MACE SECURITY INTERNATIONAL, INC.

Moderator: Steve Rolle
May 18, 2012
10:00 a.m. ET

Operator: Good morning. My name is (Sally), and I'll be your conference operator today. At this time, I would like to welcome everyone to the first quarter earnings results for Mace Security International.

All lines have been placed on mute to prevent any background noise. After the speakers' markets, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star than the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

Thank you. Steve Rolle, corporate comptroller, you may begin your conference.

Steve Rolle: Thank you, (Sally). Welcome to Mace Security International's first-quarter conference call. My name is Steve Rolle, I'm the corporate comptroller for Mace. Also with us today is Mace's chief executive officer John McCann, and Mace's chief financial officer, Greg Krzemien.

Before I turn the call over to Greg, there's some general housekeeping matters that we want to address. Certain statements and information during this conference call will constitute forward-looking statements within the meaning of the federal Private Securities Litigation Reform Act of 1995. When used during this call, the words or phrases will likely result, are expected to, will continue, as anticipated, estimate, project that, and intend to or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Such statements are subject to certain risks known and unknown, and uncertainties including but not limited to economic conditions, limited capital resources, and the ability of management to effectively manage the business and integrate with our business. Such factors could (in turn) adversely affect Mace's financial performance, it could cause Mace's actual results for 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 forecast, estimates, and expectations are contained under the heading of risk factors in Mace's SEC filing which include its registration statement and its periodic reports on all forms 10K and 10Q. All statements made during this conference call will also be considered in conjunction with financial statements and notes contained in Mace's annual reports on forms 10K, (including) reports on form 10Q.

You can access these reports on www.Mace.com through the investor relations section of the web site. You can click on the investor relations button. With that, I would to now turn the call over to Greg Krzermien.

Greg Krzermien: Well, thank you Steve. Good morning, and thanks for joining us on our first quarter 2012 results call. As Steve noted, I'll be providing some highlights on the results of our first quarter of March 2012 versus the same period in 2011. I'll also be making a few comparison references to the fourth quarter of 2011.

In laying some background, some of you may be new to our call, Mace currently functions in one active segment; that being our security segment. We have discontinued operations within our previously – previous carwash segment where we have two remaining sites. I will make some brief comments with respect to these discontinued operations later in my comments.

As for our security segment, we currently operate in three operating units or distinct divisions. We have the Mace personal defense operation, which is our well-known Mace aerosol pepper spray division. We also have our electronic surveillance equipment operations, known as Mace Security Products where we sell both professional and home and small business do-it-yourself lines of electronic surveillance equipment.

Finally, we also operate a wholesale security monitoring business; Mace Central Station – or as we refer to it, Mace CS – which we entered in April of 2009 with the acquisition of our base operation, CSSS. As a point of reference, we also had an industrial vision specialty camera division known as Industrial Vision Sources, IVS, which we have recently sold this past October.

As I previously mentioned, and as we've disclosed in our recently filed 10Q and press release, the carwash segment is accounting for a discontinued operations, which means all of our line items in the income statement are essentially removed and placed in one line at the bottom of the income statement. And the same goes for our balance sheets. We, in essence, pull all the assets and liabilities out of the balance sheet line items, and they're resigned on – into line items, one on each side of the balance sheet; asset sold for sale and liabilities related to asset sold for sale. This allows our financial presentation to be more pure, discussion and reflection of our current security segment.

I will be covering our recent financial highlights. I will then introduce John, our chief executive officer who will make some comments in addition to mine. First, on the revenue side, revenue in our first quarter of 2012 were $3.4 million as compared to 3.6 million for the same period of last year. This is a decrease of about 162,000 or 4.5 percent.

I want to point out that we experienced this decline largely as a result of the absence of about $515,000 of sales from IBS in the prior year; again, our high-end digital and machine vision operation, which we sold in October. Exclusive of IBS, we would have had an increase in revenues of 353,000, or about 11.5 percent quarter over quarter last year.

We realized this significant increase in revenues in our Mace personal defense operation of 551,000, or 49 percent. We increased sales from 1.1 million last year in the first quarter to 1.7 million in the first quarter of this year. And we also had an increase over the fourth quarter last year in this division of about eight percent.

The first quarter of '12 or the first quarter of '11, drilling down a little bit. We saw a 44 percent increase in the sale of our aerosol products, a 34 percent increase in our wireless home security systems, and other non-aerosol product, and a 289 percent increase in our TG Guard systems.

