MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
November 5, 2014
4:15 p.m. ET

Operator: Good afternoon, my name is (Kaitlin), and I will be your conference operator today.

At this time, I would like to welcome everyone to the third quarter 2014 results conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad.

If you would like to withdraw your question, press the pound key.

Thank you. John McCann, you may begin your conference.

John McCann: Thank you, very much, and thank you for taking the time to listen and participate on this conference call. I will save the majority of my remarks until after Carl's presentation.

But suffice to say, we have made tremendous progress in the last two quarters, and we are looking forward to ending the year strong.

We've increased our distribution in the quarter and continue to lower our overall costs and overhead structure. I do want to note, we will be participating in the mid-West financial conference in Cleveland, Ohio on 11/18/2014.

And we will also hold an investor field trip on 11/19, which will begin at nine am at our corporate offices in Cleveland, Ohio. We put out a press release to that effect today.

And then, lastly, I want to – before Carl begins his presentation, I want to direct you to our Web site for a PowerPoint presentation that we'll go through after Carl's presentation.

If you go to corp.mace.com, investor relations, transcripts and presentations, 2014 third quarter 2014 – you'll see two different presentations:

One about the marketing achievements in the quarter, and then, a quarterly recap of everything that we did in the past quarter.

Now, I'll turn over the call to Carl Smith, our CFO and senior VP of operations to read a forward-looking statement and go through the third quarter results. Thank you.

Carl Smith: OK. Certain statements and information during this conference call will constitute forward-looking statements that are based on management expectations and information currently in the possession of management.

When used during our conference call, the words or phrases will likely result, are expected to, will continue, if anticipated, estimate, projected, and intent to or similar expressions, are intended to identify forward-looking statements.

Such statements are subject to certain risks. Known and unknown. And uncertainties including but not limited to economic conditions, limit of capital resources and the ability of management to effectively manage the business and integrate acquired businesses.

Such factors could materially, adversely, effect Mace's financial performance and could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during this call.

I will now go over our third quarter results.

John McCann has incorporated some of the data that I'll be covering in his PowerPoint presentation.

Consolidated third quarter net sales were $2,203,000 compared to $1,951,000 for the third quarter of last year – an increase of $252,000 or 12.9 percent.

This increase was mainly attributed to a $340,000 or 25.5 percent increase in net sales of our pepper spray product.

Primarily, through our consumer channel, which was up $275,000 or 52.2 percent, compared to prior year third quarter.

Surveillance sales for the quarter totaled $341,000, compared to third quarter net sales of $310,000 – a $31,000 or 10 percent increase over last year.

Offsetting this increase was a $97,000 decline in our tactical line of products. Net sales of tactical products consisting of our take-down line of products for law enforcement and security personnel, and our TG Guard protection, security protection systems – were $81,000 for the third quarter, compared to $178,000 last year.

This is a decrease of $97,000 or 54.6 percent.

This decline is mainly attributed to timing of a TG Guard protection system sale in Q3 of last year.

And I want to note, we had a favorable timing variance of $92,000 in Q2 of this year, which is attributed to the sale of a TG Guard protection system.

And for the year, tactical sales are up $10,000 or three percent for the year.

Non-aerosol, which includes Big Jammer, wireless alarms and other non-spray products were $83,000, down $27,000 compared to third quarter of 2013.

I'll move to gross profit now.

Consolidated gross profits for the third quarter totaled $887,000 or 40.3 percent of net sales, compared to $638,000 or 32.7 percent of net sales in the third quarter of 2013.

This is an increase of $249,000 or 39 percent and 7.6 pointsof margin.

The higher margin dollars and margin percent for the quarter is attributed to several factors. We had an increase in net sales for the quarter of $252,000.

We had lower freight costs in the quarter. And we had favorable overhead variance of $119,000. This variance is due to a combination of both lower overhead costs and increase production for the quarter.

Noting that in the third quarter of 2013, we had some severance and we had lower absorption due to the move, where our productivity in the third quarter of last year was down pretty significantly compared to this quarter.

Selling general and administrative expenses for the third quarter ended September 30th, 2014, were $1,095,000, compared to $1,590,000 in the prior year – 50 percent and 81 percent of net sales respectively.

This is a decrease of $495,000 or 31 percent.

The $495,000 reduction in SG&A is mainly attributed to $336,000 in severance in move-related expenses in Q3 of 2013.

$108,000 reduction in professional services this year compared to last year.

And a $35,000 reduction in salaries and inside sales commissions, on higher sales of $252,000 for the quarter.

