MACE SECURITY INTERNATIONAL INC.

Moderator: Steve Rolle
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Operator: Good afternoon. My name is (Jessica), and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Mace Security International, Inc. Third Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a Q&A session. If you would like to ask a question during this time, simply please press star, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you. Steve Rolle, you may begin your conference.

Steve Rolle: Thank you, (Jessica). Welcome to the Mace Security International's Third Quarter Conference Call. My name is Steve Rolle and I'm the Corporate Controller for Mace. Also, with us today is Mace's Chief Executive Officer, Mike Smith and Mace's Chief Financial Officer, Greg Krzemien. Before I turn the call over to Greg, there's some general housekeeping matters that we want to address.

Certain statements and information during this conference call will constitute forward-looking statements within the meaning of the federal Private Security Litigation Reform Act of 1995. When used during our conference call, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "projected" and "intend to" or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subjected to certain risks, known and unknown, and uncertainties, including, but not limited to, economic conditions, limit of capital resources, and the ability of management to effectively manage the business and integrate required businesses. Such factors could materially adversely affect Mace's financial performance. It could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during the 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 in Mace's SEC filings, which include its registration statements and its periodic reports on form 10-K and form 10-Q. All statements made during the conference call should be considered in conjunction with the financial statements and notes contained in Maces' annual reports on form 10-K and quarterly reports on form 10-Q. You can access these reports on www.Mace.com through the Investor Relations section of the Web site. You can click on the Investor Relations button. With that, I would like to now turn the call over to Greg Krzemien.

Greg Krzemien: Thanks, Steve. Good afternoon and good morning to those of you on the West Coast. Thanks for joining us as Steve said for our Third Quarter 2011 Results Call. Please excuse my voice might be cracking a little. I'm battling through a cold, but I'll do my best here. As Steve noted, I'll be covering results for the first 9 months in the third quarter of 2011 versus those same periods in 2010. I'll also make reference, in a couple of instances, results from the third quarter versus the sequential second quarter of 2011.

In way of some background for those who may be new to our calls, Mace currently functions at 1 active segment; that being the Security segment. We also have discontinued operations within 2 other segments; those being the Car Wash segment and the Digital Media Marketing segment. Within the Car Wash segment, we still own 3 remaining sites, and the Digital Media Marketing segment was sold in November of 2010. Again, I'll make some brief references to these operations later in my comments.

As to our Security segment, we operate or operated in 4 distinct units or divisions. We have our electronic surveillance equipment operation, where we sell both professional and home and small business or do-it-yourself lines of electronic surveillance equipment. We had our Industrial Vision or specialty camera and conferencing call equipment operation known as IVS, which we recently sold here in October. We also have our Mace personal defense operation or our famous Mace aerosol pepper spray division. And we own and operate a wholesale security monitoring operation in California, Mace CS, which we entered into in April of 2009.

As I previously mentioned and as I disclosed in our 10-Q, our digital media marketing and our carwash segments are accounted for as discontinued operations. So, in essence, from an accounting financial reporting standpoint, all the revenues and expense line items related to those 2 discontinued segments are pulled out of the income statement and are summarized on 1 line item on the bottom of the statement as “result of discontinued operations.” Similarly, on the balance sheet, all the assets that are held for sale relating to any discontinued operations are summarized in 2 lines on the balance sheet on the asset side; assets related to or assets held for sale, and on the liability side, liabilities related to those assets held for sale.

Again, as to ongoing security operations, I’m going to cover some financial highlights here for a few minutes before I turn the call over to Mike. First of all, I want to talk a little bit about our financial position or our balance sheet. As December 30th, we had total assets of about $25.7 million. We had equity or net worth of $18.3 million, which is $0.31 per share. And we had about $7.3 million of cash on hand. Our working capital was $10.9 million. This compares to about $7 million at the beginning of the year. And our debt as of September 30th, was $2.1 million versus $3.5 million again at the beginning of the year.

When I look at our debt position, that decreased by $1.4 million. The bulk of it from payments and some of it from an accounting adjustment, just like to roll that $1.4 million change. So we borrowed $1.4 million in March to effect the acquisition of TCCI from Merlin. We paid off a $1.35 million note that we borrowed from Merlin in December through the first nine months of the year. We also sold our Lubbock last Car Wash in March and paid off the related mortgage of $670,000. We had normal payments of debt of about $280,000. And then we had an adjustment of $516,000 in this quarter to reclass or defer derivative liability from liability to equity. And that was $516,000. So again, that came out of the debt on the balance sheet. So that's the $1.4 million change.

As far as a little bit more in that derivative liability, as I spoke last quarter and as disclosed, the conversation options that related to the $1.4 million Merlin debenture that we entered into in March, that had conversion features with some unknown items at the time. Specifically, whether the offering was going to be completed and what the price of the conversation of the stock would be and how many shares we'd be able to convert into. With those variables, the accounting treatment for that (biprocated) derivative was to treat it as a liability. In the third quarter, those issues were resolved. We now know the offering took place. We know the exercise price per share. We know how many shares will be issued upon a conversation of that debt. So accounting prescribes that that liability, which was market-to-market at $516,000 at the end of September, goes to the equity section of the balance sheet and then we accrete that amount back to debt and through non-cash interest expense over the next couple of years until the ultimate maturity date of the note. So, just to give you a little background of that adjustment through the balance sheet.

As far as debt, we really have four pieces left. We have a $509,000 mortgage on our Texas warehouse. We have about $590,000 of debt outstanding on our largest remaining Car Wash, (Corona) No.1 as we refer to it. We have about $163,000 worth of miscellaneous capitalized leases and equipment notes. And we have the value of the Merlin note, the $1.4 million Merlin note, at $821,000, again, less the value of that re-classed derivative and also awards issued initially when that was placed.

