

MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
May 11, 2015
1:00 p.m. ET

Operator: This is conference #: 45415601.

Operator: Good afternoon. My name is Andrew and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2015 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 call.

John McCann: Thank you very much, Andrew. And before I begin, I want to direct everyone to our Web site, for our PowerPoint presentation that we have loaded. So if you go to corp.mace.com investor relations transcripts and presentations 2015, you'll see a supplementary presentation to Carl and my presentation today.

With that, I'll turn the call over to Carl Smith, our CFO to read the forward looking statement and to go over the first quarter.

Carl Smith: Thank you, John. 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

or expected to, will continue its anticipated estimates projected and intended to.

Our similar expressions are intended to identify forward looking statements. Such statements are subjected to certain risk, known and unknown and uncertainties including but not limited to economic conditions, limited 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 for many opinions or statement's expressed during this call.

I will now comment on our first quarter 2015. And then I'll hand over the call back to John when – after my review. First quarter net revenue was \$1,826,000 compared to \$1,682,000 for the first quarter of last year, an increase of a \$144,000 or 8.6 percent. This increase was attributed to strong growth in our consumer and sporting goods distribution channels. Net sales in consumer and sporting goods for the quarter totaled \$1.3 million compared to \$987,000, an increase of \$322,000 or 32.6 percent.

Offsetting this increase was a decline in the net sales through our Web, international and tactical distribution channels. Net sales through the Web channel totaled \$38,000 compared to \$77,000, a decrease of \$39,000 or 51 percent. This decrease is mainly attributed to our Web site being under construction in 2015. The new Web site was launched at the beginning of May, and we expect Web sales to continue to increase.

Net sales through the international channel totaled \$81,000 compared to a \$132,000, a decrease of \$51,000 or 39 percent. This decrease is mainly attributed to timing of orders. April net sales for the international channel were very strong. Net sales through the tactical channel totaled \$75,000 compared to a \$104,000, a decrease of \$29,000 or 28 percent. This first quarter variance can be attributed to timing of sales of our TG guard line of products.

Net sales through the building security channel, which distributes our surveillance products, totaled \$328,000 compared to \$340,000, a decrease of \$12,000 or 4 percent. This decrease has mainly attributed to inventory shortages in the first quarter which have been corrected. One of our suppliers had also supply issue due to a system conversion issue which we know are back in line and corrected our inventory situation.

Gross profit for the first quarter 2015 totaled \$671,000 with a 36.7 percent gross margin compared to \$563,000 and 33.5 percent gross margin for 2014, an increase of \$108,000 or 19 percent. This increase is mainly attributed to favorable labor cost compared to the first quarter of 2014. In the first quarter of 2014, we had increased staffing at the beginning of the quarter due to the recent move from Vermont.

Selling general and administrative expenses for the first quarter ended March 31st, 2015 were \$1,135,000 compared to \$1,405,000 in 2014; 62.2 percent and 83.5 percent of net sales respectively, a decrease of \$270,000 or 19.2 percent. This decrease has mainly attributed to lower salaries derived from headcount reduction and salary realignments, reduced audit fees, lower business insurance expenses and non-income tax related credits, offset by increased marketing and advertising expenditures for the quarter.

Interest expense for the quarter ended March 31st 2015 was \$53,000 compared to \$55,000 in 2014. \$50,000 in interest expense represents half of a 5 percent purchase price on \$2 million in loans related to the put option that the company secured from several investors after the company repaid a 1.4 million debenture note. On January 13th 2015, the company repaid its convertible 1.4 million debenture note with a payment of \$2.3 million to Merlin Partners.

The company recognized a gain of \$322,000 in conjunction with this repayment. This repayment was a significant discount to the convertible debenture current conversion value and a premium to its face value. The repayment of this debenture eliminated the potential issuance of approximately 7.3 million in shares of Mace common stock. Concurrent with repaying its convertible 1.4 million debenture note, the company entered into

a put option agreement with several investors requiring the investors to make loans to the company and the aggregate amount of \$2 million at the company's discretion.

The put option expires on January 15th, 2017. Loans made by the investors would bear interest at 4 percent and would be due December 21st, 2019. Prior to maturity, investors have the option to convert the loan to common stock at a per share conversion price of 30 cents. During the term of the put option, the company may enter into alternative financing arrangements at any time. However, the investors have the right to first refuse to participate in such financing.

The company is obligated to pay a 5 percent purchase price for the put option. \$50,000 of the purchase price was paid in January of 2015 and the remainder is due February 15th, 2016. All this information, just to make reference, is in the footnote to the financial statements that we just released for your review. This pay off resulted in a gain of approximately \$322,000; it's not reported as a discontinued operation and it's definitely a one-time extraordinary gain of \$322,000. It's significantly lowered interest expense over the next 15 months for the company and it eliminated a potential issuance of approximately 7.3 million shares of stock.

Interest income of \$52,000 for the quarter ended March 31st 2015 was comparable to the \$47,000 in interest in 2014. Interest income has interest on two notes from the sale of the central station in December of 2013 to Security Partners.

For the quarter ended March 31st 2015, the company recognized a \$12,000 lost in short term investments compared to a \$104,000 gain in 2014. Other income for the quarter ended March 31st 2015 totaled \$322,000 and as mentioned is the gain recognized on the payoff of the 1.4 million Merlin Debenture Note. Discontinued operations for the first quarter ended March was a gain of \$10,000 compared to a loss of \$3,000 in the prior year.

Again, discontinued operations pertained to the central station which was sold in December of 2013. As a result net loss for the quarter ended March 31st

2015 was \$183,000 compared to a net loss of \$794,000 or a \$611,000 or 77 percent improvement over the first quarter of 2014. EBITDA for the quarter was -\$154,000 compared to a 739,000 negative EBITDA and improvement of \$585,000 or 79 percent improvement.

