MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
August 6, 2014
1:00 p.m. ET

Operator: Good afternoon. My name is Keith, and I will be your conference operator today.

At this time, I'd like to welcome everyone to the Second Quarter 2014 Financial 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, President and CEO of Mace Security International, you may begin your conference.

John McCann: Thanks, Keith, and thanks for taking the time to listen and participate on today's conference call. Before I begin, I want you to direct you to our Web site for a PowerPoint presentation that we will go through during this call. Go to corp.Mace.com, Investor Relations, Transcripts and Presentations, 2014, second quarter 2014.

Now, I'd like to turn the call over to Carl Smith, our CFO and Senior VP of Operations, to read a forward-looking statement and to go through the second quarter results.

Carl?

Carl Smith: Thanks, John. OK, 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 using during our conference call, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "projected," and "intend to" or similar expressions are intended to identify forward-looking statements.

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

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

And I'll now go over the second quarter ending June 30th, 2014 compared to 2013. Consolidated second quarter net sales $1,817,000 compared to $1,776,000 for the quarter of last year, an increase of $41,000 or 2.3 percent.

This increase was mainly attributed to a $94,000 or 103 percent increase in our tactical line of products and a $22,000 or 5.3 percent increase in surveillance product sales for the quarter. A tactical increase is attributed to $100,000 order of TG Guard product, which are the pepper spray dispensing products used in correctional facilities.

Sales of our tactical line of products totaled $185,000 compared to $91,000 in the second quarter of 2013.

Electronic surveillance sales totaled $439,000 compared to prior-year sales of $417,000. The increases in tactical and surveillance sales were offset by lower sales of aerosol and non-aerosol product categories in the quarter.

Aerosol defense spray net sales were $1,081,000 compared to $1,110,000 in Q2 2013, down $31,000 or 2.6 percent. Non-aerosol, which includes Big Jammer, wireless alarms and other non-spray products were $88,000, down $45,000 or 34 percent compared to the second quarter of 2013.

Gross profit. Consolidated gross profits for the second quarter totaled $598,000 or 33 percent of net sales compared to $754,000 or 42 percent of net sales in the second quarter of 2013, a decrease of $156,000 or 20.7 percent and 9 points of margin.

I'll try to explain the decline in margin and it's attributed to several factors. We had low margins to an international customer. That customer took sale of $135,000 and it was a low margin mix, if you will. We had a write-down of surveillance inventory in the quarter.

We had additional one-time expenses attributed to the Dick's Sporting Goods point of purchase displays. There is an allocation difference year-on-year in the treatment of certain overhead expenses and we had unfavorable overhead absorption variance for the quarter, which should reverse in Q3 and Q4.

Those items totaled to approximately $170,000 and when you add those back to the reported gross profit of $598,000, the adjusted gross profit margin is back in line with prior year of 42.3 percent.

Selling, general and administrative expenses for the second quarter ended June 30th, 2014 were $1,185,000 compared to $1,384,000 in the prior year, 65 percent and 78 percent of net sales, respectively, a decrease of $199,000 or 14.4 percent. The decline in SG&A is mainly attributed to staffing, lower professional and consulting expenses, and a $40,000 reduction in FAS 123R option expense.

As a result, net loss from continuing operations for the second quarter was $603,000 compared to a net loss of $690,000 and $87,000, or 12.6 improvement over last year.

Income from discontinued operations for the quarter was $411,000, resulting from an adjustment to the sale price of the Central Station. This compares to

$151,000 loss from discontinued operations in the prior year, a $562,000 improvement over prior year.

Net loss for the quarter was $192,000 compared to a net loss of $841,000 in Q2 of 2013 and an improvement of $649,000.

At this time now, I'd like to make a few comments on the balance sheet. The company's net book value was $11 million at June 30th, 2014 compared to net book value of $11.9 million at December 31st, 2013. Mace had $13.4 million in total assets including $7.1 million of cash in short-term investments at June 30th, 2014. This compares to $7.6 million at yearend.

We had positive working capital of approximately $10.4 million, a current ratio of 10.6, compared to $10.8 million in December – at December 31st, 2013, and a current ratio of 8.0.

Total debt at June 30th remained at approximately $1.1 million, consisting mainly of our venture notes with Merlin Partners, maturing March 30th, 2016.

Before turning the call over to John McCann, our president and CEO, where he'll go through a PowerPoint presentation to discuss the quarter further, I'd like to mention that to assist our shareholders, we provided some quarterly P&Ls and cash flows for 2013 that were prepared on a consistent basis with the first and second quarter results in 2014. And those are in the same location that you'll find the PowerPoint presentation.

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

John McCann: Thanks, Carl. And then just to reiterate again, the presentations are corp.Mace.com, Investor Relations, Transcripts and Presentations, 2014, second quarter.

With that, I will just briefly make a couple comments and then briefly go through the PowerPoint presentation so we'll leave some more time to discuss and answer any questions that come up. Also, I'd like to note that I think last year, we had warning signs and the caution in yield signs which have all been removed from our Web site. These are hard work of Carl and Garnett Meador, our in-house legal counsel.

We've also set the past to make sure that it doesn't happen again. And so, everybody knows it was a timing issue, it wasn't a data or it wasn't any other issues, but it was just making sure that we were reporting our data on timely basis.

We're also in the midst of looking at our outside professional resources and bidding everything out to make sure we can use outside help, especially on the auditing side and the tax side to make sure we stay compliant throughout 2014 and 2015. So that's just a side note that I wanted to make.

But then, if we look at the presentation, and on page 4 of the presentation, I wanted to stress that we were in the final phases of the transformation of the company and we really have our Mace tactical division, which includes our international sales, our sales to corporations, our sales to schools, our sales to police departments around the country position very well.

We have a strong leader in that division, Doug, who had set up a nice organization both internal reps, outside reps, and distributors that have been really excited about the relaunch of Mace product into the category. And we feel in the third quarter, we have more exciting news to come within that segmentation of the category, and we're going to see continued growth within that – within that segment.

Then on our other side of business, our consumer side, which includes our surveillance, our non-aerosol and aerosol product, as well as our home security products, we were still on the process of reorganizing and we feel we're very close to our final finished products with our sales team led by Eric Crawford, who oversees our tactical division also.

And we've seen some nice gains at retail. Unfortunately, as I go through some of the further slides and the presentation, we'll see that retail is still struggling quite a bit. Even if we've added distribution, we still haven't caught in the second quarter to the horrific first quarter that retail experienced for a variety of reasons.

But on slide 5, just to reiterate some of the things that we were able to do during the quarter that we're very positive was the expansion of our tactical sales. So what that means is our police law enforcement divisions were selling more this year than we were a year prior and we feel we have even more in the pipeline for the future.

We've expanded our international sales. As Carl has mentioned, we had a Taiwanese order that was at a lower margin rate than our typical margin that had an impact on the quarter. But when you look at on a gross to net side, it had a minimal effect because the freight, co-op, and some of the other variances were really netted out of that growth.

So in terms of a net sale, it was a very good sale and also it set the pipeline for future sales into the Asian market. We've also engaged with schools both on a consulting side and with our product implementation side during the quarter that we feel were long-term and strategical for the organization.

And then, also, lastly I'd note is, on our surveillance side, as Carl mentioned, we were – we've moved through a lot of – we've written down some of the inventory that wasn't right for the marketplace. We feel we're in a better position with the inventory in the marketplace.

