MACE SECURITY INTERNATIONAL INC.

Moderator: Sarah Din
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2:00 p.m. ET

Operator: Good afternoon. My name is (Brandis), and I will be your conference operator today. At this time, I would like to welcome everyone to the second quarter investor 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 that time simply press star then the number one on the telephone keypad. Thank you Ms. Sarah Din, ma'am, you may begin.

Sarah Din: Thank you, (Brandis). Welcome to the Mace Security International second quarter 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. We also have Richard Barone, who is the Chairman of the Board, and he will be available to answer any questions for the Q&A section.

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 subjected to certain risks, known and unknown, and uncertainties including but not limited to economic conditions, limit of capital resources, and the ability of management to effectively manage the business and integrate acquired businesses. Such factors could materially adversely affect Mace's financial performance. It could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during 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 these reports on www.mace.com through the Investor Relations section of the website. You can click on Investor Relations button.

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

Greg Krzemien: Thanks, Sarah. Good afternoon, and good morning to those of you on the west coast. Again, thanks for joining us this morning on our second-quarter 2011 results call. As Sarah noted, I'll be covering the results for our second quarter of 2011, and the 6 months ending June for 2011 versus 2010. I'll also make some comments regarding the second quarter of 2011, with the sequential first quarter of 2011 in certain instances.

In the way of some background, again, for those of you who may be new to our call today, Mace currently functions in 1 active segment, that being the Security segment. For those of you who may be more familiar with the Company, we have discontinued 2 segments in the last couple of years, those being the Car Wash segment and the Digital Media Marketing segment, which we discontinued last year. I'll be making some brief comments on those operations later in the call.

As to the Security segment, again, our only remaining segment, we basically operate in 4 divisions or reporting units. We have our electronic surveillance equipment operations, where we sell to both professional and small businesses and homeowners. We have our Industrial Vision Source Company or operation, which is a specialty camera sales company and conference call equipment. We have our famous aerosol pepper spray company, Mace Personal Defense, and our newest division, which is our wholesale monitoring company, Mace CS, which we entered into that business in April of 2009.

As I mentioned, I will disclose and discuss a little bit the discontinued operations. Again, from an accounting perspective, the current financials and all the prior year financials that are included with the 10-Q and our 10-K we filed earlier in the year, basically all the line items and all the expenses and revenues related to the car wash segment and the digital media business are, in essence, pulled out of the income statement, and the net income or loss from those discontinued operations are reported as 1 line item on the bottom of the income statement.

Similarly to the balance sheet, the assets and liabilities, to the extent they have been sold, are obviously deleted from the balance sheet. To the extent some of those assets still remain that we're holding for sale, those assets and liabilities are stripped out of the balance sheet line items, and they sit in 2 separate line items – current asset and current liability, called assets held for sale and the related liabilities. That background, again, for those who are looking at the financial statements, may be helpful.

One of the first things I want to review with everybody is the results of our recent rights offering that we completed on August 1, and then we extended, or I should say we then put on a 2-week offering of unsubscribed shares to shareholders and non-shareholders, and the results of that offering was the rights offering, which again, was completed with this extension period on August 1, we sold 22,372,616 shares at $0.20 a share. So, we raised about $4.475 million there, and when you net off the expenses of doing that rights offering, which are about $150,000, $160,000, based on the invoices we have to date, and I think that's a pretty good number. And those expenses of the rights offering, they include everything from our General Counsel, our SEC counsel, the involvement of our auditors for their consent, the hiring of the information agent and the transfer agent, and of course, all the printing that went on with the offering and all the mailing of that printed material. When you net those expenses, the net is about $4.3 million from the rights offering.

And then right after that, we closed on August 2 on the Merlin purchase of shares and its 2 assignees. We sold another 20 million shares at $0.20 a share, and net of a $250,000 expense payment, we generated $3.750 million of net proceeds. Again, net of the $250,000 expenses. And then in this add-on, 2-week offering, we sold another 838,000 shares, raising about $168,000. So when you add that all up, just a little over $8.2 million of net proceeds, and it brings our total shares outstanding to 58,946,441 shares. That brings our equity at June 30 on a pro forma basis to about $19.9 million, and based on that 58.9 million, almost 59 million shares, that would give us a book value of about $0.34 per share. So again, I just wanted to kind of highlight and review for everyone the results of the offering, which we're very pleased with and happy.

Next thing I'm going to jump into some income statement items. From a revenue standpoint, I'm just going to highlight a few items. For the second quarter of 2011 versus the second quarter of 2010, so quarter-to-quarter between the 2 years, our revenues, again, for the Security segment dropped about $887,000, or 20 percent. And the biggest component of that decrease is in the IVS sector, which I'll make some comments on here in a little while, but that dropped $700,000, or 65 percent, between those 2 periods. And we lost about 30 percent of our business in the professional home and small business electronic area. But we did have growth second quarter this year versus last year in both the Personal Defense, aerosol operation, and in our central monitoring station operation.

Sequentially, first quarter compared to the recent second quarter, we saw a smaller decrease, a decrease of about $129,000, or about 3.5 percent. Again, the largest components of that were in the IVS division, and in the professional and home and small business electronics. Again, the Personal Defense operation, the aerosol operation had a growth in sales of about 4 percent quarter-to-quarter. And our monitoring station quarter-to-quarter first versus second had a growth of about 25 percent, with the acquisition of TCCI on March 31 of this year.