Now I'll comment on some of the balance sheet items. The company's net book value was \$8.8 million compared to \$10.3 million of December 31st. The \$1.5 million decline is attributed to using 2.3 in cash to pay off the 1.2 Merlin note.

Mace had \$10.3 million in total assets including \$3.5 million of cash and short term investments at March 31st 2015.

We have positive working capital of approximately \$6.6 million current ratio of 5.3. Company had no debt as of March 31st, 2015 and total stockholders' equity was \$8.8 million compared to \$10.3 million at year end, 12/31/14. And again, the \$1.5 million decrease is mainly attributed to the \$1.4 million charged to pay in capital on the early extinguishment of debt in a \$183,000 loss for the quarter.

NOLS at March 31st 2015 were approximately \$58 million with \$1.1 million expiring in 2018 and the last NOL expiring in the year 2034.

At this point, I'd like to thank you for joining us and I'm going to turn the call now to John McCann, our CEO who will go through the PowerPoint presentation that hopefully you had a chance to open up and view with us as we go to the presentation.

John McCann: Thanks, Carl. So give everybody a minute. But if you go to corp.mace.com investor relations transcripts presentation 2015, I will walk through – part of the presentation, not the entire presentation and additionally, there was some questions submitted in advance that I will also go through in order to save some time during the Q&A session.

But to – starting with, and I'm on page one, the board has put together with myself a 10 point strategy which we feel we're in section three or four of this

10 point strategy and the next couple of slide really indicate some of the things that we think are important as an organization that we did in the past they were doing in the future and then what we plan and doing as we go forward.

So skipping to page four, one of the big initiatives when I started three years ago was to restore order to the balance sheet and also have the company focused on safety and security and get out of all the other products that were not in that. Today, because we've just eliminated the list in our Florida operations and consolidated everything in Cleveland, Ohio and moved our marketing person up from Florida to Cleveland, we have done that.

So now, all of the old facility is anything that is none core, we have moved out and we're poised for the future. If you look at slide five, slide five I put on there because we did a dual role, we target a cost cutting and then we created a zero based budget. So what we did is basically justified what we needed to remove, justify what we needed to keep all the way down to looking at a detail and comprehensive initiative plan and execution of our products and our goal.

We've also at the same time created a folks initiative on planning and execution within the safety and security realm. So in slide five, it's very important for us because sometimes, you've go with target and cost cutting, you go into zero based budget. We did both effectively over the past couple of years.

Why is it important? Well, if you go to slide six, some of the investments we made in order to position ourselves really indicate who we are. We are the brand, especially in pepper spray. We have 51 percent market share. We have a 91 percent brand approval rating, which means that our brand was either very highly thought of or highly thought off within that 91 percent.

So satisfied; we're very satisfied. We are the number brand in personal (fents from Gallipolis, Harrick and Ideas in Focus). And then we have an 85 percent brand awareness worldwide.

Slide seven indicates some of the other goals that we have as the board brought in to expand and improve our distribution. So in the past quarter, we

have opened up all of the accounts that you see on the page from Cabela's that are buying pepper spray and stun guns and a couple of other items, to Joe's, which is a great regional sporting good chain, to (Nevis), Cleveland Police and (Crawl) which are tactical distributors of products to (MC sports in Orveville).

On slide eight, you can see all of the products where we're exclusive, and I will caution that in Amazon and Academy we're semi-exclusive in some categories in which we compete in from cameras to monitoring to some of our pepper sprays or some unique idea.

The other retailers on that page we're completely exclusive and Myers, Lowes, Discount Drug Mart were all new within the past year. AutoZone (H), we've expanded our resorts as we've done with Dicks and Sports Authority.

On slide 10m just to really emphasize, this segment we're at, where we feel it's very important for us to continue to broaden our assortment of products, to strengthen our brand to marketing and packaging and promotion, you'll see that we launch a new exclusive line last year, and it's one of our leaders in our success of the first quarter of 2015. (Night Beam) is a brand that we're just launching, as you can see on all the tradeshow materials that it's a very integral part of what we think the future could be. It has a higher cap for sealing than pepper does today. So it was a very great entree for us into that segment.

Take down, as you know we've launched our take down segment, our Mace tactical solution segment. We did a training, which you'll see in some of the subsequent slide. And right now, we have high expectations for the take down brand and the Mace tactical solution segment as we go in the back half of the year.

Base alert 911, we don't talk a lot about it, but we've gained some nice commitments for future orders. It's another joint venture that we feel will pay off future dividends, and it gets us into the personal emergency response or the Per Segmentation, which is growing. As you know we bright – redid our entire cameras in our monitoring segment and created both analog and a high

definition segment that is going very well. And end of last year and carried over to first quarter this year, we had a very successful launch of our stun gun with a variety of products.

On slide 11, part of our focus as we looked at our 10-point strategy was to improve our brand recognition, improve our packaging. We tremendously improved our Web site, and our Web site is an on-going dynamic animal that I'll speak a little bit about as we go down the road.

But it's critical for us to have a Web site that's content-driven that's educational that they will lead to modernization of sale. So all of these we've done as well as ramped up our game in social media, which we'll continue to do. But now, everything we do screams brand, whether it's pepper spray, a purse product, a simple safety product, to a camera, to a very elaborate monitoring product. We cover all the basis under the Mace brand and stress the Mace brand.

On slide 12 – or really just forward to slide 13, and this is really part of the structure, part of going backward. So look where we're going in the future, but you can see all the things that we're able to do in 2012, 2013 and 2014.

On slide 14 is really where we're at. We feel good about where we're at and we know there's a lot of work to do but we have a plan in place that we think we can get there and if we look at 2015, we are in the process of interviewing both PR and some (IR), hopefully we can find a PR company that can do some IR too that help us capitalize on the brand and what we're doing.