And between our direct efforts and our retail effort, we had a nice increase versus the year prior and we feel strongly that will continue both through our dealer network, which is through Security Partners, which has 1,700 dealers throughout the United States that we have exclusive access to, as well as our direct selling force, and then also our retail sales initiative.

Just really briefly, on slide 6, you'll see a slide, and this is one that's important because it really shows why Mace is important in an ever-changing world today. That is just crime statistics. Every second, you can almost mention from theft to murder happens in the United States on a daily basis.

On slide 7, it's really just – it shows the differentiation between the Mace Brand pepper spray and all the competitors out there in the world and why we continue to gain market share and continue to sell better than our competitors, because of all of the things that we do and go into our product.

On slide 8 and slide 9, part of the investments that we did last year in brand studies and also market studies was really profiling exactly who buys our product, what product they buy and why they but it. This has helped us tremendously in the education of the product with retailers and also the education of the product with the general public.

On slide 10, this is just the chart and this is directly from U.S. Census Bureau of retail sales '13, retail sales in '14 through July period. I will note that we had a robust July, so we're hoping to have a robust third quarter based on our preliminary results today. But when you look at the second quarter and especially the first quarter of 2014, retail was extremely soft.

On slide 11, this is directly, again, from the Census Bureau. This is what they highlighted as where the ups and downs were. And I just highlighted it in this presentation that sporting goods and general merchandize both had negative experiences year-to-date in sales trend. Some other segmentations dropped, but those two segmentations, which are important for us, had dropped precipitously in the first half of the year.

I would note, within that framework that Dick's Sporting Goods, for example, which is an exclusive partner, we've put together some displays and worked with their merchandizing crew very effectively to do some messaging.

And we're very hopeful that first results will continue, because first results were very positive both in the terms of people being able to find a product, identify the right product for themselves, and then also be able to purchase the product, because Dick's is a very dynamic retailer that it's looking ahead. So, positive inclinations there.

Slide 12 is just a recap of everything Carl said, by trying to put it into a format that it's easy to read, and you can see some of the positive results. We'd love to see a bigger gain in the sales side. As Carl mentioned, and he's integral to it, is the SG&A's expense. We're looking at everything, making sure that it has a return on investment prior to the doing it.

And then, obviously, the transformation of the Central Station and selling it to Security Partners had a positive. And we've continued to maintain a great relationship with Security Partners, which I think will set us up in the future as we look at more products and ideas.

I will go through from slide 13 and on. Those are just comparables to year prior that Carl had touched off in his notes as we went through the numbers. I will note on slide 16, if you look, the tactical division and the international division, nice increases.

Disappointment in the quarters are direct to consumer, which is our Web sales. We are in the process of reevaluating our go-to market strategy on direct sales to consumers, how we interact with them on our Web site and et cetera. So that's just a note.

And if you – slide 18 is on a gross profit side where it was matched and we – in our cost of goods, we had put the majority of the cost of the displays in some of the special things that we did at DSG, Dick's Sporting Goods, and then also that international order. I think if you normalize those two in the quarter, we would have been close to the profit, gross profit number from a year prior.

SG&A expenses on slide 19, just wanted to note that we're continuing to look at those and continuing evaluating cost to make sure that we're in line with our expectation.

And then, lastly, slide 20 is one that it's a good guide, it's not absolute, but we always look at the number of employees, the revenue generated to make sure that we stay within a realm that we feel is good for the business, and allows us both to be dynamic and also allow us for growth in the future as needed.

Really, then on slide – page 21, as Carl mentioned, our TG Guard product, which actually we can drop tapper or we can drop tear gas. And just beyond the correctional institutions with our partnership with NonLethal

Technologies, we've had some expansion into several places in the domestic market and several places in the international market. And it's a great dynamic product that we look at the future to do more with.

International sales, as I had mentioned before, was expansion at territory and also solidification of some of our distributors in Europe, old Europe and new Europe, if you would.

Tactical sales continue to do extremely well as we had rebranded our Take Down line and added technologies. Our 360, if you would, but omnidirectional products have done extremely well, where we're using it slightly different. Same formulation that we use on our civilian products, but a slightly different way of filling the bags which allows an officer to use it no matter what situation he's in. If he's sitting down, standing upright, knockdown or sideways, the product will still spray out.

And we continue to be encouraged by the rebuilding of our surveillance and our monitoring products through our dealer network and also direct to consumer, has been very good.

To note, I mean, not so positive side would be our consumer channel or sporting goods channel due to low traffic and retail. As I indicated on a slide earlier that retail hasn't really rebounded yet from where it is, but we are putting in place some structures and ideas in order to help us, make sure that people see our products, because we're definitely an impulse buy, and then also see the value in buying our products, because we make products from $10 to $5,000 and they all have a different value proposition that we drive in, make sure we get across to our retailers.

I'm going to ask – and lastly to note, which is very encouraging and that's why we're very encouraged in the back half of the year is, on a new distribution side, during this quarter and beyond we have shipped Cabelas you know for the first time this year in the second quarter, and we will be shipping them again in the third quarter.

We have opened up Meijers, Wal-Mart, and Walmart.com. So although it's too early to tell on a PoS basis, they recognize the brand value and we were able to put together very unique packages for all these retailers, and there's more to come as we go down the road.

We still have our exclusives on – if you look at slide 24 and the sales update, we've maintained exclusives with all the guys that we were exclusive with. Unfortunately, Sears and K Mart, their volume is not what it used to be in the past, but they are still trying to reinvent themselves, and we have some programs going forward with them in the future.

ACE, AutoZone and Sports Authority continue to do well, especially ACE and AutoZone in the marketplace. They're dynamic retailers that have kind of really looked at different ways of making sure that they stay relevant in a changing retail environment.

And Sports Authority is – we're encouraged by some of the things that are happening there and some of the actions they're taking internally in order to grow their brand and their standing in the different markets.

On slide 25, I'm going to ask Garnett to chime in a little bit here, because we're very excited about our first product, which is Pepper Shield Handle that we've done with a local. He's an upper-state New York developer and we have this as a Mace exclusive. And on slide 26, you can see a rendering. That might – that won't be the final, but it's a rendering of what potentially the product will look like.

But I'd like Garnett to comment a little about the partnership that he was able to create.

Garnett Meador: So as John was saying and to add to what he was saying, one of the exciting things about adding this product is that, as we penetrate the law enforcement area, what we're finding is that, we're looking for new products in law enforcement departments who are asking us to identify new products.

So between partnerships like this particular one with Pepper Shield Handle and also with NonLethal Technologies, it allows us to provide a full array of products as opposed to, in the past, what was considered to be maybe somewhat limited. But now, we've got great opportunities with these new products, one of which is this Pepper Shield Handle.

And basically, we have the full control over manufacturing, it will be exclusively Mace Branded product, we have exclusive rights to distribution in the U.S. and worldwide, and we have an agreement with the inventor, which is exciting for us as he brings on new products that are similar to this product in the law enforcement arena. We have exclusive rights to those as well.

So you know it's really a great opportunity for us.

John McCann: Thanks, Garnett. And really quickly too, this is a very exciting LOI that we were able to sign during the second quarter with Pangea Services and the Defender. And I'll let Garnett comment a little bit further about it. But it really will take Mace into the next level of what we would call smart technologies and future products that will combine hardware and software together with our great brand name.

Garnett Meador: So to add to what John said, this is the first product that's available. It actually is a smart pepper unit. And it was exciting for us because we're able to tap into technology that's been developed over about a two-year period.

