

MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
August 10, 2015
11:00 a.m. ET

Operator: This is conference # 8293740

Good morning. My name is (Chris) and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Second Quarter of 2015 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 number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

John McCann, president and CEO of Mace Security International, you may begin your conference, sir.

John McCann: Thank you very much, (Chris). Before I begin, I want to direct everyone to our website, the mace.com website for a PowerPoint presentation that we'll go through after Carl's presentation. So, if you go to corp.mace.com, investor relations, transcripts and presentations 2015, you'll see a brief PowerPoint that hopefully will explain some questions that's been asked of us prior to the conference call.

Now, I'll turn the call over to Carl Smith, our CFO, to read a forward looking statement.

Carl Smith: Certain statements and information during this conference call will constitute forward-looking statements and are based on management expectations and information currently in the possession of management. When used during our conference call, the words or phrases will likely result, are expected to, will continue, as anticipated, estimate, projected and intended to, or similar expressions they're 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, limit of capital resources and the ability of management to effectively manage the business and integrate acquired business. Such factors could materially adversely affect Mace's financial performance. It could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during this call.

I will now comment on the second quarter and financial results. After I'm finished, I'll turn the call back over to John where he will go through the presentation he referred to. We'll then open the lines for questions.

Second quarter net revenue was 2,241,000 compared to 1,817,000 for the second quarter of last year. An increase of 424,000 or 23.3 percent. This increase was mainly attributed to strong growth in our consumer and sporting goods distribution channels.

Net sales and consumer and sporting goods for the quarter totaled 1,454,000 compared to 887,000, an increase of 567,000 or 64 percent. Offsetting this increase was a decline in net sales through our web, international, surveillance and Tactical distribution channels. Net sales through the web totaled 33,000 compared 51,000, a decrease of 18,000 or 35 percent.

Net sales to the international channel totaled 210,000 compared to 242,000, a decrease of 32,000 or 13.4 percent. This decrease can be attributed to a 94,000 decline in sales to a Taiwanese company who experience unusually high demand last year related to an act of violence that took place at an airport. This decline was offset by increased sales to Chile for the quarter.

Net revenue through the Tactical channel totaled 190,000 compared to 193,000, a decrease of 3,000 or 1.5 percent. Basically, flat quarter to quarter.

Net sales through the building security channel, which distributes our surveillance products, totaled 338,000 compared to 418,000. A decrease of 80,000 or 19 percent. This decrease is mainly attributed to a change in the market and conditions. John, our president and CEO, will discuss this later in the presentation as we are working on several measures to correct sales in this channel.

Gross profits for the second quarter, 2015 totaled 974,000 with a 43.5 percent gross margin compared to 598,000 and 32.9 percent gross margin for 2014. An increase of 376,000 or 63 percent and an increase of 10.6 percentage points in margin. The increase gross profit (dollars) can be attributed to the 424,000 increase in sales and increase in gross profit margin. Margin increase can be attributed to mix and favorable production efficiencies for the quarter.

Selling general and administrative expenses for the second quarter ended June 30th, 2015, where 1,062,000 compared to 1,185,000 in 2014. Forty-seven point four percent and 65.2 percent of net sales respectively. A decrease of 123,000 or 10.4%.

The decrease is mainly attributed to a continuation of the savings recognized in the first quarter which included lower salaries derived from headcount reductions and salary realignment, reduced audit fees, lower business insurance expenses and reduced legal and IT consulting fees. These savings were offset by increased marketing and advertising and variable selling expenditures which exceeded prior year expenditures by approximately 69,000 for the quarter.

Overall, G&A expenses were 588,000 compared to 783,000 in the second quarter of last year. A decrease of 195,000 or 24.8 percent. The saving, like I mentioned, was offset by increased marketing and advertising expenses.

Interest expense for the quarter ended June 30th, 2015 was zero compared to 55,000 in 2014. Prior year interest expense was interest on a \$1.4 million note which was paid off in January of 2015. Details are included in the notes to the quarterly financial statements that we released. Interest income for the quarter ended June 30th, 2015 was 69,000 compared to 63,000 in interest income in 2014. Interest income for the quarter included interest on a two notes from the sale of the Central Station in December, 2013 to Security Partners.

Discontinued operations for the second quarter, ended June 30th, 2015 was a gain of 10,000 compared to a 411,000 gain in the prior year. The prior year gain of 411,000 was the result of an adjustment made to the selling price of the Central Station. As a result, net loss for the quarter ended June 30th, 2015 was 59,000 compared to a net loss of 192,000 or 133,000 or 69% improvement over the second quarter of 2014.

EBITDA for the quarter was at minus \$101,000 loss compared to a minus \$567,000 loss. A 466,000 or 82 percent improvement.

At this time, I'll make a few comments on our balance sheet. The company's net book value was 8.8 million compared to 10.3 million at December 31st. The 1.5 million decline is mainly attributed to using 2.3 million of cash to pay off the \$1.4 million Merlin loan. Mace had 10.3 million in total assets including 3.1 million of cash in short term investments at June 30th, 2015.

