MACE SECURITY INTERNATIONAL INC.

Moderator: Sarah Din
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1:00 p.m. CT

Operator: Hello, and welcome to today's teleconference. My name is (Keisha), and I'll be your conference operator today. All lines have been placed on mute, and this event will be recorded for future playback.

There will be a Q&A session at the end of today's presentation. At that time, I'll instruct to you on how to ask a live audio question.

Welcome to the Mace 2010 Second Quarter Result Investor Conference Call.

At this time, I' like to turn the call over to Sarah Din.

Sarah Din: Thank you (Keisha). Welcome to Mace Security International Second Quarter Investor Conference Call. My name is Sarah Din, and I'm the MarCom Manager for Mace.

Also with us today for this call is Mace's Chief Executive Officer and President, Dennis Raefield, and Mace's Chief Financial Officer, Greg Krzemien. Today, Greg Krzemien will be discussing the financial results for the quarter, while Dennis Raefield will discuss the market trends, business conditions, and the Company's plans.

Now, before I turn the call over to Greg, there are some general housekeeping matters that we want to address.

Certain statements and information during this conference call will constitute forward-looking statements within the meaning of the Federal Private Securities Litigation Reform Act of 1995. When used during 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, limit of capital resources and the ability of management to effectively manage the business and integrate required businesses

Such factors could materially adversely affect Mace's financial performance. It could cause Mace's actual results for 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 Form 10-Q and 10-K.

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 mace.com through the Investor Relations section on the Web site With that, I would like to turn the call over to Greg Krzemien.

Greg Krzemien: Thank you, Sarah. Good afternoon. Good morning to those on the West Coast. And thanks again for joining us for our Second Quarter 2010 Investor Call.

I'm going to be discussing the results for the second quarter of 2010. I'll be comparing that to the results for same period last year, talk a little bit about the six months 2010 results and also refer to some sequential changes in financial information over the last couple of quarters.

Just a little bit in the way of background for those who may be new to the call. Mace currently operates in two active business segments, our security segment which is our main business segment, and within the security segment, we really have four operations. We have our electronic surveillance operations, which we sell to both professional line of equipment, mostly to dealers in our home and small business operations. Our second division, if you will, is industrial vision and video conferencing division.

We have our personal defense, which is our famous Mace Pepper Spray and some other personal defense-type products. And the fourth division, which we added last April is Mace CS, which is our wholesale monitoring station out in Anaheim, California.

Our second segment is our digital media marketing segment, which consists of Linkstar, our e-commerce division selling multi home or beauty-type aid products and health-related products; and PromoPath, which is our media marketing division of that digital media marketing segment.

As far as the financial statements and the numbers I am going to be discussing, I'll be mostly highlighting information from our continuing operations, which are those two active business segments. The car wash operations, which we continue to sell off and I'll be addressing those in one brief set of comments shortly. But the numbers I'm going to discuss do not include those operations.

Those in the financial statements are disclosed as discontinued operations, in the income statement and the assets and liabilities of those car washes are pulled out and segregated on two lines on the balance sheet; assets held for sale and liabilities related to assets held for sale.

Again, I'm going to cover the financial highlights and then Dennis will be following up with some operation color commentary, shall we say, to my financial comments. On the income statement, I'm going to discuss some key points on revenues, gross profits, our operating losses, our trends there, SG&A cost and EBITDA and then I'll make some additional comments on our cost reduction efforts.

I'll review a few key items on our balance sheet. And I'll make some comments on a few other key areas within our financial statements and disclosures.

Again, everything I'm going to be mentioning now is on continuing operation basis without the carwash. So, the first thing I want to make some comments on is our revenues. And based on the 10-Q, we just recently released, if we look at the revenues for the second quarter of 2010 versus the second quarter of 2009, there is about a $1.1 million decline or about 15 percent and the majority of that decline is in the digital media marketing segment which declined about 972,000 and the security segment being off by about 100,000.

If I look at the sequential quarters, the second quarter ending June versus the first quarter ending March of this year, overall, we're down about $858,000 in revenues or about 12 percent. The good news is our security segments which is our main segment that is up about two percent, quarter-to-quarter with our digital media marketing segment being down $945,000 or about a 35 percent dip from the first quarter.

Also, I want to mention that if we look at six months versus six months, we are down about 9 percent with the security segment basically being flat on a six-month basis between 2010 and 2009.

A couple of comments on revenues, and again Dennis is going to add some more color to it. On a professional defense – or personal defense rather, our pepper spray operation – if you look at our second quarter of '010 versus 2009, pretty much flat down slightly in the second quarter of '010 versus the first quarter. I want to note a couple of things. First of all, that operation does have somewhat of a bell curve to it. We typically do lighten up a little bit in the second quarter and we usually have a pretty strong third quarter and fourth quarter.

We anticipate the same this year. As far as a couple of other things to point out, we do have a backlog right now on our TG guard systems that we've put in prisons and embassies. We had some backup on a key component to that due to a supplier issue. That supplier is back online, and we started shipping this month. And we'll catch up on those orders, which is over $100,000 backlog, which will add to some strength in the third quarter here.

We also are a little bit light on the – our OEM products that we sell usually to other companies who manufacture personal defense things for the law enforcement industry.

Law enforcement is a part of our business that had been down for the last – couple of quarters. So, we (are still) a little bit on our aerosol side than on our OEM products.

But as I mentioned, you know, we are still looking for a very strong second half. Doing very well with the sale of our new Pink Mace that came out last year, selling a lot of wireless systems through our personal defense segment and some other products such as our Jogger Mace and even our Bear spray have been doing real well for us in the last quarter.

So I just want to mention too that our margins are staying very strong in the segment in the 43 to 45 percent range depending on mix. So, you know, no real concerns though with the personal defense.

On the electronic surveillance side of the business, as I mentioned, we are still seeing some slowness due to contractor – construction being still slow. But we are seeing improvements there and again, Dennis will speak a little bit more on that.

We definitely had a good uptick in our industrial vision operations in the past quarter and, you know, we continue to work on some new products and markets and customers, which again, I'll let to – Dennis to provide some more color on that.

As far as Mace CS goes, our monitoring station, we have seen some slight growth in the second quarter. We spent, I guess, this first year that we owned it, the first six months of our ownership, been really doing a lot of rehabbing of that operation, putting in the latest monitoring computer systems and billing systems. And in the second six months of our ownership, we spent a lot of time on truing up our customer base.

We overhauled some of the customers that we acquired that weren't good-paying customers. We're replacing them with new customers. We have a customer base of about 38,000 end-users right now to about 300-plus dealers that are our customers. And you know, we saw some good growth. Just looking at April, May, and June; each month we put in over 700 new end-users or about almost 2,300 end-users just in that one quarter. So, we're excited about that and the additional revenues that that will provide as we go forward here.

Again, Dennis will provide a little bit more color on that segment.

A couple of comments in the digital media marketing, continues to definitely be a challenge for us. You know, we are surviving it. We're working through issues that continually hit us. This quarter, we were challenged with a couple of key things that we're working through.

