Mace Security International Inc.

Moderator: John McCann
November 27, 2013
2:00 p.m. ET

Operator: Good afternoon. My name is (Will) and I will be your conference operator today. At this time, I would like to welcome everyone to the third quarter and nine month-ended fiscal 2013 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: (Will), thanks. And thanks everyone for taking the time today and first let me wish you happy Thanksgiving and happy Hanukkah. Also as we've stated many times in the past, we're still rebuilding the company. As the chairman's letter indicated, we are getting ready for the next stage in which we're finalizing the last few organizational changes and structural changes we'd like to make then with an increased focus on sales.

In order not to be redundant with numbers and information, my presentation, which is available on our website under "investor relations" and it's available there now. So while I'm speaking if you'd like to you can go right to the website under "presentations" under "investor relations" you'll see the PowerPoint presentation for the third quarter. So I'll just begin and if anybody has any questions we can take those to make sure you have the PowerPoint.

We, of course, are not happy with the current results of the quarter but some of the observations I want to make known to the investors and everyone of some of the things that happened in the quarter and some of the things that are very positive that we're looking forward to in the future.

Basically as everyone knows we moved our manufacturing operations from Vermont to Ohio which we did in the third quarter with a little bit of a shutdown period of less than 10 days which did result in some moving some orders out into the fourth quarter of about $300,000 and also severances which were a onetime hit in the quarter of about $200,000.

The move will position us nicely for the future of the company because we can ship to 70 percent of the U.S. in one day from our current location. We have relationships with UPS, FedEx and LTL carriers to do multiple pickups and delivery basically almost on demand.

At some points in the last couple of days FedEx has been here three or four times and happy to show up and be able to deliver our parcels as needed. We have created one floor operations which will improve our efficiencies on our manufacturing side which will see a cost realization in 2014 and beyond with our cost to goods and some of our standards.

Then also it's also helped us with our surveillance products where now we can be just in time – we can take orders later in the day and ship them out that afternoon. And I'll talk a little bit about that in the PowerPoint presentation because just as a footnote the last two months – October and November – our surveillance sales have been above our plan and above last year's numbers which is a positive sign with some of the changes we've made.

Now, I'll turn it over to Carl who will go over some of the numbers. But then once again the PowerPoint presentation is on the Mace website under "investor relations" under "presentations". Thank you. And here's Carl.

Carl Smith: OK, before I go over the numbers, I'm going to read a 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, is anticipated, 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 period to defer materially from any opinions or statements expressed during this call.

Now I'll get into the third quarter ending September 30th, 2013. Consolidated third quarter revenues were $3,018,000 compared to $3,385,000 for the third quarter of last year or a decrease of $367,000 or 10.8 percent. This decline was mainly attributed to a $202,500 or 39 percent decrease in revenues from our electronic surveillance products. Electronic surveillance revenues totaled $310,000 compared to prior revenues of $512,700. Revenues from non-surveillance products were $1,642,000 compared to $1,803,000 last year, a decrease of $161,000 or 9 percent over last year.

It should be noted that approximately $200,000, and John's forecast had it a little bit higher at 3,000 in orders available to ship in the third quarter were shipped and pushed into the fourth quarter of this year. Breaking this down further, aerosol, our defense sprays, were $1,336,000 compared to $1,417,000 in Q3 last year, down $81,000 or 5.7 percent. Non-aerosol, which includes Big Jammer and other non-spray products, were $110,000, down $117,000 or 52 percent compared to third quarter of 2012.

This decline in the quarter is mainly attributed to timing of sales to one distributor. Our sales for the quarter to this customer were down $71,000. So it was more of a timing issue with that customer. Other which includes TG Guard, private label and law enforcement products totaled $196,000 compared to $158,000 in third quarter of 2012, an increase of $38,000 or 24 percent.

The increase in other is mainly attributed to $109,000 increase in sales of TG Guard products in the quarter.

Wholesale security and monitoring revenues were $1,066,000 compared to $1,070,000, down $4,000 from Q3 of 2012. Now I'll discuss gross profit. Consolidated gross profits for the third quarter totaled $965,000 compared to $1,350,000, a decrease of $385,000 or 28.5 percent. This decline can be attributed to the $367,000 decrease in sales for the quarter and $180,000 in onetime charges to cost of revenue related to severances and other costs associated with the relocation of manufacturing from Vermont to Ohio.

Gross profits on personal defense and aerosol products were down $246,000 or 33 percent. This decrease can be attributed to the $161,000 decrease in sales and the $180,000 in onetime expenses which I just mentioned. Gross profit decreases from electronic surveillance equipment in Mace Central Statin also contributed to the overall decrease in gross profits for the quarter. Gross profit on surveillance equipment decreased $112,000 which is mainly attributed to the $203,000 decrease in net sales and slightly lower margins.

Mace Central Station, our wholesale monitoring operation, experienced a $28,000 decrease in gross profits. Sales – SG&A expenses for the third quarter ended September 30th, 2013 were $1,915,000 compared to $1,899,000 in the prior year, 63 and 53 percent of net sales respectfully, an increase of $16,000. Although both quarters were relatively flat, both quarters had significant onetime expenditures. Third quarter onetime charges for 2013 and 2012 totaled approximately $340,000 in each year.

The third quarter in 2013 included cost of severance, moving expenses related to the relocation, advertising, product design, some retail consulting and final payments to a public relations firm. Significant onetime costs in 2012 included severance and moving costs associated with the relocation of the Horsham corporate offices to Cleveland and legal fees associated with the debarment procedures that we went through.

As a result, net loss from continuing operations for the third quarter was $1,088,000 compared to a net loss of $700,000, an increased loss of $388,000.

Consolidated EBITDA for the third quarter was $-933,000 compared to $555,000 last year, a decrease of $378,000. After adjusting for notable onetime expenses of $488,000 and $367,000 respectfully, adjusted EBITDA was $-445,000 and $188,000. Now, I'll turn my attention to the nine months ending September 30th, 2013.

Revenues for the nine months ending were $9,090,000 compared to $9,778,000 last year, a decrease of $688,000 or 7 percent. This decline was mainly attributed to $657,000 or 37 percent decrease in revenues from our electronic surveillance products. Electronic surveillance revenues totaled $1,099,000 compared to prior year revenues of $1,756,000. Revenues from personal defense and law enforcement aerosol products were $4,820,000 compared to $4,808,000 last year, an increase of $12,000.

Breaking this down a little bit further, aerosol or defense sprays were $3,953,000 compared to $3,798,000 last year, up $155,000 or 2.6 percent. Non-aerosol, which includes Big Jammer and other non-spray products were $460,000 compared to $501,000, down $41,000 or 8 percent. This year to date decline is mainly attributed to the third quarter $70,000 decline in sales to one distributor.

Other which includes TG Guard, private label and law enforcement products totaled $407,000 compared to $506,000 last year, a decrease of $99,000 or 20 percent. This is mainly attributed to a decline of $93,000 in private label sales. Wholesale security and monitoring revenues were $3,171,000, compared to $3,214,000, down $43,000 or 1 percent from last year. Gross profit for year to date consolidated totaled $3,283,000 compared to $3,759,000, a decrease of $476,000 or 12.7 percent.

Year to date consolidated gross margins decreased from 38 percent to 36 percent, slightly down. The $476,000 decline in gross profit is mainly attributed to the $318,000 in lost profits on the $657,000 decline in surveillance product sales and $170,000 decrease in margins at the central station. The decrease in gross profit margins is attributed to a decline of margins at the central station due to increased overhead associated with $122,000 or 10 percent increase in salaries at the monitoring station.

Gross profit on personal defense and aerosol products were $1,842,000 and $1,831,000 for 2013 and 2012 respectfully, up slightly at $11,000 or 38 percent margins for both 2013 and 2012. Margins for 2013 were $180,000 lower due to onetime costs associated with the relocation of manufacturing. After adjusting for onetime expenses, margins increased to $2,022,000 or 42 percent.

Consolidated SG&A expenses for nine months ending September 30th were $5,460,000 compared to $5,221,000 in the prior year, an increase of $239,000 or 4.6 percent. The following points will communicate material expenditures and increases compared to last year.