We've launched Mace tactical solutions as well as Mace Night Beams and Mace 911 help now. We are looking at acquisitions and opportunities, product extensions and products in that safety security segment almost exclusively. If we look towards 2016, we want to continue to expand our product range, continue to use product – continue to look at acquisitions that make sense and then used to improve profitability to build volume through product development expanded distribution as marketing expenditures.

As we look beyond 2016. Our goal continues to be the number brand in safety and security both for consumers and law enforcement. Really, slide 15,

I just want to highlight the tactical training because a lot of times, you get a question on well, what is the tactical and as you can see our tactical products are less than lethal product as shown on the slide.

We can – we have flash bangs which emit light and intense sound. We have products that are smoke, tear or OC grenade that can do crowd disbursement, crowd control or a non-lethal remedy for police and law enforcement versus pulling their weapon. And as you can see on the next slide, it's the same, just to show you how they are used, how trainings and integral part of the process in selling Tactical.

And the rest of the slide really all the way to slide 27 are just some of the shows because I emphasize that because it's our steps towards building the brand and marketing the brand to both consumers and to the buyers and the gatekeepers as they would be. So you can see and I'm not going to go through every slide. And then the last slide, 27 is just a recap of what Carl has already said but we gave it to you in a graphic depiction so you can look at it and you can understand some of the numbers in a very succinct way.

There were some questions that were submitted prior to. So I'm just going to go – I'm going to read the question and read our response because I think it will help us in the Q&A session and then I'm going to turn it over for you guys for Q&A.

One of the questions that came was “what is the status of the next milestone for the various joint ventures and partnerships that you're pursuing for the Mace brand to bring incremental high margin cash flow?” I want to be careful on commenting because most or all of this are works in progress right now. Some of our partners are struggling to get the product that they anticipated to market. So we don't see significant cash flow benefit at this point. We do down the road.

I do mention Nite Beams and HTC which is our partner for Mace 911 as products that we will be able to bring to market and we will be able to monetize on during 2015 and beyond. Mace tactical question came in, discuss

the training sessions for mace tactical line (unless we do) munitions in the context of your sales efforts.

Training within the segment is the most important thing you can do. Tactical samples, training both your reps and law enforcement and how the products work, how our products are a little different than our competitor product, how we can give that department or that law enforcement agency in advantage is critical.

Every law enforcement department or sales agent that we've talked to spoke of the fact that training, and samples is the most critical element you can do and with that we took our first big step in April when we had our training show. In the quarter, we had our shop show which we led to our training exhibit which we are now positioned with the company that we can train anywhere in the continental United States and Canada.

So, we sign up the department, they are going to be able to stay in training classes as it gets certified as we're preparing their POs for shipment. Then the next question that came in, what's the company's next step and why in awareness is the option of our products?

Currently, we're advertising the (tray) police want as a good example where almost every police department and law enforcement agency in the United States look to as one of the guides to what products are hot, what products that they need to look at. And Mace Tactical Solutions is advertising in that vehicle on an on-going basis on a monthly reoccurring cycle.

We are participating in almost every trade show. Law enforcement, cop show, chiefs of police show that we can, that make sense. So in the next couple of weeks, we'll be at three different events just in the Midwest and then we'll move down to Texas to south and end up at the IACP, the International Association of Chief of Police Show later in the year.

So right now, getting the word out, doing advertising to the trade segment and then along with PR down the road we think is a very critical way to do it layer that with the tactical side of actual trade shows where we're participating. We're showing how are products are used, we will have videos from this past

training that we'll be able to both have on our Web site, and give to law enforcement so they can see how the products work and then they'll be able to test themselves with samples and all the information they need on the products.

What is the timer arising in the milestones in making sales to new law enforcement agencies in customers. And this is the same as we've discussed in the past, our production is (May, June). We're pushing for orders as we speak in partnerships, we set a goal for the year and we plan meeting or exceeding it in 2015. These offers were expanded back in November, represented at the (Shawn Show). You felt your last call that we would see cash flow streams from this in the back half of 2015.

But because your partner in Mace's ability, it could be quicker than that. What law enforcement agency is if any have already made sales to an expect – expanded line of less lethal munitions, what evidence or metrics do you support with the Mace Tactical, will or will not have meaningful products segmentations for Mace. So basically, we're in discussions with almost every department. We feel strong and that will be able to expand with quibble in place now that we have their entire pepper spray to offer more to them.

We are in negotiations with a lot of law enforcement departments across the United States. Some of them are short cycle. Some of them are longer cycle but back to what I said earlier, we feel we're unpacked with our budget and we feel that this will be a meaningful product line for Mace in 2015 and beyond. Then on the consumer side, a couple of questions came in. What is your reaction? What has the reaction been to Nite Beams LED products? The reaction has been very good.

Everybody we showed it to has shown an interest in it, we have several retailers lined up in the back after the year to carry products, we have a couple of catalogs, lined up to carry product. And then the question went on, this seems like several additional and potentially larger revenue streams than just personal defense sprays. Which streams or verticals are you planning to target and will this be stage by one vertical at a time or across money.

What kinds of marketing resources are you planning? Put behind this product segment. So, a couple of things, we want to temper the enthusiasm because there was a tremendous amount of enthusiasm, we're going across all channels at the same time with different products and assortments like our vast, we're moving heavy into tactical and law enforcement and also utility companies and et cetera.

We have received the order from Quicken Loans Arena which is the home in Cleveland Cavaliers that we will be outfitting their parking attendance with our products once they become available. At the same time, we want to temper it because we do have to educate that this is just not a reflective vest or reflective vest with LED features which means the cost structure is a little different than your simple LED vest.