Second, a little bit idea of what's in the $2.1 million of remaining debt. From a cash flow perspective, we generated about $8 million of cash from financing activities; largely related to the Rights Offering. We used a net, about $370,000 of cash in investing. And that's the result of purchasing the Command Center, Inc. or TCCI or tuck-in Wholesale Monitoring Company in March less the proceeds we received from selling the Lubbock Car Wash, which is about a little over $900,000, again, also in March. And then we used about $2.9 million of cash in the first nine months in operating activities between our losses and some amounts going the other way for reductions in receivables and inventory.

Next, I'm going to jump to the statement of operations. A couple highlights on sales. First I'll speak about sales for three months ending September versus the same period last year. Sales were down between those two periods of about $1.2 million or 26 percent. By far the largest piece of that was in our Industrial Vision Source (Division IVS), which decreased about — was about 80 percent of that decrease or decreased almost $1 million. As I'd mentioned in the 10-Q and in some other discussions, the IVS decrease was related to the key manager of that division leaving earlier in the year. More significantly, Sony, our main supplier, not renewing the company's distributor relationship, and then compounded with Sony and our other vendors having to pull to getting product for us to sell with the tsunami that happened in Japan in the earlier part of the year. So, that operation took a severe hit. And, as we said, we've moved on to selling it in October here to (Siloxane), and they're merging it in with a very similar operation that they have.

As far as other decrease in sales for the quarter, we had some decrease, about $380,000 in our professional and our small business equipment operation. And we had a positive growth of about $260,000 at our Central Station and a slight decline of about $100,000 in our Mace Personal Defense operation. At 9 months, somewhat similar trends. We're down about $2.8 million, 9 months this year versus last. We're about 21 percent. About 75 percent of that decrease again relates to Industrial Vision source. About a million relates to the professional home and small business. Our increase in the Central Station is about a little over $500,000 for the 9 months. In our Mace Personal Defense operations, down about 5 percent by year-to-year for 9 months. On a sequential basis, our sales are up slightly from about $3,466,000 in the second quarter to $3,514,000 in the third quarter. The increases are within the personal defense, the monitoring station and the professional and home and small business. And the only decline really was continual declines within the IVS sector for the last 2 quarters.

Just a couple comments on sales by the different divisions, and then Mike will be adding some color to that. Yet, from our personal defense operation, as I mentioned we're down a little bit year-to-date. And quarter-to-quarter we are happy to report that our aerosol operations are up about 6 percent both for the quarter. And year-to-date we see continued strong set sales on some of our products we've introduced in the last couple of years. Our Pink unit, our Jogger, our Bear spray has been selling very, very well. This we contribute to continue to get into new retailers such as Pep Boys, Amazon, just increasing our skews in some our past retailers. So we're really excited about that. The reason for some of the decline is in some of our other products line, mainly the TG Guard products, which we have those large units and emphasis in prisons. Our non-aerosol products, which is largely our wireless home security system; those items are down a little bit. Our international sales are down a little bit. Some of that is needing to put in transition some new sales efforts in place for a key salesperson who passed away earlier in the year. And we're transitioning through that, but we took a little bit of a lag on that. So, the good news is our aerosol is staying strong and we're working hard to get the other ones out. And, again, Mike will speak more on that in a few moments here.

Professional and home and small business, again, as I mentioned, that's down both 9 months. And, for the quarter, continued challenges with the slow economy. We are continuing to see more competition from (inaudible) manufacturers selling direct. We lost a significant customer during 2011, which didn't help. We will continue to work to replace that revenue. We're working continually to reduce the cost. We made additional cost reductions, which again, Mike will speak of. And we're really working to bring that thing to at least a breakeven and then positive operations. IVS, as I mentioned, we sold that in October for a price of about $517,000, with potential for another $100,000. I should say if the buyer maintains at least an average of $55,000 a month of revenues in their first three months of operations. It's on the books, or was on the books, for about $460,000, so depending on if we get the other $100,000 or not, in either case, we will have a gain where we dispose of that in the fourth quarter.

From a Mace Central Station, again our Wholesale Monitoring operation, we've seen some nice growth there quarter-to-quarter in 9 months-to-9 months. We're up approximately 33 percent for 3 months or about $260,000;

that's 3 months September of this year versus last year. Out of the $260,000, about $218,000-$220,000 is attributable to the acquisition of TCCI in March. The other $40,000 or so is growth on our original business. So nice to see both of those things. At 9 months, we're up about 22 percent or a little over $500,000. About $425,000 is related to TCCI acquisition, the other $90,000 roughly is again growth on the base business. And sequentially we're up about $43,000 or about 4 percent just second to third quarter. So, again, we're continuing to see some growth there. It's a difficult business to stay ahead of the normal attrition rate, and we're staying positive, which is good. As I said, Mike will be making a couple other comments on Mace CS and how our integration's going.

From a gross margin perspective, some big picture numbers here. If you look at the face of our statements of operations, we say this year we're at about a 31 percent margin versus 31 percent last year. That's somewhat sheltered by the fact that we took a $200,000 additional reserve against our electronic surveillance equipment. We basically took a hard look at some items that we would rather stop selling in the normal course of business to focus on our most recent lines, and we're looking to liquidate that inventory. So, again, we wanted to reserve it down to a very low liquidation value. So we took another $200,000 reserve. Without that reserve money (inaudible) our gross profits would have been at about 37 percent for the quarter and 36 percent year-to-date again versus 31 percent last year and 30 percent for 9 months last year. So, without that $200,000, we're seeing about a 6 percent margin improvement and it's really mostly related to mix. In 2010, IVS, which was a very low-margin business, 12 percent to 15 percent, it accounted for about 23 percent of our revenues. For 9 months this year, accounts were only about 10 percent to 11 percent with Mace Personal Defense now accounting for 35 percent, our Monitoring Station accounting for 27 percent. So, those businesses running — Mace Personal Defense runs a 45 percent margin. The Whole Sale Monitoring Company, with transitioning still going on, is in the 35 percent margin range. So, it significantly picks up our margin and, you know, we look for continued improvements there.