Year to date 2013 we had an overall increase of $375,000 in expenditures for advertising, trade shows, public relations, some retail channel consulting of which $275,000 could be considered onetime expenditures, an increase in non-cash expense in the amount of $86,000 related to the issuance of stock options to key employees, $225,000 in onetime severance and move-related expenditures in 2013 related to the move of Vermont to Ohio and the revamping of the sales force compared to $339,000 in severance and moving costs in 2012.

This resulted in a net $114,000 decrease on SG&A in the related periods. Medical benefits increase is mainly attributed to a migration of employees electing coverage accounted for another $68,000 increase in 2013. SG&A increases at the central station of $130,000 related to licenses to register an additional state salaries and professional expenses. In 2012, we had an offset in SG&A of $100,000 gain which is related to the sale of the IBS.

As a result of the above, net loss from continuing operations for the nine months ended September 30th was $2,617,000 compared to a net loss of $1,941,000, an increased loss of $676,000. Consolidated EBITDA for the nine months ended September 30th was $-2,154,000 compared to $-1,466,000 last year, a decrease of $688,000 or 47 percent. Adjusted EBITDA after adjusting for onetime notable non-recurring expenses of $737,000 and

$308,000 totaled $1,417,000 and $1,158,000 for 2013 and 2012 respectfully for a decrease of $259,000 or 22.4 percent.

This decrease in EBITDA can be summarized by the $476,000 decline in gross profit on lower revenues of $688,000 offset by savings incurred by the consolidation of facilities, reduction of personnel and compensation and lower audit tax and other professional fees attributed to Mace's non-reported status. At this time, I'll make a few comments n the balance sheet and cash flow. The company's net book value was $11 million at September 30th compared to net book value of $13.5 million at December 31st, 2012.

Mace had $13.8 million in total assets including $3.1 million of cash in short-term investments compared to $4.9 million at year end. We had positive working capital of approximately $6.8 million and a current ratio of 5.5 compared to $8.5 million at December 31st and a current ratio of 5.6. Total debt at September 30th, 2013 remained at approximately $1 million and that consisted mainly for our debenture note with Merlin and Partners which had a maturity – which has a maturity date of March 30th, 2016.

From a cash flow perspective for the nine months ending September 30th, we used approximately $2.3 million of cash and operating activities. For the third quarter ending September 30th, we used $883,000 of cash and operating activities compared to $696,000 and $748,000 for the second and first quarter respectfully. Now, I'll turn the call back over to John and he'll go through the presentation that hopefully you had the opportunity to download and have in front of you at this time.

John McCann: So once again, I'd just say it's www.mace.com. If you go to the "investor relations" "presentations" of the corporate website, it's under "transcripts and presentations" and it's 2013 third quarter, 2013 investor call PowerPoint which you can download. Anticipating that everybody has downloaded, I'll just go ahead.

And slide two obviously is the forward-looking statement that Carl already read. Slide three, I'll just make a reference point that now we've eliminated all non-core assets. We've shrunk our real estate holdings that has fallen down to two major sites with two small sales offices in Florida and upper state New York that we still maintain for our salesmen that are on the road. We've also righted our inventory.

What does that mean, that we've moved from our older inventory a lot into our newer inventory. We still have some plans for some new products but I'll talk about that a little bit later in the presentation. But just to talk about a little bit of the highlights in the third quarter, which is slide four, I want to reiterate that we have eliminated the suspension and proposed debarment. We've worked with the EPA. We have no lingering issues.

We are compliant in all aspects of what we need to do which ergo we are now bidding on all opportunities related to government work which is great. In the quarter which I can't stress enough how much waste of time and time manpower it took to sell the last remaining car washes. We have closed – we have received the cash for the last remaining car wash and so we are car wash-free. We've also, as Carl indicated, reduced staff.

We are constantly looking at that variable too to see how much more efficiencies we can drive out of the process as we continue to move forward. And then for the first time Mace is now manufacturing and their headquarters are together. Even prior to Mace Security International going public years ago it was always separate entities.

Today we're in a building that can house both and it will help us in the future with efficiencies and operational execution. I'll also show you later that we've created, you know, which is part of the expense that Carl referenced earlier, two micro-sites that we're very excited about that are just launching. The tactical site will launch on January 1st. Mace Camera has launched as we speak. And all of our packaging now has undergone a change. So we now are – all the FAQs and all the research that our research study indicated that people wanted on our packaging is now into our packaging. And then I'll talk about some of the exclusives we gained in the channel and I think it was referenced in Mr. Barone's letter.

We have launched a tactical division. We'll talk a little about that and the fruits of the labor that that's done and we've set the platform for several new items that we plan on launching next year. I won't go through everything else but I do want to note that we do have our first Mace Authorized Dealer. We've signed three dealers and part of the expense of some of the additional licensing are that we are doing business now in more states.

Typically our central station has been heavy West Coast emphasis and now we've been able to branch out with some of the restructuring we did and I'll show an org chart with some of the sales changes that we have made that have helped us. Our dealers are now using Mace products and have availability and acceptability to use Mace products I think I referenced in a prior conference call. We had one dealer that had a lot of success with the school system. That's going very well. We have just under 1,200 different schools or school buildings that are either using our products or using our monitoring service or doing both.

So it's a solid transition that we've made. It's not a huge segmentation of the business but it is something that we worked hard on and were able to do. Talk a little bit about the remodeling of the Salesforce as I call them on the central station as we go down through the presentation. The only other big note I want to make is that we solidified the relationship with Videofied. Videofied is a very innovative product that's sold in the market late.

It's an event-driven, battery-operated and it sends a clip which is an actual video footage to the central station before the alarm is usually triggered which can help us solve issues and prevent issues faster and quicker and cheaper than a lot of other opportunities or products on the marketplace. So that's really the highlights. We've spent a lot of money I know on the research and development and the packaging and now we're now in 2014 and the rest of this year we're hoping to see the benefits of that.

A couple of footnotes on slide six that I want to go through just as a point of emphasis. Our Mace.com website which we spent time and effort in remodeling is up 63 percent year to date. Our Amazon sales site which we're even improving as we speak are up dramatically too, 52 percent year to date.

Our law enforcement sales, which is on page – slide seven – has increased tremendously and I'll get into a couple of slides of the tactical division and where we're going. But we did have seven new accounts.

Please be mindful that most accounts are very small. So it's, you know, small orders that we're able to procure but it also gives us a nice bandwidth of what we're doing. The defense sprays, as you see, there's a little bit of an anomaly there. Our top accounts were way up but then overall our sales were only up by about 2 percent.

Part of it in the third quarter was the decision that we had limited inventory because of the move and some of the downtime in our production that we made sure that we're filling our larger accounts and then some of our web and smaller accounts we pushed out which were – we will fill and work out in the fourth quarter this year and the first quarter of next year. As I mentioned on law enforcement on page eight, I just put a couple highlights in of some of the big wins that we had which is nice for the organization. Manatee County Sheriff's office in Bradenton, Florida is now on board.

We have three or four different higher end tactical rep agencies that are now supporting our products. And Kroll U.S. and International is one of the largest distributors to law enforcement, paramilitary and military operations. And we are now in the midst of running a revitalization program of the Mace products within that channel and also we ran a September marketing promotion that netted some nice results that we'll be shipping out over the next couple of months and into the first quarter again.

On slide 10, just as a point of emphasis, these are current agencies that are buying our products which when we were debarred we couldn't sell to a lot of these agencies or just on board recently. So it's a list of about 35 and it's growing every day. So I just wanted to highlight that some of the work that we did, especially on the Mace tactical and law enforcement, we're seeing some fruits of the labor. Obviously more work to do but it's a great start.

Some of the other notables, as Carl talked about, on slide 10 is due to the move we did delay some shipping some key accounts. We delayed shipping some new accounts which is the third bars on the right. The plan is functional. It's up and running and we're running at the efficiency levels that we were at at Vermont. Our goal is to run it at even a higher efficiency level which I think we'll achieve over the next couple of months and into the first half of next year.