So there's a lot of education that we need to do, there's a lot of selling that we need to do, there's a lot of doors that we need to open up but we have integrated that into everything we're doing. At the same time, how are we marketing it? We redesigned the Web site completely, it's front and center, we will be – we're not today – but will be buying Edwards and SCOs and driving traffic heavily on the Web to that. We're also having this as you can see in the presentation almost every marketing event that we can, we have the product predominantly displayed.

And then lastly through PR and some targeted marketing plans, we will continue that education, it also benefit of the product. Have you began to target these products such as the LED safety vest to corporations and safety workers made any traction upfront. We made some nice traction upfront.

As I mentioned, Quicken Loans Arena is purchasing our vest versus their current supplier of that. And we have bids out to several very large corporations which were hopeful that we'll now some of those. So the answer is yes and yes that we're position ourselves to sell the products to these different verticals and we feel we will have some success.

The updated Mace.com Web site seems real nice. What has been the company's traffic experience so far? Traffic experience is a little slightly up

but nothing to write home about yet, but we have done zero marketing to the Web site because we're still working on five or six, little changes that we like to do to the Web site and we are calling the Web site almost a six phase implementation and change.

And the best way to describe it to everybody is, is that, within every retail and this is just a virtual retailer, you have a backend and you have a front end, and the front end is what the customer see the backend is where you pull the merchandise. We had to scrap everything that was being done before. We're on a platform that was going – no longer going to be supported.

Google has made an announcement I believe in February or March of this past year that if you're Web site is a mobile friendly will no longer be supported by Google. By the grace of God with all the implementations and changes we did, we now have a backend that matches our front end. So that means that once we take an order we can whisk it through our system and deliver it on time and safely.

If you move from your desktop to your mobile device to your tablet, we can move with you seamlessly and without any irritation on the buyer's end or the customer's end which is extremely important in today's world. The next step for us is a little more tweaking of the Web site and then we are working directly with Google on Edwards SCO buying and synchronizing messaging to make sure that the message that we're delivering resonates with our consumers not only on an educational side but also on a modernization side.

Then one of the next question that came in, can you remind of the disclosable terms you were dealing with first sign and the status of Mace pod and various Mace Wear offering. Can you explain the interplay with these products and monitoring and component. Mace's participation in that component. What is the uptake of these products and what percentage have opted for extra monitoring revenue. I need to refrain from comment right now on Mace Wear – because we're in negotiations with the next steps.

They are going through some changes to say unfortunately and so now, we're taking a look at what our next steps will be. So we'll have more on that in the

future. The next series of questions came in we're on a consumer or personal (defense) side. What evidence are you seeing that Mace has succeeded in how it adopted to the changing retail environment?

DSG as we call them, Dick Sporting Good is the best example I can give you. Hunting and fishing is down year to year. Their golfing segment is down year to year. So they are seeing different foot traffic pattern within their stores. Consequently Dicks being somewhat of a dynamic retailer viewed this and said, OK this is opportunity to reposition some of their fixtures in their stores but also was a huge opportunity for Mace.

We will now be moving into the frontend of their stores and then other high traffic areas of their stores. So within Q2 and Q3, you'll see a dramatic shift in our business there which we think will be monumentally successful and also position us in the future with some other retailers. So we have orders in house that are very strong for Dicks right now and it's also moving us into a different department going into the stores.

So we will still be in the hunting and fishing area with the products. Now, we'll be in the front end in some of their race track areas as they call them within the stores and this was orchestrated by our VP of sales and our sales rep who did a marvelous job of working with Dicks to figure out how we can help them and also at the same time help us.

And the next question was, in the first half of 2014, sporting goods store struggle that Mace sales along with them. There was somewhat of a rebounding Q4 for you as Myers and Lowes came on board. Were you able to continue that momentum in Q1? And yes, we were as evidenced in our numbers but also how many doors are you into of Myers and Lowes and how many left are penetrate and what are you doing to compete in the segment in other areas than price.

So we never really compete on price to be honest with you, our competitors are cheaper than make – they don't make the same qualities we do. We put a lot into our brand and into our marketing of our brand. So with everyone of these retailers, we have unique either part and purchase materials that they can

get or displays or countertop displays that they can utilize. With Myers and Lowes you know I'll wait to respond a little bit. They are both exceptional retailers that were thrilled to have as partners.

Our POS sales are great with them and we're working on some unique ideas in the back half of this year with them that I think will be very beneficial both to the consumers, their cut – their businesses and Mace's business. Last year you did the roll out of Mace stun guns and we see it's available on your Web site, how has this performed so far?

Our stun guns have performed very well and above our expectations to be honest with you thus far. Cabela's is one retailer that I know of today that is stocking the products of size and we know our Web site sales have been above our expectations too. So we're looking at this segmentation to say, what else can we do with it? How can it expand our distribution and our product offering? But it's been a nice pickup to our defense spray segments.

One of the other questions that came in talks about defender and some of the other products and joint venture, and today I have to refrain from coming on at because we're in negotiations with the defender and a couple other guys through IndieGogo. We don't feel there's going to be any hit to our balance sheet or any risk there.

It's just – it's harder to bring a smart product to market and people recognize and then also working it through the proper channels and getting all of the proper certifications has turned into a little bit more of a challenge than anticipated originally. But we feel good where we are with the defender and we're working through some of what we need to do next with them to continue that momentum.

What exclusive accounts were adding in the first quarter? Of those added have they sold through their initial inventory build and what is your reorder experience been in the quarter? We – in the quarter, we've had more accounts that are nonexclusive than exclusive but I can tell you like Cabela's, Joes, the sell through has been very good. So we don't anticipate any bumps.

Obviously, you have a pipeline fill and your second orders are not as big as your pipeline.

But the POS thus far very good and we are continuing like we have said before Myers and Lowes were never account last year of looking at expansion and some other different ideas that we think will both be beneficial to them and beneficial to us.