Looking at a 6-month basis, our revenues are down about $1.5 million, or about 18 percent, and again, biggest drop is in the Industrial Vision Source, or the IVS area. That had about a 55 percent drop in revenue, 6 months to 6 months, and the, again, professional and home and small business dropped about 23 percent.

Couple comments by division on the revenues. Again, our Personal Defense or aerosol operation, as I mentioned, we did see growth second quarter this year versus last year, and second quarter versus first quarter this year. So, we're pleased with that. The areas of the growth are really in the aerosol area, which is our biggest division. We saw about 6.3 percent, 6.5 percent growth, depending on which comparison you're making.

And we continue to grow there. We've been introducing new products over the last couple of years, such as the Pink product Mace gun. We're working hard to introduce new SKUs into our current retailers, working with retailers on better placement of product. And we've added some new retailers over the last year. I mentioned last quarter, in 2010 we added Pep Boys to our retail chain, Amazon.com, and again, we're continuing to look for other retail opportunities. So, the pepper spray's doing well. Non-aerosol, which is our small, inexpensive home security system, that is up about 19 percent in the last quarter, so we're pleased with that.

Places where we haven't had growth, in fact, we're down a little bit on sales is in the TG Guard area, which is our embassy and prison type installations. A lot of that is timing. Some of that is the softness of government spending. Law enforcement is another area where we're down. We're working to try and bring that up. We're doing well in some areas; we have challenges in others. But we are working hard on trying to increase the revenues in that division, which we look at as a critical division.

The professional and home and small business electronic division, very soft. I mentioned some of the decreases a few moments ago. Still very slow construction, renovation programs in both the commercial and the residential. And it's just a very competitive space, and we continue to lean the costs down there. We've leaned them down again during the second quarter. And we're getting to the point where we're still losing a little bit of money there, but really bridging that gap. So, it's definitely one of our more challenging divisions.

IVS, as I mentioned, is down the most. I believe I mentioned on the last call, we had our general manager, who really led that division, leave us at the end of the first quarter. We also had vendor issues with Sony who we lost our relationship with finally in May of this year, plus they were having problems supplying us even before the relationship stopped with the tsunami in Japan. They had very limited product to ship to us. That division has suffered the most. We mentioned in the past it is for sale. We are still working with an entity to sell it, and we're going to continue to pursue that strategy.

The wholesale monitoring, again, our newest division, which is a combination of CSSS, which we acquired in April of 2009, and The Command Center Inc, or TCCI, which we acquired at the end of March of this year. That revenue, as I mentioned, had grown first to second quarter by about $200,000, from $816,000 to a little over $1 million. And that growth is essentially the acquisition and the bringing in of TCCI, which generates about $65,000 to $68,000 a month in top line revenues.

With that acquisition, we have about 470 dealers, which is important. It's part of our strategy to sell, and we've started to sell some products to those dealers, some of our electronic products. And we have 63,500-plus end users, so again, it's an exciting growing part of our business. We're excited about it. It's a recurring monthly-revenue-type model. It provides some consistency in revenues and cash flows. So, it's definitely an exciting part of our future.

From a gross margin standpoint, want to point out a couple high-level things from the face of the income statements, statements of operations, and our 10-Q. The first-quarter 2011 gross margin was about 35 percent. It remained 35 percent for the second quarter. Both quarters were up significantly from last year where we were at about 29 percent in the second quarter. And when you look at the face of the operating statement for the quarter, year-over-year for the second quarter our revenues dropped by about $887,000, as I previously mentioned.

But our margin only dropped by about $40,000-some, and the reason for the increase from 29 percent to 35 percent – a couple reasons, obviously, the change in mix, IVS which has gone down significantly is a very low margin business. We've talked about that before – 11 percent, 12 percent, 13 percent business. The other operations are in the 40 percents, 50 percent range of product margins. So, just that mix and the relative size of our other operations have increased the margin, and continue to work to improve our purchasing and our purchasing power. And a lot of our direct cost control – we've definitely leaned down our warehouse staffs and costs, and other direct operating costs such as the direct labor in our Central Station, which has improved the margins of that business. We're pleased with being able to mitigate our operating loss by – despite the revenue drop, by tightening up those cost areas.

Just a couple points on gross profit. Within our Mace Personal Defense, our aerosol operation, our gross margins with overhead is about 45 percent. Product margins, 48 percent to 50 percent in that business. The professional and home and small business, about 36 percent margins after direct overhead, about 45 percent blended with – just on a product side. And our Central Station for the 6 months ending June, about 35 percent. And with the full integration of TCCI, which was recently completed at the end of July, we anticipate that 35 percent going up closer to the 40 percent range. So, we're excited about that. These margins, the good news about those is a lot of leveraging power there, as we work to increase sales in the future, we'll get significant benefit out of those increased sales with these type of margins in our businesses.