Footnote on some of our cost merges from back in the middle was that several accounts were slower POS sales during the period that they had anticipated which obviously meant some customers were not reordering as quickly as they thought. Good news though still in the quarter we opened up three somewhat major accounts – Office Max, which is the second largest office superstore, started buying our product.

This happened in the fourth quarter. It was all set up in the third quarter. Bi-Mart and Discount Drug Mart, the same thing, their orders are now being processed where we anticipated originally processing them in the third quarter.

Then as Carl mentioned I really don't need to go into but there was a lot of onetime, so a lot of onetime year over year and a lot of onetime this year. Our goal next year would be that there would be significantly less onetime in 2014 but point of focus again just the company needed to be completely transformed in order to get to where we needed to be and I know it takes a lot of patience.

And I thank you for your patience and we still need a little patience to get to where we want to be ultimately. Slide 12 really I'm not going to read it to you but this is the focus of the company on the different segmentations that we do, just the focus of the sales force that we've brought in, that they are – we are best in class in everything we do. We've remodeled not only products but we've reorganized people and how we go to market.

Slide 13 just talks about the central station and what we're doing with the central station along with adding PERS – which is person emergency response monitoring and also we are one of the best video verification monitoring centers in the country. And that's why that relationship with Videofied is important. Michael Joseph will be speaking at a convention, the California Alarm Association convention next weakened just about video verification.

So then lastly, slide 14 is just kind of a recap of where we are and why we're excited about the brand, why we've made a lot of the changes we did that we know we can dominate the consumer end of the market, our strength in defense spray or opportunities that we will create in surveillance and then streamlining our facilities will have a long-term residual value of the company.

On slide 15 I think for the first time we've put together a sales force that we can be very proud of that can both interact within the different segmentations of our business but then have a discipline that they're responsible for on their own.

Bill Treacy is our sporting goods retail rep. He comes with a long history from Under Armour to Bell's Helmet to (Foot Lite) glasses. He's been in the consumer end of the business for a long time. He's an outdoor enthusiast and he's done a tremendous job already just solidifying and gaining some new accounts. And we're hopeful that we have several big accounts that we'll bring on board in 2014.

Luis Tapia has a lot of experience within the dealer world, the dealer network world, direct to consumer and also working with central station. He's the one that procured the three dealers that I mentioned and got the first Mace Authorized Dealer which is in Ohio. And he is working on which some of the slides that I'll show you in a minute we can talk about and then Doug also has some Under Armour experience and some various other companies' experience especially in the law enforcement and the military end.

And he's taken over our law enforcement and our international distribution. We still have a lot of work to do on our international distribution side but I think we have a lot of upside just that end of the business.

On slide 16 and the next couple of slides, I won't go through all the details but what we wanted to do is show the focus of the different channels, where we're going, why we can compete and why we can dominate those segmentations of the business. Especially on this page, we do a great job with some of the automotive, like AutoZone for example, which is an exclusive.

Now we're branching out to some of the other auto manufacturing and auto parts stores to say, you know, here's what we can do and here's how we can do it better than a lot of our competitors. And as you can see in the big box, specialty retailers, home, hardware and shopping channels, I think there's a lot of opportunities especially with some of the products that we'll launch next year.

Same thing on slide 17, the only one I'll note there is the IWA show which is the largest show in Germany will be a re-launch of not only our Takedown but an entire law enforcement array that we'll bring to that show from our TG Guard to our Takedown brand to several other products.

We'll now have a rounded out assortment that I think will be very effective in that segmentation. And as I mentioned earlier, we are now bidding on law enforcement opportunities that come our way. I do footnote that we did have to rebrand the Takedown brand because today we don't own the rights to make in the law enforcement segmentation.

And so we on the next slide can show you what we're doing with Takedown which is slide 18 and show you some of the growth, not only the growth that we're continuing to have this year projected out when we close this year but also the growth for next year. And then you can see that's our first image of our new product and our packaging that we are putting out there into the field that we have talked to several of our distributors and this is a lot of the excitement that we have from what's happening in this segmentation especially in Takedown.

Our sales direct channel which is slide 19 is really newer to the organization. We have – the micro-sites that I mentioned earlier will be www.macetactical.com and www.macecamera.com. Specifically geared to those channels of trade, they will be easy to not only be educated but also do commerce on those channels in order to find the solution that fits your need as well as – I'll show you a slide at the end of the presentation of the additional revamping of the Mace site to include educational how-to, FAQs along with transactions.

The Mace Tactical website, which will be available January 1st, you can see just this is the outline of what it will be like. It will be dedicated to law enforcement personnel, distributors and reps. We've reorganized the entire division and we're pretty excited about the little bit of upside that we have but then we're very excited about the upside that can come. Next slide, which is page 21, pages 22 and 23, I won't go through all the details but our Mace Camera website will be live next week. I think there's a beta site that you can go to right now which is MaceCamera.com.

But this will be dedicated towards easy to use and easy to purchase and pick up a product line that makes sense for you and it will be all inclusive, from the cables to the cameras to the DVR, the NDVR and the monitor or without monitors so you can do it at a lower price point. We are also prospecting. What does that mean? We have – we're working with the telemarketing agency just to – just to look at small businesses, franchises and end users to really target market the Mace branding and what we can bring to market versus a lot of our competition.

On page 24 you can see our target markets, the franchise owners, the business owners, the security dealers and the building superintendents. We've teamed up with Sales Genie on leads so we know there are qualified index leads that have been scored and rated. So we'll have a higher probability of success. On page 24, and I apologize, this is a brand new product that we are now launching along with Mace Camera.

This will be first of its kind for us. It's a GSM cellular backup for added security. It's completely wireless home system that can be monitored through Mace. So what we'll be able to do is offer a very competitive home alarm system at a very competitive monitoring rate through our dealers or direct to consumers but it'll be all inclusive, from the web portals that you need and your smartphone applications to everything you need from alarm video and basic automation accessories. You'll be able to get it under a Mace brand name at a very reasonable price versus a lot of the other competition.

On slide 25, you'll see we also have a similar model, different features that we'll be able to sell directly at retail and this model for example you'll be able to hook it up yourself. It'll come with all of the accessories from smartphone and tablet applications and there'll be a basic monitoring system that you can expand but at a different price point with no monitoring fee. So if you have a small apartment or you can't install a security system that can be monitored, you can do it yourself.

So different price points for different consumers so we can do some channel strategy into channel marketing. Along with our Maceview products which will be available on our www.macecamera website which will allow a consumer then to go into a more sophisticated program that we can walk them through that we can package together to make sure that they have the right features and benefits for what they want to do.

On page 27 is just another revamping of our website. We started a year and a half ago completely changing the website. Now we're just making it a little bit better with some how to use the products. We will be adding some video shortly on the different features and functionality plus we'll be skinnying down offerings to just our best offerings which will then make it more efficient organizationally.

Then slide 28 really is just kind of a timeline of where we're at in the restructure. When I was brought in by the board which is less than two years ago now, you know, we talked about it being a two-year turnaround that once you got underneath the cover of everything that needed to happen, that there was a lot.

And so you can see where we are basically in the process. Today we feel we've done the restructuring. We've done the reorganization. We've aligned our core businesses. We've sold off non-core assets. In 2014 and the rest of this year we'll be looking – we are looking to grow the brand through distribution, sales partnership and opportunity.

And the last slide, slide 29 is just really a recap of our marketing message. What still needs to happen through IR and PR basically is just expanding the company not just becoming an accessory but becoming just like locking the door, putting on your seatbelt or having a fire extinguisher and an application, that you look at Mace as a deterrent that you must have, not just something that you think of when something bad happens.

So that's really the end of that. That will be on the website. If you didn't get it, you can email me and I apologize if I went too fast. But now, I think we can open it back up to (Will) for anybody that has any questions or comments.

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. Our first question comes from the line of (Thurman Willis). Your line is open.