Inventory, I want to mention, is up 679,000 or 38 percent from year end. This increase is primarily the result of increase surveillance inventory to correct the shortage of stock at year-end and building inventory for Q3 promotions that we have. We expect inventory levels for surveillance and pepper spray to decrease but expect Nite Beams and Tactical inventory to increase in Q3 and Q4.

We have positive working capital of approximately 6.6 million and a current ratio of 5.2. The company had no debt as of June 30th, 2015. Total stockholders' equity was 8.8 million at June 30th compared to 10.3 million at 12/31/14. The 1.5 million decrease is mainly attributed to the 1.4 million

charge to paid in capital on the early extinguishment of debt and the 242,000 year-to-date loss.

NOLs at June 30th, 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 this afternoon and now I'd turn the call over to John McCann, our president and CEO.

John McCann: Thanks, Carl. So, I'll give everybody a minute if they wanted to going to corp.mace.com and look under the investor relations for the PowerPoint presentation. There's also some questions that were pre-submitted that Carl and I will go through prior to taking additional questions because they might answer a lot of question people might have.

So, if everybody has the PowerPoint, really I'll start on page four of the PowerPoint presentation and there's a couple of bullet points that I'll go through quickly. As we said in our press release from our chairman of the board, the management is driving towards profitability in the near term. We take this quarter as the stepping stone towards doing that as the first quarter was to, there's some work to be done and some questions came up about expenditures. We are looking at overhead again, we're looking at everything because we need to position ourselves for sales and marketing, specially strategic marketing in all of our different products.

So, ergo, you know, line two is we're constantly looking at an overhead absorption or our people cost to see where we can be more dynamic in our approach to the market. The other third point that I want to stress is that we have removed ourselves from all things that are not safety and security related. So the company is only involved in safety and security. We're only looking at products along the lines of safety and security, and we define that as (personal defense) security for Tactical, for – also for consumer in the less than lethal range. That we always look at things that are – can keep you safe whether you're home, in your car or just on the road. And also that fall into that category of less than lethal.

And then lastly, the company is reviewing many new products. We're just trying to make sure that we launch the products. We've done in this quarter and really in the third quarter of this year, we have many new products that we're launching. Different strategic channels, different strategic partners that we're launching these products with. But we're constantly looking at this specially in the world of smart technologies, wearable technologies and also the advancement of our core business, of our pepper spray.

Page six, I just want to stress because this group of customers continues to grow and we're hoping in the third, fourth quarter we'll add some more Tactical customers to it. But as you can see, we have a wide variety of distribution points from sporting goods to automotive, to traditional big-box retailers, to specialized retailers. These are the customers that have helped us grow the quarter and also the year.

And Big 5 for example. Cabela's our brand new customer. Meijer's, we've advanced our relationship there. Lowes is another customer that just came on board at the end of the year. That also Auto Zone, Amazon and DICK'S Sporting Goods and Sports Authority, we've been able to able to increase our distribution within the parameters of their stores. So we have products in different departments now than just the sporting goods section or the (honey new) section.

Page eight, this is just reiterating what we've talked about prior. We're – you know, this is where the company was. Page nine, where we want to go. One bullet point that I want to just stress a little bit, we're a little bit behind in our search for an IR or PR organization. We've talked to many organizations.

The goal is building a strategic marketing plan that will help us promote our brands and products both through public relations and through investor relations. Because we think both of those are strategic, but building that plan is where we really want to make sure that we have all the ABCs and all the roads covered so we make sure that we build it correctly. Because we're hitting that point where now we have to not only do what we do well, but promote it and get out in front of it.

Second quarter results on page 11, I think Carl spoke to it. I think one of keys there is – if you look at SG&A expenses, you know, it's down 10 percent like it's a positive movement. If you look at the percentage, also a positive movement. And then if you look at all the different things from gross profit to sales, it was a dynamic quarter and we just need to keep that going.

Page 13, you could see a lot of where the growth has been in sales. A \$424,000 increase in the quarter which is a nice healthy increase and one that we want to continue throughout the rest of the year. Page 14, you could see where it's coming from and the different products. These are a lot of our core products that we had some growth in. Which our traditional products from simple home security product to pepper sprays.

That in sporting goods and consumers on page 15, you can really see a lot of growth, a lot of dynamic growth. We feel there's more growth to be had in these sectors. And it's not just pepper spray, our stun guns are doing very well. We're introducing our Mace 911 products which we ship out a little bit in the second quarter and we hope to do more in the third and fourth quarter.

Page 16, I'll just pause for a minute. We've redone the website. We have not bought any AdWords so, you know, we had an expectation of being down versus prior years because we're not advertising on the web. We're working with Google Analytics directly. We're also working with some other folks.

There is some new restrictions that Google has put on advertising less than lethal products, or weapons as they like to call them. That we're fighting to see if we could educate them on the benefits of the empowerment of the products that we sell versus some of the other products on the market place. So, that's something that – an issue that we have to work through. So here we go, we haven't bought a lot of AdWords because we want to make sure that we have a return on investment in that sector.

