Mace Security International Inc.

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

Operator: Welcome to the Mace 2010 third quarter results investor conference call. At this time, I would like to turn the call over to Sarah Din.

Sarah Din: Thank you, Christa.

Welcome to Mace Security International third quarter investor conference call. My name is Sarah Din and I'm the MarCom Manager for Mace. Also with us today for this call is Mace's Chief Executive Officer and President, Dennis Raefield, and Mace's Chief Financial Officer, Greg Krzemien. Today Greg Krzemien will be discussing the financial results for the quarter and Dennis Raefield will discuss the market trends, business conditions, and the Company's plans. Now, before I turn the call over to Greg, there are some general housekeeping matters that we want to address. Certain statements and information during this conversation 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 word or phrases like 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 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 include its registration statements, its periodic reports on forms 10-Q and form 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 website. With that, I would like to now turn the call over to Greg.

Greg Krzemien: Thank you, Sarah. Good afternoon to those of you on the East Coast, good morning to those of you on the West Coast and thank you very much for joining our third quarter 2010 investor call. I will be covering the results for the third quarter of 2010. I will be making some comparisons to last year's results for the same periods, three and nine months ending September and also be making some comments on sequential quarters in 2010. In way of some background for those who may be new to one of our calls, we currently at Mace function in one active segment, that being the security segment. We have also discontinued operations of two other segments, those being our car wash segment and our digital media marketing segment, which I will make some brief comments on in a little while.

As far as our securities segment goes, we operate in four operating units or distinct divisions. We have our electronic surveillance equipment operations, where we sell both professional and home and small business lines of electronic surveillance equipment. We have our industrial vision and conferencing call equipment, a Company called IBS. We have our personal defense operation, our famous aerosol pepper spray Company, and we also have our wholesale security monitoring Company, Mace CSSS, which we acquired in April of 2009. As I mentioned and as I disclosed in our 10-K, again, the digital media marketing and the car wash segments are counted for as discontinued operations in the 10-K that we recently filed, 10-Q that we recently filed. So in that accounting, in essence, in the income statement all of the operations, the revenues and all of the expenses of the digital media marketing segment and the car wash segment are pulled out of the line items and rest in one line item on the bottom of the income statement, so you got a pure picture of the Company's operations from a security segment standpoint.

Additionally, on the balance sheet the assets and the related liabilities of those discontinued operations are pulled out of the balance sheet line items that are for sale and they're moved up to assets held for sale and liabilities related to assets held for sale. As to the ongoing security segment, I'm going to cover again some financial highlights. Dennis will follow-up with some more discussion and add some more color to those operational highlights that I cover. First, I would like to talk a little bit about revenues. Our revenues, again up for the security operations, which is where these comments will be centered, we've seen nice progressive sequential growth this year. If you may remember, at the beginning of the year our first quarter was soft in the securities segment, with a little under $4.3 million of revenues.

And we went up to $4.353 million in the second quarter, that was about an $86,000 or 2% growth. And for the most recent quarter, the September quarter, we were up another $374,000 to a little over $4.7 million or about 8%, 8.5% growth for the September quarter. So we're pleased that sequentially we're seeing improvements as we go through the year here. So we've got nine months versus nine months last year, it is relatively flat in the $13.3 million to $13.4 million range. So we're basically treading with last year, but with the softness at the beginning of the year, we're showing some nice sequential growth. A couple of comments on each of our security segments on the revenue side. Again on the personal defense, our famous aerosol spray division, we're really happy with the growth there. From a standpoint comparing the third quarter of this year to the third quarter of last year, we're up about $280,000 or 2.3% in sales.

And just looking sequentially from the second to the third quarter this year, we're up from a little over $1.1 million to about $1.5 million, which is a nice $390,000 increase or about 35%, just in the second to the third quarter. So we're just really pleased with the growth we've seen there in the last couple of months. Sustaining a nice margin of about 45%, 46% in that division. Our sales are very strong in the pink products that we've released, especially very hot-selling item these day, anything pink. Our bear spray has been selling very well. Wireless systems, our Jogger Mace or Mace guns, just doing very well. Large increases in our sporting goods sales and our large retailer sales. We also picked up a new large retailer recently, Pep Boys, to add to Auto Zone, one of our other large auto retailers. So we're just really pleased with the progress that we've made in that division.

Mace security products, our electronic surveillance, there we've seen some growth from the first to the second quarter from a little over $2.2 million to about $2.4 million in sales and the second quarter into the third quarter we've stayed at about $2.4 million. So we're staying consistent there, but really encouraged with some recent things we've been seeing. We're struggling there with somewhat of the economy yet. Construction is starting to get a little bit stronger. We're starting to see some positive signs from that. I'll let Dennis will make some more comments regarding that as far as our new products and our marketing efforts in that area. As far as our wholesale monitoring Company, Mace CS, we're really pretty pleased with what we've been able to accomplish there.

If you remember, and as I mentioned a few minutes ago, we acquired that in April of '09, so the first part of our period of ownership, basically to the end of '09, we spent a lot of time improving the systems, not only the operating systems, but also the financial systems. Really took a hard look at the personnel and restructured the operations from that standpoint. We brought in Morgan Hertel, a noted individual in the industry, and we made a lot of improvements. In 2010 we started looking for growth. Our new acquisitions, our new end users increased by a little over 3.5 or 3500 customers in the first nine months of 2010. So we went from about 38,000 end users to a little over 42,000 end users at the end of September. So that is about a 9% growth. Our revenues, unfortunately, at this point have stayed somewhat flat.

A lot of that is by the fact of generating some of these new customers, we've gotten rid of some old customers, but generating the new dealers and end user customers, we've granted some incentives in the way of some free services for a couple of months or deep discounts to compensate for their cost of conversion and to attract them into our Company. So we are looking forward to starting to see that monetizing its actual revenue dollar growth in the near future here. A lot of focus on remote video monitoring, selling extra services to our customers, looking towards personal GPS's. So we're just excited about that business and Dennis will be making some additional comments there. From an EBITDA standpoint, we're very pleased with what we've been able to accomplish there. Coming into 2010 we had EBITDA of about $20,000 in the first quarter, up to $45,000 in the second quarter, and around $80,000 in the third quarter. So we're very happy with the progressive growth that we've been able to see there.