February 14, you launched, fear my campus, can you update us on the progress of the initiative and have any incremental sales been generated from these initiatives? There have been some incremental sales not as much as we have liked. We are work in progress with (many) school system but most of the school systems have a limited budget. The president budget didn't really addressed products, it really addressed research and some other things but we've had success in Texas, Ohio and New York.

(Chagrin Falls) which is local school district, a very good school district are in the process of installing some Mace branded cameras as we speak. So there's some orders in house and some future orders that we feel we'll get. But the initiative to be honest with you has been slow we're reworking some of it with our partners on it but we're both remained committed to it because it will be a slow billed but then I think it would be beneficial down the road.

So one of the last questions of this segment, a coupler of quarters ago, you mentioned you are in a pretty high level negotiations, one of the best (camera) manufacturers in the wearable segment. Just to say that's still a work in progress so we're going to refrain from future comments on it that other than to say that it's a work in progress and we're saying if we can work a deal or we can't work a deal.

Under security surveillance and monitoring, we had a question, we last saw each other at the opening and security department, this was from (Andrews), Security Department state of the art alarm, monitoring center in Vegas. Can you summarize the various revenue and cash flow generation terms and benefits from the joint venture relationship with security partner?

Not getting in a specific detail but we have a dealer program working with security partners both on the product sales side, referral basis and then also some (RMR) split. It's hard to say because we have a different scale and a different program depending on the level of participation from the security company, but I would say that the sale to the central station, the base central station to security partners was good for them and they are very good for us.

Our relationship with them both on a referral basis and working together has been very, very good. They have referred over some potential customer to us as we have done to them and it's been beneficial. There are some other questions and this one is from Andrew again. You're at a margin inventory have built up on Q1 with sequential revenues experienced traditional seasonal decline than those jump in raw material. Please explain the sales inventory, directional disconnect and what type of inventories are being built up and why?

Also, now halfway through Q2 have inventories have been moved out with increase sales? So we did as you recognize had increase sales in the first quarter, that accounted for some. But then also we have a large build orders out there internationally, domestically that we're filling as we speak and I don't know if Carl wants to comment anymore on the inventory. But on a 12 months rolling basis will be in line with what it should be.

Carl Smith: A good portion of that was related to the short fall in inventory and surveillance that we had in the Q1 and we got the inventory late in Q1 and caught up with the back orders but a lot of it comes in and we put kits together with the surveillance equipment. So it's the cameras, DVR, et cetera. That's why the higher inventory and raw material at the end of Q1.

John McCann: Right. For the last couple of questions, then we'll turn it over with a slight decrease in SG&A year to year. When our cuts have been pennywise and (pound foolish) what are your plans for SG&A and particular marketing sales efforts going forward? Do you anticipate the company focused on reducing that number more or might it actually increase as you target more sales plan?

And what I have to say to that is in our 10 point plan that I mentioned earlier you know point was to sure up the balance sheet. Point two was to focus the company on safety and security. Point three was eliminating legacy problems. Point four was reduced cash burn. Point five was the broaden and prove distribution channel. Points one, two and three were extremely important before we looked at some of the other segments.

Point six was to develop and improve products and packaging. So as we've done with Exquisite Pepper Spray, non lethal munitions, Nite Beams, Mace 911 and a couple of other products were at that segment. Now, point seven that the board has given to me is developed marketing and public relations program to help pushed legacy and new product sales through expanded distribution.

So suffice to say, we are in the process of interviewing about eight different PRs/IR firms. Ideally, we'd like a firm that could do a little bit of both. Heavier on the PR, light around the IR but to make sure the brand message is getting across both on a consumer level and on a public relations level that – so people see what Mace is doing and forget about the Mace as a past.

Point eight is initiate investor relations program to capitalize and what can be then perceived as a dynamic growing company and safety and security sector. So, point seven and eight go together. Point nine has continued to build volumes through organic and through selective acquisition which we're also working on nine because we have several initiatives out there. We'll see if they come to fruition or not but we think they fit nicely into our safety and security segmentation.

And the last one as I had put on the slide was use improve process ability to further build volumes through additional product development expanded distribution as marketing and expenditures. So on our 10 point plan, to answer the question that Andrew had asked, we're right there.

We hope to announce within the next couple of weeks of PR firm that will help us really broaden our message, broaden what we want to do. Across sectional on retailers from our tactical division where it's a little different than

our consumer products division, we have distribution that the Mace Tactical solutions brand will be readily available.

On a consumer side, now, we're not just in sporting goods, Myers, Lowes, Ace, just to name a few, AutoZone, our strategic partners of ours along with the exporting good, Sports Authority Kmart, Sears. So we have now a broader base distribution that when PR goes out, people will say, oh yes, I have Lowes in my area or I have Sears in my area where they could shop.

So on the last question, we would talk about investor conferences and the plan is yes, to be more involved in the back half, probably the fourth quarter to be honest and anticipate being involved in more investor conferences than just the one that we did a year ago.

One of the other questions, that came in and Carl really addressed it in his analysis asked about the retirement of the \$1.4 million denture note. It was really three fold. It was a good deal for the company, they got us debt free. It avoided further dilution and then it also eliminated an interest payment to the debenture note holders that could have gone the rest of this year and part of 2016. But on a stock basis, we would have been issuing over 7 million shares of stock if we hadn't retired the debenture note.

So I think (Thurman) had asked that question but we reviewed it very stringently before we did it and we felt that it was in the best interest of everybody to do it. And subsequently putting to put note together really gives us a nice back stop to that retirement of the debenture note.

OK. With that, Andrew, I will turn it back over to you if we have some more questions from our participants.

Operator: At this time, I would like to remind everyone, in order to ask a question, press star, then the number on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Furman Willis, our private investor, your line open.