One of the first things is credit card processors took a dislike to one of our main product stream, our Extreme Brite White teeth whitening is that across the board – across the financial institution issue in the United States here, so we basically lost our processing halfway through the quarter. And we are actually resorting to some European processing, which as we speak is currently getting put up in place, and we're going back and catching up on some billing going to be able to continue to bill the Extreme Brite White going forward here.

Another major thing that happened this past quarter that really impacts us was regulations in the ability to pass on customer information and credit card information regarding customers, which was the way we generated a significant amount of cross-sell revenue in the past.

Our cross-sell revenue is another way to maximize the revenue on the TPA or the customer acquisition cost for new member into the Linkstar system. And we basically had to halt processing across our revenue for a few months until we came up with a methodology with our partner that was above board and completely legal to go after cross-sell revenue without passing credit card information.

So, we relaunched that here recently in August here. So, again, a couple of key things that hit us this past quarter that we're working our way through, you know, and we'll continue to try and run Linkstar as profitably as possible as we continue to, you know, look for potential buyers for that as we've disclosed in our 10-Q. Again, I'll let Dennis talk a little bit more about that division in his comments.

The next thing I want to spend a few minutes on is gross profit. Just to highlight a couple of key statistics, our gross profit second quarter this year versus the second quarter of last year is down to a couple of percentage points from about 29.8 to about 26.9 percent. That's all on the digital media marketing side.

Our gross profit margins on the security side are staying in that 29 percent range. But again, on the digital media marketing with the difficulties we have had, we've dropped from about a 31 percent margin to about a 21 percent margin. Mainly, the impact of heavy CPA costs trying to generate new members into the system and having billing issues, and cross-sell revenue issues not being able to maximize the revenue against those new members.

I mentioned last time we presented and I'll just kind of highlight here in our cost to consult for digital media, about 75 percent of our costs are the cost of acquiring members about 13 percent, give or take is product cost. Freight cost is about seven percent and the remainder five percent is just general warehouse packing, supplies, utilities, other warehousing type costs. So, very heavily geared towards that new member acquisition cost.

On the margin side for security, as I mention, the second quarter this year versus last quarter is very steady at about 29 percent. We did see it go up a little bit in the third and fourth quarter of last year to around 31 percent to back down about 29 percent in the first quarter and hover around 29 percent in the second quarter.

You know, I would like to mention that obviously we have the four operations in there; the profession and small business electronics, the industrial vision or personal defense and our monitoring station. So, as the mix of those revenues change by month and by quarter a little bit, you know, those margins do vary by a percent or two.

So, I just want to kind of mention that, you know, we're comfortable with that range of profit margins, but it does bound to around a point here or there as again mixed changes and as we introduce some new products, and look at cost structures.

Next thing I'm going to spend a couple of minutes on is operating loss. I just want to highlight some good news here that our operating loss continues to come down as we work hard on cost side and on increasing revenues even despite the issues that we've had in our digital media marketing segment.

And I'm going to quote some numbers here which are our operating loss after taking out the big line items on our income statement for the impairment charges and the arbitration award, which again was 4.5 million reported in the first quarter and 3.6 million of impairment charges recorded here in the second quarter

Also, last year in the second quarter, we had about $1.3 million of impairment charges. But if I strip out those impairment charges on that award, our operating loss is at about $1.4 million for the second quarter of this year compared to about 2 – almost $2.1 million for the second quarter of last year.

So, you know, that's a real nice reduction, it's about 30 percent. And we're going to continue to work to drive that down. If you look at the sequential quarters, again stripping out the Paolino award and the impairment charges that we went from about $2 million in the first quarter, about $1.4 million in the second quarter, we drove that down to about 578,000 – about 29 percent.

So, again, we're – you know, continue to work on that and Dennis will speak a little bit more about some of our efforts there.

SG&A costs, just a couple of points – and again, these SG&A costs are without the carwash, it's because that's a discontinued operation. But we drove those down also. If I look at the second quarter of last year, SG&A was about 4 million. This year in the second quarter, it's about 2.9 million. So it's down about 1.1 million or 28 percent. And from the first quarter of this year to the second, we're down about 645,000 or about 18 percent from 3.5 to about 2.9 million.

I could also look at that after what I'd consider are our notable items. And the big things that are notable items are the costs relating to the Paolino legal cost or severance cost and our acquisition reversal that I disclosed in the 10-Q. And I'll mention those with just a little bit more detail here.

But for the current quarter, our reported SG&A was about 2.9 million. After these unusual items, it was about 2.7. So, it's not a huge change because we got items coming from both directions. But, even a lower SG&A number without the unusual item. And again, in this quarter, we had $208,000 worth of legal expenses relating to the Paolino matter, naturally two pieces at 73,000 for the costs that we've incurred and another 135,000 for an additional award granted by the arbitrators to Mr. Paolino as we disclosed in our 10-Q.

We have about $160,000 worth of severances in this second quarter related to about five individuals who have severance arrangements that we terminated this quarter. A couple of those were heavy managers, vice president, in fact three of them were vice presidents, so the severance number is fairly large related to those.

And going the other way as I mentioned was about 276,000 of acquisition reversal cost. And that basically was in first accounting we accrued from the contingency that we might have had to pay additional consideration based on reoccurring monthly revenues that were retained after the first year of operations of our monitoring station. And as I mentioned, yes, there were a lot of customers that were required to be weeded out, who are not paying their bills, and basically that one's one of the main drivers in our reoccurring monthly revenue contingency payment not having to be made.

So, that 276,000 was actually a reduction in purchase price and under current accounting, is actually a reduction of our operating expenses.

Next thing I'll spend a few moments on is headcount reduction. I mentioned last quarter around the middle of 2008 when Mr. Raefield took over, not including car washes, we had about 215 people – and really I should say 215 people includes me putting in as if CSSS was on board at that time. And currently right now with CSSS on board, we had 130 people. So, that's about a 40 percent reduction in headcount.

So, we basically have 60 percent of the workforce, you know, we had in towards the middle end of 2008. So, you know, we did a lot there. Within that headcount reduction was an additional headcount reduction of about 17 people in the first half of this year and the average annual salary of those reductions were about $95,000.

So, you know, we really had a significant amount of higher level people that we – that we terminated in this first half of 2010. Again the total that we reduced since 2008 was about 85 people. The next thing I want to spend a few moments on is talking about a couple of key items within our balance sheet.

And a couple of things that I want to notice on the inventory level, we did do a real good job in the last couple of quarters reducing inventory. However, this last quarter of June, those reductions aren't as great. The three months ending March, we reduced about $567,000 of inventory.

I don't remember the exact number for last year, but I know the inventory came down. I think it was over $1 million last year, again, just working to keep as tight as possible selling off some of the older electronic inventory and managing the Linkstar inventory.

This year, for this quarter ending June, we are still down slightly from the March balance sheet to the June balance sheet. And it is really kind of offsetting – we're up about $100,000 in our Linkstar operation. We did introduce two new products – or rather introduced one new product and reintroduced a new product very recently, our pet vitamins which we kicked off earlier in the year. We have some vendor supply issues there which we cured and started receiving those in at the end of the June quarter. And our (pro-lash) is a product is the new product that we've introduced recently here.