Talk about gross profits, again, for a moment here. We're sustaining good gross profit in the security segment for this recent quarter ending September. We're at about 31%. We're at about 29% in the second quarter and in the first quarter. So we're growing a little bit there in gross profit. Just working on new product sales, trying to get better profits there, reduced discounts. Just trying to do all the right things to improve the profit margins. From an operating loss perspective, we're narrowing that gap sequentially. I'm going to read some stats here and these are on a, I'm going to call them a normalizing basis. When you look at our operating statement, operating losses include the arbitration award settlement, as well as noncash impairment charges. So if I take those impairment charges out and I take out the arbitration award, our loss for the first quarter would have been a little over $1.7 million. That came down about $1.1 million in the second quarter and about $848,000 in the third quarter.

So every quarter we're reducing that operating loss and as we continue to improve sales and cut our costs, we are encouraged to continue to look for that to decrease. A couple of comments on SG&A expenses. Again, we've seen improvements here. On the actual reported basis, our SG&A was about $2.8 million in the first quarter, $2.2 million in the second quarter and $2.173 million in the third quarter. Again, and that's without the discontinued operations, so it is basically the security segment and the corporate operations. And in there are some unusual expenses for the year. For the nine months ending September we had about $315,000 of notable items in there, about

$269,000 of legal expenses for the arbitration matter with the ex-CEO, about $224,000 in the nine months ending September for severance costs from additional reductions we've done.

We had a reverse expense of about $276,000 for a positive resolution to some contingencies and the purchase price of the monitoring station last year and about $47,000 of miscellaneous items. So I just want to kind of highlight some of those expenses. In the same period last year, we had about $300,000 in the nine months ending '09 for arbitration, legal costs, about 52 for severances, about 60 for the Vermont TPA matter, about $280,000 of acquisition-related costs for acquiring CSSS, and about $300,000 of just miscellaneous expenses from the final costs related to immigration matter last year and some other minor costs. So that is kind of a picture of our SG&A. As I mentioned for the current quarter, our SG&A was about $2.173 million, about $763,000 was related to corporate and about $1.4 million was related to the actual security operations.

Couple of comments on headcount reductions that I usually quote. Last year we -- or I should say 2008 we actually started making reductions. At that point we had about 215 personnel, excluding the car washes, and right now, again, excluding the car washes, we're down to about 123 personnel, but that still would include the digital media marketing segment. So the change is about a 43% reduction in personnel in that roughly two-year period. Next I may make a couple comments on our segments to just follow-up a little bit of what I said on the SG&A. We will look at the operating losses for the last quarter, which were about $4.9 million. In there included the, again, impairment charges of about $3.7 million and that includes everything including discontinued operations. So in there the operating loss from the security segment was about $78,000, corporate was about $870, again before notable items and the loss of discontinued was about $3.9 million, but again that included about $3.7 million of noncash impairment charges.

So backing out noncash impairment charges, our operating losses would have been about 78 again in security, about 770 in corporate and about $300,000 in the discontinued operations. From a depreciation standpoint, we have about $130,000 of depreciation in the security in a quarter, just minor about $7,000 in corporate in a quarter and the discontinued operations had about $55,000 of depreciation in the quarter. Our CapEx for the year has been pretty minimal. We spent about $345,000 this year, about 320 was in security, about 11 was in corporate and about $13,000 in discontinued operations. So most of the investment has definitely been in the area of the security operations. A couple comments on discontinued operations. We cover couple of points on the car washes, the status of where we are with them. We basically have at this point five car washes remaining.

Three of those are under agreements of sale. Two other ones we're in discussions with some people on them. On the three that are under agreements for sale, our large site in the Arlington area, we refer to as Colono number one, it is our largest site there, that is under agreement for $2.1 million. That is extended with a closing date at this point of November 28th. The buyer has another extension option to December 28th. Basically, $60,000 of escrow deposits have been put up on that site that are nonrefundable. And at that point, the only thing we're waiting there is final clearance on our tank removals that were done a couple of months ago. We're waiting for the final clearance later from the state, which we hope to have shortly. And that is really the only last thing to allow that site to close.

So we're hopeful that that will be closing within the next couple of weeks to months. The next one is our smaller site in that same Dallas, Arlington market. We refer to it as our Colono number eight, it is just a small lube. It is self service facility. We have an agreement of sale on that with a scheduled closing date of December 6th. That site is selling for $340,000. We have on that site some debt, about $74,000 worth. So we look to clear proceeds on that of about $225,000, give or take, after closing expenses. On the Colono number one site, I should have mentioned we have about $775,000 of debt on that $2.1 million sale price. And then the third site we have under agreement is our large and final site in Lubbock, Texas, refer to it as Crystal Falls. That site is -- has about $55,000 of money put up against as nonrefundable deposits and that is -- had been slighted to have been closed as far as the sale. The buyer had the option to ask the Company permission to remove the tanks, the fuel tanks, which he has asked to do that, and has started that process.

So as soon as those tanks are pulled and cleared, the deal will be closing. We anticipate that will happen in January at this point based on the normal time it takes to pull tanks and get the clearance. As I mentioned there are two more sites remaining, a small site in the Arlington area and one over in Fort Worth that is a leased site. And as I mentioned, we have some active discussions on those. The leased site is on the books for minimum dollars, about $60,000. We would be looking to really have someone take over that lease and make some small consideration payments on that to us. And the other site, our Colono number three site, is on the books for about $750,000 of value. So the last two sites that we have to finalize in the whole car wash segment. As to the digital media marketing division, as I disclosed in the 10-Q and in our press release, we signed an agreement, a stocked sale agreement on November 11th, last Thursday, for $1.1 million, which is in essence the value of the tangible net assets.