Thurman Willis: Thank you for taking my call. You've answered several of my questions. I'll be much, much more brief than the previous questions. All of my questions surround market to capitalization and stockholder valuation. You already answered the question about I was going to ask you to better explain the 1.4 debenture. And while we did that and I take it one of the main things that came out of that am I to understand that, that did away with the potential issuance of 7 million shares which is a big plus for the investors.

John McCann: That's correct Furman, a 7.3 million shares of you know of dilution that would have happen if they would have been exercised.

Thurman Willis: OK. My next question still staying with the same thing. I think Q1 could say that, the company over the last two years has improved dramatically. But in 2013 at this time, your stock was selling for 40 cents. In 2014, in May of '14, you're selling at 41 cents. Today, it's selling at 44.9 cents. I don't think we have seen nor captured the potential growth of the security segment like a Taser that's up from (1050) to 34 or digital. I aligned it from 330 to 17 which is three and six times valuation. We have barely moved at all.

There must be some sort of seller that's out there and I'm asking these questions, would your 40 percent shareholder or the company repurchases stock, would you consider going in the open market and buying this? Would the company consider announcing a five to 10 percent share repurchase plan like many, many other companies are doing and would insiders they are willing or directors aren't always going in by the huge amount of stock to take this over and hang off the market.

It seems like we have announcement we have, we just have this overhang. So you've done the 1.4 debenture to strengthen your stock. What do you think you're willing to do to increase the share price there – and thus the market valuations?

John McCann: Thanks Furman, there's a lot of questions in there. But we are working on, and the chairman of board specifically working on, removing the overhang. He is talking to and at the right time, I think he will come back to me and tell me exactly what he wants to do and how he wants to do it. So suffice to say,

we agree, we love to have a better reward for all the hard work we did. We know we need more fans in the stands as you like to say.

With regard to the (overhand) specifically, we are working on several strategies to remove it. All of the above that you have mentioned are all on the table. I know Richard Brown, our chairman, has been working with this gentleman specifically and without the results that he had anticipated getting at this point.

Thurman Willis: Well, OK. So I am to take that – you're (saying) that the stock price as your report card and the vast improvement you made, you're willing to go about one of these four or possibly a combination of these four to show some liquidity and to enhance shareholder value.

John McCann: We're trying to take steps to remove the overhang.

Thurman Willis: OK. All right. And so you would consider all four of my suggestion?

John McCann: Yes.

Thurman Willis: OK. The next question, you've answered but on the last conference call some 90 days ago, I asked about hiring a PR from you know we're not a S&P 500 company, we're a small unrecognized nonlethal security firm that is trading way below its value and the – I heard you say that, we will be hiring a PR or IR firm within the next week or two. I think on the last conference call, I thought we would be doing this quicker since we are a small company, are we and the board is the company and the board committing very firmly to make it happen this time?

John McCann: As we said, before we're reintegrating again. In the second quarter, we would start the press as to do it. It's not the next week or two, we have several firms, we're interviewing and even though we're a small company, we're not jumping on somebody and we feel the message they want to deliver and the message we want delivered are the same.

So it doesn't matter a size of the company because most major companies are using five or six different firms. We need to be very strategic and we said it

before, we're saying it again, we said, during this second quarter this has happened, we said it probably would happen in the first quarter. But in the second quarter, this will happen.

Thurman Willis: So we've got six weeks left. Can you comment – I was at your – one of your shows and one of your products received top 10 of the 15 – 2015 best security products. Night Beam once the consumer understand what this is but would you disagree with me that it could potentially – it could equal our existing sales which ultimately would double our sale. I'm not asking you will it, I'm saying is management that optimistic about what it could do?

John McCann: Furman, we wouldn't have done a deal as we weren't optimistic but what it could do, also recognizing the guy that invented the product, struggled for many years because he didn't have a cohesive plan together to launch the product. Our VP of sale again, Eric Crawford, put together the deal, put together a comprehensive plan for the products in a different verticals that we compete in and now, we're in the process of executing that plan.

A big segment will be the Web but it also – will be advertising and promoting this product line so people see why the product line is something they need in their everyday lives and then making that product accessible for them to gain. So we're a hundred percent, I wouldn't have sign off on the deal and made the deal happen and I wouldn't send Eric to China if I didn't think this was a good idea.

And so, consequently, all we're asking is that before I started, nobody knew about the product. Now, we have the product that everybody is bitching to do it quicker than it needs to be done, it needs to be done the right way through the right retailers and yes, it will be a very successful product. Quite honestly, Mace 911 which you hit a button it goes immediately to 911, could be even bigger than this product.

So I think we strategically as an organization have some great opportunities that we positioned this company to take advantage of. And as all of the things that happened in the past, now that while talking about good things and good

opportunities that we have to keep everything in perspective and keep on marching.

Thurman Willis: Keep in mind; I'm not disagreeing with you. I know you had to have some internal projections and I'm not complaining but...

Carl Smith: No, we're going to surpass our internal expectations and we a hundred percent agree that this has great potential as a product line. It just needs to constantly be monitored, maintained and also brought to market. So maybe Furman and so we get some other calls then, can we shoot for the next caller unless you have something else?

Thurman Willis: Yes. No, I had just two, just two remaining along those same lines. Is your halfway through Q2, are we (inaudible) or we're experiencing improvement?

John McCann: Absolutely. I think we will have another strong Q2.

Thurman Willis: All right. Can you tell me when the window opens for Q2 insider purchasing, et cetera?

John McCann: I'll defer to Carl.

Carl Smith: We released earnings on Friday, I think the window is going to open three days from earnings release and then it will be open for 45 days.

Thurman Willis: Right. So that's a Wednesday?

John McCann: Wednesday.

Thurman Willis: And my last comment, John, do you not agree if you don't take care of the overhang, you can come out with announcement after announcement after announcement they can all be good but the seller can keep a lid on this and therefore, I hope management will take very seriously one of my full recommendations to take the seller out and especially if management believes that the stock is undervalued like you do.