And essentially what it allows for is it allows a person when being attacked by a perpetuator to take a picture – well, activate the unit by spraying the button which would spray the pepper. At that same time, it activates and takes a picture, it sounds an alarm. It has a prerecorded voice as well.

And in addition to that feature or those features, it also has the opportunity to have a special medical alert button so that you will tap into a central station and allow 24/7 monitoring of all the capabilities and functionality of the unit. And then, of course, there's the idea that it is a device that will allow you to determine and pinpoint the location of somebody, actually, from where they're spraying or identifying the perpetrator.

So it's really an exciting opportunity to break into this market. We have several different opportunities with this particular partnership. And one of those opportunities is to provide both manufacturing partnership with regard to joint marketing. And then, in addition to that, there are fulfillment opportunities for Mace.

So there's many different opportunities to add revenue in addition to being a partner in the first smart pepper spray unit that's available.

John McCann: And then on slide 28, you can see a rendering. And this most likely won't be the final packaging, but this is the rendering of the product as we see it today. And you can see it incorporates the Mace Brand along with the Defender brand.

So, then, really, slides 29, 30 are just reiterating all the things that we're doing via social media, in MSecureMyCampus.com and also our own Mace Brand Web site that we're continuing to look at to evaluate and make sure that it's efficient at the backend as possible.

Slide 30 is another direct-to-consumer strategy that we've implemented that on our surveillance side and along with the Defender product will be critical in the future to make sure the messaging and the brand imaging get across directly to a consumer, and then also that we ease that purchase in time.

So we have the price point, the products and the brand that they want to see, and that's different for everybody. So we want to make sure we communicate the right information to them so they can quickly make a decision and be excited about their purchases of Mace Brand.

Slide 31 is just reiterating our go-to market strategies with our different products, with our different lines. This I've used in several presentations just to reiterate that all the different verticals that the Mace Brand can and will dominate in because of the product offerings and the services and the abilities that we have.

And then, lastly, slide 32 is one that we always use with our retailers and our partners just to reiterate our core values of what we want to do.

So with that, I just wanted to wrap up to really say that both the management team and I think the board of directors – we had a board meeting on the 31st, we're very excited about the direction the brand is going.

It's taken a long time to get here, but now we really teed up the brand effectively in several different verticals. We feel that we have several more announcements that we'll be able to make by the end of this calendar year that will continue to reinforce the brand value versus the competitors, and then also reiterate that goal of the organization to be the number one brand in safety and security.

So with that, we'll turn it back over to Keith for any questions and answers. And again, like Carl had reiterated you know we thank you for your time. We also reiterate that all these presentations plus Carl had loaded some additional information about the quarters in 2013 on the corporate Mace.com Web site under investor and presentations.

So with that, I'll turn it back over to Keith. So any questions that we have, you can direct them to us.

Keith: At this time, I'd like to remind everyone, in order to ask a question, press star and the number one 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 (Thurman Willis), a private investor, your line is open.

(Thurman Willis): So I'm traveling. I want to make sure. Can you hear me, John?

John McCann: Yes, sir.

(Thurman Willis): I don't – I don't want to say I'm like a cheerleader, but I have to with the removal of the skull and crossbones, which I think will be major to bring on some – many more buyers, especially institutional buyers.

I want to congratulate you on getting in to Wal-Mart and I want to congratulate you for a breakeven quarter. And I totally agree now that you guys have done a marvelous job. To the chairman, the CFO and yourself and the team have just done a marvelous relative to getting this ready to move to the next level. So I thank you as a shareholder for what you've done.

I wanted to follow that with one question please.

John McCann: Yes, sir.

(Thurman Willis): Strategic alternatives that we mentioned a couple of quarters ago, can you talk about that a little bit relative to combinations, just to what we're still thinking about strategic partnerships.

John McCann: Sure. Well, first off, thanks for the thanks because I know you've shown a lot of patience and restraint with us as we've rebuilt the brand and position it where it is today.

Secondly, on strategic alternatives, we are looking at a variety of opportunities you know that I've been investigating and the board has granted approval to investigate.

So, as those come to fruition, whether it's a buy, sell or other opportunities of mergers that make a lot of sense, we are evaluating a lot of those and we will continue to do so, because we're looking at not only the great brand value that we're creating within the organization under the Mace Brand, and then also the need for non-lethal security in a changing environment that there's – I think there's a lot of strategic opportunities.

And we will continue to investigate those. We don't have anything that we can talk about. But as we do, we will make sure that we communicate those effectively, because it's important for you the shareholders to know and have an opinion on the matter.

But thanks, (Thurman).

(Thurman Willis): Could I – thank you for taking my question. Could I have one short follow-up please?

John McCann: Sure.

(Thurman Willis): Our NOLs, which equal – close to a dollar a share and our stock you know trading around 40 cents, the investor community definitely has not recognized the value in Mace. So can you speak to when the NOLs become usable and if you plan to go to any investor conferences so that we can get the name out there and institutions can buy in advance of what I feel is a major turnaround?

John McCann: On the NOLs, I'll defer to Carl. On those, we have no issues with our current NOLs until, I believe, 2018 and beyond. So I think structure-wise, anything we would do, we would obviously consult the right tax attorneys and advisers to make sure that we maximize the NOLs and their effectiveness.

On the investor side, I will bring that up again with the chairman to get some strategic directions from him. I've been focused on the relationships as we put these two deals together you know on a licensing side both – we're licensed in a product on one side and then we're being paid a royalty on the other side, plus the manufacturing.

We have several more of those that we would like to accomplish and get done. And then, also on the retail side to really solidify our relationships with our retailers. But I'll bring up with the chairman again on the investor conference side to see the next steps there. But thank you very much, (Thurman).

(Thurman Willis): Didn't our NOLs all become effective in August, which is a strategic point in time for any type of (inclination) with another company?

Carl Smith: I don't know. This is Carl, (Thurman). I'm not sure the direction we're going. At the end of the year, we had $54.2 million of NOLs on the book. As far as honing in on August and strategic with regards to the NOLs, I really don't have a comment regarding that point in time.

(Thurman Willis): Thank you very much. I'll get back in the queue. Thank you.

John McCann: Thanks.

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

Andrew Shapiro: Hi, thank you. I guess as a start, I think maybe as a point of clarification, because I think I understood (Thurman's) question and also understand potentially the answer. You know the use of our NOL, $54 million as Carl alluded to, is prospectively limited if the company incurred what's known as a change of control over a 50 percent change in ownership. And that's over a three-year measurement period.

And obviously, it's not an issue yet because you guys aren't profitable. But assuming you regain pretax income, we won't have taxes to pay for quite some time. But it's now the three-year anniversary of the rights offering that – in 2011 that resulted in a sizeable change in the ownership structure of the company's stock, shy of 50 percent, but right up to the limit.

And as a result, the company's hands were tied with respect to acquiring pretax income, acquiring businesses with pretax income to finally return this company to sustained profitability, which hopefully we'll get to in the very near future.

With the roll-off of the three-year anniversary of the rights offering, arguably a transaction could be done with this company above and beyond our cash balances that, if there was a fair stock price ratio, our shares could be used as part of the transaction consideration and we could acquire a bigger pretax income stream.