And we're looking to close on that acquisition on Monday. So that is proceeding along and we're continuing to look to try and completely exit that business. The last asset we have for sale is our Texas warehouse building that we listed for sale in August. That is on the books for about $1.6 million. It has about $560,000 worth of mortgage debt against it. We have that listed for about $2 million. We think that is a reasonable price. We may have to back off a little bit on that. We have had some good activity. We've had about six, seven serious showings on it. So we're encouraged that we will be able to move that, but we have nothing signed or nothing in the near-term future, in the next month or so, but hopefully we will be able to move that in the earlier part of 2011.

A couple of balance sheet comments. At September we had about $4.9 million of cash. A couple of days ago when I measured it, we were right about $2.4 million of cash and short-term investments. Obviously the major part of that decrease was making the first payment on the settlement with our ex-CEO, which we paid $2.3 million on that a couple of weeks ago. Our debt at this point is at about $2.4 million and our working capital as of September was at $8 million. NOL carry-forwards. With the losses for the first nine months and what is deductible on those losses, we estimate our NOL carry-forwards at about $46 million. The first expiration on that is in 2018 and it is a small layer that first year and they would go 20 years into 2030. I guess at this point I would like to turn the call back over to Mr. Raefield for further comments. Dennis?

Dennis Raefield: Good morning, everyone. Thank you very much, Greg, for giving us the detail. I would like to say that I think there was a fantastic amount of good news in what we're doing. We have much more good news than bad news, which is a reflection of the direction the Company has taken. I'm quite upbeat about our performance and our surviving through this recession and I think you can hear it in the numbers. . What Greg reported, our Q3 over Q2, it is our second quarter of improvement in top-line and it was 9% Q3 over Q2. 8.5 I think Greg reported. In addition to that, which we have not reported, our October sales just in our Mace security products division grew 30% in one month. So I think we're starting to see that the changes we've made in our direction for the Mace security products, which was always our laggard, are starting to take effect.

In addition I think Greg mentioned our gross margins are up another 1% quarter over quarter. We have done some much better sourcing on the Mace security products side. Again, as my focus has been on this one, that has drained our profitability to get it to carry its own weight. We are up 3% year-over-year and, as he mentioned, our net operating loss is the lowest that it has ever been. And it was under $1 million for net operating loss under several measures, including some impairments and not including it for Q3. So a big improvement. Not good enough. Not close enough to break-even, but we're significantly down. Obviously, the big distraction that has been settled, which is the ex-CEO arbitration settled, paid half of it, moving on to pay the rest of it before the year end and be done with the legal expenses which of course have been continually draining the Company.

LinkStar, which is a good Company, but didn't fit our profile. That contract of sale will be done next week and we will be moving away from that as well. The car washes, we're virtually out of the car washes. I have the option when we close the last two large ones to close the final two and just pay the holding costs for those pieces of property or to continue to run them. They are marginally profitable, so we -- or marginally small losses, so we can continue with them if we want to. All of the -- I think the biggest news to report is that all of the security divisions were profitable. I'm not giving forward guidance, but in the month of October all of our divisions were profitable, each and every one. We have certainly had our ups and downs with the security products division. It is now profitable. And I think that now we have a clear and consistent focus on the security division we will be able to intensify that focus as we put these distractions beside us. So I'm very, very upbeat on it.

I do have one bit of news that just arrived and it is a little bit of bad news. We have just been notified by the US Assistant Attorney for the Vermont district that they are indicting Mace and our Mace personal defense division, John Goodrich, the President, with one count of felony for failure to dispose of hazardous waste as required by law. This is for the time period of 1998 through 2007, before we have a new management. When I came on board, we immediately addressed the EPA's concerns. We did the full remediation. We cooperated with them fully. But -- and we paid the costs of that remediation and the costs of the EPA's investigation. The US Attorney has come back, though, and still wants to push for the failure to dispose of hazardous wastes and we are still working on our response to that. And I will be glad to answer any questions as far as I can on it.

We just got that information last night. We're disclosing it on this call in our continuing effort to be open and honest about it. We don't have any idea of any of the size or the severity of what a guilty plea would mean and whether or not we should file a guilty plea has not been decided yet. Going on to new products, I do want to mention that, back to security products, which has been getting the focus, both the central station, which has been growing, and Mace security, are starting, security products are starting to pull together with their products offering. We recently signed up with a Company called Videofied as a value-added reseller. We will be not only selling their products, but monitoring it in our Mace central station. The Mace central station is completely -- is making consistent profit every month and completely renovated and is now a state of the art facility, as we've announced in previous press releases.

Mace security products division has released a whole new product line called Mace DIY, Mace do it yourself for the mass market. So we're continuing to have three channels to market in that Company, one DIY, one is a small and medium sized businesses, and one to the professional market, our MacePro product line. So with that last month, in addition to Mace DIY, we released two other product lines, Mace of U for the middle market and MacePro for the top market. These are all world class profit making products with much higher margins, much better quality, so we are virtually complete on our analog offering for the marketplace and now we're moving onto a digital offering. Mace personal defense, finally, and also released the Mace key guard, which is a key chain Mace that you can carry in your pocket. Something quite compact but something that doesn't allow you to have to carry something that looks like a weapon. It is right on your key chain. And of course, that will be available in pink as well, but it is called Mace key guard.

So with that, I have to tell you that I'm very excited about where we're going. We have weathered the storm. We feel confident that we will continue to grow the business in the next quarter. My goal is to get first to breakeven and return to profitability. We're very, very close with that. And of course, that is our hope and desire and without any more of the issues that we've had come up before us, we should get to that point relatively soon. So I'm ready to open up to questions and see if we can answer any of your concerns or questions.

Operator: Your first question comes from the line of Andrew Shapiro from Lawndale Capital. Your line is open.