A couple comments on SG&A costs. On our financials, our SG&A changed from roughly $7.2 million last year for 9 months to $7 million. It doesn't sound like much of a reduction, but when we backed out what I call notable items to about $900,000 in the current year and about $300,000 last year, that changes more like about 6.9 to about 6.1, which is about an $800,000 or 12 percent decline. And the notable items in the current year is $900,000. In there is about a half a million dollars between future payments to our ex-CEO and to our ex-president of the Personal Defense Operation, including taxes and some benefits and vacation time. In the rest of it, the other $400,00, is a couple of items, including we settled a contract in Personal Defense and got rid of a deer scent line of business, which cost us a hit of about $105,000, about 30 of it which was cash and the rest was giving back inventory that we had, you know, determined was not sellable. So, again, I always like to look at the SG&A without these unusual items. For the quarter, the 10-K says we went from $2.1 million to about $2.8 million — $2.2 to $2.8. Again, without the significant items in the current September quarter, which were about $800,000 of that $900,000 was in the third quarter, our SG&A is pretty much a wash, down about $100,000 from about $2.1 to about $1.9-$2 million. So down about 4.8 percent or about $100,000 this September quarter versus last, without the unusual items. And, in those reductions, we still do have increases because of the acquisition of TCCI. That acquisition accounted for about $150,000 of SG&A in the 9 months and about $90,000 in this most recent quarter. And some of that is also transition costs, redundancy for leases, equipment, phone bills and such as we're moving everything over to the Anaheim location from TCCI's prior Corona, California location.

Also, want to note our headcount. (Eugene) does that. We start off with a head count of about 184 people in middle-2008, excluding the Car Washes. We were at the end of 2010 about 120 people, and at the end of September, we're down about 113 people. So, we continue to reduce headcount and run as lean as possible.

A couple comments on operating loss. Our operating loss for the nine months as reported is $10.6 million versus — I'm sorry, $3.9 million versus $8.5 million last year. We had a lot of unusual things in there. We had impairment charges, this SG&A cost I just mentioned and the inventory adjustment. So we back out all that on apples-to-apples basis this year for nine months, our operating loss would have been about $2.7 versus $3.4 last year. So that's about a 20 percent reduction or about $670,000, again, when you normalize those. So we're, you know, despite the decrease in revenue, we've somewhat contained (consideration) in our operating income.

From a discontinued operation standpoint, just a couple comments here. Again, that's our Car Washes this year. Last year our Car Washes and the Digital Media business. Our loss this year was $260,000. When you back out the fact that we had impairments of about $260,000, what that says for the current quarter, we're a breakeven cash flow from the Car Washes. For 9 months, the loss was $296,000, from discontinued operations backing out the $260,000 of impairments, and about a $71,000 loss when we sold the Lubbock site in March. We were for the year to September at about a positive $35,000 of cash flow. So, again, we've stopped the bleeding on the discontinued operations and are a little bit positive year-to-date. Last year we had significant losses, and that was really related to pretty significant write-downs or impairments of the media marketing business. We impaired those about $7.2 million last year, so that caused most of the $7.9 million of discontinued operation loss last year.

A few other notable items. I always like to comment on the assets held for sale. As I disclosed in our subsequent events note, we have reissued or resigned a new agreement to sell the Corona No. 1 Car Wash for $2.1 million. This was the same price we had with a previous party. The current party we entered into with, they've shared with the company preliminary financing indications. They have already started the due diligence process. The agreement calls for a 75-day close from the November 9 agreement date. So we hope to get this closed by the middle to the end of next January. The net book value on that site is about $2 million with debt of about $590,000. So we look to net about a million and a half of cash and record a gain on that disposal.

Corona No. 3, we still have for sale and we have it listed with an agent, and, you know, we hope to sell that as well in the next couple of months to quarters.

A comment on our Farmer's Bank Texas warehouse. That warehouse we signed an agreement to sell it in August for about $1,830,000. We are looking for that to close at this point the middle of December. That's on the books for about $1.7. So with the estimated commissions and closing costs, we wrote the building down about $20,000 as of September, so that when we record the sale, it will be a breakeven transaction. With debt of about $500,000, we should net about $1.2 million on that disposal. Again, hoping for that to close in the middle of December.

From a net operating loss perspective, we have NOLs at the beginning of the year of about $51 million. Currently they're at $55 million. They begin to expire in increments next year, and they go on a latter basis through 2031. So, again, NOL is right about $55 million.

With that, I will turn the call over to Michael Smith, our CEO. Mike.

Michael Smith: Thanks, Greg. The key accomplish for the third quarter was the completion of the Rights Offering, which allow Mace to continue as an ongoing operation. Since the end of August, we've made significant headway to reduce costs and refocus the company on a path of profitability. Our actions include the cost reductions of a million dollars, primarily from corporate expenses and the Electronic Surveillance Equipment Division in Florida. We eliminated the Walnut Creek office in California. Also, the development of a detailed and aggressive go-to-market plan to focus on our core business of Mace pepper spray, and our wholesale monitoring Central Station, while minimizing our CCTV and video business losses and redirecting them to the development of consumer products that will be sold through our new direct sales organization being formed in Vermont.

Our Central Station, Mace CS, completed the physical integration of TCCI in July. We continue internally to integrate this business and expect all aspects to be completed by the end of the year. We've added 22,500 accounts to our base and are now in over 65,000 accounts. We continue to focus our efforts on achieving the synergies and maintaining our service levels. We are aggressively on the hunt for acquisitions in the $1 million to $4 million range for the business. Along with our management team, we've engaged several

M&A industry experts to identify these opportunities. We have seen very little activity in the space over the past three months and currently have no tuck-in acquisitions in our pipeline.

We have also engaged in outside representative firms to assist our sales manager at Mace CS and general manager to identify and acquire existing accounts. We are focused on the California, Oregon and Washington State area.