Net interest income and expense was $6,000 of income for the quarter, compared to net expense of $39,000 for the third quarter in 2013.

The increase in income is attributed to the interest income we are receiving on the Security Partners note, which was a note related to the sale of the central station that took place in December of 2013.

Other income and expense included a one-time charge for the write-down of the note that we had received (held over) from Security Partners.

As a result, net loss from continuing operations for the third quarter was $325,000, compared to a net loss of $1,017,000 – a $692,000 improvement over last year.

Net loss for the third quarter of 2014 was a penny-per-share, both basic and diluted, compared to a net loss of two cents per share, both basic and diluted in the same quarter a year ago. An $820,000 or one penny per share improvement.

EBITDA for the third quarter of 2014 was a loss of $291,000, compared to a loss of $1,063,000 for the third quarter of 2013. A $772,000 improvement for the quarter.

Now, EBITDA, adjusted for the one-time charges for the third quarter of 2014 was a loss of $135,000, compared to an adjusted EBITDA loss of $470,000 for the third quarter of 2013.

At this time, I would like to make a few comments on our balance sheet.

Company's net book value was $10.6 million at September 30th, 2014, compared to a net book value of $11.9 million at December 31st, 2013.

Mace had a $13.4 million in total assets, including $6.3 million of cash in short-term investment at September 30th, 2014, compared to $7.6 million at year-end.

We had positive working capital of approximately $9.4 million and a current ratio of 10.6 compared to $10.8 million at December 31st 2013, and a current ratio of 7.2.

Total debt at September 30th, 2014, was approximately $1.2 million. Consisting mainly of our debenture note with Merlin Partners, with a maturity date of March 30th, 2016.

Now, I'd like to thank you, and turn the call over to John McCann, our president, who will go through the presentation that, hopefully, you were able to have a chance to open up from our Web site.

John McCann: Thanks, Carl. So, once again, if you go to corp.mace.com, investor relations, transcripts and presentations, 2014, third quarter, 2014.

I'll give everybody a minute.

Basically, I won't go through the whole presentation, because I think Carl hit most of the highlights. I'll just, kind of, give a brief summary, and basically, obviously, page three is the forward-looking statement.

Page four, I just want to reemphasize – as we disembarked or sold off non-core assets that we have three very core assets, which is Mace International Group, which is our operating company.

And then, our consumer division, our tactical division, which, within our consumer division, is where we direct sales – our sales – through different channels of distribution.

Our Web sales and also our growing number of big box store sales. For example, in the quarter, we were able to gain a relationship with Meijer. We started shipping Lowe's. We were shipping Wal-Mart.

So, net division comes with a variety of store channels.

The Mace tactical division is one that will spend a little bit of time I'm talking about, because we have a huge opportunity for growth.

We've landed the contract with the city of Cleveland on a three-year deal to provide their police department with products.

We've restructured that group and we just left the International Association of Chief of Police shows with very positive results on many officers looking at our product, versus a year ago when they weren't – or three years ago, when we weren't even present in the jaunder, if you would – to now.

We feel we're very poised and ready to have a lot of positive activity in that segment.

Page four – sorry, page five and six, is basically just a recap of everything Carl did.

I do want to note – AutoZone, our sales department has done a wonderful job of re-crafting the program and adding a couple different items, especially a pink personal item.

Their sales have grown tremendously and it hasn't been a cannibalization of sales.

It's been an increase in sales, because the current skews that were in there are not losing sales volumes in the new skews.

It's added it to the whole, which is good for us, because we can use that to talk to other retailers to talk about having a variety of pepper spray products within their set, in order to make sure they hit every segment of the market.

Page six is basically just what Carl just talked about. One of the things that I just want to note is, we're constantly looking at our overhead and our variances and how we can improve.

If you went back three years to today, it's completely different organization, but, yet, we still feel that we need to constantly look at how we're doing things and what efficiencies we can gain by doing them better and by, also, making sure that we're monitoring our costs, relative to our sales.

Page seven, again, is just, kind of, a brief explanation of some of the items that made up some of – especially the positive variances in the G&A.

I will note on other expense – other expense increased (frankly) 100K due to the write-down Securities Partners note.

And, basically, it's somewhat typical in the security field, where you have a period of time where you have a look back into the sale of the RMR, and there was a couple of items in there that we had both agreed that were relevant to the sale and their ongoing RMR and their ongoing customer relationships, and that's what that adjustment is lined up to be.