Andrew Shapiro: Hi, good morning. Dennis, first off, you should know there has been some technical difficulties with this conference calling company where we were on hold before the call technically was supposed to start and were only let in and heard the script from Greg almost two-thirds into it. So we only heard his last comments. I'm concerned that the full call might not, your initial comments and his comments may not be on the recorded replay. But I would encourage you at least for this call, if you guys could prepare or have transcripts and make those publicly available on your website or seeking alpha or somewhere, because Greg went through a lot of numbers and he went through them really quick and I'm assuming the information he gave before we were hearing what he had to say was similar and I'm trying to put together these numbers, so first off, forgive us if we ask a question for which your script had answered.

Dennis Raefield: OK. Well, thank you for telling us. I apologize for that. And we will get to the bottom of it and absolutely we will release it both on the website and the recording, which we do each time, but let's make sure that that happens and if the recording was lost, we will try and recreate it with some text.

Andrew Shapiro: Yes, great. Now, I read the Q, so I have some of the information that might have been said in your script and that we didn't hear. It was great to see that the LinkStar is under contract. I can't say I'm pleased about the price. And I wanted to find out if this low price that the buyers are gaining here provided as a result Mace with some contract assurances and protections that this deal will not drag out and it will indeed close this coming Monday.

Dennis Raefield: There are never assurances that the deal will close. The buyer is a knowledgeable buyer who understands the business we're in. There are not contract provision terms that I know of, that I am aware of that guarantee a close.

Andrew Shapiro: But this is a nonrefundable deposits?

Dennis Raefield: I believe they're not, we're doing this rather quickly. We went directly. We skipped the LOI and went directly to a definitive agreement because it was important for us to close this before the end of the year. And the deposits are not refundable. There are lots of issues with LinkStar, as you know, and the buyer wanted to make sure that in this due diligence he could satisfy them. But he did do -- we've gone from a definitive agreement to a close in only nine days. So he has bent over backwards to quickly give us an answer that he is going to buy it. And he's got a couple more days left of due diligence and we will see on Monday. But no, I do not have any …

Andrew Shapiro: All right. Well, if they walk then we will come up -- now that there is a price out there, they walked and we'll hope to find another buyer with a higher price.

Dennis Raefield: Well, we actually have a backup buyers. We liked this deal because it was fast and clean and the price was low. And I agree with you. But it was fast and clean and we felt it was important for us to finally exit from this business.

Andrew Shapiro: That I appreciate, but clean would mean that he or she closes on Monday. And if they don't, then they pay. The warehouse sale, you say you got some serious showings. What would entering the warehouse sale under contract likely mean in terms of the timing of when consummation of a sale would take place? Is this something that, as real estate, it is 60 days, 90 days, or something that is longer and dragged out once you earned the contract on a warehouse.

Dennis Raefield: Generally, these agreements are about 60 day close. The building is a clean building. It doesn't have any special hazards or things like tanks in it. It is in relatively good shape. We put a new roof on it a couple of years ago. So there is not a lot of issues in the building. It is more certainly the marketplaces. There's lots and lots of sellers and we're not giving it away. We have already turned down an offer and we turned down at least because it doesn't solve the problem, we're trying to monetize the asset not to necessarily change locations. So it is a 60 day deal. We have backup buildings ready to go. If it should get into contract, we are ready to move and we can certainly reduce our cost by getting smaller space. We don't need the size of that space anymore.

Andrew Shapiro: Yes. And on the car washes, the large Lubbock one that is hoped for January, your 10-Q talks about the buyer paying to remove the tanks. How much has the buyer invested so far in getting those tanks prepared for or removed?

Dennis Raefield: I would say -- I will answer that, Greg, but you're welcome to jump in.

Greg Krzemien: Sure.

Dennis Raefield: But it is in the $30,000 to $50,000 range, $30,000 at the bottom and $50,000 at the top. And he is under contract and already doing that in addition to his deposit.

Andrew Shapiro: So we have the deposit and they have sunk in another $30,000 to $50,000 already towards this if they were to walk?

Dennis Raefield: They have, yes, they are under -- they've signed contracts to do it, they haven't paid for it because it is just starting. They were waiting, the permit process has just cleared, so they will be in for, yes, for close to $100,000.

Andrew Shapiro: And the bigger amount, tank's already gone and all it is is you're waiting for a state approval. Does the state have to come in and inspect or that's all done already as well?

Greg Krzemien: The state actually inspects as you are pulling the tanks, Andrew, and they take samples and we test and everything before you can fill in the hole and put down the new fresh cement slab. So all of that has been done. It is really a paperwork issue that they can take like 60 to 90 days to progress on and it has already been about 45 going on 60 days. So it is one of those delicate things where we talk to our engineers about kind of pushing this day and they say, well, we call them, we push them. There is a balance between how much you push them and how much you push them and then they put you on a different stack. But they're very astute on doing this. They have done it for us about five times already, I believe, on different sites that we've sold. So they are hoping that they can get the paperwork popped here in the next couple of weeks.

Dennis Raefield: But Colonial one has already passed, it passed one before they filled it in, so it is done.

Andrew Shapiro: Yes. And the last of the car wash question and I will back out and I do have other questions. This Colonial site that is not yet under contract, that is an operating wash that has -- Mace has human resource oversight needs, et cetera, on, is that right?

Dennis Raefield: Correct.

Andrew Shapiro: So and it is modestly or barely profitable or modest loss, why -- ?.

Dennis Raefield: That one is slightly profitable and the other one is slightly loss. It's -- .

Greg Krzemien: That's correct.

Dennis Raefield: It is right at a breakeven. My preference, I don't want to make the call until I am out of the two big ones, but once I'm out of the two big ones, it will be a close, it will be a run it, close it decision, depending on if we can get the costs down enough so it is not bleeding. But when you have vacant buildings in Texas, you have to maintain security, insurance and pay the taxes and so those are not insignificant costs, so if we do shut them down, we have a small bleed all the time. And that will be a decision we will make at the time.

Andrew Shapiro: OK. I will back out. I do have more questions, so don't - .

Dennis Raefield: OK. We will come back to you. Let's see if there is anyone else waiting.

Operator: Your next question comes from the line of Kevin Greitch from -- an individual investor. Your line is open.