Tactical and international, on my opinion, this is the timing issue. Tactical, we still have not launched fully or not our less than lethal products that we have been promoting production of those product because of ATF and some other certification. Should be coming online shortly, but we're not in

production today so we need to really wrap up the final certification and all the registrations that we need with ATF to make that happen. International as Carl alluded to was the timing issue but we feel now that we have distributors (in) countries that we need to have and we have a team that's focused on growing our international product line.

So, now, I would note in both Tactical and international, there's some TG Guard which is a product that we make. They can drop tear gas and pepper spray from the ceiling. Those have bid basis. We do have a lot of quotes out there, we just haven't gotten those orders. But we feel confidently that we'll see both of those turn around in the third and fourth quarter of the year.

Slide 17 which is surveillance. So surveillance is changing rapidly and we recognize this as we left the first quarter of the year. We have a board meeting coming up in early September, where management is going to present to the board a couple of dynamic ideas that we think will help fix the issue that we have in sales here, expand the brand and also get us in the channels of distribution through some partnerships that we would not be able to get into today. So, till we have the final sign off and we have our – the rest of our go-to market strategy in place, we feel this will be one of the segments of our business that we have to watch and push as hard as we can. But realize that we think we have a solution that will return long-term value to the brand in this segment in the future.

Gross profit as Carl's mentioned on page 18. Nice healthy increase and that's across the board. We also feel there are some things we can do internal. We're looking at some things of actually how we produce our product, how we package our product that we think over the next 6, 12, 18 months will have another positive impact on our product. And also get us into a greener space if you would with our products, so we use less plastic, maybe we use less packaging material.

We're testing some things now. We think possibly in the fourth quarter of this year we'll be able to launch that which will have a have long-term net value for the organization.

As Carl alluded to on the next slide, page 19, you can see the improvement. You know, we're constantly look at SG&A. I will talk a little bit about advertising. We did some advertising. We do a lot of cooperative advertising. It was one of the questions that came up.

We partner tremendously with our retailers with programs not only they're advertising but tagging them when we do some national advertising. So we spend a little bit of money in the first half of the year promoting the brand. We felt there was some return on investment. It's very very hard to measure return on investment but the combination of things we feel went correctly in the quarter.

DICK'S Sporting Goods for example. If you go into DICK'S Sporting Goods today, we're only on the lodge which is the traditional place that we have prior to placement. We're at the front end or we're over by women's running shoes and women's apparel. We tagged DICK'S on some regional advertising that we've done. We've tagged DICK'S on some advertising that we did with the National Basketball Associations.

And we constantly tag our retailers as it make sense in their regions, specially to drive the sale to those retailers. And DICK'S for example, now we are – sales are not only up with the in-store level but also at dick's.com which is a nice pick up for us because we prefer to drive sales to our retailers. But then obviously, on the loss side of continuing operations, all the benefits of sales and then the cost cutting has led to a positive outcome.

Page 20, I just do this to kind of look at it because we're constantly looking at return on investment per employee to make sure that what we're doing has a value. And this has been positive, I believe, every quarter since I have started with the company. And then lastly page 21, we constantly talk about the Mace brand. We don't sell products, we sell the brand for empowering people by what we sell and what we do.

So, obviously a good quarter. We think it could even be better with some of the things that we were going to implement and change. We've been a little disappointed in our surveillance sales but I think we have a path to improve

that. And as I said, timing was the issue with international and some of our Tactical sales.

But we just need to keep the momentum going and we also need to launch successfully our Tactical Solutions which will be our blunt ammunitions, our tear gas, our smoke and some of the other products that we have anticipated launching. And we feel comfortable within the next couple of weeks. We will launch it.

A couple of quick questions and I think most of them were answered but I'll just jump into them and Carl and I, go both back and forth. A question came in, we have a sizeable jump in our days inventory to 145 days. We do source of pepper spray product. That's been very popular. And so, we – last – fourth quarter of last year, we were allocating the product out, we were tiding inventory so we did bump up our – our – our quantities on hand to make sure that we were able to absorb any surprise orders or any surprise increases in sales.

But segment albeit though was our surveillance. We were out of stock during the first quarter. We play catch up a little bit. But we feel comfortable by the third and fourth quarter we'll be able to move through those products. We will have an increase in our Nite Beams and our Tactical inventories as we build up orders.

We're looking at forecast. We drive our forecast directly from our customers through our sales (inaudible) to what they think they're going to sell and that's how we do our production planning. We try and keep more finished goods on hand specially with regards to the pepper spray and defense pray.

Now with Nite Beams having anywhere from a 45 to 90 day lead time, we need to make sure we have dozens of stock and the same thing with our Tactical inventory. When you go in production – and all of our Tactical inventory is produced in the United States in Pennsylvania. So we have short lead time on freight and what not but long lead time on some of the parts and making sure that they're produced correctly, tested and then stored correctly.

The second question, does (pet) quarter based mainly – based (hip rake) with growth in revenues, expanding gross margin, your SG&A drop from 440. Do you see the current quarter SG&A growing from the past Q2 or flatter, even dropping? I think Carl commented about the SG&A, advertising was up in the quarter. If that have been down, I think we would've – you know, it would have been even lower number.