I would note, very positively that, we have three or four different programs in their infancy with Security Partners that are keeping our branding and our awareness within that segment.

And we still have very good access to all 1700 dealers that they're doing business with, and we plan on having new products and new programs for that group as we move forward.

So, even though there was a loss of a couple customers within that segment, it's been a very positive relationship from the sale to today.

Not really going to go through slides eight, nine and ten. Just to re-emphasize that in a quarter-year prior, we did spend quite a bit of money to identify who our consumer is.

And if you look at the professional expenses that Carl had related in the third quarter of 2013, we had taken that information and used it into selling and into our marketing programs to make sure that we relate to our vendors and our retailers who the customer is, so they make sure we have the proper programs going at the proper accounts.

I just, in slide 11, just – that's from the U.S. Census Bureau. I just thought it was important to note that retail today is still somewhat fickle.

If you look at October, retail sales were down again, where they had from April, May, June, July, relatively healthy sales, where we had another dip in the October period.

I would note that we don't have the final results from October, but we did have a positive October. We had year-on-year growth again in the October period on a net sales basis.

And then, slide 12 is just another look at that on a monthly basis, what percent it was to a year ago and the change from a year ago.

And then, slide 13 is just really an analysis from one of the trade association materials that we get – and this is from the Census Bureau – of just of what happened.

We tracked this in alignment with our sales goals on our consumer side to make sure that we're hitting the segments that make the most amount of sense.

And we have the greatest return on investment.

Obviously, slide 14 is just a recap of what Carl had mentioned, and I started doing it in a graphic format just so you could see all the changes and all the patience that you, as investors, have had – and the management team has had – in order to put together something that's getting closer to that – break even and profitability – that we are striving toward.

And, unfortunately, in this year, the first quarter was a disaster at retail but the second quarter and third quarter, we've seen positive results, especially with a lot of new things that we've implemented, both from an efficiency standpoint and a sales and marketing standpoint.

And then, really, I won't go through the rest – but slide 15, 16, 17, 18, 19, just show the channel.

I will note, on slide 18, in our opinion, it is more of a timing issue. We are working on some formulas on our direct-to-consumer, which was down in the quarter.

Our tactical, I believe, really is just timing. As Carl mentioned, on a year-to-date basis, we're up over 10 percent.

We feel we'll finish the year very strong.

And we will look to this segment to be one of the growth providers for 2015, and the same with international.

We've done some investing in our international. We've done some shows internationally that we hadn't done in prior years, and I think that will set the stage for a nice growth potential in 2015.

Surveillance on slide 19. I'll just note that we're really seeing the effects of changing out both our product line and our go-to market strategy.

Weaving in a very strong direct-sales crew with very strong technical support. And we're seeing the benefits of that work.

Smaller crew selling and a smaller amount of products that they're selling. And we're still looking at more skew rationalization in the segmentation, just to make sure that we have the best products that give us the best chance for monetization on a go-forward basis.

Slide 20, obviously you know I think Carl covered in his presentation and the same with slide 21.

Slide 22, I'll just note that, we constantly, kind of, track how many employees we have, versus how much efficiency we're getting.

And we're still seeing a very positive blend. And just, even on the employee count, I'd note that some of these are temporary employees or part-time employees that we've rolled up and to kind of give a comparable FTE year-to-year basis just to, kind of, monitor where we are and how efficient we can be and where can we drive more efficiencies out of.

Slide 23 – the biggest one that I'd note is Meijer's is a great account in the mid-West, located outside of Grand Rapids, Michigan.

And we just launched our exquisite line with them, and right now the POS has been very positive. The sales team worked very hard with the account to make sure that we had the right products in at the right time.

And the same thing I would say for MC Sports – an account that we didn't have a year ago that we just started shipping, and so far, very positive results.

The traditional channels – because sporting goods and consumer year-to-year first quarter were disastrous and every quarter since has improved. There's still room for growth and improvement in both segmentations, because not every account in each segmentation is doing as well as we would like.

But, as a whole, it's tracking very well.

As we talked about, tactical, I really believe, it is a timing issue. And then our surveillance and monitoring products, which we have more to come in 2015.

We had a nice thirteen-and-a-half percent increase in the quarter.

Just reiterating, on slide 25. Sporting goods increased, and then, really the consumer channel, which you know with Meijer's and a couple of other smaller accounts that we were able to bring on board.

Very pleased with the growth and especially the diversification. So, we're not beholden to one account in the channel.