(Thurman Willis): Thank you for taking my call. John, I'd like to commend you and the company for sale of the car washes, the EPA, the consolidation, exclusivity – the exclusive arrangements with the various retails, the moving of the alters. There's the insider buying which I'm glad to see you bought 200,000 shares and the cost cutting. And so, you know, let me preface my remarks by that. Let me ask is Barone on the call.

Richard Barone: I'm on the call, yes.

John McCann: Richard is on the call. Mr. Barone's on the call.

(Thurman Willis): Good, OK, glad to know that. Let me – you made a statement – short-term pain for long-term savings. I would reword that to say long-term sales. And about six months ago I had a conference with you and Barone and the CFO and others about the education during the critical time that many sad things were happening within our environment. And I want you to specifically if you would address multitasking.

I have again commended you on what you have done but I wonder why a company this small with only $13 million in sales could not have increased sales, set up synergies with the call center and done an education program, had franchisees that would have caused our stock to be a lot higher in this environment than it is. I would say that most defense company stocks such as yourself are selling at all-time highs and I think that, as I have previously commented, with earnings yesterday there were no trades. Nobody is watching this stock.

No one knows about this stock. So as you have done all these other great things, I think management, the board has failed in getting these sales or education out to the public. So with that, I would make my comment saying there's no viewers, I think that we could best as shareholders enhance value with other stocks like Taser having moved from $5 to $17, us still around the 36 cents level. It would make great sense for me whether it is McGill systems, whether it is NAVCO, whether it is Taser, to try to form some alliances to merge with these companies. We're at a steal. They're at a high price.

No time is better for merger acquisition than at that point. So I would just say that you have truly failed our ability to sale product in the greatest year that we probably could have ever had even with all these accomplishments you've made. We cannot cost cut ourselves into profitability as Mr. Barone well noted in his letter which I think is – (inaudible) – I specifically want to know how we're going to grow sales, how we're going to – (inaudible) – other companies because our stock is probably in my opinion selling at about 30 or 40 percent of what it's worth with, as you said, tremendous potential – (inaudible) – in front of us.

So if you could be very specific in answering my questions about – (inaudible) – and shareholders other than the three or four or five shareholders that own most of the stock, getting it in the marketplace and/or using the networks of people like Taser of which you do not overlap in any of their segments and in talking to them it would be a great on overlap for them. Taser may to me out of the – (inaudible) – enhance shareholder value. So if you could just specifically address those for me please.

John McCann: Well, there's a lot. But starting with, you know, obviously on the law enforcement side, we were debarred until the end of May. So consequently we've only had a half year of opportunity to sell in that segmentation which did cause the money quite – did cost the company a lot of money to get out of the situation which at the time I started the odds were 90 to 1 that it wouldn't happen, the debarment. So that's number one.

And so rebranding, number two, in that same segmentation, please realize and it's in the old proxy statements and the literature on the company that the company in certain segmentations does not own their own name. So we have launched Takedown and some other – TG Guard and some other product lines within that segmentation because the name was sold under – prior to my beginning. So that's number two.

Number three, given the company – the fact that the company needed a more modern facilities and a more forward-looking position on the manufacturing side, the decision was made to get into a building that would allow us the growth level that we need. Now, we're in that building. We've only been in that building for about six or eight weeks and we're going to see the fruits of those labors next year. Now, this being the greatest year for defense stock, I don't know because with sequester and some of the other issues that happened, I know Lockheed Martin and some of the other defense strategy companies have laid off numerous people.

So I think there is opportunities in the future for the company and we're positioning ourselves for those opportunities and those sales as a nonlethal technology. I do know on the education side we've done several meetings with different agencies and we're getting the message out in a grassroots campaign not to blow the budget on millions of dollars on just getting out there to talk about it. But we've been in some.

There's some publications that we will be in next year with the brand positioning, with the product and with the strategies and we're excited about those segmentations. As to a merger and acquisition or some of the other things, I can tell you that not only myself but Mr. Shapiro have reached out to one of the aforementioned companies that you had mentioned and I can leave it to Mr. Barone on the idea of Taser and Mace talking together.

But I do know the company needed to be reorganized and we're in the process of doing that and I know it's painful and I know everybody wants everything done yesterday that needs to be done tomorrow. But I think we are on a good strategy and a good plan to make things happen. And I don't know if Richard wants to comment on anything else.

(Thurman Willis): (Inaudible) – for Mace about the specific product and I would like for Mr. Barone since his son owns 40 percent of this company to address if we cannot get – if Coca-Cola did not spend money on advertising, Pepsi would kill them. We have got to spend money on education and advertising. No one knows about us and since these other companies' price is all up, it's a great time for them to team with us, buy us or whatever so that shareholder value can be enhanced if the sales can be grown dramatically.

There is no reason we can't double or triple sales this next year and in my opinion especially using their distribution centers that we do not have because we cannot spend the funding to do that. They have the funds to do it. So we need to think like Coca-Cola and if it costs us some money we've got to get our name out there because I would say one out of a hundred people have no idea about Mace. There's probably hardly anybody on this call that was going to know about it. The fact that you released earnings, that a letter was released, the stock didn't even trade. The stock's traded 30,000 shares in the last 10 days tells us exactly what I'm saying.

I can't be wrong because the stock tells us. It's not that the stock price is not up. It has no liquidity and the only way we're going to get that is to team with somebody else. Mr. Barone, do you have comments specific since you have been chairman, sir, for five years? Now that the company has settled in and reorganized itself, do you have plans to in some way as you told me and promised me six months ago to educate the public about this stock other than these few little things that we are doing right now?

We don't go to shareholder shows. We don't go to various things to where we could with various funds get our name out there. We're not spending the money to do it. So I think that we need to merge with another company that will do it for us and all of us can be happy.

Richard Barone: All right, let me address some of those questions, if I may. First of all, to correct you, (Thurman), I've been chairman for two years now, the first six months of which we were looking for a new CEO and of course John has filled that position. When John came on board, we had a bunch of issues we had to take care of, one of which was repackaging.

So it didn't seem likely that we were going to increase sales going through that cycle. We needed to open up distribution channels and most importantly we needed to get into a manufacturing facility where we could produce product in order to meet demand. So it would have been probably a disaster had we tried to increase demand 12 months ago before we moved into a facility that could fill demand. So in trying to address all of these issues, I understand the concern. I don't understand the timeline you're trying to create.

We're moving very, very fast, as fast as we possibly can. We're looking forward to increasing those sales and distribution channels into next year. With regard to Taser and with regard to Mace, if Taser has doubled in the last 12 months, I'll tell you Mace has doubled in price in the last 12 months. I understand the problem with liquidity. That's a problem that'll get resolved over a period of time.

We're working hard to achieve all of these things that you would like to see happen, including a higher share price. It's going to happen, I believe, and I don't believe it's that far off. But we need to do a number of things in order to get to where you would like to see us. It doesn't happen as quickly as you would like to see it happen or I would like to see it happen. But I can tell you that we're moving very fast in that direction.

John McCann: Thanks, Richard. So I think, (Will), maybe we'll take the next call and (Thurman) can get back in the queue if he'd like.

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

Andrew Shapiro: Hi, thank you. and a very nice slides that you have put together for this call and there are several slides on the call that I'm wondering having seen communications from some of these companies that (Thurman) has highlighted that have enjoyed a sizable valuation multiples and lower cost of capital as a result of it. Whether or not you might find ways of integrating the information on this slideshow which is very helpful for the very few people on this call into your investor relation/public relations press releases which would hopefully be seen by more people and potentially attract more people.

Do you have a plan for some of that? I mean, you have a great list of we'll call them reference sites of all of these new police departments. I'm assuming you're building a list of reference sites of various school districts and others that your products are being deployed into. I've seen, excuse me, Taser and others – NAVCO I think – list things like that in their communications. Is that part of your plan?

John McCann: Right. We're now using the new PR person to get that message out, to (Thurman's) point and your point on the marketing side. Yes, post this call, you know, there'll be more information that'll come out post the holiday and then we have an entire schedule that we are working on to distribute this type of information.