Couple points on SG&A costs. Again, if we look at the face of the operating statement, our second quarter of 2011 versus second quarter of 2010, we dropped SG&A by about $200,000 or 9 percent. And on a 6-month basis, we dropped SG&A from about $5.1 million to about $4.2 million, or about $833,000, or about 16 percent. If you back out notable items, such as severance cost, legal cost to wrap up last year, the (Paleno) matter, plus the Vermont EPA matter, some CSSS acquisition costs in the beginning of last year, you had severance costs – if we back out those type of, what I call notable items, we still saw in a 6-month basis about a $715,000, or almost 15 percent drop in SG&A. So, we're happy about that.

Our headcount reduced a lot, again, at the end of 2009 we were about 126 people. At the end of June we were at about 107 people, excluding TCCI, which added in about 10 individuals. So, we continue to make reductions there.

If you look at the income – the SG&A drop for the 6-month period, the place where it most resided was MSP, again, which is the home and small business and professional electronic company. That dropped about $445,000 in 6 months. Our corporate overhead, 6 months to 6 months, dropped by about $429,000.

Our Personal Defense or Vermont aerosol operation, their SG&A stayed fairly consistent. Their operation has been very consistent, and growing slightly. And the monitoring station, Mace CS, their overhead is up about $57,000, mainly because of the acquisition of TCCI, but again, we look to bring those costs back down.

From an operating loss standpoint, I'll just make a comment on second quarter this year versus last year. And again, if I neutralize it for any impairment charges that were recorded last year, our opening loss is about $900,000 versus about $1.1 million last year in the second quarter. So, we are driving down, largely because of the SG&A reductions, the operating loss.

Couple comments on discontinued operations. For the current year, the only thing in discontinued operations is the car washes that remain, 3 car washes. Last year, discontinued operations included the car washes and the Digital Media Marketing business. Good point, I'll point out that if you look at the second quarter of 2011, we did have a net income of $26,000 in the car washes, so they are making money for us. For 6 months we showed a loss of $34,000, but that included about $72,000 of loss to close down and sell the

Lubbock site in the first quarter that we sold. When you back that out, we, on 6 months, made about $38,000 of net income. So in 2011, we are, from operations, producing cash flow, and it's not a drain as we continue to work to sell those remaining 3 sites.

From a balance sheet, couple highlights. Working capital is at about $5.6 million, with a current ratio of 1.78. Our debt is sitting at about $3.4 million at June 30, was about $3.5 million at the end of December. The change in the debt, we basically swapped some things out. We borrowed the $1.4 million from Merlin in March to do the TCCI acquisition, and then through June 30 we paid down about $675,000 on the Merlin note. We paid off the mortgage of $660,000 on the Lubbock site, and we made other routine payments of about $145,000 on our other principal balances of our debt. So, we reduced the debt about $100,000 between the end of the year and the end of the June quarter.

Couple comments on the net worth. Our net worth was $11.7 million at June 30. And as I mentioned previously, about $19.9 million on a pro forma basis with the rights offering proceeds.

Couple comments on a couple notable items here. On the car wash front, as I mentioned, we sold our Lubbock site in March, which, after paying off $675,000 of debt on the Merlin notes and another $660,000-some on the payoff of the mortgage on that property, we really brought down our debt by about $1.3 million, and netted about $300,000-some of cash. We have 3 remaining sites, as I mentioned, for sale.

Our Colonial number 1 site, which we've had under agreement for about a year now, is still getting close to closing, but we currently do not have it under an agreement. The latest reinstatement expired, and we are waiting for the buyer who has been interested in the site to finalize some financing before we will enter into a new agreement with him. I will say that there are other buyers who are getting very close also to getting some financing together and making us an offer, so that site is in play. And I feel comfortable we will be getting rid of it here in the near future, but it is still with us. And then we have our last 2 sites, Colonial number 3 and 7, which we're marketing and we have no current offers on those yet, but we're continuing to market those for sale.

Our Texas warehouse, we've disclosed that, that's held for sale. We are continuing to show that. We are actually in active discussions with an interested party now, and hopefully we'll have something positive to announce on that in the near future.

One last comment – 2 last comments, 1 on net operating losses. Again, our net operating losses are about $53 million at this point, expiring in 2023 or 2024, I believe. So, we have a significant value there to these NOLs.

And 1 other point I want to mention that was important this past quarter is we did resolve, final resolve the Vermont EPA matter. As those of you who are familiar with the Company know, we entered in December into a plea agreement to pay a $100,000 fine and settle this matter, and that plea agreement was accepted on May 26 by the court, and we did pay to date about $67,000 of that fine, with the remaining $33,000 due in January of next year. So, that was kind of our remaining past issue that we needed to resolve, and we've gotten to that point now where we have all these things behind us.

With that, I'll turn the call over to Dennis.

Dennis Raefield: Thank you, Greg. Good afternoon, everyone. Nice to be with you again. I wanted to start by saying that when I came to Mace, they were losing about $2 million to $3 million each quarter on a consistent basis, had been for a while. And I'm pretty excited to announce today that the $940,000 of operating loss for continuing operations is the lowest loss they've ever had. It's certainly not a profit, we're not proud that it's not a profit yet after all this time, but it is half of the – a third to a half of the losses we were incurring every quarter when we started and took over here.