Can you – or if Chairman Richard Barone is on the call, can Richard comment on the board's thinking with respect to the direction of future acquisition or merger opportunities being pursued. And I'm trying to get a feel strategically industry-wide you know is it a vertical integration, is it incremental products, is it distribution, is it on the consumer side, is it on the surveillance side, tactical.

Have you, John, and Richard, and the board narrowed your focus so that we might have a feel for what you're looking at, as well as potentially making recommendations of good fits?

John McCann: OK. And thanks for the clarification on the NOL side. I do not believe Rich is on the call. I can't confirm that for sure, but I know he's not with me right now.

On the strategic side, we have looked at it twofold, is growing as we call it the tactical division, I think there's some opportunities. And we've looked at those opportunities to say – and again, it's twofold, distribution, so on an international basis and also on the domestic basis, as well as the products. So, is there a product that a third party or a third company can bring to the table that would enhance the offering, and then also the Mace Brand would also enhance their ability to go to market.

Then on the consumer side, it's almost the same. There's a couple strategics that we've looked at and talked to that, quite honestly, would allow us to go from three segmentations, if you would, Andrew, which would be personal events, home security, and then also get us into what we call PERs, personal emergency responses, and which is like almost a virtual protection.

So, today, we dominate personal security. So you know making Mace Brand pepper spray products that you carry on your purse. We made some nice inroads on the surveillance side, which is your home security, and we're looking to launch a product in the third quarter that would even enhance that further on a value statement that the average person would be able to protect their home without – with it being monitored or without it being monitored.

So it's kind of a dynamic product line that we're looking at launching with a couple strategic retail partners.

Then a third segmentation which – you know this relationship with the Defender gets us into, which is PERs, which actually takes our pepper spray and makes it smart, makes it – we could triangulate your position, we can get some communication go in to your position pretty dynamically.

So I'm not really skirting your question, but I think because of the brand, right, so we have $100 million brand, if not in excess of that, it does lead it to that those two verticals would be very much of interest because they both have growth potential in the future.

So on a – we're learning more towards products that fit within the genre of those two segmentations than we are in the distribution side, because, over time, with the brand and the right products, we feel we can gain distribution within all those verticals.

So I hope that answers it to some extent. But that's the direction we've looked at. Those are some of the things and companies we've talked to within that segmentation.

Andrew Shapiro: No, that was – that was actually very helpful and does give a little bit more focus to where your efforts are. And segueing off of what (Thurman) asked about, and the fact that, again, with the roll-off of the three-year anniversary of the rights offering, our stock can be currency, albeit I don't feel it's priced to be currency for a transaction, raising the importance now of probably having an investor outreach.

I really appreciate these calls, this is great, but given that our largest shareholder is in the – in the money management and has a brokerage arm, et cetera, et cetera, there are avenues for which the Mace story can be told. Evaluation, multiple expansion is probably justified now given how close you are to breakeven and hopefully sustainably breakeven, and that a larger evaluation may then allow our stock to be currency again to acquire larger chunks of pretax income at a shot.

Segueing off of your answer and your question, I have a question or two here on this amazing Defender product opportunity, is what did your $100,000 investment in the crowdfunding campaign so far get the company. It sounds as if there's not been any incremental investment by Mace yet other than that.

And when might this partnership begin to contribute to Mace's bottom line? When are these products being shipped? Are we going to potentially manufacture more than just the pepper spray in Cleveland? Can you give a little bit more of a feel and a roadmap with respect to what you've already agreed with them?

And I understand you're obviously probably continuing negotiations with them that you can't talk about.

John McCann: Right. I'm going to turn it over to Garnett, but on the first comment, to that point, we might be little parsed in our dialogue here, because we have a larger agreement that Garnett is working on as we speak. This is a binding LOI that we are able to achieve with them.

And the three big goals, as you had mentioned, was the brand you know what we predominantly displayed with the product, to manufacturing not only just the pepper spray, but to potentially do more manufacturing you know within the realm. And then some retail control over partnerships with the product and where it goes and how it's sold.

So I think those were like three big overline, but then maybe Garnett can just add a little flavor to it, too, because he worked very hard, I have to say, on the deal, because I think it was one of those, it was signed at midnight by me once it was cleared.

Garnett Meador: Right. So to supplement what John saying, on the – you know what we get from $100,000, the branding for us is really key, Andrew. You know we felt like we wanted to tap into the technology that's been developed over about a two-year period, so be the first smart pepper spray that actually is introduced in the marketplace.

So you'll see they had a comprehensive Indiegogo campaign and we're prominently displayed there as one of the partners. If you go to the Defender site itself, I think it's actually called by the Defender.com, they actually have our logo and us identified as a partner there. So that's been key.

And we've internally undergone a pretty extensive social media campaign. So we've identified all of our customers in the past and have sent them e-mails and have hopefully gotten a lot of e-mail and social media buzz out there just as a result of the partnership itself.

But as John did say, we are in negotiation still. A portion of the LOI that is binding is what John had mentioned and as you astutely noted that we purchased a certain number of units, so we actually get the units at a greatly reduced price as well.

So we have the opportunity – and this goes really to your second question, how do we bring it to the bottom line immediately. And since we were able to buy those products at a greatly reduced price, we're able to immediately, as soon as they're available, sell those.

And as soon as the Indiegogo campaign has closed, which I think now there's probably – although it's originally 45 days, I think there's probably about 35 or so days left in that campaign, we will be able to and start preselling ourselves in addition to the Defender preselling as well.

And the product itself we anticipated to be available the first quarter of next year, possibly earlier, but you know it's – these things are always underestimated from a manufacturing standpoint. I mean, we're prepared from the pieces that we're providing, but we want to make sure that it's a product that's fully functional.

I mean, we've already seen the prototypes, felt them in our hand, know it's a product that works, but then to get into mass production and make sure you're properly beta testing and so on. So the beta testing will probably start in December and our revenue stream could begin as early as the first or second month of the first quarter.

John McCann: Right. And lastly, to note, Ryan McManus, one of the co-founders and their creative chief, has been dynamite to work with, understands the value of the Mace Brand. And then, we view this – I don't want to be preemptive to contract, but we view this as a long-term partnership that there's many products that can be and will be brought to fruition off of the – off the space.

Andrew Shapiro: And then when you…

Garnett Meador: And then one more point to add to that – sorry.

Andrew Shapiro: Go ahead.

Garnett Meador: Yes, so one more point to add to that with regard to increasing the bottom line, since the complete product will be available in the first quarter of next year, we of course – since we're manufacturing components you know our revenue stream could potentially begin in the fourth quarter of this year itself from a manufacturing standpoint.

And that's – you know we're not talking about selling the product once it's fully assembled. But we're talking about actually manufacturing components ourselves that will be critical components of the Defender unit itself.

Andrew Shapiro: Right. Well, I could see this unit selling a whole lot more if it was known as Mace, the Defender, just like you have Mace Take Down for the law enforcement, here's Mace, the Defender for the personal defense.

So it just seemed – they picked a great name and it goes really well with the Mace name. So hopefully that will come to fruition very nicely.

I have several other questions, but I want to back out in the queue in case if you have others in line. But please come back to me.

John McCann: Sure.

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

Andrew Shapiro: Thank you. A few other follow-ups if I can on the new product, the launch you talked about, as well as I want to talk about what we've read elsewhere on this first on technologies in the Mace wearable stuff.

But with respect to this Pepper Shield Handle, has the product been introduced and it's being marketed? Because you've kind of mentioned prototype, et cetera. You mentioned the ability for us to control manufacturing. It's just going to be control, is manufactured in Cleveland, what's the timing?

