions but if anyone has a question of me, I'd be glad to answer it.

Dennis Raefield: For those of you that are unaware, Richard Barone is on our board and is involved in Merlin Partners. It's one of the companies that funded and that's why he's, I guess, responding to the call.

Do we have any other questions (Ashley)?

Operator: We do have another question sir from the line of Andrew Shapiro.

Dennis Raefield: Yes Andrew.

Andrew Shapiro: Hi, I actually have a few. If I could get clarification here out on the call on a few things about the rights offering, that would be helpful. So first I wanted to understand, are the proposed rights going to be transferable or not transferable, meaning one needs to be a shareholder in order to get the rights.

The second question related to the rights is to better understand this, if the deal is undersubscribed by $4 million or more, then is the Merlin $4 million commitment it basically takes up those shares, but if the deal was fully subscribed, then Merlin still gets $4 million of shares that are issued to be their incremental shares above and beyond this? Can existing shareholders plan on or be able to over subscribe in the offering itself as well?

Greg Krzemien: Andrew I'll try and answer some of those questions. We haven't quite nailed down every last term of the rights offering. We're still going through the registration drafting point, but what we've talked about to date is that the rights offering, the rights would not be transferable. The question again about the $4 million commitment by Merlin which again, we're excited about that commitment. Again that would be in addition to if everybody subscribed, and as far as, again, existing shareholders going above the three to one right, we've discussed allowing shareholders to try and pick up any unsubscribed rights, but again the company would have the last say on how far we would let a shareholder go on buying any unsubscribed or …

Andrew Shapiro: Right, I might want to maintain Lawndale's 10.4 percent ownership position in the company and not be diluted down by the incremental purchases.

Greg Krzemien: Again, we've discussed about providing in the rights offering people going beyond the three to one rights.

Andrew Shapiro: OK.

Greg Krzemien: Again, the company having the ability to say how much.

Andrew Shapiro: So now we give you all this cash, OK, and now we're getting to the use of cash, you had a slide that said we're not going to use the cash to fund operating losses, albeit you are currently generating operating losses, but maybe by the time this financing is done, you will have those operating losses eliminated. But, have you identified acquisitions and how many of them have you identified already and do you have them locked up and about how much of capital would be required to know if you are not just raising money at 20, 30 cents a share and then in sits around or how quickly does it get accretively put to use?

Dennis Raefield: I'll answer that Greg. First of all, I think the closing Friday shows you that we already have things in the queue. So I have a, as far as locked up, I haven't got them locked up because I don't have the rights offering to fund them. I was able to buy the first one but I have four in the hopper and these are not public ones that are out with multiple bidders on them. These are people who like the Mace vision and strategy of turning over their companies to us to let us go forward and be their future and of course they'll cash out.

So I can use half of the funds, three-quarters of the funds. I have enough acquisitions in the pipeline to use all of the, to use $9 to $10 million of the funding. I wouldn't put us in that tight of a position, but we certainly are expecting to spend probably half of the money relatively rapidly, but you've got to realize this is a vicious circle. I can't make commitments to people until I have the funding. I did do the first one, and you saw that we brought it in and we expect it to be quite profitable. I am planning not to sit on the money very long, but I cannot start to really negotiate until I have the war chest. So, it's slightly cyclical, circular excuse me.

Robert Shapiro: Can you discuss the amount paid for this last acquisition and some of the terms if it wasn’t all cash?

Dennis Raefield: It was all cash. It was a company with 10 owners and they were actually also, I can only discuss some of the details, but it was 10 people who run their own security installing dealership. We signed long-term contracts with them to stay for at least three years, to stay with us.

So we have a very long-term partners, they like the idea of us running it and but it was an all cash sale. Greg, I don't know whether we have decided, we decided it wasn't material enough to have to disclose it. One of the things we don't want to do is to trigger a, people assuming that the number that we paid is the same number on every deal.

The range of acquisitions is between 15 to 30 times multiple recurring revenue, RMR, monthly recurring revenue so that's the range and we were in that range. I really don't want to prejudice my ability to buy the next ones, by disclosing the purchase price, if you don't mind.