We have many accounts that we're doing, and they're cross-sectional – from an AutoZone to a Meijer's to an Ace, where you go from automotive to hardware to general merchandise.

And it's good for us, because now, as we looked at the profiles, we see, these are the people that we want to go after. These are the people that buy our products.

Now we want to make our products accessible to their segmentations.

This is just – slide 26 – that is just a recap. We've maintained all of our exclusives.

You know I always say you know I pray that Sears and K-Mart can, kind of, revive themselves to the greatness that they had in the '70s and even in the early '80s, but we constantly maintain that relationship, and our sales continue to be strong in that segment, even though their business is not as robust as they would like it to be.

Dick's, Sports Authority, Ace, AutoZone – are all still exclusives, but then, as I mentioned before, we just started shipping to Bella's. We have a full program at Meijer and a full program at MC Sports.

And there's several regional accounts there. We've been able to rebuild our relationship with product and strategy.

On slide 27, I'll just touch on it briefly, because we signed a deal in the third quarter, and it will really have an effect on our 2015, is NITE BEAMS.

And on slide 28, there's a couple of examples of the product, but for us, it's a great opportunity to dominate that safety and security segmentation.

This is a manufacturer in Michigan that we were able to do a (code) marketing agreement with, and what we'll be able to do is extend the Mace brand and increase the NITE BEAMS brand together into different segmentations, which will allow us to have a diversified product portfolio for – for example – for running stores, outdoor and camping stores – where now, we can go in there with many products that help that retailer then become a destination for safety and security products.

We will also come up with some unique products where their specialized LED will be able to incorporate our Mace product, and so, if you're walking a dog, you'll be easily be able to have your leash on hand with Mace imbedded into it and you'll be able to grab it as you need it in the case of an emergency or in the case of another animal attack.

Slide 28, really, just shows some of the products. We're still building out the line.

On slide 28, you see some of the projected packaging that we've worked through that we'll launch at both the houseware show and the hardware show in 2015.

But we're getting some nice, small placements here and there prior to that.

Again, it's another – slide 29 shows another example in the tactical or the law enforcement community, where these products will come in handy, in situations of ambulances.

And, unfortunately, across America, there's a 35 percent increase in people with a flat tire or people on the side of the road being hit by other cars, either because of the dimness of the lights or non-working street lamps or people driving too fast.

So, this is another product where we'll be able to come in and have the Mace brand bring a solution.

Slide 30 is First Sign technologies, which has come up with some great wearable technologies that we were able to do a marketing deal with.

We have an understanding and then we're just finalizing the LOI, but we're just finalizing how we'll work together, so, I won't go into a lot of detail but suffice to say, slide 31 shows just some of the ideas that we've been able to incorporate with them.

They'll be under the Mace Wears, First Sign banner. But basically, it will be safety and security products that, especially, for our younger generation of people, they'll be able to tap their hair clip or a headband or there's several other items that we have under development, and be able to notify our central station.

It'll be a monitored product and notify a parent at the same time because it will work through some Bluetooth technology in order to alert that they feel threatened or they're in danger, and that way, we can triangulate and find them and, hopefully, and avoid situations that would be negative.

Slide 32 is the projected packaging. This is still in process, but we're pretty excited about the amount of progress we've made in the quarter just getting the deal together, and looking forward to launching in, say, fourth quarter, early first quarter of 2015.

And then, really reiterating, slides 33 through 36, some of the things we're doing. We did relaunch our Mace cameras Web site. We've seen some nice pickup for that, which is slide 34.

Reiterating on slide 35 – what we're looking at doing and how we're doing it and the main core fundamental channels that we feel we can dominate with our Mace brand name.

So, and then slide 36 is just recapping again our mission statement and what we are doing.

There is another presentation on there that's marketing, and I really won't go through it, but it just talks about a lot of the media that we were able to procure in a quarter and some of the things that we were able to do.

I will note, in the quarter, we did launch our stun guns. We haven't done any sales, but we were able to work with several different manufacturers on bringing best in-class stun guns to the market, and we will be rolling those out in a soft launch in the fourth quarter of this year and a major launch at the SHOT Show in 2015.

So, with that, that was all I had. I want to thank everybody again for their participation.

Once again you know the management team is very focused on growing not only our top-line but improving our bottom-line results and, although I'd say it's taken us longer than we expected, I think we're getting to where we need to be.

And we'd love to have a break-even quarter, but I think we got very close with everything we did, and if you look at all the one-times in there, it was very close to a break-even, so we're very pleased with the results.