So, that's important because as of today, I've completed my 3-year contract, and accomplished some of the goals of salvaging a very troubled company. We certainly haven't been able to rebuild the top line and get the profitability with the recession. But with the settlement of our past issues and liabilities in the last quarter, selling off our losing divisions, and now with $8.2 million of new funding, I think that Mace can really move forward with a clean slate, and not all of the liabilities and anchors that were around its neck for the last 3 years.

Unfortunately, effective tomorrow, I am resigning as Mace's CEO and President, and I'll step down off the Board. The Mace Board has appointed an existing Board member, Mr. Michael E. Smith, who has been on the Board for about a year as the interim CEO, and he will take over on Friday. And the good news, he's an accomplished operations executive, and he's going to step in place.

So, I wish all of the investors that are on the call, our Mace staff, and the Directors continued success. I think we've really got some ability to move forward. I have a significant amount of options that I would like to see come back from under water, and my stock as well. And I think I've accomplished the tough task that was handed to me in 2008 from the standpoint of stopping the bleed, and getting this Company there. I wish we could have said that we also had turned a profit and grown the top line, but our efforts in one area haven't succeeded, which is MSB, but we are succeeding in the other 2 and especially in the acquisition of the Central Station, which was an area that I brought to the Board that I thought we could grow that seems to be doing very well.

So with that, I would like to turn it over for questions. We have Mr. Barone on the call, who is the Chairman, to answer any questions about the future, and I'm ready for questions, (Brandis).

Operator: Again if you would like to ask a question it’s star one on your telephone keypad. Again star one. We will pause for just a moment to compile the Q&A roster. Are you ready for your first question?

Dennis Raefield: Yes, we are.

Operator: OK. That comes from the line of Thurman Willis.

Thurman Willis: Excuse me one second. Dennis, I want to tell you what a fine job I think you've done over the three years and we appreciate your hard work as Mace shareholders.

Dennis Raefield: Thank you. I appreciate that. It has been hard work, but we've had a good team here really digging in to turn this thing around.

Thurman Willis: Richard, I'd like to address three questions to you. We might have said this and I missed it. What is our present cash balance now and once we sell the other car washes and our Dallas warehouse, what would our cash balance be at that point? Second question is pertaining to the call centers, I know in this economy we have to have some people that can't afford that so I know we're having some attrition there, but hopefully our add-ons are more than our losses. And then lastly, that we have gotten through this difficult time. Can you or are you planning any hour work before the end of the quarter?

Richard Barone: Chairman of the Board: Well, I think that Greg could probably answer the first question best and your second question, I think Dennis could probably answer it best. But I'm not quite sure what you're asking on your third question.

Thurman Willis: The third question was since we've launched really to just be one brand Company, do we plan to present that to the Street in effective way after completing our rights offering, do we plan to hire an IR firm, tell our story now that it's a totally new Company. People wanted us out of the car wash business. They told us they would value us correctly once we got out of the car wash business. What plans do we have to market our Company with the new story?

Richard Barone: Well, yes, the fact of the matter is that we are now in the process of putting that strategic plan together and rolling it out over the next several months. During that period of time, we will be providing information to the Street as it comes to us and as it comes along, whereby I think everybody will get a feeling that this is a new Company with a new direction and new energy. So, over the next several months, you will be seeing these types of – this type of information coming from Mace. And hopefully the market will react in a meaningful way on the upside to this information. Again, I think that Greg could probably answer your first question and Dennis the second question. So, go ahead, Greg.

Thurman Willis: Thank you.

Greg Krzemien: Sure. Thanks, Richard. As far as our cash balance, we went into the offering in August at the end of – the beginning of August, rather, end of July, with between $1.5 million and $1.6 million of cash. As I mentioned, we raised about $8.2 million of cash with the rights offering and the add-on unsubscribed shares offering. In the first two weeks here we did make some big pay downs. We paid down $500,000 to – in liability we record on our financials, the final payment to the keys for the CSSS acquisition and we also paid our debt that we owed on the December note to Merlin for $675,000, and we also caught up on some inventory purchases and payments and some other operating expenses.

So, I'd say right now and, again it's a pretty fluid number, but we're probably sitting in the range of $8.1 million, $8.2 million give or take and from asset sales the Texas warehouse will bring to us $1.1 million to $1.2 million is my estimate, depending on how we finalize the negotiations we're in right now. And our remaining car washes, the main car wash, the larger one, we should net about $1.4 million of cash on that after paying the mortgage on that property and then we should hopefully eventually generate about $0.5 million of cash on the remaining smaller two sites. So that would be – if I take the 8.1, say, 1.2 on the warehouse and 1.9 on the remaining car washes, you'd be in excess of $11 million, again, without any other capital expenditures or projects until we eliminate our operating trends. They would need to come off that number. That gives you a ballpark estimate of where we are, Thurman.

Thurman Willis: Thank you. I appreciate that. And then relative to the call centers and the attritions in this poor economy versus what we're adding, are we adding more than we're losing?

Dennis Raefield: Absolutely. I'll answer that. I've got it. Before we did the acquisition in March, just standalone the central station, we started with 34,000 accounts and after two months of flushing out some of the bad ones, we have had every month has been more adds than deletes. In March before we finished the acquisition, we were up from 34,000 to 41,000 so there isn't any significant attrition. We've been actually growing positively.