Andrew Shapiro: No, that’s fine. Last quarter you guys mentioned that the gross margins were seeing improvement sequentially due to much better sourcing on the security product side, et cetera. When I review the gross margins for Q4, they appear to be basically flat with that Q3 number with your subsegment sales mix shifting around. Can you provide a little greater clarity into the subsegment margins and how they shifted around to give insight? I’m just trying to understand, did Q3’s margin momentum continue or is it just we’re stable with Q3’s margin?

Dennis Raefield: I’ll answer that Greg. Actually both statements are correct. Part of the problem is the mix, the Industrial Vision Systems group, IVS, their margins are very low, 12 to 15 percent margins. If they have a booming month, which they did, a couple of times they dragged the margin down.

The security products division that is selling security, not the specialty camera business, has increasing margins and so when, but they also had a soft month. So when the big month of low margin IVS hits the smaller month of high margin professional and consumer, you get these numbers that make it difficult for you to see it and frustrate the heck out of me because we have seen significant margin improvement on both the consumer and the professional side. We have not seen any change in the IVS side. I think it is locked in at a 12 to 15 percent margin, no matter what you do. The best we've ever had was 16.1 percent and it's just that market has a very, very limited upside in margin and we can't do anything about it, it's very competitive.

Andrew Shapiro: So for Q4, those subsegments, those other subsegments, their margins did improve from Q3?

Dennis Raefield: Greg, do you have that, can make that statement? I want to make sure we're accurate.

Greg Krzemien: Yes, I can make some comments on the professional side, I'm sorry on the personal defense side rather. In both the third quarter and the fourth quarter we stayed in the 45 percent range. We did see improvements on the professional side from the mid-20s to 31 percent.

On the home and small business side we went from about 35 to 38 percent and on the central station we stayed around the 34 percent range. But as Dennis had said, the industrial vision, that stayed in the 15 percent range and that did have more significant sales increase in the quarter, kind of negating some of those positive percentages we've seen on the other ones.

Andrew Shapiro: Yes and in that industrial vision, that IVS subsegment, it looked like it generated almost a half a million of increase in your revenues from prior years. I see that and I wanted to know if this level was maintainable in light of the fact that 54 percent of your IVS revenues of $4.6 million come from your distribution agreement with Sony and your 10-K says that this arrangement has ended. Can you discuss why the arrangement ended, what the implications of that arrangement ending are and what kind of alternative agreements or partnerships have you established?

Dennis Raefield: I would like to answer that with a short question is, we did renew our agreement. I just got it this morning. We did extend our agreement and we are still in negotiations, but we did overcome, but we had to disclose it on the day of our 10-Q that it was expiring. We did get an extension of our agreement, and we are looking at this segment significantly. It gives us an artificially low margin, it drags down of our other margins, but it has also, when we are looking for business we take all that we can get.

So it doesn't fit from the standpoint of margin and we are driving other margins up, but it has been a contributor and as you said, it was a significant revenue contributor, not a significant gross margin contributor last year.

Andrew Shapiro: Right.

Dennis Raefield: So we did extend our agreement with Sony, and we are working on other ideas that I'm not ready to disclose yet.

Andrew Shapiro: OK and how long did your extension go for?

Dennis Raefield: I don’t want to, that’s private between us and Sony.

Andrew Shapiro: OK.

Dennis Raefield: I’ll talk about it …

Andrew Shapiro: I’ll ask you at the next 10-Q because in your 10-K it was gone …

Dennis Raefield: I will have a resolution, a longer term resolution to discuss then and I think you'll like where we’re going with it.

Andrew Shapiro: OK, I’ll back out. I have more questions in case some other people have some questions, but come back to me.

Dennis Raefield: OK.

Operator: I’m showing that there are no further questions in the queue at this time.

I’m sorry, we do have a follow-up question from the line of Andrew Shapiro.

Andrew Shapiro: OK, I have a few more questions then if no one else did. Can you give us any more detail on your alliance with Shipboard Defense Systems for this Maritime Piracy Security product? What would possibly be the wholesale order size be to outfit a ship with Mace in terms of quantity and dollar amount of your sales of Mace and have Shipboard Defense Systems made any piracy security product sales yet?

