MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
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1:00 p.m. ET

Operator: Good afternoon. My name is (Dashanta) and I will be your conference operator today. At this time, I would like to welcome to the Fourth Quarter and 2012 Results 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 in your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

Mr. Smith, you may begin your conference.

Carl Smith: Thank you, (Dashanta). Good afternoon, everyone and welcome to our call to discuss fourth quarter and 2012 results. I'm Carl Smith, senior vice president of finance for Mace. And with me today is Mace's President and CEO John McCann.

I will begin by covering our fourth quarter and 2012 consolidated results with a focus on our three business segments being personal, defense and aerosol products, the electronic surveillance products and our wholesale security and monitoring business. I will then turn the call over to John McCann for some highlights and commentary on the outlook of Mace. We will then open the lines for questions.

Before we begin, I'd like to take a few minutes to read the following forward-looking statement. Certain statements and information during this conference call will constitute forward-looking statements and 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, as anticipat, estimate, projected and intended to or similar expressions are intended to identify forward-looking statements. 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 acquired 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 this call. Now that that formality is over, let's begin with a review of the fourth quarter in year ending December 31, 2012.

Consolidated fourth quarter revenues were $3,206,000 compared to $3,283,000 for a decrease of $77,000 or 2.3 percent. This decline was mainly attributed to a $285,000 or 44 percent decrease in electronic surveillance revenues which were then offset by $194,000 or approximately 12 percent increase in personal defense and law enforcement aerosol revenues and a $14,000 increased revenues from our wholesale security and monitoring business.

Consolidated gross profits for the fourth quarter totaled $1,141,000 with an overall 35.6 percent gross profit margin and this compares to $1,338,000 in a 40.8 percent gross profit margin for the prior year fourth quarter.

The $197,000 decrease or 5.2 percentage points decline in margin for the quarter can be attributed to a lower pricing strategy implemented in the year to maintain key customers and to obtain new accounts. There are also specific fourth quarter credits issued to a couple of key customers in our wholesale security and monitoring business which is around $26,000 of credits.

Consolidated operating loss for the quarter was $1,252,000 compared to a $397,000 loss or $855,000 increase in the loss from the prior year fourth quarter. This decline was due to an increase in fourth quarter SG&A expenses of $544,000 and an increase of $114,000 in depreciation compared to the prior year fourth quarter.

SG&A expenses for the fourth quarter totaled $2,154,000 compared to $1,610,000 in the prior year fourth quarter for an increase of $544,000 or 33.8 percent. Fourth quarter SG&A expenses included approximately $330,000 and one-time severance and payroll costs. This was associated with the closure of the Horsham, Pennsylvania corporate office. In addition, the company incurred higher legal fees as it worked towards an administrative agreement with the U.S. EPA.

The increase in SG&A from prior fourth quarter is also attributed to expenditures in market research, marketing and product development totaling approximately $274,000. And then, for depreciation, the $114,000 increase was attributed to an adjustment in the lives of lease hold improvement at the Vermont manufacturing facility and was a correction of the depreciation expense.

Net loss, including discontinued operations for the fourth quarter ended December 21, 2012 was $1,506,000 compared to a net loss of $742,000 for the fourth quarter ended December 31, 2012.

Let me talk a little bit about consolidated EBITDA for the fourth quarter ending December 31, 2012. It was a negative $1,013,000 compared to prior year EBITDA of negative $272,000, a decline of $741,000.

However, in the fourth quarter of 2012, we incurred approximately $657,000 of one-time charges related to severance, duplicate payroll or transition cost related to the closing of the corporate headquarters in Horsham, PA; and the market research, legal and marketing expenses which I mentioned earlier.

Last year’s fourth quarter had minimal one-time charges totaling approximately $51,000. Taking into account these one-time expenses, adjusted fourth quarter 2012 EBITDA is a negative $356,000 compared to an adjusted fourth quarter 2011 EBITDA of negative $221,000. This $135,000 decline in adjusted EBITDA is mainly attributed to a decline in gross profit for the quarter which we addressed earlier.

I'll now turn my comments to the year ended December 31, 2012. Consolidated 2012 revenues were $12,984,000 compared to $13,858,000, a decrease $874,000 or 6.3 percent. This decline was mainly attributed to a $2.5 million or 56 percent decrease in electronic surveillance revenues offset by $1.3 million or 24.3 percent increase in our personal defense and law enforcement aerosol revenues and a $354,000 or 9 percent increase in revenues from our wholesale security and monitoring business.

I'll now expand on the $1.3 million increase in personal defense and law enforcement aerosol revenue, followed by additional commentary on the electronic surveillance product and wholesale security and monitoring business.

The growth in the personal defense aerosol revenue is mainly attributed to sales through our gun and sporting and consumer distribution channels which totaled $5.3 million, an increase $1 million or 22.2 percent above last year's sales of $4.3 million. This increase reflects success at key retailers along with a 31 percent increase, our top three selling products. In addition, combined growth our muzzle and bear product line was approximately 59 percent.

Mace also experienced significant growth in international sales which totaled $639,000 up approximately $300,000 or 76 percent as the company experienced solid growth in Europe, Asia and South America.

As I mentioned, the electronic surveillance revenues decreased by $2.5 million or 56 percent. This decrease is mainly attributed to lost IVS which is Industrial Vision Source revenues of $1 million. IVS was divested in October of 2011 and included sales of high-end digital and machine vision cameras and professional imaging components. Also contributing to the decline was the loss of large corporate accounts like U-Haul and retail resellers.

Revenues from our wholesale security and monitoring business were $4,293,000 up $354,000 or 9 percent. This increase is mainly attributed to the acquisition of the command center, TCCI, which was acquired on March 31, 2011.

Recurring monthly revenue or RMR from TCCI customers averaged approximately $123,000 per month. If you back up the increase derived from the additional three months of RMR from TCCI sales, the business segment is flat year on year. We had an average RMR for the year of $358,000 a month with 452 dealers and approximately 73,000 subscribers as of December 31, 2012.

Now, I'll discuss gross profit for the year ended December 31, 2012. Consolidated gross profits for the year total $4.9 million for both years ending 2012 and 2011 on revenues of $12,984,000 and $13,858,000, respectively. Despite the $874,000 decline in revenues, gross profits dollars were the same due to an increase in overall gross profit margins.

The gross profit percent increased to 37.7 percent compared to 35.4 percent, an increase of 2.3 percentage points. Now, this increase in gross profit margin is attributed to a more profitable mix explained by the company's divestiture of IVS which resulted in a decrease of $1 million in revenues at approximately 13 percent gross margins.

These gross profit margin dollars were mainly replaced by $1.3 million in personal defense and law enforcement, aerosol revenues with gross profit margins of approximately 49 percent. As a result, Mace Personal Defense and Security, consisting of personal defense and law enforcement aerosol products and the electronic surveillance products contributed gross profit of $3.5 million or approximately 40 percent gross margins with a balance of $1.4 million at 37.7 percent gross margins coming from our wholesale security and monitoring business.

Consolidated operating loss for the year was $3,042,000 compared to a $4,270,000 loss or $1,229,000 improvement over last year. This improvement was primarily due to a decrease in SG&A expenses of – or $1,255,000 or 14.5 percent.

SG&A expense for the year totaled $7,375,000 compared to $8,630,000 in the prior year. The savings is mainly attributed to the many cost-saving actions that we took. These actions included closing facilities, combining operations, reducing staff and payroll, going non-reporting, closing bank accounts and other actions.

For the year, noting most of these efforts were done throughout the year and don't reflect 12 months' worth of saving, occupancy costs were reduced $168,000 and salaries were reduced by approximately $900,000.