And just some of the billing issues we've have had in Linkstar in the second quarter, inventory grew there about 100,000. And our inventory actually in the security segment went down by just a little bit less than 100,000.

So, we are showing a little bit slower turnovers because of that. But nothing that's really alarming us. Assets held for sale are down about $1.3 million on the beginning of the year are large because we did sell off two Lubbock sites in the six months ending June. Our goodwill is down from 7.9 million to 4.8 million. And that was directly related to a write-off we took this quarter of about 3.1 million on our Linkstar, Goodwill.

Our intangible – other intangible assets are down about 763,000.

Again, this quarter, we wrote down some other intangibles related to our Linkstar operation by about $275,000 and the remainder or about $487,000 relates to intangible writes down in the MSP and some of our other operations. And accounts payable and accrued expenses, that liability is up to about 3.1 million from the beginning of the year and the largest part of that is the accrual of the 4.5 million of Paolino award.

So, again, I just want to kind of highlight some of those bigger changes on the balance sheet.

Two comments on our car washes, we basically continue to work to sell off the car washes. We are down to about five car washes as we speak. We have one carwash left in Lubbock, Texas and we have four car washes left in Arlington, Texas.

Our revenues are, you know, dwindling down there. We're now generating for the three months ending June only about $1.5 million of revenues. What's good to see is that our total decrease in volumes for three months versus last year ay six months versus last year six months is exactly equal to the amount of cars at the sites we sold were generating. So, we are retaining the business that we have from the existing car washes.

As I mentioned, we have five car washes left. Of those five car washes, two are under agreement right now. One of the carwash under agreement is our large site in Arlington will be referred to as Colonial Number One. That is under agreement dated June 1, sale price of about $2.1 million, net book value of about $2 million. Right now, that deal has gone through with the initial 45-day inspection period, which would have ended the middle of July.

At that point, the buyer put a hard $30,000 in escrow – should pay the escrow in hard for $30,000. They recently just put off the first of three $10,000 escrow payments for the 30-day extension period. So, we now have $40,000 up hard on that side in escrow deposits.

The agreement gave them the right to ask us to pull the tanks as they furthered the work with their bankers and following up on their new diligence. We did start that process about a week ago and that'll be wrapped up in a couple of weeks.

They saw the opportunity to put up two more $10,000 deposits for a two 30-day extension period on top of the extensions they've asked for. So, if you're looking at all those extension periods and inspection periods and closing periods, the latest that that car wash technically can close would be the beginning of December, around December 1 or November 30th. So, you know, continue to work with the buyer, things are progressing well, so we continue to be, you know, optimistic on that site closing.

The other site under agreement is our large site in Lubbock, Texas known as Crystal Falls that's under agreement dated May 24th for $1.7 million. That site we have (write) down in the past $1.7 million. Again, that site has gone through its 45-day feasibility of process, the buyer did put up the initial $25,000 escrow deposit that is hard and not refundable.

They recently put up another $10,000 part escrow deposit so now we're at $35,000 and they're continuing to work through their due diligence and they hedged up two more 30-day feasibility or I should say extension period. They can ask for a $10,000 of hard escrow money each.

So, depending on the way that site rolls out, that site would require to be closed in November or if you go into early January should they decide to also want the tanks pulled which they would have to pull – would do at their own cost but that provides them a little bit more time under the agreement. And again, that deal is moving along well.

Other than those two deals, again there's three. There will be three sites left all in the Arlington/Fort Worth area with a current book value of about $1.2 million left on those and about $100,000 of debt. So, in addition to these two sites which after debt would clear about a million three on Colonial One and about $900,000 on the Lubbock site. There's again three other sites that should clear up the debt about $1 million if we can get a net book value for those sites.

So that's (inaudible) update on the car washes. Another asset that I mentioned in our 10-Q that we’ve put up for sale is our Texas building. Dennis and I had done an analysis. We recently have not been using all that space as we've said on other calls. We moved most of the office people to Florida and we really have – we're using probably about five percent to 10 percent of the office space there. We've started looking for a possible tenant and then looking at this space we're using also in the warehouse for product, we just decided that we are inefficiently using that using, lease rates are very attractive right now and we decided to put that building up for sale and we do have it listed. You know, we would hope to clear it somewhere in the million and one or a million two range of cash after we would pay off a mortgage that we have on that building.

But as far as our debt structure goes, we're down to about $2.7 million in debt as of June, about $1.9 million related to the car washes, additionally there is the mortgage on the Texas building which is about a 580,000 and we have about $140,000 of (capwise) leases, most of which we inherited on our monitoring station company.

As far as our treasury stock goes, we have not purchased any treasury stock in the last quarter. We did purchase about $350,000 last year and about another $178,000 in this first quarter. And when you combine that with the purchase we did in 2007, 2008, we've spent about $775,000 to date on our stock repurchasing plan.

Last thing I want to make a comment on is our net operating losses. In disclosing our 10-K with about $35.6 million of annual carry forwards not expiring until a different period, but the ultimate was 2029. I think the only amount expiring in $35 million in the next year is about 900,000 and with the losses that are tax deductible in the first six months about $9.4 million additional and it (won't) carry forward would accrued our NOL situation so we would have just a little over $45 million of NOLs as of June 30th, again expiring towards 2030 ultimately.

With that, I'm going to stop talking and I'm going to turn the call over to Dennis. Dennis?

Dennis Raefield: Thank you, Greg.

Welcome everyone to our Q2 call. I appreciate you joining us today and I would just like to get into some overall comments about where we're going. While the absolute numbers in the 10-Q with all those impairment charges are painful, I think it's a little less obvious that in the result that there's some excellent news here and I'd like to focus on that so we'll make sure that we understand it.

Number one, our security segment which has been the focus of the company since we changed management to move towards security and away from diverting energies that we had, that the security segment revenue continues to grow, the security segment is getting healthier every month and I am not pleased with it yet, but it is an improvement. We are going in the right direction.

I would like to note, as Greg I think mentioned it, our EBITDA loss for Mace in this quarter is the lowest level since 2006. So, we have not been at this level since 2006 before so it's a very, very low number and even that includes with the huge loss that we took in this last quarter from Linkstar. We took about a $260,000 hit in Linkstar. In this last quarter, we're still at our lowest level. Our SG&A cost, so it's the lowest level also since 2006 even though we acquired Linkstar and Central Station, we're still lowest number we've ever been since 2006.

Our security segment, which when I went back and looked at the numbers since 2007, really lost an average of $300,000 per quarter to $1 million a quarter in the security segment. In Q2, we lost $177,000 EBITDA in Q2 and that includes some huge severance costs. And if we take out those severance costs, the security segment lost only $49,000 on a pro forma basis. So, we are very, very close to breakeven for those of you that are wondering when it's going to happen. The security segment is very close and I'm pleased that we've done so many things here to get the cost level down. It is close as I said.

In spite of the positive news, I was not happy with our growth in Q2 because we should be recovering in my mind at a faster rate. I shook up the security segment management. I eliminated the president and two vice president positions, VP of operation and VP of marketing, and I am now the acting president for that division. We needed to change the direction we were growing but it's such a slow rate, I felt we should grow more.