And the same has happened – nothing has changed since we did the acquisition. We always flush out a few accounts that are never going to pay or slow pay and we have a much more aggressive cash position that we expect out of our dealers than maybe had – the sellers had accepted. But every month is significantly more, either one and-a-half or two times as many new accounts as dropped. So, we continue to grow. So, we haven't had that attrition and – net attrition. And the reason is we're pretty aggressive to go look for new business and that's going to continue.

Thurman Willis: Thank you. One final quick question. Richard, we're in five different locations. Can you discuss any consolidation at this time that's got to be high on our priority list to have some consolidation occur to save some SG&A.

Richard Barone: Well, as you just heard, Mike Smith, our new CEO, is going to evaluate whether or not additional consolidation is warranted. I think generally speaking, as a Board, we are looking to consolidate more if possible. But we have to be – recognize the market and the locations and the work being done in each of these locations. So, while we do want to move in that direction, we're going to kind of take our cue from Mike as he reviews the properties, and the plants, and the people in the Company.

Thurman Willis: Thank you very much for taking my question and again, Dennis, congratulations and we wish you well.

Dennis Raefield: Thank you very much.

Operator: Again if you would like to ask a question it’s star one. Your next question comes from the line of Andrew Shapiro.

Andrew Shapiro: Hi, it's Andrew Shapiro. A few questions and I'll back out into the queue. First, I'll certainly call you and talk to you about this privately but thank you for your service, Dennis, during three very difficult years and a lot of problems that you inherited that you had to clean up and it was a real tough job and I recognize that.

If Greg, you could help clarify, because you've given some numbers with this cash creation and kind of tallying up the cash, the warehouse sales, the car wash sales, et cetera, you used the word net of debt a few times to get to $11.2 million. So, assuming those sales occur and we raise the 11.2 net of debt, what additional debt would be remaining at that time, not counting operating losses, but what additional debt would be remaining to net against the 11.2? There's the – we'll call it the Ancora loan number two, the acquisition loan and what other debt would be – what is the amount of that loan? And then what other debt would go up against that 11.2?

Greg Krzemien: Sure. You're exactly right, Andrew, on the first part, the Merlin debt, which is the $1.4 million convertible debt, is still on the balance sheet and would be there and then we have about $200,000 of other debt and it's just some small capitalized leases, mainly in the monitoring station operation on some equipment. And a couple other small $40,000, $50,000 of financed equipment. So, basically $200,000 of capitalized leases and small financing that we've inherited on equipment and the $1.4 million note.

Andrew Shapiro: All the rest of the current debt would be netted against those warehouse and car wash sales because they are all mortgages?

Greg Krzemien: That's correct.

Andrew Shapiro: Nine point six million net of all debt plus the remaining businesses. So, to speak to those remaining businesses if I could, first off, regarding IVS. IVS is something you said you've been wanting to sell or you were negotiating to sell for a while. I was wondering why it would not be listed or broken out now as assets held for sale or discontinued ops.

Greg Krzemien: Typically, discontinued ops you would break out a whole operating segment or business segment which would be the Mace Security Products. So, I haven't pulled that out yet, but at some point here might be advisable. The assets are fairly small at this point, probably net assets of about $300,000, $350,000, so it's a relatively small base of assets.

Andrew Shapiro: So, $350,000 of net assets, and is the division which is already very low gross margin, is it – is that business profitable or how much burn is it creating for the Company?

Greg Krzemien: IVS really isn't burning anything because it doesn't have its own staff. So, it's just really sharing the staff of the home and small business and the professional end. So, it really – actually is creating a small amount of gross profit so it isn't a burden at this point, Andrew.

Andrew Shapiro: Isn't there some Dallas office space you've got or what's happened there?

Greg Krzemien: Again, they're just sharing space in the Dallas warehouse, that's there.

Andrew Shapiro: They're in the warehouse. I thought they had…

Greg Krzemien: I'm looking more from an incremental basis, the warehouse is there, they're taking up some space in it, but it's there anyway.

Andrew Shapiro: I thought they occupied a separate space. I thought they occupied a separate space. That's IVS. Now Mace Security Products, we'll call it the surveillance. I guess that's Florida and maybe some Texas?

Greg Krzemien: It's all really in Florida, those operations are in Florida, as far as the people and as you know the warehouse is in Texas.

Andrew Shapiro: Now, is that business generating – what kind of losses? You've mentioned that it is not yet contributing to the corporate overhead costs.

Greg Krzemien: That is correct. I believe our loss like the May June time frame we were down to about $30,000, $40,000 worth of cash loss and…

Andrew Shapiro: A month?

Greg Krzemien: Yes, correct, on a monthly basis and the sales are getting closer to the breakeven point with the reductions we've made in May and June, further reductions, so it's still bleeding a little bit, still having some cash losses but we are working to cut that down to nothing.

Andrew Shapiro: OK. It was mentioned at the annual meeting just in July that there were some additional cost reductions and control steps that were taken to cut costs. Was that referring back into May and June as you've talked or were there incremental steps taken in July and now we are in August?