Net loss for the year ended December 31, 2012 was approximately $4 million or 7 cents per share, compared to a net loss of approximately $5.1 million or 15 cents per share for the year ended December 31, 2011.

Weighted average share for computing loss per share for the years December 31, 2012 and 2011 were $58,946,441 and $33,643,384, respectively.

Consolidated EBITDA for the year December 31, 2012 was a negative $2,475,000 compared to prior year EBITDA of negative $3,722,000, an improvement of $1,247,000. EBITDA for 2012 included one-time expenses of approximately $1.2 million. These expenses, as highlighted throughout the presentation, included cost for severance, duplicate payroll during transition of corporate staff, moving expenses and other one-time expenses. Taking into account one-time charges, EBITDA would have improved to a negative $1,275,000.

At this time now I'd like to make a few comments on our balance sheet and cash flow items. The company's net book value was $13.5 million at December 31, 2012. Mace had $16.6 million in total assets, including $4.9 million of cash in short-term investments at December 31, 2012.

From a balance sheet perspective, we continue to maintain a low leverage ratio of 7.4 percent at December 31, 2012 based on debt of $1 million and equity of $13.5 million. We had positive working capital of approximately $8.5 million at December 31 and a current ratio of 5.6.

Debt at December 31, 2012 is $1 million with our debenture note with Merlin Partners basically accounting for all of it at $980,000 and the maturity on that is March 30, 2016. Inventory at year end was reduced by approximately $280,000 from December 31, 2011.

From a cash flow perspective for the 12 months ending December 31, 2012, we used approximately $4.3 million of cash in operating activities, about $500,000 in investing activities, and $600,000 in financing activities for a total use of $5.4 million.

At this point, I'd like to thank you for joining us this afternoon. And, now, I will turn the call over to our President and CEO, John McCann.

John McCann: Thanks, Carl. I began the position of taking over for a year now. There's more work to do than I had anticipated when I originally take over, but I feel we've overcome a lot and we've done a lot in the first year.

We still have a lot of obstacles to overcome when it comes to the end of the day as we define the organization, overcome the fears and lack of information our consumers and buyers have about our product. But we started the process with our research, our product development and also our Web site redesign that were all expenses that we incurred in the fourth quarter of the year.

We continue to look at 2013, but I want to give you a quick review of 2012 just to give you an idea of how much work was done. We shut ourselves of the office building lease in Horsham, Pennsylvania; we removed the cost of four outside storage facilities. We're still defining what we do with our storage on a go-forward basis because, as you know, we have many carwashes that we have to store the payroll and some other pertinent information. Carl and I are working on a program to make this a virtual storage instead of a physical storage.

We eliminated the Walnut Creek HR office, we eliminated the Texas warehouse facility lease which was really just related to our security products business that didn't make sense on a go-forward basis. And, lastly, we eliminated all but one carwashes.

We have one carwash left to sell. We have eliminated all other leases and all other expenses. We are no longer operating carwashes. But we have one carwash that we continue to look to sell. We have to maintain it on a regularized basis but it's a limited cost because we're not actually operating the carwash.

The other important aspect is, in taking over the business, that I've streamlined the organization into two segments and I'll talk a little bit about each segment, but the consumer products division and strategic services. Consumer products is all of our consumer products, whether it be our pepper spray products, our safety and security products, our monitoring products or our video solution.

We sell those via a couple of different channels – direct to consumer, traditional retailer and Web. Direct to consumer, we're attesting some marketing that we developed in the fourth quarter again to see if we can reach a consumer directly without retailers. Then, we're also expanding our reach in traditional retail.

And during the last year, we brought on many retailers that's exclusive, we've enhanced our program at (Dicks), the Sports Authority Auto Zone, Ace is now an exclusive Mace customer – we'll see the effects of that in this quarter and beyond – and then also many other smaller retailers.

Additionally, we've improved our Web site. Our Web site prior was somewhat generic and pedestrian and we've improved it tremendously to lifestyle to try and match the products with the consumer's needs.

Lastly, I want to touch on something because there's two division that we do very little business with but we see them as growth opportunities in 2013 and it's law enforcement, government and military. As you're all aware, the company entered into an agreement with the EPA on a full debarment prior to my starting.

I have been working since about a year now with the EPA to remove the debarment and move into an administrative action versus the debarment. What this means basically is under full debarment which we are today is we can’t sell anybody in the government, anybody related with the federal government and it all strings down at the local and state governments also because we’re on a site that says we’re prohibited from selling it.

With an administrative action which we’re working with the EPA lawyers on, and I have a conference call this afternoon to finalize the wording so we can get it circulated back to the debarment group at EPA, this would all be restricted – I mean, this would all be terminated. So basically, the debarment would be terminated, the administrative action would be approved course of action that the EPA and Mace has agreed to do which would remove all restrictions that we could do business as usual especially in law enforcement, government and military.

So we have been working very hard. This has been an expensive proposition. As Carl mentioned prior, we’ll have ongoing legal expenses I would say in the – you know, less than $50,000 range in the first quarter of year. But we incurred probably close to $120,000 during last year to remove the debarment.

But removing the debarment is very important organizationally. It not only affects our consumer business, but it also opens up the door for us to sell into these other channels that I just mentioned.

I also have to note that working with the EPA has been very good for me personally and I think for that organization. I think given the new Mace that, working with the EPA, it’s what the board and this management team would expect as best practices on a go-forward basis.

Just a little highlight too also because the Mace franchise – our core business is our personal defense products, especially our pepper sprays; and not having the exact research prior, we do now today. And I’ll just read part of the brand study that was generated because it’s helping us developing our new products and our go-forward solution.

That 51 percent of the people surveyed said they own Mace, the brand name. People are four times as likely to buy Mace brand pepper spray than the next leading brand. Ninety one percent of the people that own Mace pepper spray say they’re very satisfied or satisfied with the pepper spray. Eighty six percent, they were confident they could effectively use our product if needed to or required.

A hundred percent of those who had to use Mace pepper to protect themselves said it was very effective in protecting themselves. Twenty three percent of the people aged 18 to 66 have purchased pepper spray in the last 18 months.

The proper use of pepper spray has never led to a fatality, it's never led to (adapt). It is a very effective deterrent. And then Mace is the most trusted brand across all generations in the data group that we looked at which was a Harris Interactive poll of 18 to 66 male and female.

With all that being said, there's a lot of hard work and education that has to go into selling our products into retailers and the end consumers. But now, given some of the data that we have and some of the products we're working on, we feel that we're going to develop products that will meet future needs.

Talking a little bit about the strategic services or essential station monitoring, we've started calling it strategic services inside because it is more than just a central monitoring center. Our central station monitoring center is an unutilized asset which we need to take advantage of during this year.

I spent a great deal of time reorganizing the team and also positioning the business for future growth. Some of the highlights at the divisions are we are UL and ETL listed, we're a single-site triple redundancy network operation center, voice DS3 for calls and receiver traffic, Internet DS3 for video and IP monitoring. We have a 45 KVA UPS battery back-up service, 175 (KVADs) of power generator.

Our staff, if I combine the staff, we have over 500 years of security experience. We have supervisory staff of 14 years, a monitoring staff of over seven years of experience. We are a CSA five-diamond certified operator.

We are a SIA which is Security Institute Certified Training Program. We have a dealer care department that most stations of our size don't have and I'll talk a little bit about that in a minute. And then we have IP, IT and telephony support.

Our central station, because of our dealer care group, there's two things that we're doing right now. Dealer care had always been just reactive, now, they're going to be proactive. So we're calling it dealer care and inside sales support.

Also, we offer five different video solutions which can be integrated together or separately for our dealers and end user. We offer Videofied products which is the number one fastest-growing company in the industry. Videofied cameras are a quick low-cost solution (inaudible) video creation directly to a central station. We just met with the Videofied folks to kind of enhance our role and also work on some aspects of the business that will enhance and grow it in 2013.