Andrew Shapiro: Great. I mean, I just find these slides and this information, this conference call versus prior calls, much improved and I like it and but I'm regretful that, oh geez, I mean, how many people are on this call that are getting to see this and I'd like to find ways that this presentation by you, by Richard or through other links or references can drive more people to this situation.

To get into a little granularity on some of the items in the slides, you mentioned that the debarment and everything else was behind you as of May. But I think in the last quarterly call there was some talk of maybe even some lingering issues. What I want to get a handle on in terms of timing, and I know these things take time, is when has Mace – when did Mace first start making its first proposals on government RFPs. Was it September, July, how far back?

John McCann: Well, so there are two parts to your question. To answer the question correctly, in early July we started and we realized that SAM which is part of the EPA website system that lists suspended and/or debarred companies had not updated correctly. So that lingering issue has been taken care of. We've been double checking.

We actually did a series of compliance reports and information that we passed back and forth with the EPA and have been very pleased with our process. So there is no lingering issues. Everything has been very copacetic and I'm in communications with their Washington, D.C. office just to keep the ball rolling because it started with a personal relationship and that's how I think it got resolved.

Andrew Shapiro: So John, as of when? So I'm just trying to figure out when were you first able now to start putting in and responding to requests for proposals from government entities?

John McCann: Well really because the SAM website didn't get fixed until almost August, it was the August period that we first started …

Andrew Shapiro: OK, so August. That's fine, so August. And the way these RFPs work, I'm basically having you try to help tell me the story so I can understand the timeline because I know it takes long but I don't know how long. So I'm just trying to know when I should be looking for or expecting the first wave of your proposals to start resulting in some of those proposals being wins.

John McCann: Right. Well, and that's what I tried to highlight. Like we've had several wins. Like Bradenton, Florida is now using our product. But unfortunately or fortunately because of the web, right, it's a very virtual system. If a police department, a police department acts – wants to put out a bid, they put a bid out through usually a distributor or a supplier to that said city. Then now we are with distributors or suppliers that get those bids and they're immediately putting our product into the mix to get it.

So to say there's going to be one day and we're going to wake up and it's going to be a million units going to one department, I can't tell you exactly what that is. What I can tell you from that list is these small wins, whenever the bid goes out we either have a rep or a distributor or a direct salesperson available and ready to respond to the need.

What I would venture to say is as we do these different shows, the SHOT show in January, the IWA show right after the SHOT show, several other shows and once we finalize that list I'll also make that public, we will get more wins and we'll get bigger wins. So I don't know if that answers your question. But I know that bidding process. I've been in, it's virtual, like all of a sudden they've had an incident let's say in Pittsburgh. Well, then their reorder process gets moved up and they say, OK, we need $10,000 worth of Mace or $10,000 worth of pepper spray and then that becomes an opportunity.

Andrew Shapiro: OK. Now, you know, the script – it's nice that, you know, you had the script and you identified a few things. Unfortunately, the last conference call you had some slides that graphically presented some of what Carl was saying and maybe, you know, you would have shown that slide at the time he says it.

So forgive me for asking just for a recap of a few items. I don't care about the year to date as much as trying to fill in a few things here as to your three – I think three areas you described as the subtotals for your revenues to know, you know, electronic surveillance last quarter was $416,000. I'm trying to understand what it declined to here in the September quarter and the same thing goes as you had been running at a clip of around $1.8 million, $1.7 million a quarter in the personal defense products.

Last quarter in June it had dropped sizably down to $1.359. and I'm trying to – when I say last quarter, I mean the June quarter – is to have Carl give us for the September quarter the number that compares that $1.359 from June and then if you could recap again the wholesale monitoring. This is the revenue numbers for those three areas for me.

Carl Smith: Sure, sure. OK, so aerosol, our defense sprays were $1,336,000 for the quarter. Non-aerosol sprays – hold on …

Andrew Shapiro: Didn't you have it broken down by the three last time and that's what I want to do, just apples to apples, guys. I just want to know and compare it to know if growth is returned in one segment and if the decline in that other kind of area, surveillance, has stopped.

Carl Smith: All right. So aerosol is $1,336,000 for the quarter. Non-aerosol were $110,000. And then wholesale security monitoring was $1,066,000.

Andrew Shapiro: OK, and then what about surveillance?

Carl Smith: Surveillance for the quarter was $310,000.

Andrew Shapiro: OK. So surveillance stilled dropped. Wholesale security monitoring remains flat and your defense sprays or your sprays are up from last quarter but still down sizably year over year, OK.

Carl Smith: Yeah, year over year the big issue is they're pushing out of some orders into the fourth quarter due to timing and some inventory concerns.

Andrew Shapiro: Right, so that – this leads me to that question. If you could summarize, especially since it is now November, can you summarize what amounts you think that would have been in September got pushed, just …

Carl Smith: Oh, I would say roughly about $300,000 which I opened up with.

Andrew Shapiro: OK, so about $300,000 got pushed off. Now, presumably you're improving this fourth quarter here, right …

Carl Smith: Yeah.

Andrew Shapiro: And you would be running at that rate of $1.3 million just to continue things but arguably you'd be running at the we'll call it $1.6 million rate.

Is the fact that you have $300,000 of saved revenues in the spray business from the September quarter that rolled into the current quarter we're in, does that get in the way of you growing or matching last quarter's, you know, true rate which was then arguably about $1.6 or $1.7 million in terms of this current December quarter plus some growth. Does that get – does that $300,000 that got pushed over get in the way and mean that you're only going to be able to do $1.3 million this quarter ending December.

John McCann: Correct. It does get in the way because there's a bit of a cannibalization because some of the orders being pushed out meant that next replenishment order might not appear until January.

Andrew Shapiro: OK. So when does it layer – when do you feel it layers on top of each other and actually becomes growth again?

John McCann: I think by the first quarter of next year it'll become growth again because we'll have caught up on our backlog of orders and also the retailers then that either were under or over will have righted their inventory positions too and seasonality-wise we have a little bit of a drop-off in the Christmas/New Year's period and then we have a pickup again as people go outdoors.

Andrew Shapiro: OK. Now, so you filled in my gaps in the revenue side. I just want to get a little bit of a similar recap on the summary because again I don't have a slide on it, a recap of the summary and something on the cost side and then I'm going to back out in the queue and I have other questions but I want to make sure anyone else gets to ask it.

But I just want to make sure I get these two items filled in for me which was this whole revenue and sales channel and backlog thing. And the second is you highlighted and you mentioned here and you mentioned there and I only care about third quarter and it's September but you mentioned a bunch of different things that you felt were nonrecurring.

And I'm just trying to understand because your gross margins are reported were down quite a bit is to understand what nonrecurring costs you feel flowed through in the cost of goods sold side and what nonrecurring costs for the third quarter you feel are in the SG&A line side so that I might be able to look at apples to apples with last quarter which I don't think you highlighted to be having substantial nonrecurring costs in, if I'm correct.

Carl Smith: That's correct.

Andrew Shapiro: OK.

Carl Smith: So for this quarter in the gross profit, impacting that was about $188,000 of let's just say onetime severance, move-related costs that impacted the gross profit. And then, if you take the remaining of – there's about $300,000 then which is G&A-related.

Andrew Shapiro: OK, great. That's what I – I wanted to get to that. I'm going to back out. I've got other questions. And I'll try to keep it to be questions and not statements and let's move on.

John McCann: OK, (Will), is there anybody else in the queue?

Operator: Your next question comes from the line of (Thurman Willis). Your line is open.

(Thurman Willis): Hopefully you understand the timeline of that you can't get everything done overnight. You put out a night press release about schools using your jail. You have a call center. If you mail to every school in the United States what the potential Mace has for their school, did you contact every superintendent and if you did not my contention is people do not understand the difference in Mace from two years ago when you gentlemen took over until now and until they understand it we can say or do anything we want to but until we educate them which would have cost very little to send out these letters I'm asking you did you send out letters.

If you didn't, why you didn't and I am saying to you that you can do things in a sales perspective in a company this small and be multitasked while you're doing these other things. And then the last question is you say that your security products are best in – best in field. If they are the best in class, as you say, why in the heck are we losing sales every month with them? The first question first please. I just do not think we are taking advantage of selling.