But we feel advertising is going to be critical in the future because we sought to educated not only consumers, buyers and investors in what we do and why we're doing it. Advertising in the third, fourth quarter will be flat to down because I think we have a lot of in-store and cooperative programs lineup with our key retailers to drive sale. But we are looking at as we talked about, and again, a PR/IR firm that can really help us develop a strategic product plan to ensure long-term success and sustainability of the company.

Carl will talk about the 30K reduction. The question was there's \$30,000 reduction to Security Partners' payments on a loan, why was it adjusted? Why adjust for the third quarter?

Carl Smith: Page 10 and the notes to the financials makes reference to this and we revise the loan agreements that we have in place with Security Partners. Basically, we reduced the loan payment for \$10,000 per month from April 15th through September. And as a result, we modified the loan agreements' and increased interest rates. Basically that's what we did.

John McCann: Right. So I think it was the inner partnership where we've benefit some other ways. But to increase the life to the loan, spread it out a little bit further and then increase that interest payment to the company. So, on a net basis, were still going to collect the same amount plus a little more in interest but it had helped them and it opened up some doors for us for future business with Security Partners.

One of the questions that came in, co-op advertising and sales allowance – do co-op advertising and sales allowance are basically a percentage of sales? So it is up versus a year ago. It's about \$170,000, all in with our different retailers. We get proof of performance from all of our different retailers,

whether it be an ad, an email blast or some other vehicle, in-store demos as an example.

This, on a comparative basis, is up versus a year ago because of the increased sales especially with our key customers. And with our key customers, we look at it less as a co-op, more of a partnership to make sure the product is pulled through at the retail level. So, we jokingly tell everybody it's a gift till it's paid for, so consequently, anyway we can help a retailer that make sense for them physically and makes sense for us physically. We do because we want to make sure the customer then sell through all the inventory that they have purchased from us and through every – and through their retail doors.

What was marketing advertising expense in Q2 versus last year? Versus Q1? This was partially addressed in Carl's commentary, but total selling for Q2 was about \$497,000 compared to \$432,000 in 2014. So about a \$55,000, \$66,000 increase.

Advertising and marketing was about 112 compared to about 56 from a year ago. So we had roughly a \$56,000 increase. And most of that was we took advantage of some NBA remnant advertising that we were able to get. So at Cavaliers games then through some of the other NBA networks, we had have a safe night from Mace. We had mace.com plastered on billboards.

Luckily for us, the venues we chose especially we tested some with the Milwaukee Bucks, but they didn't have a great year. But 90 percent of that went to Quicken Loans Arena which Cavs went to at game six or game seven at the Playoffs, I can't remember anymore. And they had 20,000 people in the queue every night. So we've – and we try to tag DICK'S on event DICK'S just (got to drug market ace) where we could within that. And all of those customers had positive POS sales so we feel there was a correlation.

But once again return on investment is hard. And today I'd say we advertise, we buy remnant or we buy things that are cost-effective. Our idea of hiring a firm in order to (inaudible) more advertising for us will be more strategic in the fact that they will put together a plan that's comprehensive that would

cover everything you want to do, and then related back to our customers and our partners.

And I think we address one of the last questions, what's the international revenues year-to-year for Q2? And as I said on the PowerPoint, I think Carl covered it off within his presentation. So with that, because I think that was a lot of questions, maybe we'll turn it over (Chris) to questions and answers because there's a couple of other ones that we would – that I can address if they're not asked during the call. So, (Chris), I'll turn it back to you if you want to open up the line.

Operator: As a reminder, if you'd like to ask a question, please press star one. Your first question comes from the line of (Thurman Lewis) from (Thurman Lewis). Your line is open.

(Thurman Lewis): Good morning, gentlemen.

John McCann: Hi, (Thurman).

Carl Smith: Good morning.

(Thurman Lewis): My first question is, when does the window open for insiders to purchase stock? And I would encourage all directors and management to buy stock (going of) signal (abstraignth) that they believe in the company and it's send a signal to (the street) the management believes our stock is undervalued. So when does the window open for insider?

Carl Smith: So, (Thurman), this is Carl. The window opens three days following the release of earnings. We release earnings last Friday so I believe that would make today the window opens.

John McCann: Business days or regular days?

Carl Smith: Regular days.

John McCann: OK. So today's (on), (Thurman).

(Thurman Lewis): And one thing, could you please be specific and tell me the marketing plan that will developed to speed up the sales to the public? Your team did a great job in turning this company around and saving it from bankruptcy, but it took longer than all of us thought. How can we shorten the process of marketing and hit our goals much quicker?

So, looks like we've done the hard part by fundamentally reorganizing our company. So, I want to know how we're going to put a much faster spin on our marketing plan when you're planning to cut advertising in Q3 and Q4.

John McCann: OK. So, we're not necessarily cutting advertising in Q3 and Q4, (Thurman). Just to be clear. To your point, we've done a great job. There's Mace Alert 911, there's Nite Beams and there's our Tactical Solutions products. All these, we feel now is the time to hire a true advertising firm in order to help us dearly markdown the path that we want to go with all these different products.