In my opinion, the two divisions complement each other well because we're the only truly end-to-end security company in the world. We now can take advantage of that positioning by using our brand name not only with our dealers, with our retailers but also with our consumers and fill needs and safety and security. We are working on developing products that don't exist today to enhance a lot of the products that we have in order to obtain further growth.

Quickly, I'll just give you a little glimpse onto the first quarter because I think Carl handled in the fourth quarter. Our first quarter sales will be down about $200,000 versus year prior. But that entire loss is due to our security products segment which we will continue to redesign and grow. We've gotten out of all our low-margin products and we really are focusing on products that actually fill a need and are also profitable.

Just to give you a quick highlight, our gun and sporting division was up 8 percent. Our consumer products division was up over 21 percent. Our Web site sales, which I've mentioned we've made a huge investment in the fourth quarter to fix, dropped over 28 percent in the first quarter.

And then our law enforcement division, even though it's small and it has a great opportunity to grow was up 9 percent. And then, lastly, our international division was up 52 percent in the quarter ending March 2013.

Unfortunately, at the same time, our security products division was down which drove down the quarter. But my goal is that it's more profitable quarter and then we're a leaner organization.

We are working on fixing some of the issues that we have in that security products division before to bring in products with a lower return rate and a higher margin which, overall, will help us achieve our goals that we're planning on doing.

Lastly, on the central station, our quarter sales will be flat versus a year ago. There are several key customers that we had to work with to maintain their monitoring business. And now we've switched the paradigm from them leaving the central station to our (gentlemen) at two different large dealers today that are working on enhanced programs for 2013 so we can make back some of the losses that we experienced.

Lastly, we had to replace the sales manager at the central station due – he took ill and then, unfortunately, he passed away during the Christmas period of this past year. But we brought in a gentleman that has a plethora of experience in security and will help realign our goals.

So just briefly touching on 2013, our goal is to continue to reduce the cost structure in our overhead, eliminate low-margin products, reorganize our divisions. There's yet another reorganization that we're undertaking so we'll have some one-time expenses again in 2013. But our goal is to have one facility for our consumer products division and one facility for our strategic services division which will allow us to grow and also be the number one name in safety and security.

So I think, with that, we'll turn it back over if there's any questions or comments that people would like to make.

Operator: As a reminder, to ask an audio question, please press star one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Your first question comes from Thurman Willis.

Thurman Willis: John, good job on the progress that's being made. I have a twofold question. I'd like to compare Mace to a sports team in that, with your solid ownership by Andrew Shapiro that owns about 10 percent and then the other and core group that owns about 44 percent.

Naturally, Mace's interest gives me comfort that it's the same interest I would have because of that large ownership. So, from an owner standpoint, relative to the sporting team, you know, that's solid. I'm very pleased with you as the new CEO and the job that you've done in cutting expenses and going forward.

I think our team related to products are excellent. I don't think people will understand or realize the type of products we have which leads me to the game plan and our audience.

Our biggest problem, in my opinion, is these other things are solid but we have no fan. That's very evident by the fact that our stock does not trade even though we're listed on the pink sheet.

Can you tell me what you are doing, and especially in this domestic environment and international environment, sadly to say, that you're doing to create some shareholder interest because with the approximate 56 percent that's owned by the chairman's hedge fund and Mr. Shapiro, to me, it would take very little – take school, for example, Mace seems to be the only answer with our Mace gun that which is pepper spray (34c). Can you tell me what you're doing to create some interest in shareholders relating that to fans of which our stadium is empty?

John McCann: Sure. And I think it's an excellent point because I agree. You know, I've yet – I can work harder at what I do but I agree with the leadership that we have on the board and with the ownership team that has been very solid.

There's three different initiatives especially with schools or institutional safety that we've undertaken. Number one, we're talking to a PR firm and a lobbyist in Washington, D.C., that can help get us into that conversation that there's a gun debate going on and that's going to rage on for forever, but there's also a school safety debate that I really think is getting lost in the gun debate. So we are bringing that message so we can talk about Mace being a non-lethal great alternative and it is approved in deterrent.

Secondly is we are teaming up with two or three outside organizations I'll keep on private for right now because we're looking at creating a joint venture that it would actually from soup to nuts for a school environment handle all of their needs from product resources to assessment to follow up to training to really educate people that there are alternatives.

You know, as we discussed with the school system just recently, typically, a workplace like this office or the offices that other people might work out of is a gun-free environment. And our schools are similar that they are workplaces and so, consequently, bringing a gun into a workplace into an office, people wouldn't really think of that as being the greatest solution.

But bringing a comprehensive, whether it be video monitoring, using our Videofied systems, Mace products within the doors of the school, just like a fire extinguisher I think could be very relevant in order to be a great deterrent in order to make it harder for anybody that would want to attack a school or a building or an institution. So, consequently, it's those threefold.

We need to get the message out. We need help on the Hill because the president's latest budget passed for $112 million in school safety. We need to make sure Mace is included in that.

Secondly is we need to partner up with other best-in-class individuals that can do the assessments, that can help us with the training. And then, thirdly, Mace will continue to develop products that people feel comfortable with, people can use and that are a true deterrent.

And I – but I think, given all that, that's why the stress on myself to get the debarment behind us because moving from the – a full debarment to administrative action will allow us to open up all those doors that prior had been shut. And to that point, I do have a 2:30 conference call with the EPA today to further define the language in the – in the administrative action which would replace the debarment.

From there, it's a process that EPA would then go back to the debarment. There's a period of waiting period. But per our conversation with the EPA, we are on track for the administrative action to replace the debarment in the near term.

Thurman Willis: I'll take it from what you've said that we are teaming with a Washington group and an excellent PR firm to get our message out. Is that correct? Is that what I'm hearing you say?

John McCann: Yes. And also, on the other side, we're teaming up with potentially some former secret service, from former DEA, from former police officers that actually then will bring that ability to assess programs.

So not only do we want to be able to make sure the message resonates, we also want to have the products and the people that can deliver then to any environment that we can do a full assessment and then a full implementation of products that will keep people safe.

Thurman Willis: OK. My last question relates to our electronic surveillance. Naturally, with the events in Boston, looking at our Web site, we appear to have state-of-the-art products.

My question is, I know that we have eliminated many of the monitoring and lesser margined units of cameras but we feel that now will and do have, as our Web site shows, a state-of-the-art camera and monitoring system which I expect to explode in sales with the (fact of the incident) occurred in Boston.

You know, we talked about we really had a loss in sales in electronic surveillance. Is that because of products? Are we developing new products? Where are we there because that, to me, appears to offer us a lot of potential?

John McCann: Sure. It's twofold. It's products and people. So we're updated quite a bit of our product line in that – in that regard. We actually underwent an auction last year to remove all the products that would not be compatible in today's marketplace.

We – so that regard, we got rid of the old. We have new products that are currently competitive to anybody else that's offering on the marketplace. We're also developing some, I would say, very innovative products that are low cost, high margin, easy to implement on our side.

The other side of that is people. We did not have an integrated sales force. We are working – I am still working on that segmentation to have an integrated sales force that can go out there and spread the gospel and preach that Mace is the best camera solution and video solution as well as personal defense solution.

And, thus far, the few customers we've approached this with, it's gone very well. We need to continue to expand that out. We just did a strategic session with all of mostly, quite honestly, new individuals that are helping me run the organization. I was receive quite well. And now my goal is to create that sense of urgency to get that out to a wider audience.