Dennis Raefield: Good questions and I'll give you the answers that I know. I do not think they've taken an order yet. Just recently we jointly showed at two shows, one in the U.K., which was well received, and one in Connecticut at the Connecticut Maritime Exhibition. In both cases the customers were intrigued because they feel they have very limited options, but we don't have an order yet.

What we have is a partnership. We are supplying the Mace. They're supplying the piping, and the release of the tank and the piping and the release system for the Mace product. We are now looking at supply and they've just asked us to supply video, quotations to the ships for marine grade video that can watch to make sure they're discharging the Mace at the time that someone's trying to board the ship. It’s right underneath it so they don't waste it.

So that may add to our potential future sales. This is a completely new idea, so I know that they're building now. They've got a contract to build a, it's not a contract. They're building for free a demonstration model on a real tanker, not just a test demo, but they're going to put one out to sea.

Andrew Shapiro: Put it as a bait out in Somalia?

Dennis Raefield: I think they're probably going to keep it in the U.S. waters and just let people, have people try it and board and see how well it actually works. So they've just finished another video and our sale is, we actually do supply the tank, I misspoke. We supply the tank and the pepper spray, and for us, for one ship, it's between a $5,000 and $10,000 order per ship.

So it's fairly significant for the size of a normal pepper spray order, which is a $15 item. It is a raw pepper spray mace and the container and then they're doing the piping. They estimate that it will cost between $100,000 to $150,000 to equip a ship, but that ship, of course, they are paying millions of dollars in ransom.

I am not building it into my 2011-2012 revenue forecast at this stage, but I think it seems to be the only solution that makes any sense. Just to give you some color, the ships have already tried using their boilers to spray hot water over the side, something they have with them already. It's been totally ineffective. The Somalis just put a raincoat on and stand there and shoot at them anyway.

So they really haven't got anything other than arming, which they don't want to do for fear of escalation of the size of the weapons. So this really still looks to be viable, but it's not in my business plan and in any of my revenue forecasts yet.

Andrew Shapiro: OK and in the past few months, you’ve announced the SDS product, the Buddi , the GPS, Easy Watch, DIY, MacePro, MaceView, et cetera, and they’ve been publicized. How are these products being viewed and accepted by the market?

Dennis Raefield: Each of them is doing fairly well. The DIY has been the big hit. We have sold it in both wholesale internet sales and a couple of our big retailers like B&H, they are on second reorders. We ran out of stock, believe it or not, at the end of last month, and we sold everything we had. The Easy Watch is a niche market for, the cement industry seems to be grabbing it to view the mixing of concrete batches that have to be watched but not recorded.

Probably the slowest sales has been the MacePro, the high end, because (inaudible) still so weak, but all of the others have done well. We just went into Amazon, where we're releasing our new MaceAlert SOLO through Amazon.com as a market. We just attended, the last three days, Ace Hardware Show to get Mace pepper spray plus Mace SOLO sold into there. We took significant orders for both of those products and more for the pepper spray than burglar alarms at this stage, but we're pleased.

Andrew Shapiro: All right, Vermont EPS, with regards to your $100,000 settlement, will this have any effect on future business development or doing business with the government?

Dennis Raefield: We're not anticipating it. The EPA, the U.S. Attorney has told us that he thought that we cooperated fully. We remediated the site, we put in safety officers. We have a full time safety officer on the site to make sure this isn't repeated and they are not aggressive.

In order for us to be hurt by the acceptance of the plea, they have to file with the GSA or the other government entities to say we want these people blacklisted for a period of time. So it doesn't happen by any automatic action. It happens only by their overt action and while I can't guarantee what they do, it's the U.S. government, they’ve told us that they think that the company was really an unfortunate participant in this and that the company wasn't intending to do anything and that our recovery and our remediation and our compliance has been exemplary and we settled it to get it behind us. They've told us they're going to accept the settlement.