Moving onto the Security Products Division, which sells CCTV and video products, we continue to see sales degradation. That's a lot of product in our market. The invasion of Far East suppliers going direct to end-user customers and a loss of one of our major customers have caused our sales to slide lower each month. To combat this, MSP has been resized with headcount reductions and a reduced revenue plan to break even by December. Our strategy going forward is to work down the current inventory position while refocusing this small group on sourcing and packaging products for the consumer market that we can distribute through our new direct sales channel being developed in Vermont. As Greg said a little bit earlier, we also finally divested the IVS division. We have sold the Dallas warehouse or we're under contract to sell the Dallas warehouse with a December close.

Now, moving on to the MPD group or the one that sells pepper spray. John Goodrich, who is the president of that group, has left the company. He basically left on September 30, and we are under the indemnification of our bylaws to continue to be responsible for his legal expenses. I am now the president of the division, and we've hired (Paul Crouch) as our vice-president of sales. Paul's a seasoned veteran with over 20 years of consumer products experience and will supervise and guide the direct sales and indirect sales channels. Again, our plan is to basically add direct sales people to that group that we'll be able to sell through the CCTV products to consumers and to the major retailers.

We see this Pepper Spray Division as a significant opportunity for growth. There's strong organic sales coupled with the possible acquisitions that make this a very attractive opportunity for us, and we now are going to focus on getting Mace back to its core (strength). Our intent is to add national accounts sales mangers to directly call on large national big box retailers, while maintaining our current manufacturers reps and distributors that are serving or supporting goods automotive and outdoor markets. Our intent is to move into markets, such as the mass merchandised drug stores and supermarkets based on impulse sales. We will drive new product development for these vertical markets and begin to rationalize our existing product offering. We will continue to be the high value, high quality, high price leader in the industry.

In summary, we have a clear vision and plan going forward for our business units. We have cleaned up most of the lingering issues. We have cut expenses and developed a go-to market plan that adds key sales management, direct sales and focused marketing efforts on our core pepper spray business. So with that, Greg, I guess we would open up the questions.

Greg Krzemien: (Jessica), whenever you're ready for questions.

Operator: At this time, I'd like to remind everyone in order to ask a question press star, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Again, that's star 1 on your telephone keypad. Your first question comes from the line of Andrew Shapiro with Lawndale Capital Management. Your line is open.

Andrew Shapiro: Hi. I have a bunch of questions. I'll ask a few then get back out into the queue for others to ask if there are any people there. Mike and Greg, are there any redundancies remaining at the end of Q3 in the Central Station from the TCCI acquisition to reduce in the future or their current quarter, and can you kind of quantify them?

Michael Smith: Well, I can start that Andrew and Greg, if you want to add. The answer to that is, you know, we're still going through the integration and we're basically focused on 2 things. We're focused obviously on hitting the integration, you know, plan that we had first and we're also looking at servicing it. So it's really coming down to labor and service. And the answer is, yes, we believe by the end of the year we will get synergies out of there. And to that effect, we're really right in the process of doing the integration. The physical integration was done, but it's really coming down to looking at automation and looking at all of the things that we have to do basically to make us more efficient after adding the 22,500 accounts. So we're not there right now, but obviously, every day we work closer and closer to that.

Andrew Shapiro: But the dual — some of the dual fixed costs are no longer there.

Greg Krzemien: That's correct.

Michael Smith: Correct.

Greg Krzemien: Yeah. Physically it was all merged together at the end of July. And, as Mike said, we're really just going through automation. We've introduced some more integrative video response systems to the telephones. We're training, as Mike said, the new accounts, which is 90 dealers on our billing systems and really getting to the point where we've integrated those folks in. But, until we get through that, really still through August right through now, it's taking a little bit more time, but we should have that done by the end of the year.

Michael Smith: We still have work to do, Andrew, to really ring out all of the synergies. I mean we're seeing some, but we're not seeing what we want. We're working on that. And it really comes down to really the labor side of it and the service levels, balancing those two.

Andrew Shapiro: And you mentioned in the script that you currently do not have any acquisitions in the pipeline. I was wondering what might have happened to those where there was purportedly at least some level of interest, but the company did not yet have the money. Did those businesses get sold to someone else rolling up the industry? Or those sellers really weren't ready to sell? Or is it a matter of price in (mobile.)

Michael Smith: Yeah, no, I don't think it's that. I think some of the — and I can only talk from the time that I've been here, but that was probably the top priority that we had. And we worked with our general manager — VP and general manager, Morgan, up there, and I mean some of the things that were on the radar screen were just too big for us to digest, you know, $10 million to $15 million acquisitions. We really haven't seen — there's just not very much activity in that space, the size, sort of the $1 million to $4 million that we're looking at. Again, three of the opportunities that we had were $10 million to $15 million opportunities, and there's just not really — there's more buyers out there right now than there are Central Stations for sale. And I mean we continue to have talks. I mean we're very active. As I said, we've brought in four industry M&A specialists. Actually put 1 on retainer. So, I mean we are actively scouring everything. I mean we're on top of it. I mean the good news is that Morgan and his team out there continue to grow the business despite the fact that we don't have any acquisitions. But, I guarantee that we're very comfortable that we're covering all the grounds. The only other acquisition that we've run across is one that we negotiate with the owners and they don't want to move the Central Station, and that doesn't work for us. I mean when we buy it, we need to tuck it in. We don't have that luxury to get multiple Central Stations.

Andrew Shapiro: Right, OK.

Michael Smith: So, the answer is, no, at this point, we don't have anything that we're actively in the due diligence process or dealing with right now.

Andrew Shapiro: OK. And regarding the one-time charges, just want a clarification. The charge for termination of the contract with the deer spray vendor, that went through SG&A or cost to goods sold?

Greg: I put that through SG&A. I look at that as a selling expense or a capitalization of a contract. So (1 question.)