As you said earlier, we play a great game but we play it in a small stadium with a few fans. Now, we have to get into the big game, into the big stadium with a – with a lot of fans watching because then I think they'll see the power of the brand plus the education that these products works, they're safe and they're effective.

Thurman Willis: And so you think we can compete with anybody relative to our camera systems?

John McCann: Just about, but we don't – once again, we don't want to get into the pricing game, so that there are several retailers that play a pricing game with it. We're trying to be as strategic especially leaning on our dealer network and some other avenues that we can partner because we need the benefit of the sale to brand.

But the cameras that we sell are very competitive versus cameras that other folks sell. But since we're not a manufacturer, we have to be careful of exactly who we partner with to make sure that we maintain our profit margins. And as you saw, even though it was difficult, we did a lot of cutting last year.

We maintained those profit margins even though we had to protect a couple of customers to keep them from walking. So it's a fine line. I'd say, yes, we're competitive. But, you know, if one of the bigger camera manufacturers decide to go straight to market, then, we would not be as competitive as we are today.

Thurman Willis: And do you think – do you think in 30 days we could end this disbarment with EPA?

John McCann: That would be my goal. You know, the ball will move from – the ball's not really ever been in my court. It's – I've been keeping the ball in motion and it would be an EPA procedural function at this point, you know, given that we're under sequester and what not and EPA likes to remind me (FAA), today, you know, (for load), you know, several employees, so several flights were delayed.

They said the same thing could happen, but in our conversations in the e-mails and in our written everything, they are doing everything they can. They agree with all the changes that I've implemented. They have agreed with the management, they have agreed with the board that we should be moved from full debarment to administrative action.

It's – to guarantee a timeframe, I'd be remised because there's several factors in it that I don't control. But everything is on time and on schedule per our last conversations and I'll know more this afternoon.

Thurman Willis: Again, good job and I look forward to hearing the PR and the firm that we've associated with ourselves in Washington. And I take it it's a – it's a – it's a- it's a – we joined ourselves with the top team.

John McCann: Yes, sir. And I think we can get – I think we can get a lot accomplished with them and with the group, I'm talking again with them on Wednesday for, you know, further analysis of what's the right time to strike and how to make sure we bring all these things together because I'd imagine there's a lot of things in the air and I probably have more expectations on myself than anybody else.

But fixing the organization, growing the organization and then also aligning the organization with the right companies to make sure that we are – you know, we are doing everything we can because Mace in the world should be the number one brand name in safety and security and we just have to make sure we get the products and the people to support that same philosophy.

Thurman Willis: Thank you for taking my question. I'm excited about our opportunities in this environment and I agree with you that Mace is the brand name and it's, you know, up to you folks just to get the words spread. Thank you.

Operator: Your next question comes from Andrew Shapiro.

Andrew Shapiro: Hi. Some follow ups to your press release, your scripted comments and your answers here to Thurman if you could help. So, first off, if you could, could you provide – maybe it's all in the SG&A and it's an easy thing – but can you provide a breakdown of the non-recurring charges that were in the Q4 and where – and what you kind of did, but where they are above or below the line in the income statement?

Is it all in the SG&A which was up, obviously, sizably or how much of this – these non-occurring charges were inside of cost of goods sold that we can understand and reverse out and figure out margins.

Carl Smith: Sure. Andrew, they're all in SG&A.

Andrew Shapiro: Good. And that's to (be) here.

Carl Smith: Yes.

Andrew Shapiro: And then you said it was – it was $330,000 one-time severance in payroll. And does that mean all our severance in payroll charges are behind us from Horsham? Or do you still have, for example, the former CFO having…

Carl Smith: No. Those are all behind us from Horsham. They're – yes, they were all fourth quarter. And also Walnut Creek – and Walnut Creek.

Andrew Shapiro: OK. So that's $330,000, then you said $133,000 was higher legal of EPA working to get this to be an administrative action instead of a debarment.

And, of course, you have said some additional legal is going to be in Q1 but it was $133,000 in Q4?

Carl Smith: Actually, the Q4 was $60,000.

Andrew Shapiro: OK.

Carl Smith: (Inaudible).

Andrew Shapiro: Sorry.

Carl Smith: Yes.

Andrew Shapiro: So Q4 is $60,000, $330,000 is your severance in payroll. That gets you to $390,000. And then you guys mentioned how you're up at $600,000 and you included what you called "and marketing and development cost". So there's…

Carl Smith: We looked at – you know, we had significant expenditures in the fourth quarter where we had some market research and some advertising and marketing and really like a one-time shot expense that, you know, we're not going to repeat as soon as we get our arms around, you know, the brand. John may be able to elaborate a little bit more.

John McCann: Sure. So like in – I don't have the exact number in front of me but we could do a breakdown. But – so it's fivefold, if you would, Andrew. We – product research that we actually did focus groups; we did a Harris Interactive study, pepper users and non-pepper users; we did focus groups in Denver, Cleveland, Portland and Boston to kind of get across the mix of who our customer base is.

Andrew Shapiro: Yes.

John McCann: Then, we also undertook the development of a brand-new Web site, so we hired an outside firm. We got rid of the inside staff that was in California.

We hired VividFront to actually – they do consumer products. Today, they have about 10 different brands that they run their back office. They completely redid our Web site.

And we also created the marketing materials for new catalogues. We casted some direct-response television. We didn't run a lot of media because of timing and getting the right media rates.

But we spent money on developing new brochures, new trade show booth and also all the new selling material that the sales guys were using and especially on the pepper spray and the central station side of the business where the central station had never had a catalogue or listing out what products they sell today, they do now.

And we can make – a lot of this is available on the Web as a download. But then we also can make it available if anybody needs it.

Andrew Shapiro: So some of these expenditures, you would assume, you have some continuation as your marketing cost ongoing each quarter. But of these expenses, what would you say was a one-shot deal that's not being repeated?

John McCann: Well, of all the marketing expenses, everything is being repeated because, you know, the last segment that I failed to mention is that, from the balance research study, we have a group putting together a whole new arsenal of products, whether they be security and surveillance or new defense sprays and new mechanisms for defense sprays.

So all of this we're going to reuse. But, unfortunately, timing-wise, most of the expenses were hit all in the fourth quarter to undertake this brand transformation.

Andrew Shapiro: No – yes. What I'm trying – what I'm trying to get at, John, and I'm going to segway into this in a second here is I'm trying to get at what our real cash burn was this quarter in – I mean, Q4, (what it's in) Q1 and when we're going to get to breakeven or at least to get insight at making a guess or an estimate at breakeven.

So I got 330s, one-time severance and payroll. That's not going to be there again. I got $60,000 of EPA in Q4 that's not there although you're going to have some in Q1, we already know. Right?

But then you've mentioned in the script about $274,000 of marketing developmental things and (they recalled) are classified as one time. And so I'm trying to understand what really is one time in the marketing and product development side and what really isn't.

Because you're going – you're going to spend it on – you're going to spend it on some other study or you're going to spend it on some other product development in Q1 and you're going to do something else in Q2, then those are really ongoing even though it's a different project.

John McCann: Well, some of these, like, maybe marketing is a misnomer because, like, some of this – so the balance research study and then also the product development, that's truly – that was – that was, like, $121,000; that's a one time.

Andrew Shapiro: OK.

John McCann: They were taken to research and now they're going to develop the products. The only other cost on those products would go in the cost of goods.

Then, we also had the development of all the marketing materials. So $70,000 was (to develop a ball) that material's on top of that. So the photo shoots and all those, we've reused those, but we wouldn't re-incur another one time, so that's $200,000.

Then there's about another, I call it, $25,000 worth of moving cost that we would not duplicate in there. So if you took that whole bucket, there's about $562,000.

Andrew Shapiro: OK, OK.

John McCann: And there's the non-cash stock options that's a charge but it's a non-cash charge.