With that, I'll turn it back over to our moderator and we can take questions.

Operator: At this time, I would like to remind everyone, in order to ask a question, press star then the number one on your telephone keypad.

We'll pause for just a moment to compile the Q and A roster.

Your first question comes from the line of Andrew Shapiro. Your line is open.

Andrew Shapiro: Yes, hi, thanks. One of the other products that you had announced and talked about and we've been seeing some buzz on, was a partnership with, I think it's pronounced Pangaea, but basically it's for the Defender.

John McCann: Correct.

Andrew Shapiro: Can you update us on where things stand with that and what the prospective financial strategic partnership relationships might be there and the timing of something like that?

John McCann: Sure. And I should have put a PowerPoint. The partnership is going strong. We actually have been in communication on this weekly.

They are a little bit behind schedule, so, estimated launch would not be until Q2 of 2015 at this point.

But on a financial point-of-view, I think everything that we'll experience will be in that second quarter of 2015.

And we expect it to be somewhat of a game changer if everything lines up the way it's supposed to line up, meaning that the software and hardware come together.

It will be Mace pepper spray within the unit itself, and then, obviously, aligning the marketing program, because as – just to reiterate again, the Defender is everything you possibly need in the palm of your hand – from an emergency alert, for a medical issue, to taking a picture of a would-be assailant, to having a loud buzzer sound to alert the would-be assailant and to ward them off.

To actually being able to shoot pepper spray, and communicate that you feel that you're in danger to a central station that can then triangulate your position and dispatch.

So, the Pangaea team is working very hard. They're actually still building out their structure and we're helping them with all the elements in order to launch the product successfully.

On true financial numbers, it's still TBA, because once we wrap our arms around the final cost-of-goods and whatnot, we'll be able to have – several different strategies have gone to market, whether it be a monthly scenario of one-time purchase, or give the product away and then you know pay a higher monthly fee on an annualized basis.

So, those are the things that we're still walking through, but to your point, Andrew, it's a great – it can be a great long-term partnership for Mace, because of the brand value that we bring to the table.

Andrew Shapiro: So, as a follow up, to further clarify – so, one thing that came out of what you just mentioned is, if we would manufacture and supply the pepper spray that would be in the product, there was some investment that was made.

That was on a pre-purchase of product for which we would then resell at a gross profit in terms of the product sales itself through our network?

John McCann: Correct. Both correct on both counts.

Andrew Shapiro: All right. And so, those are two examples. Are there other examples of what you envision as moneymakers for Mace to participate or join venture with Pangaea and the Defender on, that you can disclose or talk about yet?

John McCann: Some of them are still under negotiations but there is a royalty stream that we're finalizing with our friends at Pangaea, and there's also several other iterations of product to hit different segmentations that we have under discussion.

So, it would be better not to talk too much about it at this point, but suffice to say, there should be several different ways to monetize for both parties off of the relationship.

Andrew Shapiro: So, if there's a royalty involved, that's because of the Mace brand name will be used to help mover the product?

John McCann: Correct.

Andrew Shapiro: OK. That gets to my – I have many questions – but that gets to my last question here before I'll back into the queue and let others go.

Is Mace brand name is going to be on the NITE BEAMS. You've got Mace aware with the partnership with First Sign Technologies. You have Mace name in royalty generation, obviously, down the road a bit with Pangaea and the Defender.

What other things have you already signed and are moving forward on regarding, generating we'll call it high margin – very high margin – cash flow streams that are basically tied to royalties using the Mace brand name?

John McCann: There is a major one that we're going to announce, by the grace of God, at the investor call – the investor meeting on November 18th.

It is signed. It's just that some other things have to happen on the other side. It's going forward, it's just that a timing issue that our partner on that side has asked us to wait until the middle of November.

But to us, again, and our tactical range, we think this will be very profitable and very game changing. Carl said game changing and I agree.

Andrew Shapiro: You've got the deal signed and you're going to announce it fairly soon. Is that also something where the cash flow streams are, like, second quarter, third quarter, or is that something that is sooner that will help put this company finally into a sustained profitability level?

John McCann: Right now, my estimation would be the back half of 2015. But because of the – both their abilities and our abilities, it could be quicker than that.

Andrew Shapiro: OK. I'll back out. I have more questions. Please come back to me.

John McCann: Sure.

Operator: Again, if you would like to ask a question, press star then the number one on your telephone keypad.

Andrew Shapiro, your line is open.