Andrew Shapiro: OK. The …

Michael Smith: And, Andrew, just so you know, the background on that was it's a product that was released a couple years ago. And we, unfortunately, had entered into a long-term supply contract with that person that was a valid solid contract and we needed to negotiate our way out of that because we actually didn't sell any of the product.

Andrew Shapiro: OK. Now, the inventory. The days inventory at the end of September remains quite high. And I'm trying to understand what are the remaining risks in this inventory after you've taken a $200,000 write-down in the Security Products Division. But what are the remaining risks in the overall inventory and what division is the biggest remaining risk on the inventory? Is it the personal defense spray or is it still the surveillance area, so you have no inventory (inaudible.)

Michael Smith: The biggest risk — I mean it's the surveillance business, and it's primarily DVRs, cameras, monitors, things like that. So that's really where the bulk of all that is. Mace personal defense inventory is actually very good. But that's where the risk is. Greg, do you want to (inaudible?)

Greg Krzemien: Yeah, yeah sure. I mean just give a little more color on that or detail. The inventory in Vermont for our Personal Defense was about $1.3 million at the end of September. And, again, that's turns fairly well. We really aren't stockpiling anything. We order the supplies, the components just in time. We manufacture literally the week or two weeks in advance to keep it fresh. So that I'm very comfortable with as moving well. And the remainder, about the $1.6 million, $1.7 million as of September was in Mace security products. In there, was about $350,000 related to IVS, so when we take that amount out less the reserve, we really have about $1.3 million of remaining inventory there, again, with the subsequent event disposition. And in that $1.3 million, about $1.1 is really pretty new inventory product that we developed late last year, early this year in the newer lines of business, and maybe $150,000 of really reserve written down older stuff that we're working on liquidating. So, I think from a balance sheet perspective, we're pretty well covered, and our probably biggest challenge is moving that million dollars of more current products in the electronic business.

Andrew Shapiro: OK. What is paid off? It sounds as if on the debt — you went through it — you had the mortgage on the warehouse, which will get taken care of when it's gone. You got a mortgage on the Arlington Car Wash, which will get taken care of when it's paid off. And then, the (end quarter) notes and that's about it and some letters of credit?

Greg Krzemien: Yeah. We have about $160,000 of capitalized leases and equipment, many of those which were inherited, and then the remaining note with Merlin. That's it.

Andrew Shapiro: OK. Regarding that note with Merlin, it has a convertible feature, which is caused obviously all this derivative stuff, yada, yada. But, what I wanted to get a handle on is there's some time horizons here for which they have either to convert it or to lock in certain features subsequent to the close of the Rights Offering. Can you simplify that and break that down into English as to how long in particular they have to convert and if you have an indication what their plans are?

Greg Krzemien: Sure. I mean as far as the conversation, they have the opportunity to — first of all, they have the opportunity to ask for payment on the debt from September 27 right through March 27 of 2012. So, if after March 27, 2012, the note is not called to be paid off, then it extends automatically to a maturity date of March of 2016. And, really, anytime from now through the ultimate maturity of March of 2016, the note can be converted into stock at $0.21 a share, which would be, I believe, like $6,666,666 shares.

Andrew Shapiro: Right. Is that $0.21 a share lockdown or is that a trailing measurement?

Greg: No, it's lockdown. It was measured at 10 trading days after — starting to be measured after the 30th trading day after the Rights Offering was completed. So, that is a locked in number now.

Andrew Shapiro: OK. I have other questions. I'll back out in the queue in case someone else has some questions? But please (inaudible.)

Greg Krzemien: Sure.

Operator: Again, to ask a question, please press star, then the number 1 on your telephone keypad. Your next question comes from the line of Richard Ginsburg with G3 Capital Partners. Your line is open.

Richard Ginsburg: Hey guys, I'm a new shareholder with the company. And, Greg, I appreciate the little intro, it was very helpful. On the wholesale side of the business, are there any dealer concentration issues in that 65,000 account base?

Greg Krzemien: Well, I mean I will tell you, Richard, that about 92 percent of the dealers are in California. So, I mean, we disclosed that concentration actually in our risk factors. The other 8 percent are probably in about 8 to 10 different states, pretty much, you know, West Coast type states.

Richard Ginsburg: Yes.

Greg Krzemien: By the main concentrate that I would mention.

Richard Ginsburg: But, do you have any big like dealers that are like kind of 10 or 15 percent of the (RMR), for example, that could fit these (inaudible) if they sell their company or move out?

Michael Smith: No, there's nobody that that's significant.

Richard Ginsburg: OK.

Greg Krzemien: If you look at the — we have 490 dealers for roughly 65,000 end users, so that average is, I think, it's about 130-135 end users per dealer. So, you know, there's not a — there really isn't like an 80/20 role going on here. It's really pretty well dispersed.

Richard Ginsburg: As (inaudible) the business, have you guys looked at possibly (demand) helping these dealers with financing, their accounts or partnering up with someone who can offer financing as a way to attract new dealers and maybe keep existing ones?

Greg Krzemien: Are you talking more about the dealers — oh, in the Wholesale Monitoring Business?

Richard Ginsburg: Yes.

Greg Krzemien: We have not looked at anything like that.

Richard Ginsburg: No.

Greg Krzemien: One thing we have started to do recently, which is starting to add some revenues, probably be more of a discussion item in the fourth quarter, is actually starting to sell some equipment; video monitoring equipment, surveillance equipment. Two dealers, which is nice because, you know, not only are we making some profit margin on this equipment, but we're security RMR reoccurring monthly revenue. And, especially on the video products, that's a much nicer rate than just the normal door alarm monitoring. So we have movement to that, Richard, but we haven't done any kind of financing with dealers at this point.

Richard Ginsburg: All right, great. Again, I appreciate the detail in the call. Thanks guys. That's (what I'm looking for).

Greg Krzemien: I appreciate it.