Carl Smith: And then – and then, Andrew…

John McCann: And then there were some legal outside of the debarment with registration fees and trademark that was about another $15,000.

Andrew Shapiro: OK, OK. So the current quarter, Q1, you got a few things you're doing here because you've mentioned one, you got another 2013 reorg. I don't know if that's Q1, Q2 or second half. And …

John McCann: That would be…

Andrew Shapiro: …you got more EPA.

John McCann: Yes.

Andrew Shapiro: What do you think is one-time cost that you got going on here in Q1 that we've completed?

John McCann: One – the only other side is the ongoing on the EPA side. There's a – there'll be an inspection of the facility with our lawyers with EPA; it should be minor. There's ongoing, I would say – there's at least, you know, probably I'm hoping less than 50 hours or 60 hours' worth of work done by the lawyers. We've kind of negotiated a very good rate with them that they're doing this work for that will hit on the first quarter.

So in the first quarter, I'd look at one-time cost. There's very little regarding movement of employees because everything we do will be in the back half of the year on the last consolidation. So there's really no severance.

There is a little bit of product development that would slip in the quarter but not a lot of the significant (inaudible) that was in the fourth quarter. EPA cost, if I'm the ballpark, I would say it's less than $50,000 but I would say $20,000 to $30,000…

David Shapiro: That's OK. I didn't mean to get into that kind of micro detail. I'm actually – let's just go big picture.

John McCann: Sure.

David Shapiro: It's look like – when you reverse out these non-cash expenses, it looks like you got a, you know, burn rate here of operating a burn of maybe 500 for the quarter, maybe a little less for Q4. So I'm thinking less of these one-timers.

So in Q1, you talked about at least on the high margin spray business growth. And so that might – we're going to get into margins here in a second – but that seems like you should be having a reduced burn rate in Q1. Is that a fair general assessment?

Carl Smith: Yes, significantly.

John McCann: Yes.

David Shapiro: So you have a reduced burn rate in Q1, maybe you're not there yet, right? You still got to continue your growth and all that and you've got some fixed cost here, you're growing more gross profit, hopefully your SG&A is under control. When do you think and when are you telling the board that you might actually get to the promise land of being breakeven?

John McCann: Well, we've talked about it in the board meeting. Obviously, Mr. Brown would like it to be as soon as possible as would I like (inaudible).

My goal is by the back half of the year that we're either breakeven or profitable. And that's what I'd said prior, we've – you know, right now, like, if I look at, you know, generating outside of payroll, but generating and operating we've reduced the cost of each one of the facilities.

We have three facilities out there. We're not paying any rent today in the Ohio facility because we're in negotiations to finalize one facility for consumer products and one facility for west coast.

During the quarter, we also shrunk the footprint that we have in Florida. So we went from 7,500 square feet to 1,500 square feet where we have some very technical support in our – in our marketing operations.

So, with that being said, with further the consolidation, you know, taking into account some other one-time expenses in the back half of the year, we would look for the back half of the year to be – to be very close to breakeven, if not, profitability.

Carl Smith: And then on top of that, Andrew, 2013, we're going to see the benefits of a reduced payroll with regards across the board – the payroll taxes, benefits. And on top of that, 1/1/2013, we negotiated a new medical dental plan that which was significantly lower than the past plan as well.

Andrew Shapiro: OK. So then let's just get into the gross margin here and that would be the other avenue for which, OK, you know, we're going to grow things. You guys made a mention in the script in discussing lower Q4 gross margin which I think the first we've seen to the lower margins because you've always had these increased margins because IVS and the crummy video surveillance margins were – the business is falling apart and falling off, so your gross margin mix was improving.

So is the first time I think we've seen your gross margins come in. And you discussed the lower gross margin in your script. You read it so quickly. I'm sorry to have to ask for a repeat, but also if you could then provide a bit more color on what caused the need for lower prices and if this is a more recurring and permanent lower level going forward.

John McCann: Well, I could – I could – I could start off by reading the gross profit for the quarter script, you know, one more time and then we could take it from there.

Andrew Shapiro: Well…

John McCann: Well, no, really, but to focus it down, I think, you know, if we looked at the quarter where it came it at 35.6 gross margin versus 40.8 for the prior year …

Andrew Shapiro: Yes.

John McCann: …which was about a 5 percent decrease. Specifically, that's related to two or three major customers at the central station. One of them is we didn't reduce the pricing, we gave them a credit because there was a period of time that we were actually not – they were offline with us.

This was prior to my starting, but they were offline with us that they were going to leave and this is a major account with tens of thousands of dollars' worth of reoccurring RMR that we've made an adjustment with them that will continue for a little while longer. There's two other smaller accounts that we had to make an adjustment with.

Andrew Shapiro: So either adjustments for past disputes that preceded you over a year ago?

John McCann: Yes. And they were…

Andrew Shapiro: So (in all) dispute – you said, look, we'll give you a margin break for – is there a defined period of time you're going to give them a margin credit for?

John McCann: Yes. And it's a quick window, but then it's – it also – then, re-opt with a five-year commitment that they would not move any of their account. So, you know, for a period of – you know, I have to look it up exactly, but let's say for 12 to 18 months, we guarantee that they would continue to be with us and they are also looking for an acquisition that would be outside of this window. So, for us, it was a win…

Andrew Shapiro: Did that guarantee you some business? You gave them a lower price because they can't, you know, hold you over barrel again?

John McCann: Say it again. I'm sorry.

Andrew Shapiro: So they guaranteed you some business – you know, they guaranteed you some duration of continuity and in …

John McCann: Yes.

Andrew Shapiro: …return that was also part of the reason for the credit.

John McCann: Correct. And then new business would be outside of this credit. So this credit relates to current. Then if we – if they – if they buy, let's say, another facility, they would throw those comps on but those would be at full rate. So…

Andrew Shapiro: The old higher rate?

John McCann: Correct.

Andrew Shapiro: And when do you go back to the old higher rate on the, we'll call it, legacy?

John McCann: Close to the end of the year.

Andrew Shapiro: OK. So it's basically for the next few quarters we're paying for past things and then it steps up.

John McCann: Correct.

Andrew Shapiro: OK. So 2014 margin guidance is then – in this segment, in CSS, margin guidance for 2014 is much higher than what we're going to see for this current year?

John McCann: I have to – well, margin guidance overall should be at least at this level because this is one time with just one customer.

Andrew Shapiro: Right.

John McCann: All other customers should be in line with this year.

Andrew Shapiro: Yes.

John McCann: It should be at current levels or higher, yes.

Andrew Shapiro: So things will be stepping up.

John McCann: For the central.

Andrew Shapiro: And is that the only area where your margins took a hit and, you know, sizably if I – you know, sizable hit?

John McCann: Well, the only other thing is there's a mix and it's kind of a misnomer on our – on our pepper spray side of the business. Our international sales actually come in at a slightly lower gross margin rate, but in general, at a net margin level, they're equivalent because we wind up selling at a more competitive price due to freight, coop, warranty and et cetera because the end user, on an international sale absorbs all of those additional costs where a domestic customer, you know, it's somewhat of a shared parallel. So I'm just looking at…

Carl Smith: And if I could comment, Andrew, you know, we're focusing on fourth quarter versus fourth quarter. The gross margin for the year was, like…

Andrew Shapiro: Yes. I'm actually focusing on fourth quarter versus third quarter and to see the sequential margin hit was disturbing.

John McCann: OK.

Andrew Shapiro: And I'm concerned at the margins from Q1 to Q3. They trend and they back up to normal.

John McCann: That would be my expectation that they would trend back up.

Carl Smith: Yes.