At the same time, samples of all these products. So, I'll go Tactical first. Tactical requires T&E samples which are training and evaluation samples that gets that out to different departments. We are participating in three times as many shows this year, so if, you know, the question I think was asked but I think our show expenditures are probably double versus a year ago, same period of time because we're doing every Tactical show.

So, our progression just for Tactical for example is we created a catalog, we actually won an award through the printing organizations for the catalog we've created. We did training, you know, our training videos are online. They've been made available to all of our key customers. And we've trained every one of our sales reps and a couple of key customers that have – that have verbally given us some commitments but no orders yet for different products.

Next step is that we sent out Tactical T&E as they call them, which is again it's training and evaluation samples to different rep groups and different departments. Where we are with Tactical is we really need to finalize the ATFs and some of the other registrations and certifications that we need to carry, especially with regard to storage of the products. The ATF should be and are very (catchy inches) of how the products are stored to make sure that

they're stored in a matter that A, is not disruptive to the organization. Meaning, that they won't blow up. B, that they cannot be stolen.

So, with that, we're right where we need to be with Tactical with a full array. I think it August and September, October and November alone, I believe our sales team will be up between 15 and 30 shows, either directly or through representation which we know will light the fire with what we need to do in Tactical. Nite Beams, it's very very similar. We're making presentations as we speak.

We have commitments from several retailers as we speak from a drug chain to a catalog chain to a sporting goods chain. We're in the process of getting those orders, procuring the inventories. Samples have been sent out for key reps and key customers. Now, it's a matter of reeling it in.

We still need the fourth tier vote on Tactical and our Nite Beams products to have a strategic marketing plan, byproducts that we can put into effect because we're doing the blocking and tackling of getting everything lined up with our customers. And then Mace Alert, we've signed a deal with the strategic partner that's going direct to market. So we've given them that direct channel, they have a lot of experience in that direct channel.

CVSL is the company. It's the Rochon family that started Mary Kay Cosmetics. And we feel very comfortable. And strategically because it's an educated sale product, we're working with several different accounts that are traditional retailer accounts to gain distribution.

So, I think with all of those and at the same time we're launching two or three new pepper sprays. We have a black polka dotted unit which will fall under our exquisite line. We've retooled the handle on our traditional line that we're going to launch in this fourth quarter.

As I mentioned earlier, we're redoing the packaging that we think will be A, a cost saving, B, more dynamic for the consumer, and C, give us more advertising space on the package itself. So all of this happening and at your point, by a fact they should double and triple our sales. When that will happen? My hope, my prayer would be is that within the next 6 to 12 months,

all of this hit. They're all successful and the company is looking at double-digit increases and double revenue from where we are today.

But each one of this, to reiterate, Mace 911, we're rolling it out as we speak. Nite Beams we're rolling it out as we speak. Tactical, as soon as we have the final go, go, go, we can make the presentations to the – the – the key governmental agency, law enforcement agencies, and et cetera, for the delivery. Because our fear there is we can't find a contract with the governmental agency till we can put a delivery date on it. We can't put a delivery date on it till we make sure that the ATF is signed off and we have all the things we need in order to make that happen.

So, hopefully that answers your question, (Thurman). Sorry, it was so long.

(Thurman Lewis): Well, no, that's all right. I have a follow up and I then I would be at (awful end) and then I'm back into the queue later. (You lead) mentioned and I think all investors were excited about the new products such as 911, Nite and Tactical which now gives us four legs to (the stood), just not one which is spray. Why should we not expect a double, triple or quadruple in sales as you mentioned? And you put some sort of (pan) table on this and with a good marketing program, it should take us (term that it is) to the company around.

John McCann: (Thurman), we agree. We should be in a position to double or buy a book the sales. I'd be remiss to say it's going to happen on this date because if they knew that, I'd be in Vegas. But with that, the company's goal is to do it as fast as possible.

Your point, we worked very hard on getting these different deals done, finding these different products, betting these different products, making sure that we have all the certifications we need with these products. Now, we do want to partner up with a professional advertising firms that both has IR and PR capabilities to make sure that story gets told. Because telling a story to a retail buyer is different than telling the story to a savvy investor, you know, like some of our investors.

So we're go – we want to make sure we can somewhat do or (passive) so we can take advantage of all the good things the company has done. And turn it

in to a success story that we know it all can be. To tie down exactly a date, you know, I'll set false expectations for you, for the company, our goal is to do it as soon as possible.

(Thurman Lewis): Well, thank you for taking my questions. I have two but I'll drop off of queue and, you know, and wait on my turn if it happens. Thank you.

John McCann: Thank you, (Thurman).

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

Andrew Shapiro: Hi. Thanks. So, I got a bunch of questions here. I'll ask a few and back out on the queue. And don't take the tone of the questions wrong, I only wanted to focus on what could be done to improve our quarter's fairly good performance to be even better. Because this is the first you guys are showing pretty much a light at the end of the tunnel on obtaining sustained profitability.