Andrew Shapiro: Well, OK. Are you already selling the new fashion line of Mace products called – I guess you call it Exquisite? And what's the …

John McCann: Exquisite, yes. It's a good and bad problem, because we're actually on allocation, because the POS sales are exceeding our ability to manufacture it at this point, because there's some uniqueness in the manufacturing process of this product.

So, therefore, we are – Carl especially is working on ways to alleviate the inventory stress that we're feeling. Short-term.

Andrew Shapiro: Is the bottleneck in your manufacturing facility or in …

John McCann: No, this is – we own the license that somebody else has to patent on the – actually spraying methodology of it, and so, they have to ramp up because we've given them orders in excess of what they can fulfill at this time.

Andrew Shapiro: OK. And I'm assuming it's a good margin product?

John McCann: Yes. Yes. Very healthy.

Andrew Shapiro: OK. Now, with your victory in getting the supply contract for the Cleveland Police Department, with your takedown stream pepper spray – is that contract and reference point such that it's opening doors and assisting you and you're beginning to sign other, smaller police departments?

John McCann: Yes.

Andrew Shapiro: OK. And is that something where you'll be prepared or you're to provide, like, a listing of where you're placing your product and making inroads?

John McCann: Yes. At the investor conference, again, we'll go through some of the short-term, long-term successes.

Like, Cleveland's a great example, because it's 1500 officers and it's a three-year contract, which we're trying to use as a model with other departments, and we have bids out there as they come up and we have the mechanism now in order to be able to respond to bids correctly with the right people, the right places and getting the right information passed along.

But with the success of Cleveland, which is a larger police force, we will put together a list of even smaller police forces, where they're buying our products.

Some departments just – kind of, for clarification purposes – only buy as needed. Some departments have a regular purchasing mechanism that they go through.

Cleveland's a good example, where they'll rotate through product and make sure they have replenishment for their officers on an income basis.

Some smaller departments will say, well, I'm buying a case here and there as I need it and if I don't use it, I'm not buying again.

So, Cleveland is the model that most major metropolitan areas follow, that they're stocking and they're maintaining a level of safety stock, because they do have broader issues than a smaller department.

Andrew Shapiro: Right. And is there shelf life on this, whereby, after so many years, they need to replace it any way?

John McCann: Not really, because, like our product, we recommend that you replace it after a year. But, quite honestly, if it's maintained in a safe – I mean, climate controlled – environment, the product's good for at least three to four years.

Andrew Shapiro: OK. You mentioned how your camera sub-segment is, kind of, getting some re-birth.

Do you have any kind of camera, product offerings, small enough that could potentially become wearables, such as the Digital Ally and Taser offerings to law enforcement that seems to have caught everyone's eye and attention?

John McCann: We are in pretty high-level negotiations with one of the best manufacturers in this segment, about a joint venture together. So…

Andrew Shapiro: So, they're a manufacturing …

John McCann: … by the end of the year, we will be in that segment.

Andrew Shapiro: OK. And am I correct in assuming, they're the manufacturer, they make a good product but they don't have your name, and your name is what's going to open doors in the tactical side?

John McCann: Correct.

Andrew Shapiro: OK. I have more questions. Let me back out again, in case there's others. I don't want to just sit and dominate unnecessarily.

Operator: There are no further questions. Continue.

Andrew Shapiro: All right. Well, I have more. I'll just go to town on it then.

John, you mentioned something about the stun gun. Can you – I didn't write it down – what was the timing and who's the targeted market that would be buying these kind of items?

John McCann: Sure. So, the targeted market is general consumers, and the timing is, we're doing a soft launch as we speak, so we really didn't have any sales within the third quarter.

We're starting to see sales today, and it, basically, will be – to start with the Web-based community – so, our friends at Amazon, our own internal Web site and then, as we broach 2015, a full retail assortment of products.

And, basically what we – on the product side, was, we wanted, obviously, safe, easy to use, ergodynamic, right, so it would fit in your hand very nicely.

And then, we were looking at more of an oxino, if you would, feel, which is a rubberized plastic. So, that way, it was very user-friendly.

And then, we were also looking at you know $750 price points, in order to fulfill what we found as the need in the market place.

Andrew Shapiro: And where would this then retail? What kind of store?

John McCann: Like Amazon. Like today, Amazon and the Mace Web site. If you went to www.mace.com, you'll see the assortment of products there now, which are black, pink and red.

And there is some smaller sporting good, by request that some of the distributers and some of the dealers have picked out…

Andrew Shapiro: Right.