Can you talk in a sense with some additional info or guidance like you just did here with the Defender?

John McCann: Sure. So this product actually took a little bit of time to kind of get it cracked. And today, we are bidding out the manufacturing. We have the manufacturing in upper state New York that we're currently using. So we're hoping to get several units out in the marketplace during the third and fourth quarter.

We're really looking at a big launch of the product at the Shot Show in January of 2015. We think there's several police officer, police chief shows, and distributor shows that we will be attending and preordering you know prior to that. But then the control on the manufacturer side is critical for us to be dynamic on our pricing to make sure that we're responsive to the needs of the marketplace and it's not overpriced or underpriced, and be able to then even customize a little bit for the different departments to make sure we hit their goals and needs.

But this is one that we can get the market quicker than we will be able to with the Defender. And it's also one that was vetted out through our distributors and our relationships with law enforcement throughout the United States to make sure that it fits what they need, right? So that you know what I need doesn't matter.

What a police office needs, what needs in the line of duty is what's critical, and we wanted to make sure we have those elements incorporated. And I'll let Garnett comment a little bit further too.

Garnett Meador: So I think well said, John. The only thing I might add to that is that, the product is in prototype now, we've had a number of prototypes that we've actually brought to trade shows and we're getting a huge response at this stage.

And the way the product is designed is it's designed to be a multipurpose handle. In other words, it will fit on concave shields, riot shields, containment shields, a bunch of different types of shields that are used out in the industry by law enforcement. So it's pretty versatile and it allows us again to be able to have one more product, which is really what law enforcement, we're finding, is asking for in a significant way to provide a whole suite of products.

And you know we mentioned the relationship with NonLethal Technologies with regard to TG Guard, and you know those sorts of relationships and products that they can offer really allow our folks when they're out there talking to law enforcement to be a one-stop shop, which is really critical as we penetrate this law enforcement market.

Andrew Shapiro: So can you explain a little bit more about this? Do we make the shield? Is this – is this the shield that – now that I look at the picture, it's a shield that in the front of it and in the middle of it is the Mace Pepper Spray.

John McCann: Yes.

Andrew Shapiro: So it will basically shield, avoid blowback.

Garnett Meador: Correct.

Andrew Shapiro: You're screening the assailant or the target of the pepper spray coming right out of the shield?

Garnett Meador: Yes, we do not manufacture the shields. These are aftermarket handles that can be added to any of those shields that I've mentioned, which is the beauty of it. It's a pretty versatile product. And it allows the spray through the handle mechanism out to the other side of the shield at the perpetrators or at the rioters to maintain the control.

Andrew Shapiro: So you're attaching or you're selling this dispenser and a handle that activates the dispenser. That's what we're making and selling.

Garnett Meador: That's correct.

Andrew Shapiro: Awesome. Now, is this a high margin add-on item? So you would be selling this to the – we'll call it the installed base of shields that exist already out there.

Garnett Meador: That's correct, yes.

John McCann: And create a market on new shields. So if a department was going to go to market, we can – we can put the whole package together too. And to your point…

Andrew Shapiro: You partner with the shield maker.

John McCann: Correct. And it is a nice margin because you have the added convenience of the handle and the – and the product together. And then you know as we look at it, the Mace shield will add some added deterrence on a police level that you know people know right away that the officer has Mace and isn't afraid to use it and knows how to use it effectively.

Andrew Shapiro: Yes. And is there barriers to entry or proprietariness that goes along with this?

Garnett Meador: Yes, there really isn't much of a barrier to entry except relationship-wise. You know we have this strong with the law enforcement folks in – you know from that end, we're able to tap into that law enforcement vertical.

John McCann: Plus our brand.

Garnett Meador: Right.

Andrew Shapiro: But taser, taser are someone else that makes this for the police departments. They could make their own little pepper spray dispenser?

Garnett Meador: That's correct.

John McCann: But then they would – obviously they would have to find the pepper.

Andrew Shapiro: OK, (inaudible) to do it to date, though.

John McCann: Right. Well, they would obviously then have to procure the pepper, which would be an added cost on their side. So they would have a third party or, quite honestly, us making a product for them.

So for them, it wouldn't be you know as advantageous as it is for us, because we're already three quarters away there.

Andrew Shapiro: OK.

John McCann: But on that second part, as we look at some of these, now you can look at some of the smart wearables, which I think was one of your other questions out there, and I'll turn a little over to Garnett, that on First Sign, we've met strategically with First Sign.

We're just – we've done some press releases, we don't have a signed LOI. So we have to be a little careful about – of what we do. But in this segmentation, if you take our skills, make some – take some of the technologies that the First Sign folks have been able to develop thus far and you put it altogether, now you have a deterrent, safe, non-lethal deterrent, and along with some technology that allows some awareness of what it is.

And we look at this as a segmentation that has a lot of potential on a Mace wearable, either Mace Awear or Mace wearables deterrent. And First Sign, who is on the cusp of launching some products, really, we're looking at a bigger partnership with them into the future.

Andrew Shapiro: And this is more of a licensing our brands kind of thing?

Garnett Meador: Well, to add to what John was saying, what we'd like to do is partner with them much like we've partnered with the Defender and have opportunities for, let's say, multiple bites of the apples, the revenue apple and be able to do manufacturing, to be able to do fulfillment and those other ways to add revenue as well.

But just generally and as I'm sure the caller – the other caller has realizing and you realized, Andrew, is that the wearables markets is becoming very significant and getting a lot of buzz. And one way to really get a feel for that is, if you go to Intelwearables.com, they talk about a program and actually it was a contest that they ran, I believe it started back in mid-2013.

And basically, that contest sets a challenge out to everyone out there to develop technologies that could be worn. So you know like the Nike Fitbit and some of the other products out there are early stage wearables, if you will.

And there's a lot of companies, like First Sign, who are utilizing current technologies that are available such as an accelerometer or a gyroscope into wearable devices. And then you can utilize those from a safety and security standpoint.

So, picture wearing a bracelet on your arm or picture maybe your mother or grandmother wearing a necklace around her neck. And you know it's kind of like the I've fallen and I've gotten – and I can't get up concept, that particular company that manufactures that.

But this is unique in the sense that it utilizes a trigger that is designed to determine whether or not a person has fallen down. So if they wear that necklace and they fall down you know a lot of times, if you've fallen down, you're not going to be able to press a button to ask for help, right? So this automatically triggers.

And then there's all kinds of other technology available out there that cause activation of emergency responses and emergency alerts based upon, as an example, voice activation.

So you know what we want to do is position ourselves through, as John mentioned, the brand family of Mace Awear, A-W-E-A-R, or Mace Wear, W-E-A-R, and create that separate brand family and be able to appeal to folks that have technology in development for many years to our brand name recognition and to our distribution channels.

And that's really where the beauty of these partnerships and relationships are coming in. We bring a lot to the table and we get to tap in to technology without spending huge, huge amounts of upfront investment. And oftentimes, that investment comes with risk.

Andrew Shapiro: OK, those are really good, helpful answers, given that they were long, which is not too long. I'm going to back out. I have more questions. Come back to me. But again, I don't want to interfere with others getting their questions asked.

John McCann: Thanks, Andrew.

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

Andrew Shapiro: All right, I'm going to ask you here, I want to get handles on some of the numbers here and stuff that you did.