We've worked hard, we've achieved this growth through increased penetration under current retailers, an increase focused on our international markets as well as our law enforcement sales, and our TG Guard products. We also realized an increase in our wholesale monitoring division of about $259,000, or 31 percent. This is partially a result of the March 2011 acquisition of the Command Center Inc., or TCCI, and partially as a result of internal growth.

Our professional and our consumer directed home and small business electronic surveillance division did experience reduction in sales of about 455,000. And this is due to several factors; continuing to struggle with the economy, direct sales by Asian manufacturers, we also have lost a large customer which was disclosed last year. And we've also focused on reducing sales in the more (costly) from a fulfillment standpoint and a services standpoint, professional line of business, and focusing on more lower dollar value, do-it-yourself type products.

With this change in revenues, our overall gross profit margin improved, from 35 percent in the first quarter of last year to 39 percent in the first quarter of 2012; a four percent increase. This improvement in our security segment margin is due to enhanced pricing, continued efforts to reduce cost in production and fulfillment, and a reduction in the sales of IBS, which provided a low profit margin. In the first quarter of '12, our personal defense operation remains very strong with a 45 percent margin, and our wholesale monitoring and our electronic surveillance operation, both come in at about a 34 percent margin.

From an SG&A, selling, general and administrative cost standpoint, we saw a decrease of $521,000 from the first quarter of 2011 to the first quarter of

2012; a 24 percent increase – or decrease rather. This is a result of management's continued efforts to reduce cost. Specifically, we've reduced excluding our wholesale monitoring company due to the acquisition and excluding carwashes, the rest of our security operations and corporate reduced headcount about 22 percent from the March 2011 point to correlate.

We also, as you know from prior calls, if you listened in, we sold the Texas warehouse in late 2011 which reduced some SG&A cost, and made it – made some other moves to reduce these costs including corporate reductions of about 93,000 or about 11 percent quarter over quarter. Our SG&A cost were partially offset by the acquisition of TCCI as I mentioned, and where we added about $69,000 of SG&A cost first quarter of last year versus first quarter of this year.

From an operating loss perspective, our loss from continuing operations for the first quarter was approximately $514,000, or one cent per share compared to a loss from continuing operations of 1.2 million last year, or eight cents per share. This reduction is a result of the factors I just mentioned, including the improvement in gross margins, the reduction in the SG&A cost, and we also saw about a 64,000 reduction in interest expense quarter over quarter.

Discontinued operations, again, which consist of two carwashes, they generated a loss of proximately $19,000 in the first quarter of 2012 versus $60,000 last year. Overall net loss for the company was 553,000 or one cent per share, compared to a loss of 1.3 million last year or eight cents per share.

I'm just going to review a few brief comments on the balance sheet and cash flow. From a balance sheet perspective, we maintained a low leverage ratio currently at about 5.8 percent. This is based on having debt of about $992,000 and equity of 17 million. That equity is about 29 cents per share.

We had a positive working capital of about 11.5 million at March 31st of '12, which similar, a little better than the working capital of 11.2 million at December. With respect to debt, all our mortgages are paid off with the February sale of an Arlington car wash. What remains is the debt related to the Merlin Partners, and some capitalized leases. I would like to mention that the debt is net of about $518,000, which is the value of conversion options in warrants related to the Merlin venture which are being (quartered) as part of equity.

Our cash and short-term investments at March 31st is at about 8.3 million, and we had total assets of 21.6 million. From a cash flow standpoint, we reduced inventory in the quarter by about $200,000. That was equally distributed between our personal defense operation and our electronics surveillance operation.

From a cash flow perspective, we used about $1 million of cash in operating activities. We generated $75,000 from investing activities, adapting a net of – receiving over 1.5 million net proceeds from the sale of the Arlington wash in February, less $1.4 million of cash invested in short-term securities, and we used about $59,000 of cash in financing an activity which related to routine payments on remaining debt. Going into 2011 – 2012 rather, we had generated a total of 51.3 million of annual carry forwards. And these carry forwards expire through 2031, and obviously will minimize any cash payment requirements into the future.

Before I turn the call over to John, I just wanted to mention a couple of items on our asset sales as an update. As I mentioned, last call, we had sold the IBS division in October and generated about 617,000 of cash and recorded a gain of 156,000. In this past quarter, we were able to generate another 100,000 from that sale by earning contingent consideration.

We sold the Texas warehouse in December and generated about 1.1 million of cash. And as I mentioned a few moments ago, we sold our Colonial Number One, our largest site in Arlington at the end of February, and generated about 1.6 million – or under 1.6 million of cash. As I mentioned, we have two carwashes remaining, which we're currently working on different strategies to sell those two remaining sites.