Richard Ginsburg: Thanks.

Greg Krzemien: No problem.

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

Andrew Shapiro: OK, some follow-up questions here. Mike, you mentioned about a million dollars of costs either have been identified or extracted. Wanted to get a clarification. Have they already been extracted? And when we refer to the number, whether it's a million or whatever, in costs. I've been here for awhile, I've seen multiple reworks that have been intended to cut costs, and in the representation of those cost cutting, there's always this look back where it all seems to be cumulative and adding on. And I'm kind of just interested in what's been cut and coming out of future costs and adding to getting us to break even from the end of last quarter or, you know, when you started on as CEO.

Michael Smith: Right, yeah. The answer to that, Andrew, is basically the million dollars in cost cuts, the majority of them have already been taken out. There are things, for example, when we sell the warehouse; OK, that’s included in some of the cost reductions. There are a couple personnel like our HR person that we put on a contract that will end at the last of the year. That’s minimal. That and we have a small consulting agreement with one of our IT guys that lives out of California. You know, it’s I think a total of $20,000 over the year. But, you know, other than sort of the physical assets, (these) people, these costs have been removed from the business. So we should see the impact of that certainly in the first quarter of next year.

In regards to any circle backs or additions or any of that, the answer is no. The only thing that we don’t have in our numbers that we’ll be dealing with our planning process is we are planning to bring in three major account — national account direct sales managers, OK, in Vermont. And that will be part of our planning, and that will be added back. But all of the marketing expenses and all the people are basically out of that number. So there’s no circle back with anything other than three direct sales people that will begin selling for the big box retailers direct. This is, I think, the first time that, you know, in a big way that we’ve done that, but we think the conditions are right. We’re very comfortable.

You know, if you take a look at our business in Vermont, most of it is sort of planned business. It’s the sporting goods, the hunters, the runners, the vacationers that go and buy Mace as planned. But, if you take a look at the auto aftermarket and you look at the placement in their stores, for example, Pep Boys, we’re right up front by the point of sale. I mean, we’re seeing the impulse sales scenario. And Paul Crouch, who we brought on board, is coming from a very similar space where he took a business that was $4 million and drove it over $25 million doing exactly what we’re trying to do which is get into the mass merchandisers. And I think we’ve proven that with the Sears/K-mart account that (Sara Butterfield) has done up in Vermont. I mean, we’re seeing some big benefits. And when you go to those customers direct, 2 things happen; 1, you get better margins and, 2, you get bigger quantities. And that’s really where we’re focused on. Moving volume and we got great margins there. We think that we’re going to be able to maintain them because we have a very strong manufacturing group as well up in Vermont. So, we’re very comfortable with the strategy and comfortable that the time is right to get back to the core business and really try to growth out of it.

Andrew Shapiro: OK. A few follow-up questions on your answers here. Regarding the warehouse sale, so where will the current ops that are housed there, presumably with IVS gone it will be a lot smaller, but where will they get moved to and thus creating our reduced costs?

Greg Krzemien: Andrew, what we're looking at is some leased space. Leases are very attractive right now. So we're working with a broker. We've narrowed it down to a couple of spaces. We're looking to lease about 17,000 to 18,000 feet. Our warehouse that we're selling is about 45,000 feet, which includes about 5,000-6,000 or office space. So, we definitely don't need the kind of space we've had. Again, we're finding loaded real estate with (Cam) in the $4.25 range. So, we feel pretty comfortable that we can drop our costs on an annual basis, you know, about $85,000, $90,000 a year by shedding the warehouse and moving into some very well-priced (inaudible.)

Andrew Shapiro: But you'll stay in Texas.

Greg Krzemien: Correct. We are looking to stay in Texas. Proximity, it's a nice central location.

Andrew Shapiro: How credible is the buyer and what is the deposit?

Greg Krzemien: I think it's very credible. What's nice about it is the buyer for use versus an investor. It's a buyer who is buying it to run the business the building was built for, which was a ceramic tile and marble industry. He's very serious about it. He put up $50,000 deposit. He was originally supposed to close at November 15. His financing needed a couple of more weeks. We actually have the $50,000 money (inaudible) deposited in our account, and they're really focused on maybe even trying to close before December 15. So, I think it's very credible and I think it's very highly probable it's going to happen.

Andrew Shapiro: OK. And following-up on a further part of Mike's answer regarding consumer products and building out of direct sales force and all that. Direct sales force build-out was attempted under the prior regime in the electronic surveillance. And it was attempted not once, but twice, and where we incurred a bunch of fixed costs and did not get the benefit of increased sales. What is it that you're doing or how are you structuring things so that perhaps we're on a much more variable basis with your build-out of a direct sales force for this division?

Michael Smith: Well, I mean basically, as far as the surveillance business, I mean from a standpoint of consumer versus professional, I mean the market is just in total disarray. So I don't really know exactly what happened in the past with the sales guys and why they didn't work out. I wasn't involved in any of that, but, you know, that's not where we're investing. I mean the folks in that division understand that our drive is to get rid of all this inventory that we have. We need to do that because we have a fair amount, OK, and we have worked with those guys. As a matter of fact, right now, we're actually hiring some complete commission sales guys that do that that we don't have any overhead other than paying commission to. Now, shift back up to Vermont. I mean that business at $5 million is absolutely ripe to have direct, you know, national account mangers calling on major retailers. We have the name. We believe we have the products. We're going to have to do some more product development. We really haven't done much product development out of Vermont in the last couple years. But we truly believe, and from my experience, is that that will be very, very successful. We're seeing the impulse sales strategy work at the Sears and K-marts, and we believe that we're going to be able to penetrate some very large accounts and drive significant revenue and significant profitability out of that division.

Andrew Shapiro: And you have an estimated time horizon for which we should circle back with you on accountability for success for that effort?