John McCann: … Because they wanted the brand extension on the Mace side and they prefer to carry a Mace stun gun than a non-branded stun gun.

Andrew Shapiro: If I can walk back to a prior question.

When you talk about this perspective partnership that would provide a wearable camera for the law enforcement community – Is that something that, once you sign the deal, it would still have then multiple quarter – I understand the timeline to actually supply and RFP and to go through that process – but would the product availability still take as long as, let's say, middle year, like the Defender is expected to?

Or is it one where the product will be readily availability, assuming a police department wants it?

John McCann: Right. I might pass on the question, if you don't mind, because we have some unique ideas within the segmentation that might transcend just the tactical application, and it, kind of, get us into a broader segmentation, and with that, since we're still on a negotiations, I'd rather wait until I could finalize on.

But suffice to say, we've had very good meetings and we have a working agreement that we both feel we can push across the finish line quickly.

To your point, to some extent, on the tactical side, once again, it's a bid. You know a typical police department has to go to counsel or they have to go to the mayor – the mayor has to approve it.

Andrew Shapiro: Right.

John McCann: So, safe to say, the second half of 2015 – it would have a major impact, but there might be some things that – ideas that we have that could speed it along into different segmentations, that are somewhat underserved today that we saw as an opportunity, and our partner agrees.

Andrew Shapiro: OK. With the change in the law in Massachusetts to make Mace and other pepper sprays more easily attainable, have you seen a significant uptick in sales and, in particular, sell-through?

Of course, you had your initial – I'm assuming your initial inventory load was part of the September quarter or is it part of the December or did it happen even in the June quarter?

John McCann: It happened, basically, in the second quarter, especially with Dick's Sporting Goods, for example, where they loaded 17 stores that had never had pepper spray prior.

It's slowly starting because of confusion with the law, confusion with implementation and on some of our distributers and some of our other accounts, and so, we're seeing a little bit of that in the third quarter.

We expect to see more of that in the fourth quarter, because articles now, even the police and other segmentations in the common wealth of Massachusetts, requesting Mace brand pepper spray and requesting pepper spray in general.

So, to answer your question, yes, we saw a tick. POS was strong, especially – God, love Dick Sporting Goods, who right away, as soon as the law was passed, gave us orders and access for displays and marketing material to put in all 17 of their locations in the commonwealth.

And then, we're slowly seeing these smaller guys that – they had to rethink their strategies coming on board.

Andrew Shapiro: OK. I have only a few more questions, but let me back out in case there was someone else in the queue.

Operator: There are no further questions.

Andrew Shapiro: OK. So, after this most recent quarter, what's the current level of Mace's tax and the operating loss carry-forwards?

Carl Smith: Andrew, that's reviewed annually and we didn't review the net loss carry-forwards on a quarterly basis, and I have that number in front of me. It's basically…

Andrew Shapiro: Can you come closer to the phone? I can hardly hear you.

Carl Smith: Sure. We do that on an annual basis, review the net loss carry-forwards, and it's the same number that it was at the end of the year as far as what I'm able to communicate to you, and I believe that number is $52 million.

If you hold on, I can confirm.

Andrew Shapiro: So, it's whatever the number was annually? $52 million, plus the year-to-date losses?

Carl Smith: Correct.

Andrew Shapiro: OK. And so, and on prior calls, John, I mean, you came close this quarter, but I'm trying to feel if there's any one time burst of cash flow that then we have a headwind in the next quarter.

But otherwise, do you anticipate as targeted in prior calls, that the quarter-ended December is a cash flow break even or better quarter?

John McCann: At this point, I'd say the fourth quarter should be consistent with the third quarter and closer to a break-even than any other quarter in our history. Recent history.

Andrew Shapiro: But you're not yet confident that it will be break-even or above?

Carl Smith: I mean, there's a possibility. You know we're having good sales. October trended a little bit higher than anticipated in the Q4 forecast.

We do have some advertising in Q4 that we didn't have in Q3 scheduled. And in looking – you know it's going to be close.

If November and December trend the way October did based on expectation, there's a possibility. But you know right now, as an accountant, my conservative statement would be it's probably going to be pretty close to the third quarter.

Andrew Shapiro: Right.

John McCann: And Andrew, as you know a lot of it's reliant on retail. You know we didn't anticipate like the horrendous retail, like – nor did any of our competitors or you know consumer product goods company – that we had this first quarter.

And right now, all indications are that, this will be a healthy October, November, December. And our POS continues to be strong, but if our POS stops, obviously then replenishment orders stops, that has a negative effect on our overall.