So, I took over the presidency and I'm pleased to announce that I hired Mr. Erik Vorbeck. He's originally from Northern Video and (Tri-Ad) and he's our new national sales manager. So, he started in – at the middle of June and our numbers continue to improve for July over June and June over May so we are growing again.

And in addition, I promoted George Martinez. He was our head of – vice president of product development. He's now vice president and general manager and he handles all the back office functions as well as continuing to handle production development. So, it took significant cost out of the division and hopefully put in the right team to increase sales. At the same time, we finished our video products upgrade so we now have first-class video products. And better than that, we have very, very competitive prices and a very strong sales team. So I believe now that that division has no excuses except to begin to perform as we've intended it to do.

Mace Personal Defense, as Greg mentioned, our famous Mace Pepper Spray did struggle in Q2 with supply chain issues and it held down the top line. It's also as he said, a bell curve, so it tends to be the weakest quarter, but we expect Q3 to be strong and we expect our August numbers to be very strong as he's broken – our president, John Goodrich, has broken through the supply chain issues.

Our Mace Central Station is steadily profitable and it's growing slowly. Central stations do not grow rapidly but it is growing and it's growing at a time when most central stations are still shrinking from the recession. We are taking market share. It's because we have a good management team, we are highly automated now and we have cleaned out the accounts that weren’t paying so we have all well-performing and good accounts receivable.

The remaining car washes that we have, even though they’re in discontinued operations, were profitable in Q2. I intend to keep them profitable and continue to size them. They've been loss generators as we wound down, but now we've got them sized correctly so they did generate profit in Q2. It's the first time in three quarters that they've been profitable. So, we are making sure that those stay profitable or the remaining ones will closed down that aren’t under contract.

Our major challenge remains to be Linkstar and we took a 35 percent drop as Greg mentioned in Q2 over Q1. We had been recovering and these credit card issues, the change in the finance laws enacted by Congress in February have had some devastating tolls on the way we process. It has nothing to do with the desire for our product, it has to do with the consumer's ability to pay for the product originally and now it's the ability of credit card processors who do not want to handle this kind of business.

They have gotten very conservative, these processors, and in the middle of Q2, they completely, as Greg said, cut off one product line, just one of our product lines, but it happened to be the one that was growing the most which was the tooth whitener. They didn't do it because of anything that Mace did, they did it because they did not like tooth whitening space. There were too many people with fraud and over-promising claims and Mace because our Linkstar division because we run it very conservatively, had an excellent product and had no problems and we have tremendous demand for it but we cannot get a credit card processor to process the payment for an entire month.

We then offshore to European banks who tried it for a month and then also shut down and we are now – have re-opened and signed up a new processor but at the price of paying 10 percent of the top line for credit card processing. Luckily this business has a high gross profit margins. We can absorb that 10 percent. but this tells you that this business model is changing significantly and it needs to fit into a company that has regular and traditional products and that this business is up for sale and we will sell it if we get enough money to make a good business decision for Mace overall.

The business has recovered. We have got the processors in place. We have got the supply chain issues re-opened and so I'm cautiously positive but I was – we were required to write down $3.4 million, 3.1 of goodwill on this – mostly goodwill – to get it in line with the future expectations because we're running it as a business to make a profit and at a smaller level of revenue until things improve.

So, as I look into the future, I would tell you that Linkstar remains a formidable issue. We seem to see new things that pop up on a regular basis in this credit card space. I think any of you that have credit card statements and have looked at it, you see down at the bottom of your statement and now it says if you make a minimum payment, you will not pay off your credit card for 40 years and people have started to react to that and we have seen that struggle of people to make what I would call optional purchases which many of the things we sell are optional and they have slowed down significantly.

We do see some improvement. Ron Gdovic, our president of that division has been very aggressive in finding new sources or new ways of doing revenue and we do have some hot new products, both the pet vitamins and we just released last week and have seen tremendous demand for (Pro-Lash), a natural lash lengthener that competes with Latisse that doesn’t require a doctor's prescription to get it and it's quite effective. So, that's – enough on Linkstar. It is an issue we're watching tightly. It is a dangerous area but I think we've got it under control.

The security segment continues to grow and I expect now with new sales management and the new products that are released to raise the top line more than the two to five percent per month we've been experiencing, we need to get this thing across that finish line and into profitability, we're very close. We should have strong growth in MSP and the Mace Personal Defense in the balance of the year. The Central Station will be steady and continue to be profitable.

So, I have – I'm the most optimistic about the future that I have been in the last year and we continue to look for merger partners because our biggest cost now is the cost of being a public company and it is well over $1 million a year of our SG&A. It is the cost of being on NASDAQ. And so we need to combine with another company that wants to be on NASDAQ. We have looked at merger partners. It doesn’t do us any good to buy somebody who's in trouble or to merge with somebody who's in trouble.

So, we continue to look and there are several underway and we will report them as we get near them. We are conserving our cash and we'd be required to pay out on the Paolino settlement. There's no new updates on that. We don't expect it to be very quickly but we – there's a potential for us to have to pay it out and we're conserving our cash to be able to pay that settlement and continue to operate should we not prevail.

As I said, I'm the most – in closing, I'm the most optimistic about the future that I have been for a year and we do have most of these issues behind us and the focus on security segment is working. So, with that, I'd like to open up to questions and see if I can answer any of them for you or if Greg can.

(Keisha)?

Operator: At this time, if you would like to ask a question, press star on on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Andrew Shapiro.

Andrew Shapiro: Hi, several questions. I'll ask a few and back out into the question queue. Can you update us on the status and the scope of any recovery on the hedge fund Ponzi scheme that Mr. Paolino's regime had the company invest in?

Greg Krzemien: Dennis, I'll take this one. Andrew, I think basically the news is similar to what I've mentioned in May on our call. You know, I did attend a conference in May where the receiver did go through their efforts in trying to find where Mr. Nadel spent the money and recover as much as possible. He could not give us an estimate at that time of what we could expect as recovery. They did put out in the mail in, I believe it was June. The forms to fill out to claim your losses which our loss as they defined it was $1 million of principle. We were given a couple of months to do those forms. I filled it out in 24 hours and got it back in registered mail. So, we're on the clock now.

Again, the last estimate – he was afraid to give estimates but he said on similar cases, you know, maybe, you know, you can be expect to get 20 to 30 percent recovery maybe more but, you know, being conservative, he quoted that number. So, but again, that would probably take about a year out from now which is the best guess.

Andrew Shapiro: But they've acknowledged your claim – the company's claim is a million now?

Greg Krzemien: That is correct. And I filed the forms and they acknowledged receiving the form and they do agree with that number. Yes.

Andrew Shapiro: All right. Clearing through some of this Paolino matters, when is the next scheduled hearing in the federal court with respect to the company's motion to vacate the arbitration award?

Dennis Raefield: I'll answer it the best that I can. There is no date yet set for oral arguments which is the next time that they will be meeting in front of the judge. There was a response just put in on written arguments and now they're waiting for the judge to schedule oral arguments. That's the latest information I have. There was no decision made on the motion to confirm yet. We have not – there are two motions. Mr. Paolino submitted in state court a motion to confirm. That was not decided on and we're awaiting for that judge's decision. And the motion to vacate is waiting for an appointment date for oral arguments.