Again, as always, I like to thank everyone for supporting Mace and joining us at this point. And at this point, I'll turn the call over to John McCann, our chief executive officer. John?

John McCann: Thanks Greg, and thanks everybody for your participation. I'll really keep my comments brief. There's – we made some strides in the first quarter with regards to some of the sales effort when you look at – on a net basis without the IBS numbers, but there's a lot of work to do.

So, we're getting where we need to be, we're not there yet. So we're going to continue to focus on – especially our personal defense division and also the opportunities we have with security products. And I think we have a lot of opportunities with our Central Station business. So, I'm in the midst of working out some plans for the future, and some – and most of it is regarding growth opportunities along with the proper overhead reductions that we need to do to become profitable.

That was really it. I want to leave a lot of time if there's any questions of if there's any other comments that we folks wanted to make.

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

(Andrew Shapiro): Hi, good morning. Several questions; I'll ask a few, and then I'll get back into the question queue and let others on here – Greg, when is the loss of the large surveillance customer anniversary in your financial results?

Greg Krzemien: We're starting right about now, Andrew. You know, we had pretty strong sales with that customer through the first quarter of last year. So, you know, I'd say right about now.

(Andrew Shapiro): When you say right about now, can you just clarify? Because we're right near the end of May. Are you talking about the end of March quarter? Or are you talking about the middle of second quarter?

Greg Krzemien: Andrew, I don't have that in front of me. But I think it was closer to the end of the first quarter, and then they started tailing off. So, they have some sales through June, but it was, you know, less than what we would have saw on the first quarter of last year.

So, it was, you know, it wasn't an immediate type of reduction. It happened over about a three to four-month period. So, you know, I think – I think that – in this quarter.

(Andrew Shapiro): All right – all right …

John McCann: And (inaudible) the real fact Andrew, being in the third quarter, because there was some residual sales, you know, through the second quarter and then we'll see where that drop off is complete. You know …

(Andrew Shapiro): Right.

John McCann: … probably beginning of July-August period.

(Andrew Shapiro): OK. On the CSS, Central Station, there seems to be, according to your 10Q, no change between the monitored account number and the security dealer client numbers in your 10Q from your 10K. Is there seasonality or turn going on that prevented further growth being shown this past quarter? Or what's going on there in the number of accounts and the number of dealer clients?

John McCann: You know, I think with some of the change there that happens over at the Central Station, I think we've done a good job of not gaining right now, or not losing any clients. I feel now that some of the changes we've made in management responsibilities, we have forward-looking or customer-facing folks, and I think we'll see some growth in that side. As you know, in the security business, you're always worried about attrition.

And luckily, because of our hard work, we haven't seen a lot of attrition. Now, it's time to focus not only on the customers that we have, but on customers that we can show what we're capable of doing and bring that over to our side.

(Andrew Shapiro): OK. So, despite no growth in the account numbers from last quarter, which I understand the reasons for now, I noted that the revenues you described were up eight percent from last quarter. So, since there's no breakout of the CSS margins, I can't discern whether there was a price increase or other items that explain the revenue the growth. So, can you clarify the revenue growth from prior quarter; not prior year?

Greg Krzemien: You know, one of the things, Andrew, is we started selling last year a product called (Videofide), which is a video type product with motion sensor detection. And we also started selling that as equipment sales, so we had strong sales in the first quarter of about $21,000 from (Videofide**)** sales; which I don't have in front of me the number from December, but I know that the first quarter number was much stronger.

So, that was part of the increase, and I think part of the increase was, as well as just a little bit of increase on average revenue per account.

(Andrew Shapiro): OK. And as you – John, you mentioned you hired a business development person recently. When has, or will that person start, and what are the typical parameters for a selling cycle for you to expect to see tangible growth payback on this new hire or new hires?

John McCann: OK. I – she started – Laura started probably about a month ago, or six weeks. And my expectation is that hopefully, within a three-month cycle, if we're very fortunate. But within a six to nine-month cycle that we'll see some fruits from that acquisition.

And it's twofold because the customers we have are very, very important to us, so we're also reaching back out into your point on why no growth in numbers. We are trying to do – look at what we sell and how we sell our current customers, and see if we can be more efficient, which is a benefit to them and to us.