But looking at it today you know it would be consistent with the third quarter, if not better.

Andrew Shapiro: Because at some point, we need to grow this company to where the ups and downs of the POS and the retail reorders don't matter, and we still are profitable.

John McCann: Correct. And I think we've put in some things that are getting us there and now we have to be a little more consistent with them, and some of, like – as you had mentioned – some of the diversification of the product (inaudible) to go beyond just personal fence and the safety and security, I think, are critical, because, like for example, on our camera orders today, we have several customers that were serviced in their needs, so they're working with us on a continuing basis to replace NBRs and DVRs and replace cameras and upgrade cameras and replace accessories on a more consistent basis than ever in the past.

And then, as we diversify the product line – so, you have a little peak and valley with just pure pepper spray, right?

Hunting season and Winter season – it has tended to tick up because the time change has a psychological effect on people that – they think more about safety and security, and the Spring, you have the same thing, because you have the time change and new weather change.

Where a stun gun then, in the Summer and some of the other months, and some of the things we're anticipating launching, we'll, kind of, be more consistent on a selling point-of-view, which we'll cover more of the overhead and then, obviously, bring us closer to that profitability.

Andrew Shapiro: OK. So, can you explain – I understand why the note receivable due from Security Partners was reduced. You, I think, explained things that happened on the RMR, in terms of the look-back.

I think those two are tied.

John McCann: Yes.

Andrew Shapiro: But why or how did the renegotiation of the note itself come about in terms of extending the term and for how ling in the interest rate increase?

John McCann: Well, part of it was a negotiation because of the timing of the look-back and the specific customer in question.

So, we, in good faith, entered into negotiations with them, A, because we have several programs with them that we thought you know were important on our side, as they did on their side.

And, B, they were willing to say, OK, let's just work this out, so we were able to increase the interest rate that they're paying us.

We then extended the time frame by a couple months to them on the note. And then, right now, in full disclosure is, we're working on a marketing agreement that will allow us to make up the $100,000 through some products and some partnerships on some programs.

And one program has already started, as you're aware of, our friends (Dark Pulse) are actually looking at bringing Security Partners in on the monitoring side of that product, even though it's not branded.

It's just branded (Dark Pulse) today and that will be a benefit to Mace Security International on the long run, because it's an account they wouldn't have gotten otherwise.

So, it's got a lot of moving parts into it. The $100,000 isn't what they wanted, because the look-back, if you looked at it, the account was worth more than that.

But it was a good settlement point, with the fact that we thought that we still should be made whole on it, and they agreed, and that's why we're entering into yet another marketing agreement that would be addendum to the contract.

So, I hope that answers that.

Andrew Shapiro: Yes. And I'm glad that some of our strategic introductions to you might be coming through and generating new business for the company.

This conference in Cleveland is your first one. And I'm pleased you're doing this whole site visit, field visit, tour opportunity the next day.

Do you have any other scheduled investor relations conference activities that you've been invited to and plan to be pursuing?

John McCann: It's a great question, thanks, Andrew. So, it's two-fold, I would say in that segmentation.

We actually – I unfortunately had a death in the family, so we moved the board meeting to next Wednesday, where, at what time, the board meeting would have been the 31st.

And we are looking at the entire IR segmentation as a company, with the board's assistance to say, we're entering into the phase that we had talked about that now we need to get the message out and get more fans into the stands.

So, ergo, both an IR Firm that could help us do this that our you know talking to gentlemen like yourself, and then B, what are the right shows, because we – I have a list of shows that we could participate in and we're looking at simultaneously, saying that, if we are getting the right message out with the right message provider, then we're participating in shows – we should have a doubling effect, and both should work somewhat hand-in-hand.

So, it is a board agenda item that I'm bringing forward to say, OK, we have the fundamentals close to where we want them to be. We see the light at the end of the tunnel.

Now, we should start spreading the message you know before we're bathed in the sunlight of profitability and growth.

So, I hope that answers.

Andrew Shapiro: Yep. No, that does. And I look forward to seeing you in Cleveland, and we can go over more then if you need some inputs on some of the conference and other opportunities, call us offline and…

John McCann: Absolutely. Yes, we would take your advice both on the IR side and on the conference side because of your experience.

Andrew Shapiro: OK. Thanks.

John McCann: OK. Well, I thank everybody. I don't know, (Kaitlin), if there's anybody else. Otherwise, we can close.

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

John McCann: Thank you very much. Cheers.

END