In your press release, you stated that July, which is now done, looks to be the best sales month so far this year. Is this simply a cyclical upturn or has the company done something to boost those sales figures? And how might the company be able to extend the sales upturn into the coming months and years?

John McCann: Andrew, that's a great question. So July, just first of all, as a commentary, is we will experience over a 15 percent increase versus year prior. I think it went in that side. It'd be closer to 18 percent over prior July.

And that my answer is threefold. Yes, it's a little bit of an uptick on the cyclical side. The retail seems to be coming back a little bit. Two, we've done some things uniquely. If you go into a Dick's Sporting Goods store, we've created a 72-count display outside of their lodge area, which is their traditional hunting and fishing section that they typically had promoted our product.

And what it did is it created brand awareness, product awareness and education for a consumer to know that you know the product is available there, and the right product for the right person.

Then, lastly, which is the longer term sustainable, as I had mentioned, we have shipped Wal-Mart, we've established relationship with Walmart.com, we've established relationship with Meijer, which is all new distribution. Meijer is a tremendous retailer in the upper Midwest. They're in Grand Rapids, Michigan. Very, very dynamic retailer.

And then we've also shipped Cabelas, which once again is one of the you know best premier retailers in the sporting goods segmentation along with Dick's and Sports Authority and several of our other partners.

So if you take the three combinations, cyclical you know so sporting goods, back to school, hunting and fishing you know with people gearing up, us being dynamic with our displays and with our PoS and PoP materials, and then a new distribution that we've been able to acquire. You look at all those in conjunction with AutoZone and seeing some spikes in their activities and adding a couple new SKUs of Mace.

ACE continually do a tremendous job in a tough environment, showing people the right products and the right segmentations and making sure the merchandize in the right sections.

So all of those, I think, have added to July. Then we're hopeful that this trend will continue into the back half of the year.

Andrew Shapiro: OK. And as you talked about Cabelas and Wal-Mart, in particular, et cetera, during Q2, as you mentioned, how much penetration during Q2 did you get in really? Like for how long with a quarter did you – you get it in terms of you know are you into every Wal-Mart store already? And if not, how much penetration, are you at here now at the end of July and what's your plans of rolling out or expanding?

John McCann: OK, so great question. So in the quarter, it's very minimal, right? Because some of it was test orders, some of it was preferential pipeline, if you would, fills. So we expect to experience more of the pipeline fill, if you would, of these retailers over the next several months.

Secondly, it is also an expansion of SKUs and modification of assortments that several of our key retailers that we had already done business with. So, making sure that the higher, faster volume items are being placed in the right sections and slower items are being swapped out with the right products for you know future success.

And then, lastly, on the penetration side you know given that numbers are hard to come by, that Nielsen and ScanTrack and REI data and GSK don't really track our segmentation. Looking at what we've been able to do with Gallup, Harrison, and Ideas in Focus you know we own 52 percent of that retail market.

So we look at, in order for us to be effective, we have to grow the pie, if you would. You know we take the approach that if the tide rises, all the boats are going to rise and Mace is the tide.

Andrew Shapiro: OK. Now, TG Guard sales in the past have been in waves and spotty, when you highlighted the doubling year-over-year, is this doubling year-over-year any different than past waves and spottiness? In what way is it a – I guess, let's say, a recurring nature rather than a recurring, non-recurring nature.

John McCann: Right. To answer your first part of the question, it's somewhat the same. You know it's a timing issue a lot of times. But what we feel very good about in the future is, we are more cohesive and comprehensive as their approach to the tactical division.

So in the past, there was – it was obviously the problems with the EPA and all those other issues that are well behind us now. Now, it's a repetitiveness that our guys are out there pounding the pavement that we're trying to take some of that scattered buying approach out of it, that they're seeing us every day, they're seeing our products every day, they're seeing the expansion of our products.

So our goal, really, within that segmentation is I'm going to be the general contractor for non-lethal for a lot of these larger facilities to say, we can bring you pepper, we can bring you new ideas, we can bring you smart technologies, and we can bring you a time-proven and tested technology that can be incorporated into your facility.

So we're hoping that with all the investments we've made on the tactical side that we take a little bit of their randomness. We did note it in the quarter because that was a little larger than a typical installation and order, and we think that's a good – that's a good point for us as we move forward.

Andrew Shapiro: OK. And similarly, what new international territories are we penetrating? And are the sales that we've seen for the quarter, these are all initial like fill type of situations when – do you feel like it's a year's worth of inventory fill we've given them, a month's worth? When does that start becoming our continual, recurring sales level?

John McCann: Sure. So another good question. So, Asia is the new market that we were able to, and specifically the Korean market. The Korean market was actually a small distributor that, unfortunately, benefitted from some situations in the Korean market that the sales of pepper spray and non-lethal technologies really took off because of some unfortunate crimes that were happening within the Korean market.

On an ongoing basis, we're seeing small pipeline fills throughout Europe, especially Western Europe, if you look at Italy, Germany, Turkey, and a couple of the other markets. And then also Trinidad, Colombia, Korea and Taiwan, as I've mentioned, and then also Israel. We've seen some upticks in all those markets.

A lot of it is due to the hard work of Doug and Eric, our sales managers on segmentation, making sure that the product samples are out there, that they know the effectiveness of the product and the changes we've made, and making sure they're responding to the needs.

I caution again, on this side, we – it's very reactionary, if you would, to some extent. Something bad happens in an area, then, all of a sudden, we get tons of order requests. But the good side of that is, is that, if someone – and this is a conversation I just had with a consumer, if someone called us and said, hey, I need 50,000 of X, Y, Z, we have set up the facility that we can react to that and we can fulfill those orders.

And so, Taiwan was less of a fire drill for the organization today than it would have been, let's say, two years ago, that we're able to systematically adjust our needs and our capabilities to their needs. So it worked out extremely well in order to be able to do that, which then obviously, I guess, around, within the communities of security both domestically and internationally that you know Mace is not the old Mace, we can do it, we can make it happen.

We also just on the international side, I would note that we have a robust ongoing business with Haiti, which is a new market that's less on the pepper side. They're buying some defense sprays, but more on the surveillance side that we've been very excited about.

And Ecuador is what I meant to say instead of Israel. We do some things with the (IFD) and we'd love to do more, because of their great abilities and their great knowledge of how to use products correctly.

Andrew Shapiro: And then in terms of, like you know India certainly has a need. Are there additional steps that you and I talked about before about this is a great opportunity of getting our product cost effectively into India?

John McCann: Yes. We are – as you and I had talked about it and we had talked about it before, we are dynamically trying to work the Indian market, because we see a lot of opportunities, whether it'd be contract manufacturing, licensing you know or otherwise in that marketplace.

We felt we were close twice in the past and we're continuing it. It is a strategic goal for the organization longer term, to have the proper pieces in place for that marketplace, both India and Pakistan and other friendlies to the United States, obviously.

Andrew Shapiro: OK. Now you mentioned part of the cost of goods sold hit was putting in these new point of sales investments into Dick's and you've also mentioned $100,000 investment in the Defender that we knew of already so far. How is Mace – or how are you guys accounting for this? Is this being capitalized or which ones are being capitalized? When you run into cost of goods sold…

John McCann: Yes, sure. The Defender investment of $100,000 will be capitalized. And that wasn't really in the second quarter. I believe that was early July. The displays in the second quarter, there was about $20,000 of expense that went through cost of goods sold. The costs of those were significantly more than that and we're amortizing those costs of the entire display over 12 months.