So, with respect to that, what I wanted to first start with some questions on is the Mace Tactical because you have started attending shows, you rolled out the Mace Tactical offerings and expanded the products back in November. You kind of a launch (at shout show) this year. And you saw in the last call that we'd see cash flow streams from this in the back half of 2015 and here we are in August in the back half of 2015 based on seeing flat year-over-year numbers again. I'm just wanting to get to what are the steps that have to happen?

You mention this ATF issue. What is the approval or the approval – or the approval milestones that you're going through and expect a timing on those so that you as you described you need to have approval so you know you can ship and then you can have shipment dates. And generally, if you got an order today, what generally would be the shipment date? Is it a month, two months, a few weeks? When do you then book the revenues and profits from such sales?

John McCann: Sir, (Garnett's) walking in and he could maybe address some of the – some of what you just asked. We are still bullish that the back half of this year that we will experience the taxable sales we talked about. We went in this all along launching in November to make sure the market knew that we're coming. Having the product available in January, knowing full well that we were going to – our timeline set was at June, July, August period.

The only hiccup I would say because everything else has gone well with ATF because potentially of our asking what we wanted to do, reevaluate how they wanted to look at this and somewhat changed the protocols. Not because of us, just because they said, "Hey, this hasn't really been looked at in quite a while. Now we're going to relook at it and here's what we want."

On a target line, I'll turn it over to (Garnett) because he can speak to it, but we are – we are moments, days away from the final ATF. The ATF agents in the past two weeks have visited the facilities, said what needs to happen. We're going to own the magazines as they call them which will be the storage portion of the product. And then to your point, if a customer today, we wouldn't be able to quote exactly when we could deliver it.

Customer, as soon as we have the final ATF in the storage approvals, I would tell you that we would – we would anticipate delivering in October and November. But, maybe (Garnett) can share a little more light on...

(Garnett Meador): Yes. So, this is (Garnett) speaking. And what I could tell you is that internally, the ATF has gone through some restructuring. And to some extent, we were caught up in that. And they've gone through and change the entire industry as to what they're classifying as explosives and what they're not classifying as explosives.

Prior to this year, many of the less lethal ammunitions that are going to be our product line were not classified as explosives. So, the process of manufacturing and ultimately storing was much simpler. So with that said, we have received four variances from the ATF and we've also, of course, gotten all of our licensing, we're both licensed as an explosives provider and a firearms manufacturer.

In addition to that, we're down to, as John said, we're literally days way. We've got over in the manufacturing facility right now, we are moving dirt to surround the magazines that have been essentially approved by the ATF. They just have to come out and give their final blessing, and once that's done, we will be in full production.

Andrew Shapiro: OK. And when you say we're going to own the magazine and we're going to do this in our manufacturing facility, are you referring to Mace and an asset of Mace? Are you referring to NonLethal Technologies, your joint venture partner?

(Garnett Meador): Right. We've got contractor relationship with a party that is doing the manufacturing exclusively for us for distribution in all of the U.S. And we will be leasing from them the magazines that will house all of our inventory located at the facility of the manufacturer.

Andrew Shapiro: OK. Further on Mace Tactical, last quarter, you know, you've been selling pepper spray and TG and other things. Last quarter, you said you'd have a law enforcement guys pull together a list of agencies that Mace was doing business with. And here we are three months later, we haven't seen Mace leverage those relationships publicly to obtain new business. You haven't made the list yet available on a regularized basis as promised, such as your, we'll call it, law enforcement product supplier competitors such as Taser, Digital Ally and others.

So, if you have had Tactical growth this quarter, that wouldn't be so aggressive asking for this. But since another quarter flat sales has been recorded, you having this particular delays on the full line, I just kind of want to know where's the beef here? And what's the plan regarding these, we'll call it reference agencies that you've sold to help you get the agencies down the road in the next counting?

(Garnett Meador): Right.

John McCann: So, Andrew, we have a list that's small. So that's why we're kind of keeping it. Where we're doing business? We're doing good business. Talking to some of the Tactical guys, it's not always the best thing to advertise this.

Some agencies have told us, "Hey, we can give you but we don't really want it advertised." Part of this falls on the strategic plan with an advertising firm to make sure we get that information out in front of people.

We can put the list out there but it's not as robust as we would like. Ergo, we'd like to put it in a context of conjunction of getting more orders from our Tactical once we have all the ATF variances that we needed as (Garnett) had indicated.

Andrew Shapiro: Fine. Obviously, as I said I have questions in some of these other areas. I'll back out. Please come back to me.

John McCann: Sure.

Operator: Your next question comes from the line of (Ken Sell) from (Sell Capital Management). Your line is open.

(Ken Sell): Good morning, gentlemen. Thank you for taking my call. Really, congratulations guys on a great Q2.

John McCann: Thank you, (Ken). Thanks for taking the time to be in the call.

(Ken Sell): Oh, sure. My pleasure. Also thanks for the update on some of the new Mace products. My first question really has to do with the Mace Nite Beam and maybe Mace 911. What percentage of the Q2 revenues would you relate to those two products?