John McCann: Sir, as we mentioned before, we love to take out the overhang. We wish it didn't exist. What I have to do is control what I can control and that's the

message and making sure that I'm doing all the right thing. We got your message on the overhang, we're working on it but I can only control what I can control.

Thurman Willis: OK.

John McCann: You know we talked to the gentlemen you know we're working on it. I can only can control what I can control.

Thurman Willis: OK. The CEO of Mace can put in a repurchased program with the board or you can go into the market and buy or (end core) you know buy so I just want that out there. You do have control or some control over those things and I think we need to do it. So with that, I'll end my and thank you for taking my questions.

John McCann: OK. Andrew.

Operator: Again, to ask a question press star then the number one on your telephone keypad. Your next question comes from the line of Andrew Shapiro from Lawndale Capital Management, your line is open.

Andrew Shapiro: Yes. It's Lawndale. I'll ask some questions here about the business now. John, you talked about Mace Alert 911, as something that is going to be a 2015 event. You've just responded to Furman about Mace Alert 911 is potentially as large as, if not maybe even bigger than Nite Beams.

Can you give us a little bit more insight and what exactly is Mace Alert 911? Is it available or are variations of it being offered right now where can one find this product?

John McCann: So there is a press release we put out last year with HTC, we licensed the technology that actually goes right to 911. So we've developed a product that we're launching in this quarter. It will be on our Web and we don't have retail partners yet but we have some very good negotiations going on with a couple of large direct to consumer companies and also a couple of retailers for distribution. But basically, the products are wonderful and the fact that, for \$250 with no reoccurring monthly fees or anything else, you hit the button.

The next thing you will hear is 911, what's your emergency? It has a two way talk so the person on the end, you can hear the operator and the operator can hear you and we are branded Mace 911 help now. We're finalizing the packaging of it, we have some limit inventories available now, it will be up on your Web site within the next couple of weeks and it truly is a great product because on a comparable basis, what we're selling at 250, the next competitor is over \$500.

And so, if you went to life alert or some of the other programs out there, there's a monthly fee required with a two or three year subscription required with ours. You buy it, put the batteries in it and it'll work wherever there's cellular coverage in the United States and Puerto Rico.

Andrew Shapiro: Sounds like a great product. The press release you referred to from last year is unfortunately lost upon us, I don't think you know its buried somewhere in your Web site as well. So...

John McCann: Well, we – there'll be more and as we talk about it, we get a company involved, we'll have more news on it especially as we get some distribution.

Andrew Shapiro: Right. OK. Another few more business questions if I could, you mentioned how the Florida expense was recently eliminated when in fact, it was at. During Q1...

John McCann: As of March 31, 2015.

Andrew Shapiro: OK. So it will be a Q2 benefit that we have not yet seen, right?

John McCann: Correct.

Andrew Shapiro: OK. I'm trying to understand here tactical. OK. Tactical had a decline year over year, I think Carl highlighted that, that was due to the timing of sales of TG guard which sounds to me like there was maybe a bunch of it last year or was it a TG guard sales that you thought were this year that didn't come until this quarter?

John McCann: Timing of a TG Guard product last year versus this year. TG Guard is pepper spray dispensing unit that used in prison, in correctional institutions, embassies and the you know budgets by those agencies are pretty much gear the purchasing timing of those units and it just came down to about a \$20,000, \$30,000 order last year versus this year.

Andrew Shapiro: OK. Well, yes, that is obviously for the small move up or down but at the same time, Mace rolled out a broad line of less lethal munitions, you roll them out at the shots, you formally announced them at the shot show, you've been out there marketing them. You talked about being in discussions with many agencies. What agencies, what law enforcement agencies have you made preliminary sales to?

In every quarter, at least every quarter, maybe even every month, investors are – made apprised and given a list by people like Taser and Digital Ally, et cetera, of all the different agencies that they are selling stun guns – their Tasers to or their body cameras and we – if you look at the details you know it's only a hundred cameras or it's only a hundred units but nonetheless, they are listing how their products has been broadly accepted in the law enforcement community to facilitate sales to other law enforcement agencies.

We're not yet hearing that from you guys or seeing that. What agencies are you guys already into? We know about Cleveland, we saw the press release about that, that's great, there should be a great reference site for you for a bunch of smaller agencies but we're not hearing about the smaller agencies and the states that you penetrated.

John McCann: Right. And so, it's twofold. Our less than lethal tactical solutions as we always talk about will be a June and back half of that, right? And then with regard to the other question it's a good point and I'll have the law enforcement guys pull together a list of agencies that we are doing business with. A lot of them are smaller to your point but there are still reference point like a Birmingham and an Albany and et cetera that I know off.

We'll make that list available on a regularized basis and make sure that it's out there as you know as somebody you know some of the other guys are doing.

But with regard to the Mace Tactical Solutions, we're on target to what we talked about. We had the training. We have all the sales information out to our guys. Carl and a couple of other folks were at the facility that we're producing at. We're on schedule. We have all the processes and everything in place.

All the firearms, the homeland security and DOD, DOT, registrations that we needed. So we're well positioned on where we need to be than now we're in the process of securing bids orders and the next steps.

Andrew Shapiro: Right. Because you know when you talk about Birmingham or Albany you know there's a small county down the road that doesn't know this and you know this helps you with you know all the multiple agencies.

John McCann: And the point earlier that I was addressing to is, we're reaching that point where we need a PR firm that has the checklist that says, it's not the twenty fifth thing somebody has to do in a day, it's the first thing the PR firm will do to say, OK, give me this update, give me that update and then they are writing and putting these out in a regularized basis.

And so to your point, to Ferman's point, the board myself have recognized this and that's why that next maturation of the company is to get a PR firm that says, "Hey, it's great you're doing all these things but if you're doing them in a vacuum it doesn't really help you. And so, there's a great recognition of that change that we need to do.