Kevin Greitch: Thank you. I had a question about the Vermont mill site with the lease expiration. Have you gone ahead and completed the six-month extension and what is the plan there long-term?

Dennis Raefield: Hi, Kevin, thanks for asking. Once the -- the status is that I have agreed to another one-year extension with a six-month at our option extension, so another 18 months. I'm trying not to, I'm trying to leave our options open for a newer building. This building is a turn of the century building on four stories and we occupy three of them. I would like to get us to one story, but there isn't a lot of real estate in the Bennington area, so I have renewed again. I'm in the six-month extension, but I'm about to sign the papers to add another year to that. But I am keeping it short-term on purpose to keep our options open.

Kevin Greitch: So it would be the six month extension plus one more year, plus a six-month extension.

Dennis Raefield: No, it is actually going to be a one year extension from -- we've just kicked into -- a one-year extension from now, from November.

Kevin Greitch: From November. And then understanding you just heard about this last evening, the US Attorney General's decision in Vermont, what would you guess would be a timeframe for your reply to that decision?

Dennis Raefield: Well, we've just been told this morning that we won't receive it, we won't need to reply until the first of -- or some early part of December and I am going there to Vermont to meet with them myself to see and to discuss things. But I don't have any more information than that. I would like to conclude all of those kinds of thing as early as possible, so that we don't divert our attention from making the business grow to dealing with these kinds of legacy issues that we have.

Kevin Greitch: If there was a compensation to be paid with that ruling, one might think that you would want to settle that prior to any capital raised, which seems to be right around the corner. Is that true and could you talk generally about your thoughts about a capital raise?

Dennis Raefield: Sure. I'm limited in to what I can say, but I would agree with you that I would rather not have another issue. We've settled the other ones in the past. I would rather not have an open issue. I think it is certainly in the best interest of the Company to do the right decision about settling or fighting. And I'm going to look at that very strongly, because I think you're right, I think it complicates raising capital. Raising capital, we're still -- the board is still looking at multiple options and we haven't made a final decision. We're exploring many different ideas. And I don't have any comment at this time that I could speak about, because nothing has been decided. And as far as the Vermont issue, we have no idea of the size. We were quite surprised that -- we knew that Mr. Goodrich was being considered, but we didn't know that the Company was being considered until last night. So we are really quite surprised that they even went through with this. So I don't have any more information.

Kevin Greitch: Is your objective still to raise that capital prior to year-end 2010?

Dennis Raefield: Year-end 2010? I think we're going to raise the capital as one option before 2010. I think that is a little bit difficult to do, but -- to do it that quickly, but I think our objective is still to raise the capital quickly.

Kevin Greitch: Thank you.

Dennis Raefield: Certainly. I hope I answered your questions.

Kevin Greitch: Yes.

Operator: Your next question comes from the line of Andrew Shapiro from Lawndale Capital. Your line is open.

Andrew Shapiro: On this Vermont EPA mess, again something that happened on the Paolino watch, which is just one thing after another, but assuming you have this criminal charge that the Company has been now surprisingly included on, what would be the implications of such a change on Mace's business? In particular, you have Takedown branded products made there in Vermont that are sold into government entities.

Dennis Raefield: It is true that a felony conviction, to the best of my knowledge, I'm not a lawyer, but the felony conviction can affect your ability to do business with certain parts of the government, of the US government. The Takedown division is a very small part of Mace. Mace sold its law enforcement division and brand name over 10 years ago and we use a new brand called Takedown that is less than 10% of our revenue for Mace. Mace is mostly selling to consumers, so it isn't a significant amount of money, but 10% is 10%. We would rather not have -- lose any piece of the business because that business has been growing. We have been putting a lot of emphasis on growing it. But we in fact have not been growing the law enforcement piece of the market because, as you know, law enforcement doesn't have much spending money right now. Municipalities, counties, states and the federal government are, other than the federal government, are not spending money at all. So I don't see it as a large impact, but I would rather, obviously, not want to be barred from doing any kind of work. So that is one of the considerations.

Andrew Shapiro: And would this possibly extend into the other Mace businesses, for example if CSS was providing coverage on to other governmental entities and would this interfere with them, too.

Dennis Raefield: Mace CSS doesn't do any governmental agency business. It tends to be very, very low margin business. I don't think we have any government entities that we're doing business with. And Mace security products is also not doing any business with the government. We're not …

Andrew Shapiro: Would it close out the options of those subsidiaries, distinct from Vermont, from doing government business?

Dennis Raefield: I don't know the answer to that. I don't know the answer to that, Andrew. I'm investigating it. I'm going to make a and the board will make a very solid decision. We have to look at how this affects us and whether or not it is going to affect business. At this point, I would say that there is virtually no part of the business is going to be affected. It is not even material. But you're right, I don't want to lock us out of future potential business.

Andrew Shapiro: And how many people does the Company employ in Vermont? This has implications of whether you manufacture in the United States or not.

Dennis Raefield: Well, I think -- I'm not looking at that decision yet, but I would say that the group, there is about 35 employees that are up in Vermont.

Andrew Shapiro: OK. With respect to the extension of the lease in Vermont, you presently can leave on three months notice. Will the -- what is -- what are the Company's potential options of early termination should you enter into the new lease arrangements you're contemplating?

Dennis Raefield: The lease arrangements, it is an extension of the existing lease, so it has the same terms.

Andrew Shapiro: So you could terminate on three months notice?

Dennis Raefield: I don't recall if that provision is in the lease without having it in front of me.

Greg Krzemien: I believe it is.

Dennis Raefield: If it is then it is.

Greg Krzemien: I believe it is.

Andrew Shapiro: … disclosures, yes.

Greg Krzemien: It is and that would continue.

Dennis Raefield: That would continue.

Andrew Shapiro: And would that mean that the full liability would be released?

Dennis Raefield: The full rent liability?

Andrew Shapiro: Yes, other than three months worth.

Dennis Raefield: Greg, I believe that answer is correct, right? It is -- .