John McCann: Very small. Like, you know, maybe 1 percent or 2 percent. At best right now, we ship a couple of hundreds units to CVSL of our Mace 911 product. We feel – they feel based (on their) forecasted as a huge upside potential because it is a unique product in the marketplace. It's not a recurring monthly revenue model. It's buy and you own it and it's your model so, on a total acquisition cost, it's very competitive in the marketplace.

Nite Beams, we had, you know, maybe a couple thousand dollars' worth of – worth of orders through our website and through a couple of other companies.

But both of this, we feel have a very high upside back half this year and in 2016.

(Ken Sell): Now, with Mace Nite Beams, your supplier is basically Chinese, isn't that correct?

John McCann: Most of the products came from China. Yes.

(Ken Sell): OK. How are you finding the reliability of those products from your supplier? Are they – you find a lot of defective units or maybe...

John McCann: We don't – so, there's a couple of things that, like, Carl and I, are both – all the consumer product guys so, we jokingly said if you – if you make a product with a cord and you have a 68 percent return rate, you are doing very well. Some companies have a 12 percent return rate.

So you realize any time that you power a product, whether it be battery-operated or cord plugged in operation, that it has a higher default ratio because you have a lot of things that go wrong. Now, on our traditional product, even our cameras, we have a very nominal return rate. A lot of it is because of what we've done.

So with regard in anticipation of bringing in a lot of inventory on Nite Beams, there's a couple of steps that we organizationally have taken. Number one, we've hired an agent. I think pretty dynamically priced in China to inspect the factory and inspect the production. Work with the different factories to make sure that the quality specs that we've given. So the lumens for example of that, it's hitting the lumens and the batteries there works which is it's a government certification to make sure that they're properly sealed and they're the proper batteries for the United States.

Now, when the product comes in, we are testing it. So we're putting a slip of paper into the product saying that we pull the safety tab to test your batteries to make sure the product works. With all of these parameters and working with our partners, Tonto, Michael “Tonto” Alexander, we're ensuring that we have the highest quality product available in the marketplace because the LEDs in the armbands, the dog leashes, the dog collars, the shoelaces are

lifetime and that it takes two CR-2032R batteries which is our typical camera batteries that power most of the product. So, with regard to that, we feel confident as confident as you can feel and also we put in safety steps and measures to make sure that, you know, we use the (old Ronald Reagan line trust code verifier).

(Ken Sell): Great. And as I remember the initial order was delayed for some reason. Are we finding that those delays are gone and we're, you know, getting our supply in a timely manner?

John McCann: Yes. There was a little problem with the West Coast, with the Longshoremen so we had some container issues. We're always (leery), we actually have one of our gentlemen not only meeting our agent but Bernie Grainsy, one of our great employees is actually visiting China. I believe, leaving next week and he'll be there for a week just making sure supply, the face to face meeting, making sure they know who he is.

He's a great representative for the organization to ensure that we're doing everything. Good communication will be the key because the product is lite and it's small that if we have to, we can fly some products in, especially to fulfill customer needs. But we did – early part of the year, there was a container issue on the West Coast and there was a Longshoremen strike specially that was affecting California. So, we did have some delays and some unanticipated issues at that time.

(Ken Sell): So, just a...

(Crosstalk)

John McCann:...I can't say there won't be a typhoon or something else, right? So, (fold closure), you know, weather's the weather which can't be controlled and people going on strike can't be controlled either.

(Ken Sell): Sure. And I guess just to summarize you're finding that the product and your supplier is creating very good product.

John McCann: Yes. And we're ensuring that by double checking because like as we said – Carl actually worked with local company that actually had somebody they highly recommended in China, that spoke Chinese and Mandarin and then also could speak English. So for us he was – he was a nice find because it's a third-party supplier of ours that recommended our agent.

So, we thought that was just something that, you know, makes us sleep better at night. That not only it you trust the people producing that, but then you can also verify that they produced it and that we get a report back from our agent.

(Ken Sell): Great. I just want to get back to the inventory level for a second. What' – you know, I realized you've (inaudible) overheads rollout of some new products and the inventory's a little high right now. But what would you say, John, would be the normalized level of inventory that we can kind of plug in to our spreadsheets when we do our model?

John McCann: I think if you look at a model, Carl could speak to a little bit. But roughly, we're probably about \$350,000 to \$400,000 heavier on inventory today in anticipation. You know, rough numbers, \$100,000 or so worth of Mace 911. You have about \$300,000 worth of surveillance that we bulked up on to make sure that we didn't have the issues that we had in the first quarter.

And that we do have one – there's a Taiwanese company that also patent on one of our pepper spray products, and we doubled, or I believe possibly have been tripled the side of the order because we couldn't keep it in stock in the fourth quarter and the first quarter over a year ago. So, if you couple that altogether, remove the pipeline sales of Mace 911 and even a little bit of the Nite Beams, I would say roughly if you drop the inventory \$350,000 on a normalized basis, that'd be – that's be about the number. We will have higher sales, you'll see. But as a percentage basis, I think that's pretty safe. Carl, might, you know, comment a little bit further.