Andrew Shapiro: OK. Yes. And so I was more worried – you know, I saw the decline from third to four and what's going on and is this a permanent low level and you've kind of defined this is – I guess almost all within the central station and the central station margin hit is a, you know, credit for disputes preceding John being CEO over a year ago.

And when the credit's done, we're back at normal rate and, in addition, you've thrown in the lollipop that they are contractually committing for a time period where we'll get to enjoy that normal margin again for a while before the rest of their departing.

John McCann: Correct. And they're a large – they have large growth potential. So – and just …

Andrew Shapiro: Are they happy with you guys?

John McCann: …not to beat at that horse, but I walked into the show, you know, being on the job for eight weeks and the guys basically said, "You're stuck and I'm leaving." That morphed into him and I go into dinner and now him and I actually having gone out with his wife and myself and now we're looking at how we can grow and we actually have the general manager of (the centralized) facility today pitching on some projects because …

Andrew Shapiro: So they're happy with us now?

John McCann: …one of the things that – pardon me?

Andrew Shapiro: To sum it up, they're happy with us.

John McCann: They're happy with us so that, you know, you take the short-term head and you pray that I made the right decision that they'll grow and we'll grow which I think will happen. But if you think of loss, I would – I would have to, you know, cut the central station significantly which then would have impaired our services.

Andrew Shapiro: Let me back out of the queue in case someone else has questions. I got some more questions about the two segments or, you know, the product-line specific if we could come back to me.

John McCann: Sure.

Operator: Your next question comes from Spencer Layman.

Spencer Layman: Well, hi. You know, just two quickies. And, like the former previous caller who would be (insensitive) about the Boston tragedy and the proximity to that. But while these conference calls have been going on and CNBC, they just had a segment about surveillance cameras and they are just looking for a huge boom and they mentioned five larger companies.

And so I guess my point is I don't think we should be shy about, you know, promoting our surveillance cameras and whatever you have because after all we are – we are helping to prevent these kind of tragedies. How do you feel about that? Then, I have a second question.

John McCann: Well, no. We agree with you. And part of it is the structure in order to support that – like, if you go to our new Web site, now, we can actually sell to end customers and we have the right assortment of product.

And we do agree. The thing that you have to realize with cameras is 90 percent of the time that they help with video verifications, we call it, are central station along with some other products we sell are uniquely qualified for video verification because of the products that we have.

The second part of it is it's not as much preventative. You can take (inaudible), you know, the people of Boston in that situation. There, it helped with the police with the verification so their work is less. And that's what we're trying to stress. Then, thanks for the advice on CNBC because I will – I will work with the team post this conference call to get some – get some things going virally on that segmentation.

Spencer Layman: Yes. They're talking (of probably) some other cities are already fully-enhanced with cameras. But they're talking about every city in the country is going to have to go this way and, you know, some people don't like the idea of big brother but, you know, you can almost see the way it's going.

The other day also somebody was mentioning a school, I think it was in Roslyn, New York that they had I think 80 live cameras and all remotely hooked up to the local police department. So is it – is it the remote cameras that are being monitored – is that sort of the way with the future?

John McCann: The remote cameras that are being monitored the way of the future, we're in – we're in the process of, right now, we're quoting several school systems on not only a camera installation but the monitoring of those cameras because if you picture, you know, the old world and the schools, it might have been the honor students or somebody's grandma that came in and watched the cameras during recess and during this period of time.

Now, they're allocating resources and funding in order to do a better job with that. So, consequently, we, on – both on the monitoring side and potential on the camera side, we're trying to play on both side of that. The RMR that you drive from the reoccurring monthly revenue can be – can be very nice because we do a lot of work with banks where there's redundancies built in, there's testing periods built in. So we're uniquely equipped in order to handle what a school would need to.

And then, typically, with the monitoring center there's a protocol. And so it's not call the police right away. It's call police if these three – you know, if these three, you know, attributes hit. Then, we call in our data analytics, then we automatically go into a response mode that's appropriate to the situation because, as you can imagine, police forces are stressed today.

So false calls are particularly painful for a police department because you might take an officer out of a situation where he needs to be in, you know, responding to a false. And that's why it's – some of the different products that we carry via our central station are equipped to have the data analytics to filter out things that flag waving, dog running by, et cetera …

Spencer Layman: Yes.

John McCann: …versus some of the other products that are on the marketplace.

Spencer Layman: OK. Hey, that sounds good. One of the companies that was mentioned was FLIR and there was four others but I missed them. But…

John McCann: OK. But we'll look it up. I appreciate the advice.

Spencer Layman: All right. Then, the second – there's a quick second point that I think that the wraparound program for schools is just brilliant and I could just see that having a huge impact on the stock price if that – if that starts to catch on.

John McCann: Yes. And it – we're really – with the board's help, I've been working with several agencies and I'm very – how do I want to say – I'm very sensitive to making sure we have the right people do the assessment because that's the critical element.

And that's why we're teaming up with guys that really have done this for a living and then the training on our products is the other critical element. But I agree. We see this as a – as a – not only a great service for, you know, our schools and for people but also a great opportunity for the company.

Spencer Layman: OK. Thanks a lot.

John McCann: Thank you.

Operator: Your next question comes from Andrew Shapiro.

Andrew Shapiro: OK. A few follow-up questions. You mentioned in your outlook in the release the sales for the Mace-branded pepper spray in all channels was up, like, 7 percent or 8 percent for Q1 versus prior Q1 and then consumer sub-segment or consumer distribution channel was up 28 percent. All right?

So a few things I want to get clarified. Is that through the end of the March quarter or was that through…

John McCann: That's through the end of the – that's through the end of the quarter.

Andrew Shapiro: OK…

John McCann: So (inaudible) prior.

Andrew Shapiro: And when the statement specifies "Mace-branded pepper spray" it leads me to ask you, can you provide us similar outlook on the broader larger, we'll call it personal and defense sub-segment or is that the sub-segment you're referring to?

John McCann: Well, that's the Mace – so, you know, it's specific terms and these are unaudited. So Mace pepper spray is up – I'll call it $127,000 in the segment. So sales of $1.85 million versus prior year sales of $1.78.

Carl Smith: (Inaudible) first quarter.

John McCann: First quarter.

Andrew Shapiro: (Inaudible) I was talking about is when you use the phrase "Mace-branded pepper spray" I was – it led me to ask if you're talking about a single – you know, if we're dealing with a single narrow product within the segment or you're talking about that full kind of sub-segment.

John McCann: The full segment. So we sell – what I was trying to highlight really, and part of, like, the transformation of the company, in my opinion, is to go from specialized retailers to mainstream retailers.

And so in our consumer products division, you know, that segmentation that I have a sales manager watching today, that's your basic – you know, your Sears, your Kmarts, your traditional retailer channel along with we've always done very well on our sporting goods channel. But in order to reach more people, we need to be in the consumer mainstream channels.

Andrew Shapiro: Yes, indeed.

John McCann: And that channel, last year and through the first quarter this year is up very nicely. All on our Mace pepper spray products in general, we're up in every channel we compete in. We're still negative sales in our security products division, but, you know, there are several underlying factors.

No sales force, no really good products which we've taken longer than I anticipated but we're fixing that as we speak. But I don't know if that answers your question, but it is all products. But, specifically, what is I think important is that the main consumer channel – the traditional retailer.

Andrew Shapiro: Now, you've combined the personal defense in the pepper spray and all that and then it sounds as if you're melding – you're combining now the video surveillance with it. I need you, if you could, just to kind of clarify that because what I'm trying to understand is what is it we're – what businesses are we in in video surveillance and what aren't we because two questioners on the call are talking about this – you know, this grand opportunity for municipalities and governmental sales of, like, massive numbers of cameras and installations and that really hadn't been our business in the past.