Greg Krzemien: Yes, I would believe we would be locked at three months.

Andrew Shapiro: OK. So there is still flexibility then.

Dennis Raefield: That's what we're trying to maintain.

Andrew Shapiro: All right. Is there any defense, recourse that the board and you have already talked about with respect to this whole EPA matter, because it happened on the watch of the prior management and to punish the Company, post-haste, post event seems to be counter-productive.

Dennis Raefield: I would agree with you. I would agree with you. It doesn't seem to help the current Company and it is based on prior management decisions that were made and we obviously showed good faith and good performance as soon as we knew about it. We did complete remediation. We were given kudos from the EPA as to how we handled it. I added a safety manager full time so that there wasn't a single point of failure in Vermont. So I have a person who reports directly to me for safety and security issues. So we have done all of the things we could do. It doesn't seem fair, but we will see. We have just found out about it last night, Andrew. So I'm going to go up and meet and I want to see why the district -- why the attorney is considering us at all.

Andrew Shapiro: OK. The 10-Q thus presently it seems like the current bank arrangements with Chase, with a $1.5 million line of credit is requiring a $1.5 million cash deposit to be on file there with the bank. And so what particular asset sales would pay down the line of credits with Chase so that this $1.5 million cash balance covenant requirement can be blown out of there or greatly reduced?

Dennis Raefield: Well …

Greg Krzemien: Yes, basically, we have -- I will take this one, Dennis. We have mortgages with Chase of about $1.5 million and that's really on three properties. That relates to our Colono number one site, about $775,000, our Colono number eight site that is under agreement about $74,000. And then the difference would be a small operating lease with CSS and about $50,000 and then about $600,000, a little less than $600,000 mortgage on Texas. So, in essence, the bulk of the debt is the Texas mortgage, warehouse mortgage, Colono number one mortgage and Colono number eight mortgage, and obviously as we pay down those mortgage, we will continue to work as we always do with the bank on those requirements.

Andrew Shapiro: OK, because obviously, if the line of credit and the borrowings are below what they're requiring, yet the covenant and the loan agreement still exist, that covenant with the higher balance remains unless that thing gets blown up or greatly reduced. And we don't seem to have cash cushion these days.

Dennis Raefield: You're correct.

Andrew Shapiro: All right. So you are watching that such that when the bank's more than fully secured that that amount gets reduced?

Dennis Raefield: Absolutely. That will be Greg's job to meet with them and we were hoping to be closed with two of these two major car washes at the time that that comes up, so that we've got less things to collateralize.

Andrew Shapiro: You might have said this early on, again before your technical difficulties allowed us in, but what is the status of any recovery on the Paolino hedge fund Ponzi scheme losses that the Company previously incurred and are trying to recover.

Greg Krzemien: No change really since last conference call, Andrew, in July, early August timeframe, maybe it was even June, sometime this past summer, I immediately filed the forms for the loss. Again, they only allow you to claim the loss on principal, which our loss on principal was an even $1 million. So we filed those papers. Immediately we did get confirmation that they were filed properly and we're just on hold to hear when they distribute, which from what I hear, the estimate of time is still probably at least a year out there. And I listened to a call back in, I believe it was May, was the last time they did a public call this year with those who had lost money, the situation, and they were very hesitant to try and estimate what the recovery will be, but they gave examples of other situations where the recovery was in maybe the $0.20 to $0.30 on $1.00. But again they would not even lock on that. They would just say that some turn out better than that and some turn out worse and it was early on their search of assets and liquidation of assets to comment any further.

Andrew Shapiro: So six months later they have not provided you any further update?

Dennis Raefield: There has been no further update provided to us, no.

Andrew Shapiro: OK. Any thought of giving them a call six months later?

Dennis Raefield: I could reach out for the receiver and see if he will chat with me.

Andrew Shapiro: I mean, only because it seems right now at this Company cash is king. So the amounts of the quarter, we have $2.2 million that is recorded here as SG&A for the quarter and again this might have been in your script but I'm sorry if I'm repeating it because I know you said you intended to try to address these concerns. But what amounts of the quarter would you, of the $2.2 million would you associate to being a public Company cost and accruals in the SG&A, above the line there, and what SG&A is really associated with, I guess, our remaining core operating business, because SG&A for the discontinued ops should be below the line.

Greg Krzemien: Yes, in the SG&A that is on the financial statements, Andrew, which for the quarter was $2.172 million in there and again, our policy has always been we push down the SG&A cost to the operating levels and we don't really go through an allocation of corporate per se, corporate being the executive officers, couple of the key financial people, our D&O insurance, audit, tax work, all that type of corporate cost we don't push down, but any cost directly related to the operations, the people who are employed at those operations, and a handful of people such as IT people, who are shared by those operations, marketing people, that is all pushed down. So in that $2.172 million about $1.4 million was specifically security segment SG&A costs and about $765,000 was corporate entity costs and out of that $765,000 my estimate, probably public, related public Company costs, probably about $150,000 to $200,000 a quarter is the cost of being a public Company.

Andrew Shapiro: OK. And so $1.4 million of that SG&A you have separately, I heard Dennis mention, is that security segment is breaking even, right?

Greg Krzemien: For …

Andrew Shapiro: And that SG&A is being covered?

Greg Krzemien: Yes and what Dennis had said, we got real close there toward the end of the quarter in October, we did cover the SG&A cost.

Andrew Shapiro: So right now all we have left now is we will call it the corporate nut that we have to grow security to cover, corporate just being a Company and then the extra corporate of being a public Company.

Dennis Raefield: That's correct.

Andrew Shapiro: OK. And Dennis, do you have any kind of a feel for the -- in the growth of the security products business about how long it would take for us to finally be breakeven in covering that corporate nut?