John McCann: OK, the first part of the question – right, so the first part of the question is we have not contacted every school. We have contacted over 13,000 schools, a lot of them in the Southeast, where the SEC is as they like to call it, through an organization that we've teamed up with. We will have more press with this organization next year and we are meeting with as many schools and superintendents as humanly possible.

For example, just this past week I met with White Hat Management that runs charter schools in Arizona, Colorado and Ohio about a program. So in that regard, we have not hit everyone but we've hit a lot of schools offering them a variety of solutions. Second part of that is – and I think you're misquoting me – we have as good as any other body's product on the marketplace in this segmentation. A lot of these products are new within the last couple of months and a lot of them are launching as we speak.

So we have a combination of surveillance and video and also monitoring solutions that range the gambit from analog to digital to IP. And with that we are getting out that message along with the proper sales force and the proper follow-up because please remember when you're selling a video surveillance or surveillance system it's not only the product. It's the support and all of the other things that you need to do in order to make sure that it's a successful sale. So I hope that answers your question. But we haven't hit every school but we've hit a lot of them.

(Thurman Willis): Well, that's great. And I thank you. This is my last question. I will not get back in the queue. When are we going to get off the pink sheets? When are we going to go to seminars? When are we going to go to stock-related conferences, security conferences and tell potential buyers now, to quote you, Mr. Barone, that we are in a position to do that where we were not two years ago.

Are we now ready to hit the road and tell our story to potential investors? And if we are, what do we have lined up like other companies announce all the time now that we're ready to tell our story.

Richard Barone: We have made at this point no specific plans but we've made a general plan that we need to go out and tell this story. Now, generally speaking, we should be in front of investors. But we need to do that only when we feel we are going in the right direction, our sales are going up, our channels are opening up, our products are being discussed in the public space. This takes time. We're trying to get this energy behind us and get it going for us. I had a chance – I had a chance to go to …

(Thurman Willis): We do not educate. Sales are not going up and if we do not inform analysts and hedge funds, et cetera, we're never going to get any more potential buyers. I thought I understood you to say that the company had reformed itself and it was ready to tell the story and I'm saying we're dragging our feet.

Richard Barone: Well, now you're getting confused between sales and the price stock.

(Thurman Willis): I'm not confused …

Richard Barone: So I know you'd love to see both go up. I had a chance to go to several conferences …

(Thurman Willis): Because – to educate …

Richard Barone: You're going to have to let me talk, (Thurman). Otherwise we'll never get through this.

(Thurman Willis): Well, I just want to see something. I don't care about talking. I want to see the company perform.

Richard Barone: Yeah. I had a chance to go to several conference last year. But I felt it was too premature. We weren't ready to deliver the product. We were talking to people who were going to ask the same questions you're asking and we just weren't ready to go forward. We are now in the position to begin that movement forward. So …

(Thurman Willis): Are we ready now, yes or no?

Richard Barone: End of next year, we will – I will take into consideration the opportunities to go to conferences and talk about the company, talk about our stock and do all the things that we can and should be doing as we go forward. Everything is a matter of timing. Everything has priorities. Things have to be done before other things can be done. I know you …

(Thurman Willis): The company – (inaudible) – go forward with sales. I'm quoting you, sir.

Richard Barone: I'm sorry. I was talking over you.

(Thurman Willis): I'm quoting you. You said this company had turned itself around, all of these things had been done and we are now ready to move into a sales mode. I'm quoting the – I'm quoting …

John McCann: (Thurman) …

(Thurman Willis): We're ready to do that …

John McCann: (Thurman) – right …

(Thurman Willis): Need to go to the shows.

John McCann: (Thurman), you're breaking up a little bit. But I can tell you from the CEO's perspective, when we said going into a sales mode, I meant going into a sales mode for greater distribution at retail, greater distribution to schools, greater distribution in law enforcement, not in a sales mode on the stock side. As we've talked about in the past, there was a lot of cleanup. We're still – we're in the last phases of that, I think as the chairman has mentioned too.

Once we feel that a lot of this is done and behind us, then I think we can get to the point we need to be. I think Andrew brings up a lot of good points on the onetimes. You don't want to have a series of another year of onetimes and then next year we're looking at having the minimum amount of onetime expenses because we've done a lot.

And on the marketing side, as I said earlier, in this past year we spent about $200,000 just on research, product development and knowing who our consumer was and is so we can put together the right story behind it and that's why all the packaging had to change. That's why all the marketing material had to change. That's why all the websites had to change because if we had gone to a conference before and somebody then while we're talking which I'm sure a lot of you guys do, go right onto our website and look, you would have saw something that was inconsistent with the message what you're saying.

And I think as we grow next year in terms of sales and when I talk about sales I talk about consumer sales. These are directly to a consume through a retailer or a distributor or another methodology, not stock sales, then we'll have a better story to put together because when you look at in my third year would be the end of next year you would say, OK, they got rid of non-core. They restructured. They put together a team and now they're ready to do what we need to do.

(Thurman Willis): And I would quote you on something talking about timing that will summarize everything I had to say. November of last year you were to produce a profit January of this year. You have stated you're 12 months behind. I just want to know if we're going to be another 12 months behind and that's what I'm trying to get to understand and I do understand the difference in education and I do understand the difference in stock sales and I do understand that they go hand in hand.

But I'm telling you by your own admission you are 12 months behind your own forecast and it sounds to me like Mr. Barone is not ready to admit what has been put in the letter and what has been said today that we are ready to move forward, that we have done all of these things and we are ready now to move forward, to educate and to sell product. So I just want to remind you, we've already – you've already got one year on us, OK. And I'm not ready for another one. I just want you to …

Richard Barone: (Thurman), I don't know where you come up with these things. Last November, nobody predicted we'd make a profit this year. No one said we were going to make money this year. I've admitted that two years ago when we started our restructuring and our turn around, I thought that by this time we'd be a little further ahead. I never said last November we'd be making a profit in 2013.

(Thurman Willis): You would break even this year, sir. I quote from the conference call. I'd be glad to get it for you to let you read it, sir.

Richard Barone: All right. Get it for me.

(Thurman Willis): Fine. Thank you. I think you ought to remember it. We're procrastinating and we are not moving forward at the rate a small company should. We're pushing it down the road and that are the facts that every shareholder is upset about. You are a year behind.

Richard Barone: We are behind. We could be as much as a year behind. It's hard to put …

(Thurman Willis): Fine. Fine. You just reiterated what I said. I asked you …

Richard Barone: But I never said last November we'd be – (inaudible) – profits in 2013 – (inaudible) – said that I was hoping to break even – we'd have a breakeven point in 2013 and I'm admitting that we're behind that schedule. Now, that's all there is to it. Let's not blow it up into something it isn't.

(Thurman Willis): Well, it is. It's a lower stock price and it's not enhancing shareholder value and it's misleading shareholders, sir. And now – and now, I can't tell where you're saying we are ready to move to next year or we are not because you are vacillating between what you're saying. You're hedging yourself again. Sir, this is a small company.

Richard Barone: Nobody is – nobody is …

(Thurman Willis): And we've got to get off the pink sheets and get on with it.

Richard Barone: All right.

John McCann: OK, so I think maybe, (Will), we'll go back to you. I think (Thurman's) had his say now. We all understand where his position is and maybe we'll go back into the queue. Thank you, (Mr. Willis).

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

Andrew Shapiro: Hi. I will limit this to questions albeit it I may have many. On slide 10, if you go to the operations update, you make mention here that the moves completed Q3 2013 but you infer that there's some additional changes in Q4. Can you expand a little bit about that and what does that mean? Does that mean that you're having nonrecurring costs? Does that mean that you are not yet achieving efficiencies that you expect to be achieving? And if you could help quantify that that would be helpful.

John McCann: Sure. So we are not achieving the efficiencies that we'd like to at this point. There are some further changes that we'll probably make in how we did it and to further explain we basically moved the operation as we did it in Vermont into Ohio not to kind of create two different operating models. With that we found that we can create greater efficiencies by changing that model and slowly we're doing that.