And I didn't know, as we were getting out of a ton of different SKUs if we were moving away from the professional video surveillance, away from potentially these municipality large transactions because it's – we're not competitive there or if we're something – we're going to be reemphasizing that area.

John McCann: It was twofold, if I can. So we will have one consumer products division. So the consumer products division will call on all retail and well, we view it as security and safety. So if you start with our core which will always be our pepper spray and self-defense products improving that.

Then we're looking at, with strategic retailers, doing a positioning with them where if it is cameras, video solutions; we're working on some IP cloud-based cameras that are very easy to install, very easy to use, profitable and at the right pricing for the consumer channel.

On the other side, we're uniquely positioned because of our branding, so our strategic services or our central station. There is five different video solutions we monitor. And so what we've done with some of the school systems is teamed up with the integrator in the area that they're installing cameras, not necessarily our cameras but a video solution that we support that then we will pick up that monitor inside of the business. So in my tenure last year, we signed a deal with PSA which is a large integrator. All they do is install cameras.

Andrew Shapiro: Right.

John McCann: We're their exclusive central station so then we're monitoring those cameras. The third step we're taking off of that that I mentioned and I apologize this is kind of a lot, is now we have this, you know, called a loose joint venture because it hasn't been formalized. But we can have a team that cannot only install cameras, we can monitor the cameras, they can do an assessment of the grounds, they can suggest products that we would – we either have today or we would develop for the channel that would be a 300 – call it "Mace 360" is my working title for it that we would cover all aspects of what they need.

So – not necessarily it would be a Mace-branded camera and that solution. But it would be a Mace-integrated solution for the ground. But then with strategic retailers, we're working on and it's – and it's got to be a hand-in-hand process that we develop the right video solutions for them.

We have paired down the assortment and as the inventories drop, I believe, like, you know, $300,000 to $400,000, we do carry a line of Mace View Mace Easy Watch and Mace Pro products that we actually do sell through some of our dealer networks and we also have available to the public. We just pre-qualify that on a DIY segmentation that we offer technical support.

But we don't offer technical support, like, the large integrator was. So (I would suggest) now (is there) is to have somebody install it for you. But I hope that answers your question. So…

Andrew Shapiro: It partially does, John. Do we still have a Mace dealer network?

John McCann: Yes. Right. And it's part of – it's part of our laments. And that's why my guys are with two dealers today is they would sell Mace products. It's just never – we've never – we never integrated so they didn't know how to do it.

And so now we have a cross-functional team working with our dealers to say if you're going to carry a DVR or you're going to carry some of these, carry a Mace-branded product that you can support. It's – we're – you know, we're working with dealers and it's still too early on different programs that's if it's XYZ security powered by Mace which to me is twofold.

It gets a small dealer in a small town that maybe has a 500 or 1,000 accounts. He gets the national brand of an international giant like Mace that's world-wide recognized but it's still Joe's security. So you get the best of both worlds.

And we've spent a lot of times with our dealers and also making sure, because we don't want to inflate our inventories, but we want to have the right amount of products that can support that type of process because a lot of the schools as we find out will turn to a local dealer to say, "Hey, we need help with this. We need help with that."

And if we position ourselves correctly, we can take advantage of it from two sides. Not only our side and the assessment side but then taking advantage of the dealers knowing that they can count on us for back up support.

Andrew Shapiro: So when the city of Schenectady, you know, saw what's going on with Boston. We all saw in 48 hours, you know, massive FBI and local – and law enforcement resources pouring through millions of video images. You know, were able to identify and get – you know, get the APB and all that. You know, all – it was remarkable what was able to occur within 48 hours. OK.

Now, Schenectady sees this or even smaller town Iowa sees this and they say, "You know, we want to have that kind of improvement in our systems here in our city." Is that some integrator that could – is Mace affiliated? Is that some third party integrator? I don't think it's any kind of, you know, Mace is participating directly in any RFP or am I wrong and you are or after debarment is gone, you're planning on participating in those kind of RFPs?

John McCann: OK. So couple of parts to that. The first part is, today, no, we're not. We have teamed up with at least one worldwide or U.S.-based integrator that we actually work with them directly on solutions.

The second part of that is is, like, Rochester, for example, is an area of the country where, you know, we're in the process of helping a bid there through this third party integrator. In the future, this is what we're looking at this joint venture, if you would – safe schools, Mace 360 – that they would be in that process to bid on that RFP in order to provide comprehensive not only just video monitoring and solutions but products training and data.

Andrew Shapiro: OK. And then what other – what other steps have you taken and the responses you've received so far – I'd ask this every quarter, but we're not – the only thing I've seen so far is digital fingerprints which I want to ask about in a second, but what other licensing which would arguably be very high margin revenue for Mace are – where are you moving to do more licensing where we made progress because – and what are the next milestones to measure your progress, John, because it's been three months, you know, since the last quarterly report and we're not – I'm not feeling the licensing thing having moved forward here? And you had a licensing firm about a year ago that you engaged that should be, by now, starting to deliver some results.

John McCann: Right. And to that point, I agree with you, Andrew. It's been very disappointing. We do have the (Exprint). We're in conversations with several other companies. But I'm actually reevaluating the licensing firm that was out there.

They've done our show in Vegas, they've done a show in Las Vegas and we have not had a – we have not had the – we haven't met my expectations of what potential is out there because I do agree 100 percent with you that we have a huge potential on licensing this brand in the segment of safety and security that we would not organically grow into but offer some revenue opportunities for the company.

We are talking to several companies, but it's been a very slow go. With regard to (Exprint), it's a long lead cycle on building. We're meeting with Mr. (Harper) again this week to see how we can grow that end of the business because everyone we've talked to, it's a great – it's a natural fit for the brand but we haven't really generated any revenue today off of that.

We have four or five leads on sales and it's a long lead time expanse of product line. But to your point, it's something that we've reevaluated the firm. We're using Creative Licensing Group out on New York to see if we need to go on a different direction because we should have had better results than we've had to date.

Andrew Shapiro: Right. And if you are having a long lead time with (Exprint) and secure outcomes, is there a re-jiggering to take place with your exclusivity arrangements or anything that's down there in terms of its milestones or thresholds?

John McCann: Yes, a little bit. It's twofold. If we go non-exclusive, it could open up the doors for others, but then, per our agreement, that it would still be branded Mace, then we'd still have the – you know, the Mace supporting with (Exprint) on it. Mr. (Harper) and I are meeting with Mr. Brown this week to discuss further, you know, what other steps we should take and other needs that might needs that might need to be met.

Andrew Shapiro: OK. Good. And in terms of other types of deployments, you know, monies were raised in the rights offering towards – definitely was represented – the focus would be on adding incremental pre-tax income through rolling up a highly fragmented monitoring sub-segment or sub-industry here in the central station.

You've talked about organic growth and you kind of described, for various reasons, organic growth hasn't been that great. What are the opportunity – is – if the rest of the industry is not experiencing organic growth, there should be an influx consolidation opportunities available to us.

And if the rest of the industry is experiencing organic growth and we're not and it leads one to the question why not. So can you talk about the consolidation opportunities and synergist acquisition opportunities in the central station segment?

John McCann: Sure. We – we've actually pursued several of potential acquisitions. We've talked on – to many companies. We looked at checkpoint, for example, that sold Check View. It was not really in our wheelhouse in order to do it.

Once again, it falls in that segmentation that I thought this kind of would be easier to identify but with the fragmentation of the sectors, then a little more difficult. But we do see some opportunities in that realm of, you know, mergers of acquisitions on the central station monitoring site to pursue.

There's a couple of bigger players that we've had conversations with and those don't really make sense. You know, ideally for us, we've now really established Mace as the central station because, prior to my joining, it looked like we were (CSSS) when you went to a trade show.