Dennis Raefield: Well, that is a forward-looking statement I'm not ready to make because I've been hammered with a lot of recessionary returns. As you know we were pulling out of it the last, the end of last year and then we had a January softness, so it is hard to say, but we're very close. I would say -- my goal is to get -- November is looking -- is planning to be as strong as October, which would put us into two. Whether I can hold it in December, I don't know. So my goal, personal goal is to get it there in this quarter. I think it is going to be very, very close, because we've still got a lot of these public costs that I just can't get rid of. It is going to take a long time to get rid of all of the operating loss just from growth. So it is going to take at least another quarter, I would say.

But if we keep going at the rate we're going, which was a 9% growth quarter over quarter, I should be there, my personal goal is to be there in Q1. But as you know, I've tried to do that before and I've seen the top-line erode because of this recessionary market and the construction market. We're still very heavily dependent on construction. There has been no rebound in construction at all. So everything we've done is to shift to more active markets, like DIY consumers and end user consumers and sporting goods and look everywhere else. There is just nothing happening in the construction market yet.

Andrew Shapiro: OK. And so Greg said it is about 200 a quarter that is associated with, we will call it, the public Company other costs. Now, we had three segments, LinkStar, car washes and security, and we're going to be down to one core segment, getting rid of not only two segments, but one segment that is a lot of people in terms of employment, human resources, et cetera. Greg or you have an estimate as to how much additional SG&A costs, in other words, another round of cost cutting that could be accomplished on the elimination of the LinkStar segment, which is hopefully Monday, and by pretty much end of year January, your three big washes or your three wash is gone and the other ones could become real estate parcels only, how much can be carved out of this SG&A nut as a cost cut to supplement your growth plan, your growth plans?

Greg Krzemien: I would estimate, Andrew, and again, this kind of comes off my other comment that we really push all the costs down that relate specifically to those entities. So on corporate we could definitely, we will have reductions in tax work, audit work, a little bit more in people costs. My back to the envelope that I recently did was probably somewhere in the tune of, on an annualized basis, maybe 150,000 to 200,000 and that might not seem like a lot, but it's considering that, again, we do push down just about everything we can push down and we spend out pretty well here at the corporate level, so that will be probably my best estimate.

Andrew Shapiro: Well, we, like Grant Thornton or whoever is our auditor and they have been auditing three, under SarbOx and everything else, three full blown subsidiaries. I got to believe your public company audit costs alone should be able to be brought down by more than that.

Greg Krzemien: Well, we don't have a SarbOx audit being a smaller reporting company, so our audit is just a normal audit. Fortunately, we have not gone to the doubling of the audit fee for SarbOx. And our audit fee is in the $225,000 range from an audit perspective, an annual audit, so I'm looking to hopefully bring that down by maybe 35%, 40%, is my goal. So that will be some moneys, but not as much as we might think it is on the surface.

Andrew Shapiro: All right. Dennis, I saw that you made some presentation in China. Do you have any other -- that was after the fact, do you have any other current presentations, investor conferences and other stuff on the calendar that the Company is participating in?

Dennis Raefield: Yes, actually I do. I am going to be in December participating in the Imperial Capital Security investor conference, that's the 14th and 15th of December. Excuse me, it is the 13th and 14th of December and I will be speaking there. I have held off on doing investor conferences until we had all of these issues settled and now I'm going to start getting out in the public market and making the Mace name better known, because now we, theoretically, have gotten most of these issues behind us.

Andrew Shapiro: Fortunately, a lot of our asset value too (inaudible).

Dennis Raefield: It sure did.

Andrew Shapiro: I will back out in the queue in case someone else has questions and actually I may be done.

Dennis Raefield: OK, thank you, Andrew, for your insightful questions. Is there anyone else waiting, Christa?

Operator: We do have one questioner in the queue from the line of Kevin Greitch, who is an individual investor. Your line is open.

Kevin Greitch: Thanks. I just wanted to check that your impairment tests historically, at least recent history, have been every half year. Do you plan to do another one at December 31?

Greg Krzemien: It will depend. At this point I don't think we will be. The only goodwill we have left in the Company at this point is with our monitoring Company. And that impairment, annual impairment testing date is April 30th. And unless we feel really concerned about impairment indicators and right now, as I mentioned in my comments, which I'm not sure, Kevin, what part was heard or not, but our cash flow in that segment has been doing real well, where we start off the year at about $20,000 in the first quarter, $45,000 EBITDA in the second quarter, and up to $80,000 EBITDA in the third quarter and continuing at that rate into October here, even a little bit better than that. So at this point, we don't sense any impairment indicators to require us to do anything unless something significantly changes on that side in the next couple of months. I wouldn't anticipate doing anything until the middle of next year.

Kevin Greitch: OK. And as to the monitoring business, it appears like year-over-year the revenues were down 8% to 9% in the quarter, but you indicated, I think, on the call that your end users were up 10%. Is the pricing degradation that steep, is it high teens or is there something else that is impacting the revenue decline?

Greg Krzemien: I will let Dennis respond, too, but from my understanding it has been pretty much the -- we've been growing but really granting these incentive discounts and free services for several months, but I will let Dennis see if he has anything to add to that.

Dennis Raefield: Well, there are two parts to this. Number one, we did a lot of culling of slow-pay customers we knew we inherited and we reserved for them, but they still affect the top-line. So we culled out some nonpaying customers that we had and we did it slowly, but we tried to work with them. But some of the ones that were just -- had been living on paying behind, we don't give those kind of terms anymore that the previous owners did. So some of that was original drop. And then we have taken on new customers and we've given the incentive. The good news about the alarm monitoring business is that your attrition caused by people jumping ship is low, but it is also a hindrance to adding customers. So our management in the central station has done some promotions to make it painless for people to change, giving some sign-ups with some free months of monitoring that offset their cost of change. And we have picked up some very good customers. Our sign-up list each month is we track the adds and deletes and we are, have been in a positive now for seven months in a row.

We are adding more customers than we're deleting. So I think you're seeing, number one, we were culling, and number two, some of these new customers are just coming on line and starting to pay. So it looks somewhat flat, but the profits are coming up significantly and I'm pleased with where they're going. We also are continuing to look at an acquisition of new accounts and we have some of those under negotiation right now to add bulks of accounts rather than a few at a time. So I'm pleased with where they're going. We're making much more money than we had planned to make because of the efficiencies on the management team and the top-line will continue to come.