Andrew Shapiro: OK. In terms of the sale of the discontinued ops on the car washes, I wanted to get a handle – you had mentioned the remaining five washes, two under contract, OK, and Greg gave a nice update as to when or how far these parties could extend to and where they stood in hard deposits and all. Of the three remaining washes, you mentioned that the cash flow generation on those was positive and thus there wouldn't be a need necessarily to shutter them ahead of time and sell them as real state but I wanted to get your feel for whether the profitability of these remaining units was just warm weather seasonality and that as we move into winter, we're going to find them bleeding and burning cash again or if we are right sized for the lower volume of winter?

Dennis Raefield: That's a good question. No, we're not right sized for the low – this business – actually I haven't found that there's a good season in Texas – no offense to any Texas listeners. But the first two weeks of June, we took – of July, we took a heavy beating that our car washes were virtually revenue less because of rain. So, it seems to be while there is a good season, I haven't found it yet.

It is right sized in that – we've taken out some of the overhead as we shrank it. I can get into trouble but I've already told that them that if they started to lose money, I'll shut them. I'm making it a pure business decision and there's no emotion. There's no waiting for the next season. I do expect that, you know, in the fourth quarter that we will probably see them stop generating positive cash flow and I have several other cost cutting actions I can – as we get closer specially if we could sell the two big ones, certainly we will be completely out of Lubbock, Texas, so the regional manager is there now and we'll go with that car – last car wash.

So, there's a lot of other cost to kick in. We've – Greg has done a good job of – it went back and negotiated our lease of car wash and has reduced our rent expense every month by $5,000 a month and did a good job of negotiating with the landlord and just said we can't afford to pay this, we're not making money at that site. So, we've done some pretty interesting things to get there whether or not – I'm just running it as a complete financial decision. If it doesn't make money, I can't afford to bleed at this stage.

Andrew Shapiro: Do you have interested parties looking at any of the three sites?

Dennis Raefield: Not the three sites, I have none. I have the buyer of Colonial One, the potential buyer is the original seller to Mace of all the Colonial car washes. So, he expressed an interest after he closed on Colonial One to buy all the rest because it's got his name on it and but that's really just a soft discussion. I don't have any other offers.

Andrew Shapiro: OK. I'll go back up in the queue but I have many more questions about the two remaining divisions and a few other items. So, please come back for me.

Dennis Raefield: OK. Thank you, Andrew. (Keisha) do you have any other questions?

Operator: We no longer have questions in the queue. Again, to ask a question, press star 1.

Dennis Raefield: OK. So, Mr. Shapiro can come back on.

Operator: OK, and we have a follow-up from Andrew Shapiro.

Andrew Shapiro: OK. I'll ask a few more here. Inventory terms, Greg mentioned how they had, you know, they had worsened a bit, explained a little bit but it still didn't clear it up for me and I'm trying to understand where our risk is. When I looked at your financial statement, your inventory pretty much did not drop and yet cost of goods sold dropped substantially in the Linkstar area.

And so, you said that there was a sequential decline in the inventory in the security side so that means turns improved nicely on that area but where in and what ways are we taking risk and are we, you know, we sit in a lot of colon cleanser, et cetera, in the Linkstar side that we have a potential balance sheet risk with on the inventory?

Dennis Raefield: OK. First of all… Go ahead, Greg. You want to answer?

Greg Krzemien: Yes, I mean, I was going to say I really don't think we have a lot of risk there. I mean we buy the stuff right. What do you mean by that, Greg? I mean, we buy it and we sell with about an 85 percent profit margin. You know, we have sold out some excess during the past and have gotten of it easy. You know, there's other avenues that management is already looking at should we not feel the move Extreme Brite White to the normal CPA route of continuity programs. You know, we can go and sell under different methods just sell it out right as the product went out of continuity program.

Again, we but the stuff so right that we can get out of it with minimum loss. So, I really just look at that as a temporary issue and I really don't think we have a significant amount of loss there…

Andrew Shapiro: Am I correct, it is the backup in the inventory terms is exclusively Linkstar and then within Linkstar is it primarily the teeth brightener?

Greg Krzemien: It's a little bit of everything, Andrew, there's not really a heavy concentration of anything.

Andrew Shapiro: OK. Just Linkstar?

Greg Krzemien: But you know, I won't say that in the past there was a heavy concentration. The prior managers and owners, you know, would buy, you know, significant amount of product so some of the lines like Purity and some of the Eternal Minerals, we have not really purchased a lot of that product in the last year or so, we're just running it down and we ran it down pretty significantly. The newer products like the Brite White and colon cleansers and that, you know, we're really kind of buying it as we need it as we should be. So, I really don't think there's any significant…

Andrew Shapiro: But am I correct it's all Linkstar where the…

Greg Krzemien: Yes. I don't think anything has been building. A little bit about, you know, a little bit of inventory start coming at the end of the quarter so the new products that Dennis has mentioned but there's no significant building and our reserves again on the inventory in electronics side or in my mind conservative for, you know, the older products that have been replaced out.

Andrew Shapiro: OK and since Linkstar was the main problem for the quarter, a few questions on that first year. Historically you introduced new products each quarter and during the process of migrating Linkstar for sale, are you still introducing new products and is it just the eyelash product the latest products that are selling well for Linkstar are what?

Dennis Raefield: OK. I'll answer that, Greg. We are doing one product per quarter. Of course, Ron spent his whole part of the last quarter trying to get billing and collection – get credit card processors. So, we certainly slowed down. We're still releasing at least one product per quarter. We did release pet vitamins. It was a trial release. It was so successful, we cleaned out all the inventory so we re-released it in Q2 but we didn’t have any more of it. If you saw our sales by product line, pet vitamin is completely cleaned out and we had to re-stock it.

So, we re-launched the pet vitamins now. We've launched the (Pro-Lash) and the (Pro-Lash) is going to be – looks like it's going to be as big of winner as the Purity Mineral Makeup. It's got horrendous demand. In fact, we're dampening the demand to make sure we have a P in our P&L for August because we cannot take this kind of losses, you know, with our cash flow situation.

So, we're actually dampening the demand for it. But I'm going to continue to release one product per quarter. There is a pipeline. There are three or four more coming. I don't want to really say what they are yet but we continue – I don't think we're going to be doing two per quarter as we were before because we're trying to manage it as a business as we – and you know, we have to make it look stable and it has to be stable for us to be able to sell it. If it's swinging violently in different directions, it adds on a certainty to any potential buyer. So, we have a different goal now which is to run it as a real business and I think that's going to hold us to one release per quarter of new product.

Andrew Shapiro: Thanks. Now, to understand this risk, why – you had U.S. processors say they're not going to handle the teeth whitener for various reasons but then you found European processors but why did they then subsequently dropped the product line as well?

Dennis Raefield: Same reason. I think they were concerned about other – about fraud and poor result. They were getting charged back some other vendors and it soured them on the market for teeth whitener got a bad – got attacked by these edgy and fraudulent people. And so, it just scared them as well and they pulled away from it. It was a French bank and, you know, they ran it for a month and then they just shut it off and said we can't – we don't want to take the risk.