So – but honestly, Michael and his team have done a good job of upselling customers to make sure that they know we offer a wide variety of video solutions, and so we're going back to some of our older customers saying, you know, you might want to update, which is good for them and good for us into some video solutions, and also look at what systems they're on to see if we could upgrade those, which is a benefit to them and us and which helps in the overall revenue growth.

And with Laura, you know, my anticipation is – and expectation is that she's not only, you know, helping us and make sure we don't lose customers, but within the next nine months, I'd say adding customers on to that pipeline.

(Andrew Shapiro): OK. Let me back out in the question queue, but I have more questions, but in the case that there is anyone else waiting, and I don't want them to …

John McCann: Sure.

Operator: There are no further questions at this time. You're welcome to go ahead.

(Andrew Shapiro): … all right. So, regarding the car wash, your release to your 10Q mentioned that one of the two remaining carwashes is under – it sounded like it was under an agreement for sale. Can you clarify a little bit more? And what are the milestones and expected closing date parameters and payments that give you confidence that this deal will close timely?

John McCann: Well at the time, we're …

Greg Krzemien: Yes, we just …

John McCann: … just preparing the 10Q. We did have a signed contract. Unfortunately, post that period that has fallen through financing on their side when we expected the escrow payment didn't happen. So, we are back to the drawing board.

But the goal remains the same, to sell those remaining two carwashes as soon as possible. It's unfortunate that, you know, once the pay (board) was signed, we felt good the money would be transferred. But then when the money didn't happen, you know, the contract …

Greg Krzemien: … yes, it falls on the ground. Yes.

(Andrew Shapiro): Well, was that the owned – was that a deal on the …

John McCann: … that's the (only) site. The lead site, we're working on several strategies to extricate ourselves from the lead site.

(Andrew Shapiro): OK. You had a nice improvement in your inventory turns from last quarter. Is this reduced level sustainable, and is there further room for more improvement?

John McCann: The …

Greg Krzemien: Yes, I think – go ahead, John.

John McCann: … well, go ahead if you want.

Greg Krzemien: You know, I think, you know – and John could echo my points here. I think we've – you know, I think we've done a lot of efforts to reduce our purchasing on the electronics side. We definitely didn't launch (inaudible) more (just to find**)**. We're selling out the professional line and just restocking the do-it-yourself line which we're focusing on.

And on the personal defense side, you know, we've always kept very lean there. We basically manufacture days or assemble, like, the day – literally, days before shipment is required so we keep we get our minimum raw materials on – on – on hand. So, I – you know, I think – I think that as we continue to sell off the professional line, I think that would – will be even better. John?

John McCann: Yes, and I concur. I think what you – what you'll see is – is – is a different mix of inventory on a go forward basis in the future. You know, on the security products, I would put some strategy in place so we're just in time. And then on the personal defense side, we're making sure that, you know, we have the right products in stock at all times.

And then we're putting in the min/max protocols that you would like to see to make sure that we cannot lose opportunities, but at the same time not risk capital.

(Andrew Shapiro): OK. In personal defense sales, we're up 49 percent year-over-year. And a large portion of that was what type, or which aerosol defense products?

John McCann: It was really across the board, to be honest with you Andrew. There's from, you know, our Muzzle line to our regular line we've seen a nice increase. We made some tweaks to packaging, and our marketing, and our messaging, and I think that's helping us tremendously with some of the retailers. And then we're also working on being in an impulse area within the stores, because that also helps us with our – with our sell-through.

(Andrew Shapiro): So, you're doing better – you're doing better per location rather than having incremental new distribution arrangements or – or – or new locations right now? Is that – or are – or are you – are you (inaudible) …

John McCann: Well, (inaudible) below? Yes, the – the – the first goal, you know, just coming on board and being, like, lump number five was to solidify the relationships with the customers that we have, gain better access and placement to where we are in their location so we can show them the benefit of the product and the profitability that they can generate. Then at the same time, we're working hard for new distribution and new placement.

So, new placement and distribution, you know, you have to – you have to crawl before you're – you walk and run. But with guys that have had – or, you know, customers that have had good experiences, we're trying to enhance those experiences and listen to them and see what we can do differently.

So, we've done several things from making the display more effective, to doing power panels, to getting – trying to gain front-end placement of the products because we know it’s an impulse purchase. Therefore, you need to, you know, partner with your customers to make sure that they understand that there is a great benefit. But it has to be in front of the customer, and the customer then wants the product.

(Andrew Shapiro): OK. And there have been efforts before you joined – and I'm – and I'm certainly expecting and assuming you're going to strengthen these efforts just from your background. We were trying to get into some big boxes, or some new big accounts. Have we made any headway in – in – in, you know, initial testing or initial reach-ins for some of these larger accounts?