Michael Smith: Yeah. I mean I would tell you that, you know, the second half of — I mean we still have to go out and we still have to — we have our (VP) sales in place. We still have to bring these folks on and we have to get them prepared. But, you know, we fully expect the new sales people to bring in a significant amount of revenue for the last six months of 2012. This isn't a year process. We're going to bring experienced people in and arm them and, you know, then hit the Targets and the Walmarts and (inaudible).

Andrew Shapiro: But those guys usually have a process. Don't they have a time-consuming process?

Michael Smith: Well, it's all based on time of year. But, we should be hitting that process at the right time if we can bring people on, you know, in January. Obviously, if we wait until the second half of the year, then we will miss the process. But, we have all of that. Our new sales manager has all of the processes down. He knows exactly when the buying cycles are. He comes from literally a business that's right next door to us, which is mosquito sprays and After Bite and, you know, those type of products. So he's dealing with a lot of the same buyers. He's impacted those big people like sold to Target, sold to Walmart, you know, and a lot of the other big box retailers. So, that's really where we're focused.

Andrew Shapiro: Now, you said as long as we get things in place by around January, and you said in place in Vermont in January. I saw the company exercised its option on the Vermont lease to extend to May 20, '12.

Michael Smith: That's right.

Andrew Shapiro: What's the thinking on plans for this location after that relative to a more, if there is a more, efficient place to house and to run direct sales?

Michael Smith: Well, I mean I think the plan is we signed a 6-month lease or extended the lease for another 6 months. And I think all of that's being evaluated. We haven't made any decisions about that at this point.

Andrew Shapiro: Right. But, I'm wondering if you're hiring (inaudible.)

Michael Smith: We certainly have the option of continuing staying …

Andrew Shapiro: If you're hiring people to be direct sales with the idea they'll be located in Vermont.

Michael Smith: No. The national account managers will basically be spread out regionally and will not work out of the Vermont office.

Andrew Shapiro: OK.

Michael Smith: OK. They will be selling around the country, so …

Andrew Shapiro: OK. All right. Then, let's see here, I have a few other remaining questions on CBD for sure. Is there any update on the shipboard defense systems and their interest in doing a trial order for one of their ships in the anti-piracy markets?

Michael Smith: No. The last discussion that I had with John Goodrich was that there wasn't really any interest. He was having — actually, couldn't even find who was actually — who would actually do the buying for that. So the answer is no. I don't think there's any interest at this point.

Andrew Shapiro: OK. The asset impairment charge on a Car Wash, that is not the Car Wash that was just put under contract, but a different one. Is that right?

Greg Krzemien: That is correct, Andrew. It's a different one.

Andrew Shapiro: And is that what we think will be necessary to get these other Car Washes out of here in addition to obviously the current Arlington one under contract?

Greg Krzemien: That's exactly right. That was my thought process. I wanted to, you know, you could ask anything you want. But, I got a lot of advice in the last quarter on what I might need to price to get rid of these other ones, and I just wanted to make sure I was in a position to move them as quickly as possible.

Andrew Shapiro: Yes. And the current Colonial one, the large one in Arlington that's under contract now, what makes you think this different buyer is more credit worthy than the last one and that this one's going to close? Do you have deposits, other clauses in the contract?

Greg Krzemien: Yeah, I mean, I guess, Andrew, after the first buyer, I was a little bit more cautious, you know, of entering into an agreement and did some prescreening understanding the net worth of the investor behind this new group and understanding better where they are in their financing. And actually have some letters of preliminary indication from banks based on them already reviewing the background of the investors and their plan that they're ready to move forward as soon as due diligence was done. So, we just did a little bit more homework before we entered into any kind of agreement and took any kind of an escrow deposit. We did take a $50,000 escrow deposit as well on the site that will go hard after a 30 day financing and due diligence period. So, you know, we also had to do that to make sure that they were real when they felt they were real.

Andrew Shapiro: OK. And given they're all in the same area and your buyer for the last ones was the perspective buyer of this one and then fell out of bed, and this is a new party entering into the area with this contract. Is there increased interest percolating for your other remaining Car Washes?

Greg Krzemien: To be honest with you, the last 2, Andrew, not a lot of interest. The one is a leased site, which we really have on the books for no value at this point. We still have about 4 years remaining on the lease. And then, the other one is a small site that we now wrote down to about $550,000, which I think talking to some brokers is on the low side. Now, that we listed with a broker I'm going to say about 45 days ago — a pretty well-known car wash broker. He's had about 6 or 7 visitors so far. Two or 3 have indicated that they are going to be making an offer. They're just doing a little bit more due diligence on information we provided. So, I won't say that the demand is going crazy, but I think when we're down to these, we'll sharpen our pencil and people to do what we need to do to get rid of them.

Andrew Shapiro: Yeah. And are these Car Washes — some of them were small money losers and you had a money maker — but are they carrying their weight here as we go into the winter, and what are their prospects for whether you're going to shutter some and just have them as real estate instead of having a burn rate out of them?

Greg Krzemien: Yeah. I think we do the math just about every month. And right now, with the fixed costs, that would be the real estate taxes, and particularly, the lease site, the lease payments. You know, it depends on the weather. Vermont, the small site and the lease site typically burn a little bit of cash. Going into the winter months, they are stronger months. We hope to mitigate that, but we definitely — even if we have a small burn when we sell the big site, it will definitely be a lot less than the fixed cost structure that there was a special real estate tax in the lease as a minimum utility. So, we're just going to try and run these as tight and as lean until we get rid of them, and we're really going to step up that effort to get rid of them.

Andrew Shapiro: Right. And, again, I think you mentioned it. I didn't write it down. What is the NOL balance right now through quarter end?

Greg Krzemien: About $55 million.

Andrew Shapiro: Fifty-five million on your NOL. And lastly, we're currently on the hook for John Goodrich's legal defense costs. What is the status of his legal situation and the company's continued or perspective legal costs? Is there a likelihood of a settlement agreement, a plea bargain or, you know, going all the way where it will end up being appeals and we'll have more costs.