I think, you know, all of these credit card processors talk to each other and they all have the same issues. We may – we haven't sold any Extreme Brite White in the month of August. We're not selling it at all. We're catching up on our old billings and delivering product to people but until the marketplace re-accepts it, even though we have great demand, I just can't be in the risk of having somebody cut us off after we've shipped product out.

Andrew Shapiro: What do you do with the continuity customers of who want to have product the following month?

Dennis Raefield: We can ship them product because they're existing customers. It's the new customers that we cannot chase after. There's no longer any CPA – after we have a customer, we can continue to build…

Andrew Shapiro: So the processor will do that? They'll do an existing customer?

Dennis Raefield: Well, we've done it in different ways. We manually build last month and we've got – we have a processor who's willing to do them. The risk is in the new people and the charge back. Once they are on board as customer, I mean our charge back rate never exceeded one percent so we didn't have a problem. We just got lumped into an industry where there was 10 percent charge backs. So, it's a – we have a process for existing customer. So, we'll continue to sell those existing customers and if it doesn't settle out, they will consume the rest of our inventory.

Andrew Shapiro: What prevents (Pro-Lash) or one of these other pet vitamins from having a similar processor risk or problem?

Dennis Raefield: I think it's a fair question. I think the reason – and I think I mentioned this on my last call, the reason that Extreme Brite White or all tooth whiteners got into trouble was that all the credit card processors went through a convention in Las Vegas and someone from the FBI stood out and spoken. The topic of his conversation was fraud with extreme – with tooth whiteners in general and they all went back to their companies and said let's pull out of this business. It was triggered by a single speech that started that snowball. And I think you're right. If someone gets up and makes a speech about pet vitamins, we're in the same shape.

Andrew Shapiro: OK.

Dennis Raefield: I think there's not as much – you know, something's are edgier than other. Teeth whitener was an easy way for people to ship something that may or may not have been effective. I think something like (Pro-Lash) has to work. You know, if you're not going to buy it if it doesn’t extend your lashes.

Andrew Shapiro: Well, then, let's get to the bottom line about this division. OK. You know, asset sales are burning furniture to heat the house, so it's not really possible to predict breakeven for Mace here before Linkstar's basically sold. What is the status of the selling process? You've announced you retain bankers, they've prepared to book, you have multiple parties looking at the asset and what's the potential timing or milestones or deadlines you have in the sale process?

Dennis Raefield: Well, you know, it's all under NDA so I don't want to give too much information but I would say that we have multiple companies looking at the – you know, we've been through the first phase and the second phase. We have multiple companies that are looking, you know, more than three parties are looking at buying the company. We don't have a hard offer yet that we can accept or reject. A lot of them are influenced by what's happening this month. They want to see stability. It's hard to buy a company if you can't see stability.

So, I think we're bringing stability to it and we've changed our methodology of how we run Linkstar. First of all, I need to make a profit because I don't have the cash to burn on it and secondly I need to make a profit so that I – it can make sense to a buyer and, you know, the price is certainly we took to write down because we believe that's closer to where the purchase price will be than the old number and it was goodwill so…

Andrew Shapiro: I don't write down – I don't care about my opinion, you know, you still got too much goodwill here and the issue is you auction it or you shut it because if it burns you a million dollars over the next year and right now you're running a million dollar a year burn rate, that is not OK.

Dennis Raefield: Right. Well, you got to remember this was a perfect storm, Andrew. You know me, I don't run things that lose money for very long. This one hit a major, you know, tsunami in two different directions and if it can't make money, it won't continue to run and the employees and the management know that and that's why they are running to make a profit, you know, or breakeven our makeup profit every month for two reasons. One is that I can't afford to fund them. I don't have the cash. So, they will make money or not. But, you know, rest assured I'm not going to run this thing and let it lose money.

It is difficult to control because we, you know, that we lose money first on every new customer because of the methodology and then we get it back. And then this time we were cheated out of the get-it-back portion by the credit card processors and then it's not gone yet, it's in the state of limbo and we will see if we can recover it and maybe reverse some of the losses.

Andrew Shapiro: Right.

Dennis Raefield: But I'm running it as a business and it needs to – for whatever crazy way this business is designed, it needs to run as a business. We can't afford at this stage to run on any loss business.

Andrew Shapiro: OK. Last question before I back out into the queue but I do have questions on security and other things. Can you break out – can Greg break out by segment the security and the Linkstar and corporate depreciation and amortization so we could properly calculate EBITDA?

Greg Krzemien: I'll tell you what, Andrew. If you want to break out in the queue and I'll take about two or three minutes to get those numbers. OK?

Andrew Shapiro: OK. I'll step out of the queue but come back to me. I have other questions on security…

Greg Krzemien: I'd be happy to get you those numbers.

Dennis Raefield: (Keisha), do we have any other question in queue?

Operator: Again, to ask a question, press star 1. And there are no questions.

Dennis Raefield: OK. Mr. Shapiro can come back on. Does he has to press star 1?

Operator: Yes. He just popped back up. Mr. Shapiro?

Andrew Shapiro: All right. I'm going to ask questions here through the duration because I'm not sure who else is left here. So, talking about security products. OK?

Dennis Raefield: Yes.

Andrew Shapiro: Which of the four security segment is the most promising from a profitability standpoint here?

Dennis Raefield: Well, as I've said before, I have leaned – the focus on the what we call the consumer division, the home and small business division. This is the online portion. It has the highest gross profit margin, Q2 over Q1, it grew 116 percent, excuse me, 16 percent higher than it was in Q1. It is the one, forgive me, the most focused. It isn't the biggest division yet. The biggest is still the professional selling to dealers.

And the one that is growing the most rapidly is the IVS, the industrial video segment. It's up 19 percent quarter-over-quarter but it is of course the lowest margin business we have. It tends to run about 14, 15 percent. The manager there has a done a great job. He's raised his gross margin to 17 percent and it's one of the reasons, Andrew, you see on the security segment, it looked like it dropped a half of percent in gross margin quarter-over-quarter. It's really the mix. The margins are holding or increasing but he had such a booming quarter that he dragged down the average.

So, I would say that, you know, personal defense has always been the flattest performer and we are continuing to try ways to make that pepper spray business grow. That's the toughest job I have. The professional division did not grow in the second quarter over the first but that's why I changed management. I think now we'll see that grow and I've continue to – I'm continuing the bet that the home and small business are direct, DIY business, do-it-yourself, will be the growth engine for the company but it's still, you know, the third largest of the group.

So, if I have to keep all of these balls juggling and all moving in the right direction, the central station grows, all central stations grow slowly and we have added accounts by taking market share but I can rest on any one of these. I need them all cylinders pumping at the same time.

Andrew Shapiro: Right and of course we'd like to have you spend all your time on that rather than having to put out fires at Linkstar and sell car washes.

Dennis Raefield: Well, I'm spending one week a month on the road, one week a month in Florida and, you know, but I would like to be out of the Linkstar portion of the business because it is – even selling it takes time. Everything takes time.