So you can never tell what they are going to do. I don't anticipate anything. You've got to remember that Mace is mostly selling to the consumers and sporting goods on the pepper spray and in our video. We don't do very much government sales because A, they don't have a lot of money and B, there is a lot of open bidding and competition and the margins are very low. So we're not making our living out of the government.

Andrew Shapiro: Now to what extent are the funds Mace has to provide for indemnifying officer Jon Goodrich in his personal defense not covered by Mace's insurance and is there an accrual being taken or expensing has incurred planned for that?

Dennis Raefield: Greg do you want to answer that?

Greg Krzemien: Yes sure, Andrew, the expenses are just being expenses as they are being incurred.

Andrew Shapiro: OK and is some of this covered by insurance or not?

Greg Krzemien: This is not covered by insurance.

Andrew Shapiro: OK and do you guys have, has the bulk of the expense already been incurred?

Greg Krzemien: We feel like the bulk has been incurred. I can't really speak about how much future parcel legal expense Mr. Goodrich may have, but it hasn't been excessive by any means, a couple of thousand dollars a month. So we're assuming or hoping that that stays at that level.

Andrew Shapiro: When is it scheduled to go to trial?

Greg Krzemien: I do not know that.

Andrew Shapiro: OK, what's the status of getting recovery of the lost monies of Mace in the Nadel Ponzi scheme?

Greg Krzemien: I haven't heard anything in probably nine months, Andrew, at this point.

Andrew Shapiro: Have you been in touch with the trustee?

Greg Krzemien: I was in touch with the trustee probably a couple of months ago. I'm trying to think, maybe around December and at that point of time they were still looking for assets and they were not disclosing or able to tell me anything further. They just tell me to stand ready. They'll let us all know as a group when they have more information. So I probably will put a call in to them again here since it's been a couple of months, but they are pretty clear on we'll get back on that with you.

Andrew Shapiro: They are finding a bunch of Madoff assets.

Greg Krzemien: That's good news and that is good news and I …

Andrew Shapiro: Hopefully they'll find some Nadel assets.

Greg Krzemien: I am hopeful. That is good news.

Andrew Shapiro: Your Chase $1.5 million credit line requiring a $1.5 million deposit to be with the bank, has this minimum deposit level changed or diminished as asset sales have continued or closed?

Greg Krzemien: Not as of yet, Andrew. We have not really paid down any more debt through asset sales with Chase. The first real opportunity will be when we close the Colonial number one car wash. So it has not changed.

Andrew Shapiro: So they're mostly our Dallas, Arlington, lender?

Greg Krzemien: That is correct. The two main mortgages that we still have are mortgage debt on the Colonial number one, the large car wash, and on the Texas warehouse.

Andrew Shapiro: So Chase is tied to the warehouse so that warehouse sale is going to be necessary to get the cash requirements reduced?

Greg Krzemien: That's correct. Well, the mortgage on the warehouse is fairly reasonable. I believe it, I think I noted in the 500 and change range so let me just confirm that.

Andrew Shapiro: If your lender requires you to keep in the bank the same amount that you have on the mortgage, what good is there having a mortgage and paying them interest?

Greg Krzemien: They just look at it as a liquidity type of a covenant Andrew, not so much as a collateral type item from their standpoint.

Andrew Shapiro: If they want to pay you the interest rate that they're charging you on the mortgage, then it's not such a bad thing to have the money at their bank. Otherwise, you want to pay that thing down.

Greg Krzemien: Well, that money does not have to be at their bank, by the way. It just has to be on our balance sheet.

Andrew Shapiro: What other products and subsegments that are generating what you've reported to be $2.1 million of international sales and how do the margins on these sales compare to their comparable domestic sales?

Greg Krzemien: The bulk, we do have some pepper spray sales in international markets where we have 45 percent margins in the personal defense. Our margins on international side are similar. Some are a little bit better, some are a little bit less, but on average, they're similar. I would say that the bulk of those international sales, and then there are some equipment sales too that are in that number and their margins are at least equivalent to the national sales.

I don't have the exact number in front of me right now, but I'd say more than 50 percent of that international sales is with IVS selling products in that 12 to 13 percent range, even a little bit lower than their 15 percent range. So I guess if you look at it in totality, it averages out not to be extremely as high as the rest of our margins.