Andrew Shapiro: OK. And how would you amortize the defender in terms of that investment since that investment brings…

John McCann: I'll have to look at that in relationship to the agreement and come to that conclusion upon further review.

Andrew Shapiro: Yes, because you were getting inventory with that investment.

John McCann: Correct, right.

Andrew Shapiro: OK. And what impact by now you should have some in improving our gross margins? Ought we be seeing now from moving to the new facilities in Cleveland and are we seeing it?

John McCann: Good question. You know there's a couple of things that we did, and as I mentioned on the call, in prior years, we had some classification of expense items that really didn't belong in G&A. We bumped those back up into the – you know the overhead and cost areas. So we have some comparability issues there.

In the first quarter you know where we still had some inefficiencies with the number of employees that we had (inaudible) back to get the inventory built. You know right now we're as lean as Vermont was, if not a little bit leaner.

We have a couple of initiatives that we're undergoing right now with regards to packaging that. You know should we get buy some issues, we'll have some significant savings in the cost of goods sold related to the material going into our overall packaging cost.

You know it's up and down the P&L and expense items. You know we're taking a critical look at them and their under.

With regards to percentage decreases you know I have to go back and try to normalize us versus Vermont to see you know where those efficiencies are really coming in.

You know I expected to see some significant savings – not significant, but savings you know in the freights, the freight out portion of the business. And I haven't seen those yet.

We currently are taking advantage of these and some third-party international rates to start shipping some of our products. And you know that's under evaluation and we'll see how that turns out.

Andrew Shapiro: So then there are reductions in SG&A that are real and there are other reductions in SG&A that reclasses up into the (inaudible). Can you…

John McCann: Yes, most of the savings in G&A are coming out of significant decreases in some of the professional and consulting fees that we incurred last year, some of which last year were one time.

You know between this year and last year, comp numbers through June 30th, we've had decreases of personnel. We renegotiated benefits, we went into a high-deductible HSA, which saved the company some significant benefit cost.

So you know there's legitimate savings in the SG&A expense items year on year, of which you know we foresee going forward with the balance of the year. Plus we have some additional changes that you know we'll be making that will have a slight impact on the second half as well.

Andrew Shapiro: OK. Surveillance had been a huge headwind throughout all of the last few years. This quarter, it wasn't. Has the issue anniversaried and bottomed? And what are the prospects for rebound and growth as you have reconfigured the surveillance side of the business? Is the opportunity to get back to former levels either in revenues or in gross profits or it's just a platform for growth from here or is this just a floor and this is where it's going to be?

John McCann: OK. Another interesting question. So on the surveillance side, we feel that it's a platform for growth and it's also an opportunity to truly dynamically change the company. I think we have some opportunities in the segmentation, those vertical, if you would, to really dominate as we move forward.

Some of which we can't talk about because we're working on the LOI and the deals as we speak today. Some of them that is encouraging to me, especially as we rebuilt an inside sales team. So prior, when the company was doing very well in surveillance, they had a strong robust inside sales team. We're able to rebuild that dynamically as Carl mentioned on the personnel side. So it's costed correctly with the opportunities.

Secondly, we have some opportunities at retail that we will be taking advantage of in the back half of the year that hadn't been presented to us in the past.

So to your point, it's a little different than our go-to market strategy was prior to my arrival, but I think it's very sustainable and a both direct to consumer basis and a retail basis that we can bring dynamic products to the marketplace that answer needs. And then we've set up the system in order to be responsive to the market.

So I hope that answered the questions. But we are – it will take a little bit – more time to get back to the levels that we would like to see, but we also see both on the gross margin and the revenue the net sales line, we're cautiously optimistic about the future of the segmentation.

Andrew Shapiro: OK. A few – only a few more questions here. What are the company's plans on presenting at future conferences? It sounds right now as if there's not really plans on presenting on the investor side of the conference table. But what are the areas where the company is making headway in terms of trade conference then?

John McCann: To your point on the investor side, there is not. And at the last board meeting, it was discussed, but there's not a set plan as of today. I will – I will internally bring that up and come back to you then on next steps.

Andrew Shapiro: Right. And I asked about the trade conferences, that you mentioned the Shot Show…

John McCann: I'm sorry, on the trade side. I apologize. I thought you meant on the trade side of…

Andrew Shapiro: I meant…

John McCann: No, on the trade side, we…

Andrew Shapiro: You answered the investor side.

John McCann: Yes, sorry. So on the trade side there is – we have an ongoing effort that we have several, what we call regional. There's not – there's not a big show left in this calendar year. But we are at – the balance of this year on the sporting goods retail side, there's three or four shows that we have yet to do.

So in the next two months we have – we have two sporting goods shows and two retail-driven shows. The retail-driven are your traditional big box, your regular retailers. Sporting goods, there's two major shows that we are participating in. Then monthly, if not bimonthly, we are at police chiefs, regional sheriff shows, and association shows for our tactical division.

On a major scale basis, there is – we do some show participation with our friends at Security Partners that had bought our central station that we continue to do business with. ISC will be a show that we will be walking as is. There's a show that we walked with them. And there's another small ISC shows.

So on the regional trade side, I would literally say there's 10 to 12 shows that we will be participating in for the balance of the year. But then, on a major show basis, ISC West and the Shot Show, as well as the Hardware Show and the Houseware Show will be 2015 shows, and IWA, which is the international show that we actually participated in, in a joint booth space-sharing with two partners.

Andrew Shapiro: OK. I have only a few more. I'm going to back out though in case someone else has any questions.

John McCann: Sure.

Andrew Shapiro: And the come back to me for a final round.

Operator: There are no other questions at this time. If you wanted to go ahead, sir.

Andrew Shapiro: OK, thanks. So what steps have been taken in our plan to further your involvement with school safety programs, especially given pepper spray's role in preventing a worst outcome in the June Seattle School shooting situation?

John McCann: So we did reach out directly on the Seattle side and I think they were inundated and plus they were in a state of shock on that side. But what we have done and we're jointly monitoring is our Secure My Campus Web site, where we've teamed up with a group of professionals in order to be able to react to situations like that and also proactively talk to schools about a variety of solutions.

So the goal and it continues to be the goal is to be a comprehensive solution – I'll let Garnett speak a little bit on this too – from products to procedures, to training, to make sure that a school system is ready for any type of situation.

We also have another group that we're working with based in Virginia and we're in the midst of some conversations and negotiations that I think could expand our reach and also our effectiveness with some different products that we're finalizing as we speak.

Just talking in generality, the biggest problem that we have with schools is that, it is a great venue for our products, we're well-positioned with these products, but it is also a very highly fragmented go-to market strategy within these segmentations, from school administrators to boards, to school needs, to procurement, to salaries and fundings and et cetera.

But versus a year ago, we're light years ahead of where we were a year ago and we feel with time and constant pushing and also changing our cadre of products, if you would, and solutions that we are well-positioned in the future to answer some of these needs.

But versus a traditional retailer or direct to consumer where it's a one-on-one and I educate you and then I give you the price, this is much more difficult because there's many layers that have to be dealt with. And Garnett can speak to it.

I believe it was August, he was at major – sorry, no, it was earlier in the year, May, right?

Garnett Meador: Yes.

John McCann: There was a major show that we participated in and still a very fragmentated answer on, hey, we love your products, we just don't know how to – how to get you into our school

Garnett Meador: Yes. We attended the National School Board Association annual meeting down in New Orleans and there was very positive response, but as John indicated, it's very – it's a very long process to be able to have pepper approved.