But at the same time, as I had mentioned before with the backlog of orders, we haven't been able to beat through that backlog as fast as we wanted to. And so my only hesitation is is that I don't think there'll be reoccurring expenses that we'll have to incur in the fourth quarter but we're not hitting the efficiencies numbers that we want to. So we're achieving the same amount of efficiency we had in Vermont. We want to achieve more than that.

Andrew Shapiro: And you expect – you expect to do so and by when would we start seeing that results? Q1?

John McCann: Q1 I fully expect to have – to have some efficiencies and by the middle to end of next year I'd expect to have a lot of efficiencies.

Andrew Shapiro: OK. And going over on that same slide, can you provide just a brief summary or guess as to why the retail demand in Q3 was soft and this is for the Q3 ended September.

John McCann: Sure. There was a major – one of our major sporting goods channels did not have the – sorry – chain within the sporting goods channels did not have the Q that they expected to and they had a management change which in the retailer world it (cut open the buy), as they call it. So a buyer (at a stock is open to buy it back).

Management can come down at any point and say, listen, sales were not as good as we want. Nobody has open to buy. You have to – you have to fill your shelves with what you have. You're not allowed to buy anything new. And one of our major partners had that experience.

Andrew Shapiro: OK, so they – presumably then they brought their inventory levels down and would have a need to begin to reorder again. Have you seen that?

John McCann: No. They're still working it through. And we're in constant communications and conversations with them.

Andrew Shapiro: OK, so they're working it through. But when they work it through, it's not as if they're replacing you with someone else and they're going to need to reorder again.

John McCann: No, correct. It's just unfortunately for them what their edict is to skinny down everything they're carrying. So even if you're out of stock, let somebody else buy another product within that same segmentation. But we have no fear of losing distribution there.

Andrew Shapiro: All right. And then in the current quarter you had some new accounts you expected in the September quarter that got delayed and have they signed up and they are official customers and are ordering now here in October and in November?

John McCann: Yeah, so for the first customer, Discount Drug Mart, we've shipped. Bi-Mart, we've shipped and Office Max we're in the process of shipping.

Andrew Shapiro: OK, great. And with respect to the monitoring business, again, it's flattish. I don't know if Richard can comment. I don't want to get in the way of, you know, strategic things that may go on and, you know, cause concerns by employees, et cetera. But this is a flat division. It's not having acquired really anything into it in a while.

It was thought to be a fragmented industry, one natural for a roll up of other companies, dropping acquired revenue accounts down to the bottom line with maybe 80 percent incremental dropped to the bottom line. We raised money on the rights offering. You've heard me say this in prior quarters in terms of summary. And that's not – we didn't acquire. We're not acquiring in there and we're also faced with fairly stagnant revenue streams.

What are the prospects and your plans to both grow revenues and if not revenues because I don't remember the timing. I know you had some margin compression issues for anniversary and getting rid of the margin compression and growing cash flow even on the current level of revenues in this segment.

Richard Barone: All right, Andrew, let me answer the first part and John will answer the second part of that question. When we did the rights offering, John was not on board with us. We had another CEO.

Andrew Shapiro: Right, right. Yeah.

Richard Barone: And identified to the board the fact that he felt there were at least half a dozen companies that he was in touch with that were for sale. Subsequent to that, we found out that that just wasn't the case. There were no companies for sale. The second aspect to that is very, very few of these companies grow organically. In fact, most of them over time lose clients. And it's only through acquisition that most of these companies gain position.

We have in fact been able to overcome that. In other words, the attrition rate that we've had over the past couple of years we've more than overcome with the addition of new clients. Now, the rate – the growth rate has been very, very slow and in fact some quarters – John will correct me – has even been down. So it's a very, very difficult business to grow organically. And I'll turn it over to John to answer the rest of your question.

Andrew Shapiro: Wait, Richard, before you do, doesn't that imply that we either need to grow by acquisition or be – have that segment acquired for someone else's acquisition?

Richard Barone: I think you're correct. I think we need to grow by acquisition or consider at some point perhaps the sale of that company. But you know, we're out there looking for acquisition. We have been in touch with a number of companies. Nothing has ever amounted to anything of any substance in that regard. But we have had conversations and will continue to have conversations in the future.

Andrew Shapiro: OK. John?

John McCann: So to answer Richard's question, what we've done is the normal attrition rate in the monitored side of the business is about 8 to 11 percent, give or take. So ADT adds and they lose about 11 percent on a forward basis. When we look at what we're doing basically is we're flat because we're ducks on top of the pond and treading water hard underneath to kind of continue to keep that flat. You do have a problem within that industry that older dealers versus younger dealers, it's skewed heavily towards older dealers that acquiring new accounts and doing that type of work is not really what they want to do.

Maintaining those accounts are critical. So that's why I stressed even in the PowerPoint some of the other opportunities that we have been pushing hard with video verification, with our different video-monitored solution products because then same accounts you can get a higher ring. So consequently when we look on a go basis, right, and I think you've often asked we are probably at about the same rate of accounts, so number of monitored accounts fluctuates anywhere from 68,000 to 70,000. But the value of those accounts can change dramatically by the product offering that you're making.

And what we're trying to be as strategic as we look at can we acquire or can we look at different dealers that we can bring into the central to make sure our product offering is a reason for them to bring it over. Hopefully that answers the question a little bit. But basic monitoring for an account on a national basis is down. So where you might have got $39.99 prior, a lot of people are getting $29 or less. So how do you enhance that? By offering a service that's on top of it, video or smart applications that the homeowner can then take advantage of.

Andrew Shapiro: And are you already – I know you're trying to do this. Are you already experiencing those upsells and that crossover selling with your other products?

John McCann: Oh yeah, well, and that's why – yeah, that's why I highlighted especially Videofied in our presentation. Not only are we a Videofied authorized monitoring center along with a couple other monitoring centers, most of which are quite larger than we are in scale, we also sell Videofied product through our central station to consumers, to dealers who can then deliver it to – the greatest application for Videofied quite honestly is the school or a building because it's an event-driven, low cost monitored device that doesn't look like a camera but it both is a monitoring device and it's a camera.

It takes a six- to 10-second clip or film picture and has hat through the cloud sent over to the central station. So not only does the monitor ring that there's a problem but we have a clip of, hey, this gentleman's walking through that door. And then ergo we can call the police and say we have video verification of a burglary in play.

Andrew Shapiro: Right. You get to discriminate and filter out the falsies.

John McCann: That's exactly and then we get a higher rate of dispatch because as you can imagine officer's time, they're pressed and if it's just a simple breaking and entering, they might not have time. But if you have video verification, they can send a car then.

Andrew Shapiro: It's kind of like a little a vine that you're doing. OK.

John McCann: That's exactly. Either the types of things you need to do, especially in that segmentation.

Andrew Shapiro: OK. So this current fourth quarter we're in, you've got some visibility already. You've got two quarters – two months of it down. You had accounts and expenses and things that you've identified that you've characterized as nonrecurring. Should we be expecting this current quarter that the burn rate that was encountered this last quarter and the quarter before, that the burn rate this quarter, albeit there will be a burn and you're not yet at breakeven, that it will be lower?

Carl Smith: We should be, yeah.

Andrew Shapiro: You'll have lower burn rate and do you have a feel for which quarter it is in the coming year that we should be running at an operating breakeven rate? Now that means, yeah, you're going to have depreciation and amortization that may make it a loss, you're going to have some stock option expense that's going to make it a loss. I'm trying to get to when I look at our cash balances on a quarter to quarter basis and I don't see them down.

John McCann: Right. So right now, Andrew, to answer your question, we're still pushing through some of the final changes with the board on the budget for next year and we haven't pushed it all the way down. My anticipation would be is that it'd be the back half of the year at the earliest if not towards the end of the year.

Andrew Shapiro: But we only have $2.some odd million in cash, gentlemen, right?

John McCann: Well, we do have some of the sales of the car washes. We do pick up some cash I believe it's in February of roughly about almost $700,000.