Kevin Greitch: Got it. And the promos and the discounts, are you continuing them or was that just for a period during the third quarter?

Dennis Raefield: We only do them when we see -- when we can get a large block. We just picked up a block of 1,000 accounts and those people know what the value of their business is and they want you to make it painless, because the stickiness of our customer is, is that the dealer cannot move the account without traveling to each site and reprogramming that home, consumer home or business account, reprogramming it to us. So that stickiness costs them -- costs us money to make them move. So we will continue to use it on a case by case basis, but we don't do it for one or two accounts. We do it when there is a block that we can add that really enhances our top-line revenue. And it is never more than a couple of months of revenue.

Kevin Greitch: Thank you.

Dennis Raefield: Sure. You're welcome. Christa, do we have any other calls in the queue?

Operator: We do have one question from the line of Andrew Shapiro from Lawndale Capital. Your line is open.

Andrew Shapiro: Rarely one question, but it might only be two. Eagle truck wash note. It is due five years from the 2007 date, so it is due in 2012 with a balloon. Is there any thought to or discussion about providing a discount in return for an early payment on that note?

Greg Krzemien: We have had no discussion about that, Andrew, but it is an interesting thought.

Andrew Shapiro: I mean, you get cash from that note, that seems to be less money you might need to raise from third party sources, which would be a lot better return for the Company than probably the low interest rate and delay that we have on the truck notes, so that is just another thought in terms of getting the money. And with respect to the idea that we're getting closer to the breakeven point, you have many sources of asset sales for which to generate the cash to make the payments on our liabilities. And you've talked here about the prospect of money raised in early next year. Can you talk a little bit more about the potential uses of such a money raise? Presumably if we are at breakeven, then that money is to be used to acquire incremental cash flow. In what areas are you seeing, Dennis, prospective deals that you want to put in to adding to the security business?

Dennis Raefield: That's a good question, Andrew, and I'm preparing right now what those requests would be. I think the two main areas that I want to invest in, number one, is the central station, recurring monthly revenue. We've proven that this acquisition was successful, it was a good decision and we now have a -- I'm sitting in the Mace central station today in Anaheim, California and we have a platform here that can significantly increase in size and capacity without additional capital and without very much personnel costs. We have a platform that is really state of the art. So I want to put more here, because I will get a fast return on the money. We were just looking at a deal that will generates about $70,000 to $80,000 a month of recurring revenue. If we acquired and enrolled it in here, it would be about $50,000 of that would drop right to the bottom-line. So it is that kind of additional business. Now, the bad news is is that its the same for all of our competitors and the cost of acquisition, there aren't many of these deals that come along. But I plan to -- I've already keyed up two for the board and I would do central station wholesale account monitoring tomorrow morning. If I had the cash, I think it is the right thing to do and we built the platform to do it with.

So that would get some of our business. Most of those deals would be between $1 million and $3 million per deal and there are some out there. And we have -- we are really well connected to find the people that want to sell. Generally, it is people retiring from the business. All the people that are in it know it and love it, but some people do want to monetize their ownership and they're retiring. And so that is the first place I would do it. I also have two small acquisitions into the pepper spray space. I think we need to expand into an imported product as well to compete at the low end of the market. Plus there are some other security synergistic acquisitions that are there. I probably won't buy any more security product business at this stage. I'm not looking to acquire additional security products. It would be in the two areas of central station and personal defense that I would want to do by acquisition.

Andrew Shapiro: And based on the cash flow generation you described on a central station acquisition, is that a business line that lenders would provide or could provide part of the consideration?

Dennis Raefield: They can, yes. They understand it well. It is a narrow market, but there is business financing available for doing central station acquisitions.

Andrew Shapiro: And similarly, a seller note based on the actual success of those recurring revenues sticking with us after we acquire them?

Dennis Raefield: No, generally, the sellers are -- the market is an all cash market, but there is lots of recourse and we in fact had recourse on the first one we bought and all of those customers that we terminated we ended up not paying and reversing the payments out to the seller. So you do it by having claw-backs. Usually, generally, one year later you have a claw-back true-up, where you can take back or not pay the final amount. So we hold back cash from the deal for a year and do a claw-back. But generally, they're not taking notes, because they're selling to retire. The people that are still in this business don't want to exit this business. It is a good business.

Andrew Shapiro: Well, if you could lock up a few of those purchases and under some kind of escrow or other deal, we here at Lawndale would consider helping out the Company on acquiring that kind of cash flow if the numbers made sense.

Dennis Raefield: OK, well the numbers seem to make sense and thank you for that offer. We would be interested in talking, because we are pursuing those. I am keying those up so that I have something, when we go to the money raise, we have something significant to talk about.

Andrew Shapiro: OK. Great as long -- I think it is fair that all of the shareholders be offered the opportunity to participate and some might not choose to, but everyone should be able to get that kind of offer.

Dennis Raefield: Great.

Andrew Shapiro: Thanks.

Dennis Raefield: OK, are you done?

Andrew Shapiro: Yes.

Dennis Raefield: Thank you, Andrew. Appreciate your questions. Christa, do we have any more?

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

Dennis Raefield: OK. If there aren't any, I would like to adjourn the meeting and get back to work to making this -- getting this thing continue to move in the right direction. We will keep you advised with 8-K's if there is anything that happens with the Vermont issue. But as we are moving along, we are closing off the past and I think we're moving excitedly toward a real future here. So thank you for your support and your trust in our management.

Greg Krzemien: Sarah, you have some closing comments?

Sarah Din: Yes, I do. I would like to thank everyone for their attendance. Sorry about the technical difficulties earlier today. I would also like to mention that a digital recording of the teleconference will be available two hours from now until November 30th. The recording can be accessed by dialing 1-800-642-1687 and entering the conference I.D. 23984682. All of these details are also listed on our website 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 at mace.com. Thank you, everyone.

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

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