Greg Krzemien: Yeah, I mean we really don't know. It's not us to say where John is going to go with this, so he's, I guess, making up his own mind as to whether he's going to be going to trial or whether he's trying to settle it or not. I can tell you that we spent about $70,000 to-date, you know, as far as advancements go. And I think we disclosed that in the 10-Q. Our estimate and from me talking to our counsel, if it were to go to trial, it may be another $150,000 to $200,000. Obviously, if it doesn't go to trial and it settles, maybe it's another $20,000-$25,000 of advancements. So, obviously — and it gives a pretty big range —but we're continuing to do what we're supposed to under the by-laws to support John as long as he's not considered guilty.

Andrew Shapiro: And the timing for when a decision to go to trial occurs is coming up to when?

Greg Krzemien: I don't know an exact date, Andrew, but I would assume it's coming up in the next couple of months just by the longevity since we settled our case, which was at the end of last year, so I imagine it's coming up.

Andrew Shapiro: All right. And lastly, Mike, with no (inaudible) position on the horizon inside of the Central Station where there's obviously clear synergies, huge margin opportunity on an acquisition. And your plans of building up a direct sales force, which you talked about in terms of payback with organic growth maybe in the second half of 2012. And then your cost…

Michael Smith: Andrew, I just note the direct sales efforts that we're making will not enter into Mace CS. They will not be involved in that business.

Andrew Shapiro: No, yeah, I'm sorry if I said that. I understand it's in the (inaudible.)

Michael Smith: OK, I'm sorry, I …

Andrew Shapiro: But with no new acquisitions going on there, it's just going to be organic growth. And then, you have this investment in direct sales efforts up in the consumer products, but the payback on that, organic payback's not expected until the second half of 2012. OK?

Michael Smith: Right.

Andrew Shapiro: And then you have these cost cuts you described; some of the million annual rate of cost cuts kicking in at the end of December, when you close on the warehouse, et cetera. OK? What are your thoughts as to when you think this company would be at a breakeven cash flow, first off X of public company costs and also, break even when one even includes public company costs?

Michael Smith: Well, I would say, Andrew, that at this point I'm not — I mean basically we're going through our planning process. I would tell you that there's no silver bullet here. It's going to be measured somewhere in probably the 18- to 24-month to 28-month arena, as far as I can see, as far as some of the preliminary projection. I haven't done it with apples to apples.

Andrew Shapiro: But, that's (inaudible) acquisition in CS?

Michael Smith: That's, yes, that's no acquisitions. But, obviously, we believe not only — I mean we're going to continue to go after the acquisition with Mace CS. I mean we're talking to people, but there's nothing solid or concrete. And there may be some acquisitions that we can do certainly over that period. Up in the pepper spray business as well, it might compliment that. So …

Andrew Shapiro: Right.

Michael Smith: We're going to actively and are actively looking for opportunities in both of those areas.

Andrew Shapiro: OK. So the goal is to get this burn rate down because we don't want to have to do another money raise.

Michael Smith: Exactly.

Greg Krzemien: And it is going down, Andrew. I mean these cost cuts, you know, some of them have kicked in earlier part of the quarter; some are kicking in the later part, so it's just the warehouse. But we do, you know, we do feel that that will take about $80,000 a month, you know, somewhere in the $80,000 a month off the burn as we approach the end of the year here. And, you know, it's a function of getting the revenues up. And, as Mike said, excited about getting them up. As we move through next year, we look to continue to reduce the burn and get ourselves out of the situation.

Andrew Shapiro: And I guess if you don't make an acquisition or until you make an acquisition, you do still have then a boat load of cash.

Michael Smith: Yeah, I mean that's exactly right. And I mean there's no silver bullet here. It's just chopping wood and hauling water and really getting ourselves positioned. We obviously — I think everybody in the company is very aware of what we're trying to do. And I think the guys in Florida understand exactly where they're at. We're trying to convert them over. I mean we do see an opportunity to take some of the CCTV business and repackage it, put it into the retail channel. I mean the guys in Vermont right now are selling a wireless burglar system that we're doing just under a half a million bucks a year at.

So, we think there's that opportunity. I was talking to (George Martinez). The margins on the consumer business out of Florida are certainly much better than the professional. It's just we need to get the inventory down there and make a conversation over to that without having a loss. I mean we can't take the kind of losses that they put out there. But I think everybody is in tune. Everybody's working in the same direction and everybody understands what we have to do. But we definitely think that going back to the basics in the pepper spray side of it is a real opportunity for growth while supporting Morgan and the people at Mace CS. And, believe me, if there's an acquisition that we see that makes sense to us, I don't think at this point it's the multiples Andrew. I mean the multiples that we've been talking to, the pro guys, are actually, we think, reasonable multiples. So I think it's just finding these opportunities.

Andrew Shapiro: Right. And with respect to the Mace brand, especially with the company's new found emphasis on the consumer products division, to the extent you guys license the brand name to credible partners in product lines that we're not in or going to go in, that would (inaudible) …

Michael Smith: (Yeah, I think that's certainly a possibility).

Andrew Shapiro: Licensing efforts.

Michael Smith: But we have not done that yet. I mean we're really focused — I mean we're going after volume right now. We need to get these guys on board and we need to get in front of the major retailers because we think, again, with everything going on in the world and all of the unrest and all of the unhappiness, we think that there's a great opportunity coupled with putting it in front of vendors and securing it with anti-shoplifting tags that we can drive a lot of business, everywhere from college students to all the way up through grandparents and on an impulse buy at $15 or $16 bucks a pop.

Andrew Shapiro: Yes. Great, thank you very much. No more questions from me.

Operator: There are no more further questions in queue. I turn the call back over to the presenters.

Michael Smith: Well, thank you very much. We appreciate everybody on the line and look forward to talking to you in the future.

Greg Krzemien: Thank you.

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

END