Andrew Shapiro: I have a few more questions, but I've asked a lot. I'll be glad to back out in the queue in case you've got someone else who wants to get a question asked.

Operator: I'm showing that there are no further questions in the queue at this time.

We have another follow-up question from the line of Andrew Shapiro.

Andrew Shapiro: I'll finish up. I only have a few more then. So, you said the NOL is now up over 51 million. In the past, you said there were no amounts expiring in the near term and in this 10-K, it showed there's a little over two million that expire over the next two years. What happened or what changed?

Greg Krzemien: Quite honestly, Andrew, the main thing that changes when the auditors went back to our deferred tax accounting this year, no P&L impact, but it did shuffle some of the gains and losses from prior dispositions and the recapture of some of the amortization, depreciation related to those sales into changing some of the provision. So it basically changed of the earnings around but yes.

Andrew Shapiro: You have plenty to cover anything anyway, but you also mentioned in the last conference call that at the end of September, end users stood at around 42,000 and experienced nine percent growth, but now here in the 10-K you've listed 41,000 end user accounts in the monitoring business and I didn't know if that was the end of the December or the end of March date of the 10-K and why did the number show a difference?

Greg Krzemien: Again that's a good question Andrew. It depends, and going through the 10-K, I've asked that question several times. It depends how you view the end users, whether it's every end user and every service that end user has or just how many end users there are. What we made sure we disclosed in the 10-K was a pure count on how many end users there are.

I think the number in the September included end users plus multiple services, so we do know that we did grow in those end users, about 1,000 people in all of 2010. We tracked that on a monthly basis as part of our monthly operating review. So if you want to scroll backwards on maybe you're not really counting one end user one time, we have had about 40,000 at the beginning of the year and about 41,000 at the end of the year.

Andrew Shapiro: In gaining some of these new accounts, you guys described how you provided incentives over a few months, a few months free or discounted, et cetera, to attract the customers and then they roll into recurring monthly revenues at the full rate. Has this process been continued to be relied upon to gain new customers, or is it scaled back and so you still have, as part of the current population, some people who are not yet paying the full price?

Dennis Raefield: I can answer that. In general, unless the account is a very large account and we are really desirous of getting it, the maximum they are giving away generally is one month of signing bonus to move things over. So we are not giving away the two and three months. I think I mentioned before, we did it for one large customer, who gave us a lot of accounts all at once and there was incentive to move.

So generally it’s a one month and that continues. It is on a case-by-case basis and when the salesman does it and the management does it, they lose money. So they're incentivized not to give it away. But if there is a large group of, there is some hassle for the account to move over because he has got to go out to the site and do things, as I explained in our previous call.

So sometimes they give the incentive and Morgan improves anything over one month and I haven't seen anything over one month in the last two or three months, since the last time we talked. So I would say that the general direction is downward on giving away free months to get things. I think we're starting to see momentum because people realize that our service offering is better and we're not discounting as much. But it's still a weapon in this arsenal to get big growth. If you can get 1,000 or 5,000 accounts in one hit, he would certainly use all of the weapons at his disposal.

Andrew Shapiro: Yes, last quarter you mentioned you picked up retailer Pep Boys in addition to existing Auto Zone account. Can, how has business with them progressed in those channels and with those retailers, but in addition, do you have any other successes or any new efforts for other large retail chains that you have on the calendar?

Greg Krzemien: I don't have any specific numbers in front on me on Pep Boys, but in speaking to our folks in Vermont, they have indicated recently to us that they have added some new SKUs, which is good news, and they've commented on some of the other large retailers that we deal with. I've also added some additional SKUs, which is good news. I'm not aware of any new large retailer.

Dennis, are you aware of any that are going to hit shortly?

Dennis Raefield: I wouldn't want to talk about it because it's a pretty competitive business.

Andrew Shapiro: OK.

Dennis Raefield: Generally, we're displacing for space and somebody is losing. So I would not want to alert them, but we're working on them all the time.