John McCann: We are – we are making headway, but instead it's a long process. So, I'm still cautiously optimistic, but we are making headway.

(Andrew Shapiro): OK. Is there any seasonality, or any unique law enforcement patterns or anything else that is attributable to the size of all the increase in your TG Guard systems? Or is this the –is this the new current sustainable pace, or is this like a surge?

John McCann: I think it's, three, it's focused, that we're getting out there in front of the right people to show the product; two, its event-driven, that as world events happen, that the awareness helps those raise it; and three, as we've tweaked the offer and tweaked the products to make sure that our customers understand, especially in that alley, or the law enforcement genre that they understand that we are the original guys, which I don't think that (inaudible) was for trade before.

So, on that one, on the sustainability, I'm cautiously optimistic again that that is very sustainable because our penetration in that field is very small today. So, we have a rapid opportunity for enhanced growth. But it's got to take a lot of hard work and a lot of, you know, knocking on doors to make it happen.

(Andrew Shapiro): OK. Do you guys know that the SG&A reduction was inclusive of $100,000 gain on additional collection of the contingent payment on IVS? Is that correct? So, it was both as a reduction in SG&A?

Greg Krzemien: Yes, that's where the SEC requires every quarter gains a loss on sale of asset. So …

(Andrew Shapiro): OK.

Greg Krzemien: … so, that – so, that's where we'd be.

(Andrew Shapiro): All right. Now last year, April was a time and a date for alert. You had to do goodwill impairment testing. As we're now past April 30th, is there any indication of further write-down in 2012 that we'd be subject to in this coming quarter?

Greg Krzemien: We're just going to start getting into that, Andrew. (Possibly), yes, as we – as we speak, we're starting to work on that. At this point, you know, we were hopeful that there won't be any, but we are going to be going through swap data protection and analysis, and you know, looking at some other factors that we consider on the market.

And so, you know, I – it's just a little bit too early for us to comment on that at this point.

(Andrew Shapiro): OK. So, you've got your burn rate reduced, but it's still running 75 to 125,000 a month, OK? And what are your options and plans that you can discuss to address this and get the company to break even and maybe, insight as to the timing of when we could look forward to that day we've been waiting for, for years now.

John McCann: Well, I can just address that. It's a little still too early to talk about all the efforts that we're doing, but we are very focused on it. One of them that I'm pretty close to finalizing will be rent reduction at several of the locations. So, that will help tremendously.

We will have – we will have a reduced rate in both Florida and Vermont, and we're waiting on a reduction from our facility out in California and Anaheim. And then, there are several other initiatives that we've undertaken for cost reduction.

(Andrew Shapiro): OK. You mentioned CAPEX of 150,000 to 250,000, I believe, in the 10Q for 2012 for technology improvements and the wholesale monitoring, and upgrading some manufacturing equipment in personal defense. Can you be any more specific if there's some big investments in here? Or are these run rates that are more maintenance run rates that we can expect going forward or – and will last for, you know, a cycle?

John McCann: Well, you know, I can get, like, Greg to comment when I'm done. But it's a little bit of both, Andrew. There is – there hasn't been some major capital improvements in the personal defense business, so there are some things that will have a longer-term payback and make us more effective and efficient on a – on a – on the processing and manufacturing side of our business there.

And then with the central, it is really – some of it is maintenance, but it's also making sure that our software and where we are and what we need to do with our customers is where it needs to be.

(Andrew Shapiro): All right. You have a sizable increase or allocation now in short-term investments; 1.4 million. What are these investments focused on, and what duration are they being tied into? Because before your time John and Greg will appreciate this, and I do not expect that's where the money is this time. But in predecessor administrations that they had to go up against and had issues with had this company's monies in hedge funds that were Ponzi schemes.

So, I don't expect that's the case because we've got the Ancora people in here, but just – can you summarize where this money is invested and what kind of duration it's locked in?

John McCann: Andrew, we appreciate the question. I'll have Greg answer it, but it's safe. It's safe because it can be with the market, but …

(Andrew Shapiro): Yes, I know.

John McCann: … Greg can elaborate.

(Andrew Shapiro): Greg?

(Greg Krzemien): Yes?

John McCann: I don't know if we lost Greg.

(Andrew Shapiro): I'll ask another question for you then.

John McCann: Right. (Inaudible).