Greg Krzemien: I think what we were referring to was the reductions made in May and June. The reductions that would have been made post June really would have been the completion of the transition of TCCI monitoring station into the other monitoring station. But other than the relief of some of the individuals there that were for a short transition period and some of the duplicate operating expenses such as computer processing and phones and such, that were totally merged in by the end of July. So, that's probably the only costs that really significantly tended to post June.

Andrew Shapiro: Are there non-recurring severance costs that are in the June Q2 that you just reported and you're going to have a full quarter of savings in the current September quarter, can you quantify in general what the quarterly savings ought to be?

Greg Krzemien: Yes. I don't have in my fingertips the four or five people that were terminated in the June quarter. I would say it's probably, on an ongoing basis, $50,000 a quarter for the handful of people, maybe $60,000 a quarter would be my estimate, Andrew.

Andrew Shapiro: Severance charge is…

Greg Krzemien: Was minimal. The severance was very minimal.

Andrew Shapiro: All right. I have more questions. I'll back out in the queue in case there's others, but otherwise please come back to me.

Greg Krzemien: Sure. Thank you.

Operator: Again if you would like to ask a question it’s star one on your telephone keypad. Again star one. Mr. Shapiro, your line is open.

Andrew Shapiro: Hi. OK. The assets held for – not the assets held for sale but on the last quarter you mentioned, Dennis, that Q1 tends to be the weakest quarter and Q4 the strongest. When we look at Q2 it didn't really appear that Q2 held to that pattern. There was deterioration in Q2 from Q1, especially in Mace Security Products side. Is there some additional color we can talk about as to why the sequential decline has occurred and what the run rate is or the prognosis is for that division for the current quarter to be ended in September?

Dennis Raefield: Sure. Most of that reduction, I think Greg mentioned, was IVS. IVS had a significant revenue component to the Mace Security Products division, but very little gross margin. So, when you look at the revenue, it's almost completely – Greg, you can correct me if I'm wrong. It's almost completely between Q1 and Q2 it's completely IVS going down even lower. If you look at the gross margin for Security for Q1 to Q2, it's actually flat. We didn't – so even though the revenue dropped we held it. What we lost was the business that added the least amount of value.

Andrew Shapiro: That I saw. Also surveillance was down $250,000 from prior quarter from Q1 to Q2, went from $1.15 million to $900,000 or so.

Dennis Raefield: Right.

Greg Krzemien: That is correct.

Dennis Raefield: Continues to be a very challenging environment. We have a tremendous amount of competition from Asian imports. That seems to be accelerating even more. And we did have a significant client that quit buying from us, stopped buying, and so we're just seeing it continues to be mushy, that business has struggled and struggled and so we're matching cost to revenue now. Which is why they're getting close to breakeven.

It's a smaller business. And they are under orders to stop their bleed or they can't continue and they've done a pretty good job of doing it. They're down as you said down to $30,000, $40,000 a month. This month, July, excuse me, August is prepping to be even better. I shouldn't talk about what's coming in the future, but it looks like it will be even better than we did in Q2 but it is still – I wouldn't say that it's booming and growing. It is not recovered.

Andrew Shapiro: OK. And the inventory turns have been rising while inventory's been declining. IVS and Electronic Surveillance sales have been down. So with this, the inventory turn numbers are slowing down and our days inventory have gone up. What division's causing this increase since we don't have much here described in IVS? Is it Electronic Surveillance? And what is our risk of this becoming obsolete or stale inventory?

Greg Krzemien: If I look at the last six months, Andrew, from December to June, our inventory rose, as you mentioned, about $140,000. The three main pieces of that are IVS, which inventory actually dropped about $230,000, $235,000, as not being able to get product from Sony and continuing to sell. Vermont or Mace Personal Defense, their inventory grew slightly, about $70,000. A lot of that – that's sometimes timing. We buy some of our products including the products we get overseas such as the Mace guns and all that in some bulk.

I don't think there's anything too significant to that other than just timing the $70,000 growth there, but MSP, the electronic has grown about $300,000 in that period and a lot of that is towards the end of last year we introduced some new products that Dennis had spoken about and a lot of those shipments came in, in the first half of the year just as the sales started slowing down. So, that's caused that increase. I think those products that have increased are definitely the latest products that we're still selling, just at a little slower rate. So, I don't think there's a lot of inherent risk there. We do, do a very detailed reserving exercise every quarter and all the older inventory is pretty significantly reserved for that we're going to continue to work on and step up efforts on liquidating, but I think we're pretty covered there and we covered our risk.

Andrew Shapiro: OK. Now, Colonial Car Wash, this is the one that's been under contract since before the end of the year. This car wash sale agreement's been extended and extended and each time you've been getting deposits. When you get all those deposits and they're non-refundable, have you already booked them as income and where is it on the income statement and how much have you otherwise collected and it's on the balance sheet?

Greg Krzemien: It's all on the balance sheet. We've collected $100,000 to date. If the gentleman does eventually get the financing and get the deal closed, that would be an offset to the purchase price. So, we have not taken it into the income statement prematurely. However, when a final decision is made on the – to possibly go on to another buyer we would be taking it on to the income statement. It is about $100,000 that is on the balance sheet right now.