Andrew Shapiro: Fine. Your goodwill impairment test for Mace CS is coming up, and in your 10-K, you described the scope of hypothetical reduction in growth rate and you gave the scope of what the growth rate reduction would need to be or would be causing $0.5 million impairment charge. I just wanted to confirm, to what extent, this was hypothetical or reality and how much has recurring revenue in the business grown?

Greg Krzemien: I could tell you, it's a hypothetical disclosure, Andrew. It's required by accounting standards to put in a sensitivity hypothetical, and that's why even clarified a little bit too without any changes in the cost structure, just trying to give a hypothetical, nothing more than that.

As far as recurring revenue, last month, we're approaching the $280,000 a month in Mace CS, which I think, not having the numbers in front of me. In the fourth quarter, we were in the $260,000 some range. So we are starting to pick up revenue and starting to work a way out of the concessions that we have just recently talked about that we gave last year picking up some of the new business.

The outlook from everything I understand from our management there and the efforts they are doing is that that recurring revenue should continue to grow and should go through the year, but we will be doing the testing for the impairment potential or for annual possible potential impairment testing at the end of April. As I see it at this point, I really do not see any impairment unless something changes significantly in the next thirty days.

Andrew Shapiro: When you make these other acquisitions in the same area, because you are paying a multiple of recurring monthly revenue, you are booking new goodwill every time you buy these businesses, but in terms of the pricing that you are paying and the synergies you expect to have on these acquisitions and the margins in the business, so how much, Dennis, in general are you kind of in percentage wise expecting to kind of fall to the bottom line and in terms of your investment in acquiring these things, what kind of years of payback are you kind of targeting when we are buying these things?

Dennis Raefield: Good question. Again, I don't want to feed my competitors in because it is competitive and these are quite secretive. We haven't been paying the top RMR in each case because what we are offering is a good transition. What goes on in this marketplace is that most of the people acquire accounts and got the business and deliver worse service than before so the seller is really who has been a longtime player in the marketplace now has made a lot of enemies of all of his customers, because his customers are unhappy with the sale. So we've been able to pay actually less than the top numbers and are planning to pay less than the premium prices and give the guy some reassurance and peace of mind that he is not selling out his long-term clients.

So in that we're still delivering significant margins. It's a public company, and I am not supposed to make forward-looking statements, but it is significantly more profit falling to the bottom line than the 35 percent kinds of numbers that the gross margin will be significantly more, because we don't have big capital requirements or huge staffing as we do this.

So I expect it to have a fairly short, if I can avoid giving you a number to disclose where we are doing Andrew, I expect a relatively short payback in terms of they're going to be accretive, they're going to be profitable. We expect within one quarter that they are beginning to generate positive EBITDA after we do the short transitions, more EBITDA than we get out of our traditional business. So let me just say, significantly more than the ongoing business.

Andrew Shapiro: Now, lastly, you represented at some conference I think in Baltimore, it was probably the, back East somewhere, the first investment conference to finally tell the Mace story. You've got a rights offering. Are there road shows or anything else planned either with respect to the rights offering coming up this year?

Dennis Raefield: Not yet, but it is, nothing hard planned, but it is in my plans to start doing it. I always said that we needed to have a good story. Now we have a really good story and the rights offering. I think our feeling is the rights offering is going to be fairly well subscribed, so doing the road show I have been meeting with investors who want to participate in it. I have been making a lot of presentations to medium size investors and I'm getting a good response from everybody. We've finally started to make sense in what we are doing here.

Andrew Shapiro: Great, thank you very much.

Dennis Raefield: Thank you.

Operator: There are no further questions in the queue at this time.

Dennis Raefield: OK, I will close then and say thank you very much to all of you for your patience and for your good questions. If you want to give me an e-mail on something that I might be able to answer, my e-mail address is Dennis@mace.com and my door is always open and of course, I must, I’ll only disclose public information to all shareholders equally. I’m glad to answer any questions that I can and I always look forward to your ideas. I’ve received some interesting ideas from investors and I would love to hear them. Thank you very much for joining us.

Operator: Thank you for joining. This concludes our call. You can now disconnect.

END