Andrew Shapiro: Oh OK, well that's hopefully at least two quarters, hopefully, that your burn rate's down lower. OK. I have some more questions. I'll back out in the queue. I'm not sure if you – if you already have signs that there's no one else in the call but me and (Thurman) then, you know, I'll ask more but I'll back out.

John McCann: (Will)?

Operator: Your next question comes from the line of (Thurman Willis). Your line is open.

(Thurman Willis): You do a great job monitoring what percentage of Ace sale percentage is to other companies. All I ask you to do in fairness to the shareholder and to enhance shareholder value, survey your shareholders and let them show you how they feel about the management of this company and the slowness of getting things done on a timely basis and I think you will understand and appreciate where my frustration comes from because I get many calls every day about the same thing and I think it's time that you gentlemen start hearing the same thing.

And I'm glad that we got this out on the phone today because we see that sometimes you say one thing and do another. And we can't exactly figure it out. So just check with your shareholders and I think you'll see that they're where I am. And I think your approval rating will inspire you to do a better job. Thank you.

John McCann: OK, (Will), we'll go back to any other questions.

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

Andrew Shapiro: Thanks. Again I'll ask questions rather than making statements here. Without sharing your efforts like you're having this meeting or that meeting because I'm looking for some more tangible stuff, can you tell us what the status and real tangible progress you have made in the area of licensing the Mace brand to enable the creation of 100 percent margin royalty revenue streams that has been somewhat of a mission over the last few years but with a very limited success.

Do you have a different digital fingerprint, a partner where – you now, we've licensed our brand there and that was, you know, talked about but I haven't seen anything else. But are there some areas where you have more tangible progress in product lines that will get the Mace brand and we will start getting some cash flow royalty streams from?

John McCann: We're still in conversations. I'd be remiss to say that we have any news to announce currently.

Andrew Shapiro: OK. So what are the next milestones then to measure your progress on this? Is there six months, three months, you can't even put any time horizon on it?

John McCann: Unfortunately because we've used several – two different agencies now and I do the same thing, I put milestones on it for achievements. And unfortunately we're still – we feel good about some of the ideas that have been brought forth but then they haven't come to fruition. And it's a wide variety of reasons whether, you know, the numbers don't work or the product isn't finished or there's other variables that are involved in it that we've just said we would pass on it.

I do as I came in almost two years ago feel that the Mace brand name is – could fit in a wide variety of solutions. We just haven't had any – the success that I would like to see. And a lot of it is – you know, I could tell you a hundred different stories of why this thing happened. But you know, the super storm Sandy, you know, killed off something that we thought had great potential and we were seconds away from signing it and then it just completely fell apart.

Andrew Shapiro: OK. On the surveillance side, I think I asked the question but I asked it with too many others and you answered the others but I don't know if I got the questions on the surveillance side. The surveillance side has been declining continually. In fact, this last quarter again it declined from the prior quarter.

What steps are being done and is there any tangible evidence of the declines? I mean, obviously at some point you get to zero, then there's no more declines. But that puts an end to the declines and puts those products on a path to growth or are these all products, you know, targeted and destined for phase-out?

John McCann: No. Actually on the PowerPoint presentation, if you went to slide 21, this is really the surveillance products, the Mace Camera website that's up and running, we're targeting small businesses. We've purchased a list of over 12,000 small businesses that fit the profile that we had looked for through Sales Genie and we're targeting them as we speak today.

I can tell you that two months into the fourth quarter we've been very pleased with the results. Not only are we beating our estimates that we had put together for the sales team, we're also beating last year's actual. So for this month, with a couple days still to shift, we're above the estimate or plan, if you would, and we're also above last year's actual for the month. And a lot of it is the concentrated efforts of Louis Tapia which on the PowerPoint presentation if you look at the …

Andrew Shapiro: Yeah, I think I saw him.

John McCann: Right. Those efforts have been great and then along with what we talked about, they're not – they're not big orders. But what it is is a mindset change with a lot of our dealers that instead of turning to another solution they're saying, hey, wait a minute, I have a great price and affiliate program with Mace. I can use this for this solution versus, you know, some – just going to some distributor and buying the product.

So the answer to your question is we're finally seeing some of the fruits of what we needed to do. We flushed through a lot of the older inventory. We have a better line of products that go from an analog to a digital to an IP range. And then we also have brought in new products that kind of fit the guess and price points to make sure we're competitive. So if I take the last two months trending, it's very positive. Up to that – prior to that point, it was frustrating.

Andrew Shapiro: OK. Now you had in a slide, I think it was slide 11 – I'm going there right now – you highlight and you list as onetime expenses product R&D. Why would product R&D for a company like this be considered one time? I would think it's ongoing or are there certain parts of product R&D that you're defining as onetime?

John McCann: That's a great question, Andrew. So it's twofold. We have built into our plan and next year continuous R&D, right, because you constantly need to come up with new items to replace older items and also reinvigorate segmentation. What we looked at is this past year we spent close to $200,000 in product research and development on specific products that will lead to other products at virtually no cost or a small cost and that's why we put into that slide that product research and development because a lot of it was built up in order to make sure we had the right products at the right price points.

And so we did some, you know, Gallup poll. We used Nielsen. We used a variety of sources to say we then did focus groups and then live interviews with people that went into that number which you don't need to repeat because we're probably good for another, you know, three to five years knowing that we now built up profiles of our consumers, whether it be a younger professional entering the market or an older grandfather. We've profile every segmentation which now has allowed us to then further define our product lines but that part's a onetime. So to your point, there's ongoing, right.

Andrew Shapiro: So within Q3, within Q3, what kind of amount would you quantify is the nonrecurring portion of product R&D? Is it just like 20,000 or 50,000 bucks then because it's for the quarter?

John McCann: In the quarter I would say it's probably less than a hundred.

Andrew Shapiro: OK. That was non – that was R&D that was nonrecurring.

John McCann: Nonrecurring R&D.

Andrew Shapiro: And well your regular R&D that you're doing, the regular R&D that you're doing, presumably you've got some exciting products in the hopper here. Without, you know, divulging things that would get you into, you know, competitive disadvantage, are there any things that you can share in terms of what – what and where you're going to be rolling out some exciting things?

John McCann: Well, in the PowerPoint, again, we are excited about the couple of products that we showed. The Takedown is completely – that's brand new, labeling, packaging, formulation, the omnidirectional usage of it. And then the other – the other segmentation is the two – I'm following up on the slides just to give you the right pages – on slide 24 and 25, those are brand new systems that we've engineered and designed, Mace platform.

So when you go to the smartphone app, it'll be a Mace button that you'll be hitting to arm and disarm your products. So those are ones we feel very comfortable about talking about. Everything else, there's a couple of shows that we look to unveil some of our products. And then there's a couple of strategic events we're waiting that we have the right channel management strategy in place that if that happens then we can migrate customers into that and be able to effectively channel management, different price points and different competitors to make sure that Mace is the brand on their shelves.

Andrew Shapiro: Are those buying shows or lead generating shows?

John McCann: They're a combination of both.

Andrew Shapiro: OK.

John McCann: Both the SHOT show and the IWA show, you will actually write orders, not as many orders as I would like to write but then they're also lead generation to say, hey, you know what, get back to me.

But we have written shows – in my brief history here we've written shows about – we've written orders at both shows and have been pleasantly surprised with the orders that we've written, because in past lives for me on consumer products, they're lead gens and then, you know, you're pounding the pavement to get back to the same guy.

Andrew Shapiro: All right. Well, I think I've tied you down long enough. I appreciate your patience with all of my questions. But I think it fills in blanks and hopefully fills in blanks for not just us but hopefully there are some others listening other than just (Thurman) and myself.

John McCann: Thank you. Well, thank you everybody for the time. I apologize about the lateness. But thanks again. All this will be available on the website and next week, as we talked about and Andrew had prodded out the question, there will be some more materials that we'll make available on some of the successes and some of the things that we want to do in the future. So and anybody that didn't ask a question, I do thank you for your time and wish everybody a happy Hanukkah and happy Thanksgiving. So thanks, (Will).

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

John McCann: Thanks.

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