From the surveillance side, it's an easier sell, but not that much easier. You know we have the additional objection with the pepper spray that it still has nothing to brace in schools like it has in the private sector.

So you know we're definitely pushing, we're still interested in pursuing that market, but it's, to some extent, outside of our direct channel distribution network. Obviously you know retail is our strength, direct to consumer is a strength, and we have programs in place to you know pursue those.

So you know it's been a challenge. We did a comprehensive e-mail campaign where we sent out 5,500 e-mails to superintendents, school administrators and the like in order to create that interest and buzz. And there was some interest, but it's very, very fragmented as John said.

In fact, we went to the point of actually providing a free whitepaper written by an individual that we have partnered with and is a professor at Johns Hopkins, Sheldon Greenberg, and he's pretty much the preeminent expert on establishing school safety programs.

And in particular, this article deals with how to decrease the incidences within schools. And he wrote that article and gave it to us, it allowed us to provide it as a preview before it was actually published. And we did add – and actually it's available right now on SecureMyCampus.com. So that's still available, and also of course Mace.com as well, at the bottom of the homepage.

So you know we're still interested, there's still an opportunity there, I'm not sure that's the primary focus though.

Andrew Shapiro: Just with the federal government having specifically allocated tens of millions of dollars to increase security of our children in the school setting and Mace having the brand name that it has you know we ought to be able to get our fair share via the consultants or others who are selling into this market.

John McCann: Right. And just to comment a little bit about that, Andrew, because we also bring that up. Those are – the president's budget allocated in a form of the grants, and unfortunately, of $150 million, I would dare to say almost 90 percent of it was pre-allocated or earmarked prior to even the release of the budget.

So schools that we have talked to you know for example, 75 million of the 150 was already given away to research you know to a company prior to even the release of the budget. Senator went in there and, bam, took it away.

So we agree and we are reinvestigating, lobbying or working with the government in order to come up with a comprehensive security plan. We haven't engaged or we haven't finalized anything, again. But part of this, it has to be through security, not a budget that's written you know and passed through the House and Senate that's already earmarked out when it's not exactly what the schools or the administrators want.

Because we brought it you know we have the budget, we've looked at it, and like when you read the fine print, a lot of is earmarked.

Andrew Shapiro: OK. Slide 15, you talked about distribution of sporting goods and consumer have gained, although the – because of foot traffic or the individual sales have dropped, it's been – it was (inaudible) down.

But what are the metrics you are observing to say that distribution in the sporting goods and consumer sectors have that distribution has grown? And like where and how is that the case?

John McCann: OK. Well, we look at it from a year ago both in terms of products and accounts, so doors, if you would. We look at the number of doors we were in a year ago versus the number of doors we're in, and then, if you would, the cubic space that we're taking.

So if I use Dick's, for example, although they ship later in the Q, we added it in displays which our displays are roughly, I think, three feet wide by about four feet high. That's space that a year ago this time we weren't at. And then Cabelas, for example, even though it was a very small order, that shipped within the second quarter and we'll see more in the future.

The disappointing part with all that is Wal-Mart, for example. We're not in all doors of Wal-Mart, but we're in a couple hundred doors with Wal-Mart. That's new distribution, new space, new doors that we didn't have years prior.

Even with all that, if you take a look, unfortunately, like for our friends at Sears and K Mart, their traffic has been terrible and they've closed doors. But when we look at the amount of doors opened versus the amount of doors closed, we're in more doors. But unfortunately, because of subpar results on the retail side, we haven't seen the full effect of what we've been able to do.

But if you look at it on a futuristic side to say, OK, if retail normalizes back to foot traffic of a year prior, we're better positioned than we were before, because not only in the doors that we owned prior, we have more products, ACE, Tru Serv, AutoZone and Dick's and Sports Authority, then you couple on the new Cabelas, Wal-Mart, Meijer's, we're well-positioned now that we'll be able to take advantage of those impulse buys.

Because once again, I reiterate that we have a lot of work to do in order to educate consumers that you need to buy our products. As I joke when I tell people, when you make your store list and it might include beer, eggs, milk, Diet Coke, bread, 9 times out of 10 it doesn't include Mace.

But if we're strategic and position ourselves with the message, with the right displays, right product, most – 90 percent of the people have no problem saying you know what, this is a great product and want to buy it and put it in my cart. And that's part of the process that we're doing with our retailers.

Andrew Shapiro: Now, if our direct to consumer numbers were also down like you've showed in slide 16, can all of what we're seeing on the retail side be attributed to introduce foot traffic or is there are some other factor or thing involved here?

John McCann: Excuse me. On the direct to consumer side, which is the segmentation of our Web, it doesn't include some of our direct to consumer that would fall under a surveillance category. We've been disappointed because we've redone our Web site, we've looked at different things and we're not getting the foot traffic that we need on our own internal Web site.

And therefore, that's the disappointment there, which we've undertaken a campaign to fix that, to look at the metrics to see what we're not doing, what we need to do, because to your point, in criticism of myself, would be that if retail is down but people are buying, your online sales or your direct to consumer sales should be either up or flat. And that's the challenge that the company has to overcome, that we should be seeing a spike in our own sales via our own Web site.

And unfortunately, during the first half of this year and the second quarter, specifically, we haven't seen that, and we need to fix that.

Andrew Shapiro: So this is down to our Web site or they're visiting, but the take rate is lower?

John McCann: The conversion, if you would, is below an acceptable level.

Andrew Shapiro: OK. So these aren't down as much. It's that – but the conversion is.

John McCann: Correct, correct. We need to convert at a higher level, which means that we have to look at the information and how we're presenting it to make sure somebody comes in the Web site, they get what they want, they get it quickly and they understand what they want, and then value of premise is there.

Andrew Shapiro: OK. Last question, surveillance inventory write-down that occurred during the quarter was a hit on the gross margin. Can you quantify what that is as well as – you've had that in the past. Is this now behind us? I thought it was already.

John McCann: You know good question. The dollar amount for that specifically was around $56,000 and most of it was attributed a segment of the surveillance that we want to call access control, where yearend we identified it and we're pretty certain based on feedback from sales guys that you know we were going to be able to move it without taking a hit.

And this is more of a conservative approach you know six months down the road where we haven't made any traction there. So, let's get it behind us.

Andrew Shapiro: OK, great. I'm done. Thank you so much for your time. Thank you for answering all these questions and you know hopefully – I mean, the answers helped. Hopefully, it helped others since no one else was asking.

John McCann: Sure. No. And, Andrew, always, like we appreciate your participation and your poignant question. So I think it's great. It's also great for us to make the organization better, which we find your questions help us too.

And then lastly I would note you know before we turn it over Keith. We want to thank everybody for their patience and their time. We are extremely encouraged about where we are today. We think there's a lot of work we still have to do, but you know as I said when I started almost two years ago now, that I was excited about the brand, about the promises of the brand and what we can do given time.

And I think we're starting to see the net effects of that and I think, as an investor community, you guys should be excited that the management, the board, and also the employees here are very excited about what we're doing and what we're capable of doing in the future.

So with that, I'll turn it over to you, Keith, and we thank everybody again for their time, and especially Carl and Garnett for their hard work.

Keith? Or I guess if anybody is there, thanks.

Male: Thank you.

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

John McCann: Thank you.

END