Andrew Shapiro: Right now it's not under agreement because it's not coming up with any more dough to lock it up anymore?

Greg Krzemien: Yes, I'm at the point and the Board supports Dennis and my thoughts, that we're marketing the site and other people are very interested in it and are looking at it and are trying to get to me with a commitment and an agreement, and if this gentleman does step up and proves that he has the financing, that I could get the Board comfortable with, we'll proceed at that point. But I think we're just playing a little bit conservative or hard ball I guess at this point in keeping our options open.

Andrew Shapiro: OK. This may be a question for Richard. I'm not sure. Or Dennis you might have made a recommendation to the Board. The Vermont lease expires in middle of November. What are the plans for the pepper spray lease or any intentions or plans to exercise the option to keep the location through May 2012?

Richard Barone: We haven't as yet, unless Dennis corrects me, we haven't as yet negotiated or renegotiated that as of the moment. However, the expectation is that, that space will continue to be available and we will continue to be able to lease it on a short-term basis into 2012. So, right now our expectation is we will continue to go forward with that property and with that space into 2012.

Andrew Shapiro: OK.

Greg Krzemien: And the other thing I would add to what Richard just said is that the current lease, which does expire in November, we do have the right to extend it for another six months into May of 2012, I believe at the same rate. So, that we did put in place last November when we extended it, so that does provide us a little bit more time and cushion to make an ultimate decision.

Andrew Shapiro: Now, post rights offering, what is the status of the Chase loans and I was very confused with the description in the 10-Q. Were there two CSS seller hold back notes of around $500,000 or just one?

Greg Krzemien: Just one. Let me break down what is held back yet at this point. It's a total of $900,000, $500,000 was a general hold back and that $500,000 is what we had extended to the 15th of August and recently paid. What is still left there from the initial acquisition is some phone company contingent liabilities that we basically will continue to hold them into I think it's 2012 and 2013, if I'm not mistaken, different pieces of that which is basically the statute of limitations running out on the ability for those phone companies to make a claim on Mace. Those payments will continue to be held, but the $500,000 was recently paid.

Andrew Shapiro: And then we have the debenture number two to Ancora, the first one, the Paolino bridge was paid off; right?

Greg Krzemien: That is correct. The December note is completely paid off.

Andrew Shapiro: And then what's the – then we have the Chase loans which are the two mortgages?

Greg Krzemien: That's correct. There's mortgages on the Texas building, about $525,000, roughly at the end of June, and the mortgages against the Colonial number one, the big car wash is about $630,000. So, they're the only remaining mortgages with Chase.

Andrew Shapiro: All right. And you've already updated us on the NOL balance and all that. Dennis, can you update us on – now we have these proceeds. We're going to – we have certain assets that will be sold off against the mortgages. We have a limited amount of convertible debt left. We have a $53 million NOL. We have a burn rate that's really corporate overhead and a slow growth rate organically on the existing business. So, we've got to acquire some positive cash flow somewhere with this $8 million of cash because it's not earning anything in the bank.

So, now that we have the cash, you can show that to prospective sellers you were talking to. What is the mamba line here that's lined up with respect to deployments of capital and acquisitions that you've presented to the Board and is under consideration?

Dennis Raefield: Well, what I would say is Richard needs to answer that question. I have a pipeline for Central Station acquisitions and there was not a pipeline for any other. There was a pipeline for only one in the Personal Defense space and none in the Security space. They were all in the Central Station space. Richard needs to discuss where they're going to go with that rather than me.

Andrew Shapiro: OK.

Dennis Raefield: So, I'll turn it over to Richard.

Richard Barone: Well, we're going to pursue all of these acquisitions, at least in terms of getting additional information so that we, as a Board, will be able to determine if they make sense. Here again, Mike Smith will take the lead on this. Mike will be conferring with Dennis over the next several days as to the status of the monitoring, potential monitoring acquisitions and we will report back to the Board as to whether he thinks we should go forward with any of them.

The bottom line is this. We are going to focus on organic growth and we are going to be looking at acquisitions in both the remote monitoring as well as the Personal Defense area. We're not – we're going to be very, very careful. We're going to make sure our acquisitions, if we make any, are accretive. We are going to essentially focus in, focus down, drill down, if you will, in each of these divisions and attempt to add products, attempt to grow organically, and become profitable in the very near future.

Andrew Shapiro: OK. And in terms of assessing that, maybe Dennis you can – you provide us – let's say we acquired a Central Station that was a bolt-on basically acquisition of accounts that goes into the existing platform in Anaheim. About what kind of percent of revenue upon integration ought to drop to the bottom line so that one could reverse engineer? How much revenues need to be acquired in order to create the incremental cash flow necessary to get this Company to a sustained breakeven and profitability?

Dennis Raefield: The typical acquisition cost for wholesale monitored Central Stations is about between 20 and 25 times of the recurring monthly revenue that they have.

Andrew Shapiro: Twenty times revenue?

Dennis Raefield: Monthly. 20 times monthly recurring revenue. 20 times monthly. That's a little less than two years of annual revenue. That's the way the marketplace is priced. So in theory, one – if you work it out, one $4 million acquisition probably gets the Company close to breakeven and covers the corporate overhead without additional changes, of course, which are coming as the Board is going to move forward. So, it doesn't take a lot of acquisitions on the bolt-on style.