Andrew Shapiro: Good. It also opens doors for you to then go and close the bigger stuff.

John McCann: Correct.

Andrew Shapiro: Just – Quicken Arena, you mention how they'll be having vest when avail – once available. When is that? Are these being prepared in China? Are they on the boat or in the port of Los Angeles? Are they in the Cleveland warehouse? What's the timing like to have that product line more readily available?

John McCann: Andrew the vest and other items that we currently don't have (exactly) the shoe laces, the dog leashes, the collars which are all great products. Some of the (half) vest they will be here late May for distribution.

Andrew Shapiro: OK.

John McCann: There is a bit delay with West Port, the West Coast Port situation. But (Bernie Granny), one of our guys, is working diligently to get everything in stock as soon as possible.

Andrew Shapiro: Right. Now, you talked about how you got bids out in front of large corps. We understand the long purchase cycle that exists with law enforcement and obviously it's immediate purchase cycle when it comes to direct consumer. Do you have a handle on the feeling? What's your expectations and how long the purchase cycle is for larger corps when it comes to these types of important safety products?

John McCann: Right. So with that, some of this is new for the agency. So Quicken Loan Arena, for example, we've done some advertising with the Cleveland Cavaliers to you know have a safe night brought to you by friends at Mace that is on at the end of every Cavalier's game and their partnership with us. I made a presentation to them, they say, "Great, we need vest, we're going to start buying your vests instead of your current vest, right?"

So that order I believe is on the boat coming. So it's – there's not one answer for it. We see some (company) say, Great, I stacked a couple of hundred of these every month because our guys tear them or lose them or et cetera. And then some of them are like no, we buy that once a year. So it's a bit of a mix bag plus we're bringing innovation into a segment that really has seen zero innovation that it's also an education too because as we discussed earlier, we're never the low price leaders like there's other folks that can do that and you know your typical vest is \$15 to \$20. Our vests are \$30 to \$50.

So it's also an education so why this more beneficial than the current vest and now, I got to go to my boss to get this approved because it's a higher price and we're paying before and like everybody in the world, you don't want to pay

more unless you can see the value which then leads to an explanation and the presentation and a conversation.

Andrew Shapiro: OK. A few more business questions, I appreciate you're answering a lot of my other questions up front you know you talked about the inventory shortage that you had on surveillance and then you said, I wanted to confirm this. The inventories arrived before the end of the quarter and that is why the inventories are way up relative to the quarter sales?

John McCann: Correct. Correct. Building security, we were in out of stock position or not out of stock but stock shortage who had ordered on back order. Orders were coming in its brought in from China. So we increased our purchase orders early in the quarter to get more inventory in and at the end of the quarter to position ourselves for the increase sales we're anticipating in building security to have the inventory so we have a good quantity on hand.

Andrew Shapiro: So the back orders and your quarter to date here in Q2. Are you experiencing substantial or sufficient increase in sales that brings that inventory down into historical norms?

John McCann: Well, the building security is online to track what it did in Q1 probably up a little bit from Q1. Should be above last year but again, we want to make sure that with the lead time from China, we have a better safety stock on hand to fulfill orders.

Andrew Shapiro: So you're guiding that the inventory days outstanding is going to remain at or be around the high level that you finished the quarter.

John McCann: It will be – yes. The days on hand for inventory will be skewed a little bit higher to prevent out of stock situation so we don't – so we can capitalize on all orders, correct.

Andrew Shapiro: OK.

John McCann: And it's a bit of a mix because also on our defense spray and some of other segments you know you have pipeline orders on Nite Beams which you know you didn't have a year ago and then as I mentioned we have a shift that Dicks

Sporting goods were they – historically have been late third quarter fourth quarter parts of first quarter now that they ramping up for a program late second quarter or early third quarter.

So when you look at the overall the entire but there's three or four different drivers to that reason, all of them positive growth.

Andrew Shapiro: Yes. But Nite Beams wasn't part of your Q1 inventory, you didn't have it then.

John McCann: No, but I mean when you look at Q2 inventory, you're going to see that in there, where a year ago, you wouldn't see it in there. And then also the Dicks orders that we're anticipating we're building out, you had an increase in raw material starting you know probably at the end of the quarter and through the last couple of months to make sure we can fill those on time and complete.

Andrew Shapiro: OK. I'll back out and let others have questions.

Operator: Your next question comes from the line of Furman Willis, our private investor, your line is open.

Thurman Willis: Apologize, I did have one other question, John. There's been discussion of beginning a nonlethal alliance with certain security firms. Most security firms are lethal in society today is calling for nonlethal which no one has ever died from Mace or any of your tactical products.

What are the chances even though a Taser gun has killed people, what's the chance teaming with somebody like Taser or other companies and the (nota gus) is nonlethal and therefore, something what I always clamor about is getting recognition for our company.

John McCann: It's a good question Furman. And so on the lethal side, we work hand in hand especially in our Hunting, Sporting and outdoor stores with our partners that make guns and ammunition.

On the less than lethal side, Taser and some of the other producers of other nonlethal devices, I've actually met with them and we have talked about that

because we feel it's you know raise the tide and all the boats will rise too, that we've looked at and said, hey, we are all services segment and there is room for some conversations within that segment.

Thurman Willis: I appreciate you moving there. I think the combination in nonlethal with Taser would do wonder for our (stock in investing society), people understanding what we do. Thank you for taking that question.

John McCann: Thanks.

Operator: There are no further questions at this time. I would turn the call back over to presenters.

John McCann: OK. Well, I want to thank everybody for participating for today's call. We hope we answer your questions. We are energized as always with where we're going and what we're doing with the company and we appreciate everybody's support. So with that we thank you and wish you a good Monday.

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

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