Now, it's all about Mace and we've done some education. So maybe I think for our management side, it would be easier to roll this up than it really is. If you look at the amount of acquisitions on the central monitoring side of the business, it's been pretty slight over the past two years.

We are continuing to talk to anybody that listen on – you know, and we'll continue to do so. But I do think some of that acquisition growth could help us also because, with regard to our central station, we do have – we need revenue on that side because we do have the capacity. We also – with the triple redundancies and with our video verification business, we talk to a lot of costumers it's the best time of taking a lead position within that segmentation which I think fits right into our wheelhouse.

So I don't know if that really answered your question but I think it's been a little harder to do and it is not the easiest thing in the world because a lot of these are small privately-held central stations to identify those that are willing to sell because if you ever say your central station's up for sale, it is an open door to lose a lot of customers.

So I get that a lot of other smaller central stations do not want to put a "For Sale" sign up because, like, if you look at the numbers the checkpoint sold for, it's lower. So a lot of these are kind of networking opportunities to get – to get to – get to the right place.

Andrew Shapiro: Right. I would assume there's this one or two specialty bankers that probably focus on the industry.

John McCann: Right. And we've been in contact with several of them. And, actually, you know, (Peter Solgloth) and I have spoken, as you know, too and we're speaking again later tonight.

Andre Shapiro: All right. Now, where do the – the goal here is to get our pre-tax income …

John McCann: Yes.

Andrew Shapiro: …to be positive and then to have it be very high and that's because you got a huge tax NOL and now we have another quarter of, you know, small losses but still losses. What are our NOL balance – our tax net operating loss carryforward balance is up to – at the end of this last period?

John McCann: I don't – I don't have that in front of me, Andrew. I'd have to get that back to you and the group.

Andrew Shapiro: You don't have the year-end tax NOL balance? That's something I ask every quarter.

John McCann: I do not have that up my…

Andrew Shapiro: OK. All right. Well, that's something we think is worthy to have out there. And are you going to be providing financial statements of some sort? I'll (be at) (inaudible), but exponential statements of some sort for the quarter in year ended December?

John McCann: Yes. We're in discussions with regards to exactly the – you know, the content and how thorough.

Andrew Shapiro: Right.

John McCann: So one of the – one of the aspects, Andrew, just – we took it as a cost cutting measure. We – we're still on playing Grant Thornton. We're asking them to do the same if we were fully reporting company except for the stocks analysis. But we engage them later and receive the discount for engaging them later. So we anticipate, hopefully, the first week of May having back their advice so we can put together the full financial package.

Andrew Shapiro: Well, I would like to expressly request that your tax loss carryforward NOL detail be provided in that document …

John McCann: OK.

Andrew Shapiro: …then. Because, otherwise, I don't see where and how you're going to be putting it out there and I think that's a fairly important number. It's one of the few – I mean, I believe that number and that asset is one of the main reasons why the rights offering was structured the way it was. So that a change of control was not triggered so that that asset could be kept and used as it was anticipated a bunch of pre-tax income was going to be acquired with all that cash raised rather than burned away which I'm not happy about.

But the point is if one's going to be making acquisitions, you're going to go out and get a pre-tax income, you're going to be growing the business and making an investment and marketing to grow it; it's important to know and – what this asset is and why it is. Otherwise, you know, one you make the argument this company is, you know, too small and should be merged and bought out and sold to someone else already.

John McCann: I understand. Right.

Andrew Shapiro: Right.

John McCann: And there hasn't been any of those conversations. And I think, you know, prior with the rights offering and what not was prior to (man) and I don't disagree with anything you said. But we'll make sure we pull that information together and provide it.

Andrew Shapiro: Yes. And that's something I'm going to ask every quarter, so have it.

Carl Smith: OK.

John McCann: OK.

Carl Smith: We'll have it. Just so you know, we had a third party just complete the – you know, the tax provision work and we got it back late last week. So I shot – I shot my controller an e-mail, I may have that number I didn't review the report yet with regards to…

Andrew Shapiro: Yes. I mean, it was 50 somewhat million last quarter and so one could add the loss of this quarter. But this company has been losing money for so long. There may be some losses that expire. Although, the last I had checked on that kind of detail, and I don't think there was much expiring in 2012, and maybe not much expiring in 2013.

Carl Smith: Well, I'll make a note of this to somehow make sure that when we do publish it and put it out there, we included both the public information.

Andrew Shapiro: Appreciate it. Thank you. When do you – so you guys are going to do a press release when the EPA matter is formally approved from the debarment – migrating from a debarment to an administrative action?

John McCann: Well, twofold. We're actually, and I do apologize, I am talking to the EPA 2:20, so I'm going to have to end here.

Andrew Shapiro: Yes.

John McCann: My goal was to get that – to get that out as soon as possible. We wrote up some language. We're actually going to address that on the call this afternoon because if we can put it out in advance, we will.

Andrew Shapiro: Right.

John McCann: We just want to make sure that we were in conjunction with the EPA, all in agreement that this was not going to hurt or derail the process at all which the EPA lawyers were going to get back to me today. So, minimally, if we can do it – if we can do it as soon as possible, we will.

But we'll do it no later than when we – when we move from debarment to administrative action which, you know, my goal is to do that as quickly as possible too.

Andrew Shapiro: Great. Well, thank you. I have no further questions.

John McCann: OK.

Operator: Your next question comes from Thurman Willis.

Thurman Willis: I know you've got to run, John. I'll be very quick. All of these things are important but when people think of Mace they – are you with me?

John McCann: Yes, sir.

Thurman Willis: OK. When people think of Mace, they think of a lady carrying a little something on her keychain. As the other participants said, for us to go viral, people do not know what we are. They know the name Mace, we have the name but people don't have a clue what we do and what we are. So I'll look forward to a press release and going viral and getting our stock price up, the gross margins, the profitability and the knowledge, getting the fans will all take care of itself.

So people have to know what we do. And nine out of 10 people on the Street think it's nothing more, Mace is nothing more than little thing that ladies carry when they're walking their dogs. And I don't mean – I don't mean to belittle Mace, I'm thankful that we have all that.

That's why I'm buying the stock, own the stock and think it is a tremendous discount to where it ought to be because when it goes viral, starts trading 300,000, 400,000 shares a day, then the stock price will go up and, like I said, people will understand what we are. And then it will – it will promote buyers to know that Mace is in that ball game.

So I know that's what you're doing and I appreciate it. And we've had discussions about it and I look forward, again, knowing who's helping us promote that.

John McCann: Right. And it's a very good point because, as we deal with it and as the research indicated to us, that actually more men than we had anticipated buy the product. We always thought it was an 80-20; it's more like 60-40 female to male population out there.

And I think that's why we need to really educate and transform the brand into the current realities because we sell a lot of pink because, you know, they use color as a strategy in the past and we're not really doing that. We're looking at the products as they are today and saying, "How do we need to transform them in order to meet the needs of people in the future?"

So I think that's an excellent point. As we – as we pull this all together, I agree 100 percent with you. You know, we're struggling. As Andrew said, they eliminate the cash burn to get profitability and then grow the company because I think they all have to happen, you know, relatively quickly is my opinion.

Thurman Willis: Well sadly to say…

John McCann: OK. And I do apologize I do have to…

Thurman Willis: No. Sadly to say, we're in a perfect environment with what's going on in Connecticut and Boston and that's sad but we're ready to – you know, to capture if we do our job.

John McCann: Exactly. OK. Well, I want to thank everybody for participating. I'll turn it back over to (Dashanta).

Operator: There are no further questions at this time. Ladies and gentlemen, this does conclude today's call. You may now disconnect.

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