Now, bolt-on style is going to bring between 50 – I would say it's conservative 50 percent EBITDA. 50 percent of every dollar of revenue. It can be as high as 70 percent if you do it right. We're anticipating above 60 percent for the TCCI once it is rolled. Now that it's rolled in, we should be seeing 60 percent dropping through the bottom line. It's somewhere between 50 percent and 70 percent. I've always told the Board 50 percent to promise low and try and do better than that.

It is not a big stretch. That's why we went in this direction. It's not a big stretch to get the Company healthy and use that – deploy that money wisely. But that will be up to the new Board, the Board and their new direction, whether or not they want to continue in that direction. I think they're going to evaluate it and make sure it's a reasonable business.

Andrew Shapiro: Lawndale Capital Management -: Now, in terms of the acquisitions you spoke about on the last quarter call, there was things that were lined up and could be moved forward fairly quickly upon the collection of cash. Are those acquisitions still available for the Company to pursue?

Dennis Raefield: Yes.

Andrew Shapiro: OK.

Dennis Raefield: Yes. And standing by. It will be up to the Company to decide what to do with them.

Andrew Shapiro: All right. And is there any way you can give a handle on what is the holdup in monetizing and selling the IVS business and similarly it's pretty much a straight warehouse in Texas?

Dennis Raefield: Sure. It's pretty easy. IVS has been waiting for the seller or the buyer's financing. He advised me that he has it now and was planning to meet with me next week, so that will go over to Mike Smith and be up to him to close the deal. It's been the longest closing I've ever seen. But it's been–.

Andrew Shapiro: Longer than car wash sales?

Dennis Raefield: Almost. Almost. The building is not an issue of selling it. We're trying to – I think the Board wants to maximize the value we can get for the building. So, we have seen real offers. It's not just walk-throughs. We have real offers and we're in pretty strong negotiations right now, one that is getting closer to the kind of numbers we want. We see the market improving in Texas, the real estate market for commercial and we don't want that to – we don't want to give away the building too soon. That's the direction we're moving. I think that's going to do well.

Andrew Shapiro: Can such a sale of that parcel at least be a quick close?

Dennis Raefield: I don't think commercial buildings in today's market with bankers is ever a quick close. Bankers are getting worse, not better. I think the issue is if you closed it tomorrow, what would you do with 40,000 square feet of inventory. I think you have to time the close. You don't want a closing in 30 or 40 days. But I think most of the offers we've seen look like 60 to 75 day closes.

Andrew Shapiro: OK. I don't think I have any other additional questions. Thank you again, Dennis, for years of service and we'll talk offline.

Dennis Raefield: OK.

Operator: I do have a question from the line of Thurman Willis.

Thurman Willis: More a comment than a question. I noticed – the reason I asked the question about the Mace brand surely has value and with the NOL of some $53 million. Seriously hope we do IR promotion on our Company since it's known and not do a reverse stock split, which I could almost assure you would fail, and that hopefully we can back in to say that NOL with another company that possibly could consolidate with Mace. Richard, can you comment on that?

Richard Barone: All right. At the end of the rights offering, as Greg mentioned, we have a book value of about $0.34 a share. If you look at the tangible book value, we are very close to $0.25 or $0.26, or maybe even $0.27 a share. We have an NOL that's another asset. We have a brand that's very well-known. That's an additional asset. And I think if we make the calculation we probably have between $0.18 and $0.20 a share of cash.

The expectation is that we're going to lose money here in the third quarter. I'm very, very optimistic that the losses will be significantly reduced in the fourth quarter. As an objective I'd like to break even, but time will tell and as we look into 2012, if we do our job, if we can make an additional acquisition in the remote monitoring area, if we can focus on expanding organically, I think we've got a very, very bright future and this stock at $0.20 would be a steal on that basis. That's about all I can say in terms of how I view things, but I'm very, very optimistic that we're going to succeed.

Thurman Willis: Well, I'll surely agree with you, Richard, and I congratulate you on being Chairperson and chorus holdings of I guess approximately 35 percent, surely speaks for itself. I just – seemingly now or in the next 90 days would be perfect in getting in some seminars where we tell our story, try to get our stock price up. I think staying on the peak sheets instead of trying to reverse split again is – I just strongly encourage us against that and I hope you will pass that on to the Board and again, I thank you for taking my question.

Richard Barone: Yes, and I appreciate the question. So, that everyone would know, the possibility always exists for a reverse stock split. When you have your shares selling at $0.20, you have to be thinking that way. However, the Board is not currently considering that. There may be a place for it, but right now it's not high on our agenda.

Thurman Willis: Thank you.

Operator: Again if you would like to ask a question it's star one. Again star one to ask a question. And there are no further questions at this time.

Dennis Raefield: OK. Well, thank you very much. That concludes our Q2 conference call for today. And I wish all of you the best of luck and I think Mace is going to do very well in the future. With that, we'll end the call. Thank you for calling, for listening today.

Operator: Ladies and gentlemen, thank you for your participation. This does conclude today's conference. You may now disconnect.

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