(Andrew Shapiro): Advertising expense has been, for this last quarter, is about half of the previous year's period expense. And so, I just wanted to get a feel for whether the reduction was a result of divested product lines, or because your revenues are growing nicely that the reductions just more efficient ads spending on existing product lines.

John McCann: You know Andrew, it's really a combination. Because the IBS was – it was advertising-driven. We've taken some things until I'm more comfortable with how we're spending money to not do some web-driven advertising. So – but – and then, we've also experienced a nice experience in sales.

So in the future, it will be a more focused advertising than I've told all divisions that it makes the brand. We have families and divisions of products, but Mace is the brand because I think that's where the true equity lies, and making sure that across all of our business segmentations that the Mace brand is prominent.

(Andrew Shapiro): Right. OK, I'm holding on for the investment, where it's being allocated. But if not, I'd like to do that answer offline then.

John McCann: Yes, no we can definitely show you that. And I think it's also in our – in our forums. But if – hey Gregor – Greg and Steve, are you on the line?

Greg Krzemien: Yes, I'm just – I'm back in. Sorry gentlemen. We had a phone surge here, and we got kicked off so I dialed back in.

(Andrew Shapiro): Yes. So Greg, I had an outstanding question that we were waiting for on you. It was just asking where the 1.4 million of short-term investments in the – what kind of long-term or short-term duration – T-bills, corporate bonds – kind of, just general, where that money is.

Greg Krzemien: Sure. It's principally in some preferred stocks, municipal funds, and some mutual bond funds. It's, you know, all A+ rated. The duration, some of it is less than 12 months, so there are some that are about two and a half to three years out, you know, but it's all pretty, you know, liquid obviously, if we needed to move on it – so, it's, you know, we're trying to be very, very cautious and very, very safe in what we're investing.

(Andrew Shapiro): So, nothing locked up or invested in the manner that we once had a problem with?

Greg Krzemien: No, not at all – not at all. No.

(Andrew Shapiro): And speaking of that, did you ever get a response or reply from the trustee of the Ponzi situation as to if we will be getting any recovery?

Greg Krzemien: Yes. Again, the response was – and I did follow-up again – was that they were going to make all people up to at least 50 percent before they go to the people who got money out of those funds, which we did get 50 percent of our principal balance back. And it's just a decision that the trustee had made and the court approved, and you know, that's where we are at this point, unfortunately.

(Andrew Shapiro): OK. And so, there's no further expectation of any contingent asset or recovery?

Greg Krzemien: I'd say it's probably pretty remote at this point, (Andrew), since, you know, I would doubt if they're going to get more than 50 percent recovery as you can probably imagine.

(Andrew Shapiro): All right. And John, you've been on the – you've been on the job now here for five months. You've been – you've talked and just mentioned the focus is being centralized more on the brand, and that's building up the brand equity.

And the brand is an asset that is not on our balance sheet. It's an asset that is only, right now, generating a gross profit, and eventually pre-tax income from our current product lines. Have you developed thoughts or plans regarding areas in which we could monetize the brand, license the brand, create a very high margin, royalty-like cash flow stream that would add to our achievement of pre-tax income so we can start using up our sizable tax NOL?

John McCann: Yes sir. So I met with several major, large licensing companies to develop a strategy just for that. And I see that as a – as a great potential for the brand on a go forward basis.

(Andrew Shapiro): And do you have a feel for the milestones or timing of this process? You know, you've met with them. That – does that mean we then select one firm, do you …

John McCann: We're – yes, we're – it's still too early, but we're in the process of, you know, interviewing the different firms and seeing what they have to offer. And then, it's a long lead time cycle, you know, in order, you know, to get something done. But I am working very hard, and I've met with several from the largest and, you know, the contrary, to small unique ones and trying to be judicious. I don't want to give up every category to one licensor or – or – or representative if this opportunities in other ones.

And this also has to be strategic in the brand promise that, you know, that Mace's personal defense, home security, you know, when you think of Mace, you – you – you think of security. So with that, we just don't want to put the brand on everything.

(Andrew Shapiro): Right. OK. I have no further questions. Thank you very much.

John McCann: OK.

Operator: Again if you would like to ask a question, press star-one on your telephone keypad. We have no questions at this time, I turn the call back over to the presenters.

Steve Rolle: Thank you very much (Sally), and thank you everyone for joining us on our call this morning. John, do you have any closing remarks?

John McCann: No, not really. Just – we've got a lot of work to do, but we're excited to do it. So …

Steve Rolle: Thank you. Thanks everybody.

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

END