Andrew Shapiro: Personal defense revenues have declined. There was some discussions by Greg but can you elaborate a little bit more about that so, you know, the handle on its prospects for rebounding?

Dennis Raefield: Sure. If you look at it, you're, you know, the quarter-over-quarter is flat from last year. We did a million and one to five and June of '09 and we did a million and one to nine in June…

Andrew Shapiro: I'm looking at it sequentially for the last… then dropping.

Dennis Raefield: No, it dropped from last quarter and the middle month – it did the same last year. First quarter was bigger than second quarter and our third and fourth quarters are the two strong ones. So, we expect it to come up. It is a seasonal business. So, it's actually – as much as I would like to go pound somebody on the head, it is tracking in the same way the bell curve tracks.

Andrew Shapiro: OK.

Dennis Raefield: Which is the – I think it will be OK. I'm still – it's still tepid. You know, we all – all of us have invested in Mace, invested in the pepper spray business, you know, came on because it seems like a growth engine and it seems to grow at five or six percent in makes profit. It's steady but it doesn't double in size.

Andrew Shapiro: Right. Have you – where does access control products which you had mentioned before was like a number one new product grower? Does that go into one division or is that all across a few divisions?

Dennis Raefield: No, all into – well, it actually fits in the home and small business. We have a do-it-yourself version of it and the main business is in the professional.

Andrew Shapiro: OK.

Dennis Raefield: And just to answer the question you haven't asked yet, I'm not satisfied. It was one of the reasons I made a change in management. I'm not satisfied with the penetration. We are selling it. We've been selling it to our biggest customers but not our broad, sorry, top three or four customers are buying it but the rest of the pyramid has not adopted it mainly because I think it's just a training issue with the sale force and the sale force hasn't been focusing on it.

Andrew Shapiro: On CSSS, how many net new clients are coming to CSSS? Do you kind of have that metric and are you at the point of beginning to provide that metric in terms of drops, news, and net new clients?

Dennis Raefield: I know that in May and June, it was over – the net was over 500, I think it was 700 one month, and five-something the other. New customers, Greg, I think, has that.

Greg Krzemien: Yes. I think April was like 778, May was 797 and June was a little over 700. It was almost 2,300 new end-users in the second quarter.

The beginning of the year, January, was a net 1,000, February was about – a little under 80, about 78, and March was about 15. I mean it was just nominal so it just kind of goes up and down but so far, through the six months ending June, we're about – a little over 3,400 new end users and again, 2,300 of those were in the second quarter so it's kind of building some momentum.

Andrew Shapiro: What’s the remaining on the CSSS purchase price that could be additionally expensed or is the expensing on the contingencies now all done on the CSSS purchase?

Greg Krzemien: Yes, I mean everything is booked. I mean, the contingencies were booked as part of the purchase price so there will be no expensing but we do have still about $1 million of purchase price exposure towards the end of the first quarter '11 and into the second quarter of '11. So the general holdback due in April of '11 of $500,000 and we have two phone-related contingencies that still hang out and probably will go into that period also, totaling about $500,000. But those are part of the purchase price and have been accrued at the time of acquisition.

Andrew Shapiro: OK, so it's now only a potential cash outlay, no more expensing….

Greg Krzemien: Correct.

Andrew Shapiro: And potential cash outlay won't be paid until Q1 and Q2 of next year?

Greg Krzemien: That's our guess. That's correct.

Andrew Shapiro: OK. New products in the works for security and personal defense? What do you got happening – you had a lot of past new products and I want to know the status kind of those products that were introduced over the last two quarters but then, what are the new products that are in the pipeline further?

Dennis Raefield: OK, personal defense has one new product. Where they've reformulated and repackaged as you know, our hottest seller is the Mace Pink which is basically a color change but it is a Pink product for ladies' purses. It's been an excellent source of new business.

The new – our new real product is what they call a key chain product and it's a small shortened version of the Mace canister that actually clips with a hole on your keychain. We have done a pen version, and now this one is even shorter and smaller so that you can carry it on your keychain and that has had good success.

We've actually had a revitalization because of a lot of this activity and with Bears. And our Bear spray is now popped onto the list as our number three product in the last week's report which is for July. We saw the Bear spray moved up to number three. It's never been on the list so there's a significant amount of that, we've been trying to capitalize on it and we will be having – we just – we will be on TV with a special report on – there is a reality TV show coming out where people are going to be walking in the forest looking and – we are about to sign the final legal releases, we don't want them to go looking for a bear and causing trouble but they're going to be carrying Mace Bear Spray on this reality into the wilderness for two weeks and they are making a TV series on it.

So we are getting a lot more exposure on that end of the business for pepper spray.

We have two new products in the works that I can't discuss yet that have been there – coming out of the pipeline very slowly but there are two new ones that are coming in addition to the keychain Mace.

Andrew Shapiro: Yes.

Dennis Raefield: On the professional side, ten days ago, we released a complete new line of digital video recorders and cameras, completely separated the consumer – as you know, part of the dilemma we've had is that in prior management, combined the same products, sold some direct and sold some through dealers and prepped the dealers. Now, we have a complete separation of the line and we have released it and the price point is we are now able to list our street price on Mace.com and it's one of the lowest prices on the market.

So, our – we attracted two high powered product development people from GE when General Electric sold off their security division and we attracted them and they have been able to get us the sourcing. So I think we're going to see in the next quarter, our gross profit margins rising on the professional side so we have a better price and a better profit margin structure and I think you're going to see that coming up as well.

So as I said, no excuses, the product line is there. On the consumer side, we are introducing some less – kind of edged security thing such as portable GPS that you carry in your pocket that you can connect to the central station; I think I've talked about it previously. It's now ready to come out and – let's see, what else do you not know about from the last call?

One more product for our internet retailers. We have an internet wholesaler who is selling our mainline product and really hurting our direct Mace.com business so now, we have isolated him to his own product line and he will not have the Mace product line. He will have a specific product that is just for internet retailers.

Andrew Shapiro: What about the products that you – that we introduced with great fanfare six months ago from the Sabra Fence to other automated items?

Dennis Raefield: Well, most of the ones that we introduced, some new DVRs have sold quite well. We introduced a low-cost DVR, we introduced a high-end one. Those are doing OK; those are fueling some of our growth. Sabra Fence hasn’t been as exciting as I wanted it to be, I think it's – we are changing our go-to-market strategy, we are going to hire individual manufacturers rep, our dealers were a little bit too low on the food chain to use Sabra Fence.

We have sold a couple of systems, again, to our top few dealers and we don’t have enough of those dealers yet which is one of the reasons that I'm making the change in sales management.

So Sabra Fence and Access Control haven't been as exciting as I expected.

Andrew Shapiro: OK. What's the progress here on licensing? It's something I've been harping on for now over – almost two years.

Dennis Raefield: Almost two years.

Andrew Shapiro: About the Mace brand name and you know, we've heard about an attempted bullet-proof vest and padlock company…

Dennis Raefield: Yes.

Andrew Shapiro: Other products, but we really haven't heard of any execution.

Dennis Raefield: No, we haven't had any execution, we haven't had – we haven't had any interest either. I follow them up, I approached two licensing companies to – and they both wanted about $20,000 of our cash to do the licensing to take us on retainer to do licensing, and so I said "No, thanks."

I have not been successful in finding what you, I, and I think many shareholders believe should be a licensing opportunity. I have failed to find any one that is as interested as we are. So I don’t have any progress to report on that.

And if you've got another licensing contact company, I would love to talk to them.

Andrew Shapiro: What is the status of the NASDAQ delisting process which according to the disclosure, expires September 20? Are there any steps planned to deter or to avoid delisting or to prevent serious illiquidity listing issues?

Dennis Raefield: Greg, do you want to answer that or do you want me to?

Greg Krzemien: You can take it, Dennis.

Dennis Raefield: Thanks a lot.

At September, well, the things we've learned so far, first of all, the board is considering other options before September 20 but we have also – are in preliminary discussions, we see that there is – the NASDAQ will consider a workout plan and not force an immediate delisting, we don’t have final confirmation on that but we have retained someone who has worked on these before and says that you can submit a plan to them and many times, they will give you an additional extension because ...

Andrew Shapiro: Might I suggest that if you're going to – if one of the methods is a reverse stock split and all that, they usually like to have those plans being in execution forms ahead of time. They don't want you to all of a sudden, upon the deadline, show up with that plan.

Dennis Raefield: I agree. I agree. We have already been advised of that and the Board is meeting this week to talk about that option again. That has been an option on the table and we haven't got a conclusion of what to do and we do know that information, Andrew, that you should start if beforehand…

Andrew Shapiro: Yes.

Dennis Raefield: Not start it when…

Andrew Shapiro: It's only a month away right now.

Dennis Raefield: Yes, sir.

Andrew Shapiro: What is the plan for the Texas location activities after you sell the building?

Dennis Raefield: Well, I'm planning to stay in Texas in a smaller location. We are in 44,000 square feet of which a fourth is offices in which we use none of the offices, virtually none and we have figured out that when we finish the retirement of the old inherited inventory which we have been selling off as rapidly as possible, we will be able to live in about 25,000 feet and the lease price for buildings right now is significantly down so we will actually improve our operating cost in this market place if we get a 25,000 for a building with no offices.

So Texas is an excellent location, while it's remote from our sales staff, it is really very close to DFW and we get a one-day delivery to almost all of the United States versus Florida if that was your question.

Andrew Shapiro: Now, you aren't going to be doing this move to cut your cost though until you can get a buyer. What are the prospects and the interest on your parcel for a buyer?

Dennis Raefield: The interest has been good. We just list – go ahead, Greg, you want to answer that?

Greg Krzemien: Yes. I mean, we just literally listed it – I signed the agreement about two weeks ago and I think they were blowing it out the end of last week. They are very encouraged, I mean, it's a firm that does a lot of work in Dallas and a lot of work on that is the neighborhood up around the airport, they think our building is a prime piece of property. It is very nice, it shows very nice, it's large and it has the crane, it has good outside access. We have done some work recently on the dock area in the roof and good office space.

So our broker is very encouraged and you know, I think he would be cautiously – very much cautious with it if he thought it was a (dog). He is very excited about it and you know, he thinks it's something that he could hopefully move within three to six months.

Andrew Shapiro: Yes. While I have you, Greg. There's only about two more items and I still need those EBITDA that ...

Greg Krzemien: I have those now, can't wait to give them to you, Andrew.

Andrew Shapiro: Sure.

Greg Krzemien: On the issue of three months and then six months, OK, three months ending June…

Andrew Shapiro: Yes.

Greg Krzemien: Is that OK, or did you just need six months?

Andrew Shapiro: Three months ending June, and if you give me six months…

Greg Krzemien: Three months ending June, MSP, the total MSP company is 92 which is electronic and (the IBS) that is 92,000, personal defense (so Vermont) is 13,000.

Andrew Shapiro: Can you just break it down by your two business segments?

Greg Krzemien: I'm sorry. Sure.

Our security segment is 151,000.

Andrew Shapiro: OK.

Greg Krzemien: Our digital media marketing is 57,000.

Andrew Shapiro: Yes.

Greg Krzemien: In corporate, it's 6,000.

Andrew Shapiro: Six, and that is for Q2, right?

Greg Krzemien: So it should give you to 14 – correct, and for the six months ending June, 297 for security, 113 for digital media, and 13 for corporate.

Andrew Shapiro: Great. Accrued. Other accrued expenses dropped by 347,000 during the quarter, a sizable drop. Was this a bunch of items or a major item and was it a payment or an add back in the income?

Greg Krzemien: Yes. I mean it's just payments, you know, we accrue various things there from insurances, the taxes…

Andrew Shapiro: It was a bunch of…

Greg Krzemien: Items that just aren't billed for yet. So it's just a lot of little normal activity.

Andrew Shapiro: Fine, and then let's move on. You spend 178,000 in CapEx during Q2, what did you spend that kind of money on?

Greg Krzemien: The bulk of that was in the computer areas. As I mentioned, we have upgraded a lot of the items in the digital media marketing segment. We put a new phone system in and we also moved all our servers out of Texas to our secured room at Anaheim.

Andrew Shapiro: You are saying we almost put in $200,000 of CapEx into Linkstar?

Dennis Raefield: No, no

Greg Krzemien: No, I'm sorry, not Linkstar, I'm sorry. CSSS, I apologize.

Andrew Shapiro: OK.

Greg Krzemien: CSSS. I don't want to give you a heart attack, Andrew.

CSSS, CSSS would be the investment in the new phone system and into some of the technologies as well as moving the whole company – computer, servers, and other hardware from Texas over to Anaheim where we had a good secured data room with talent that could watch it on a daily basis and we upgraded that equipment…,

Andrew Shapiro: Well, it makes sense….

Greg Krzemien: And there are some other stuff in there but that is the bulk of it.

Andrew Shapiro: The CSSS investment makes a lot of sense.

Greg Krzemien: Yes, I'm sorry.

Andrew Shapiro: That's all the questions I have. I only encourage the company to get Linkstar out of there especially as long as it's burning cash.

Greg Krzemien: Thank you, Andrew.

Dennis Raefield: We agree, Andrew.

Operator: Again, to ask a question, press star one.

And there are no further questions.

Dennis Raefield: OK, well, thank you very much for all of you for attending and we will be back here in Q3 and I'll be working hard to get this – to flip this security division from red to black and that is my goal and I am working very hard on it.

Our whole team is, and they have done a great job of getting this far and thank you very much for your loyalty and support.

Greg Krzemien: I think Sarah has some closing comments. Sarah?

Sarah Din: Yes, I do. Thank you, Greg.

I would like to thank everyone for their attendance and participation at today's conference. I also want to mention that a digital recording of this conference will be available two hours from now until August 31. The recording can be accessed by dialing 800-642-1687 and entering the conference ID which is 941-96317.

All of these details are also listed on our Web site at corp.mace.com. If there are any further questions, please don't hesitate to call me. I can be reached at 925-478-4524 or you can e-mail me at sdin@mace.com.

Thank you.

Greg Krzemien: Thank you, Sarah.

Dennis Raefield: Thank you all.

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

END