Carl Smith: Well, inventory (than), inventory at the end of June was basically 2.5 million. For Q3, I would follow the forecasting inventory would keep it around the same amount. And then based on the Tactical and Nite Beam situation, you

know, going forward, I think it would be safe to continue to use 2.5 for the next couple of quarters if I was forecasting my inventory balance sheet.

(Ken Sell): OK. Great. Appreciate that. Any chance of Mace presenting it on investor conferences that maybe coming up?

John McCann: I think September 8, we have a board meeting. And I think that will be one of the topics of conversation. We had a very successful mid-West conference that we did here in Cleveland. And I think part of the overall marketing strategy that would fall into it (inaudible) our board instructed me and we've talked about this. We want to have a sustainable story that we tell, you know, we're in it for the long term.

I think, you know, some of – you know, chairman of the board has been, you know, with the stock in the company a long time, and we're finally seeing the benefits of all that hard work. So we want to make sure that continues, but it's definitely on the radar. The exact date and time, you know, that's still be determined, but I think we're rapidly getting there, (Ken).

(Ken Sell): Very good. Yes, I think you guys got a story to tell and I'd really like to see you guys get out and tell it.

John McCann: Thank you, sir.

(Ken Sell): That's all I have so congratulations again in a great Q2.

Carl Smith: Thank you.

John McCann: Thank you.

(Ken Sell): (Bye).

John McCann: OK. (Chris).

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

(Thurman Lewis): This, I have two other questions, they both are along the same lines. I have hit on this on the last two conference calls. And I remember being at that mid-Western conference on our chairman, Richard Barone in closing made a (call me) that all by Mace that it was undervalued.

Want to speak to the pink sheets that we trade on. Now that we're a (viable club) you can trade on the pink sheets which I considered the worst of the worst, what are our plan? What plans do we have to upgrade our listing to a more reputable exchange to get liquidity, low exposure, more credibility, less manipulation and a real market maker which I think will allow our to trade at it's real value which is higher than \$0.40?

So, John, you said the next forward meeting was September 8th, and additionally sure we're trying to hit off the pink sheets back to maybe the over the – over-the-counter QX. Can you comment on that and give me some assurances about the board taking a look at it?

John McCann: Well, then, I'll turn it over to Carl. I assure you that it will be on the agenda with the board because a couple of board members have asked me to make sure that that's on. And then I'll turn it over to Carl because he has done some analysis on your other question.

Carl Smith: Well, (Thurman), just to back up with John and said, you know, I've been looking at it a few weeks ago. I, you know, started looking at another tier, a higher tier in OTCQX is the one I'm actually looking at. We'll be making a presentation to the board with regards to cost benefits of going off the pink sheets.

(Thurman Lewis): Good. Thank you. And on hearing you say, it will be on this September forward meeting?

Carl Smith: Yes.

John McCann: It will be on the agenda for the board meeting. Yes, sir.

(Thurman Lewis): All right. The follow-up to that is considering the liquidity in our stock and market value, (think) to quote everyone in management and all the board

members feel the stock at \$0.40 is highly undervalued. I would also possibly suggest even though our cash level is maybe not adequate, we did spend \$2 million to buyback converge to reduce 7 million potential outstanding (inaudible) which I (applause). I wonder if the same board meeting can you talk about a stock gets authorized and a stock repurchase program where we consider authorizing maybe 5 percent to 10 percent which would not be overly expensive. And of course, the price we consider to be undervalued.

John McCann: You know, it definitely be on the board agenda. A board member up for some of your emails and ask we spoke about the appropriateness and the timing of it on our audit called prior of the release to the financial. And it was suggested that we vest this out a full board meeting and then comeback with an answer. To your point, is it appropriate to use the cash if the timing right and et cetera, but that will definitely be on the board meeting agenda, sir.

(Thurman Lewis): And I'd like to follow up along the same line of creating market value because I think now that you've – like, we're ready to see the stocks are creating and providing some liquidity. So, as the window opens on Wednesday, I know that you can't answers specifically, but do you think there's some probability that insiders, board members, feel that all board members should own stock. But do you think there's some probability that board members and insiders might purchase stock what everyone considers an appropriate value?

John McCann: I (would hear) your sentiments. I can speak for all board members, but I think our, you know, chairman can and I can agree that it's undervalued and that all insiders should look at it.

(Thurman Lewis): OK. Thank you. I would reiterate, now is the (inaudible) there's a (layoffs to) Carl indicated to tell our story as we begin to expect double, triple and quadruple sales now that we have four products we're doing instead of just the spray. So, I look forward to building to better exchange considering the potential authorization of a stock buyback insider buying. And as Richard stated, he feels the price is undervalued. So, Richard – is Richard on the call?

John McCann: Yes, we don't – we don't know that. But I will make sure that everything you said is reiterated, (Thurman).

(Thurman Lewis): And you do agree with it?

John McCann: As the buyback part, I would take advice from the board. Insiders buying stocks, absolutely because it is undervalued. And then going to conferences at the appropriate time with the right story, I think we're building that message out there. Hiring the right firm to help us make sure that we spin the right story and the right message on a long-term sustainable profitable company, we're 100 percent agreement.

(Thurman Lewis): OK. And moving to the – to the – over the QA?

John McCann: I think as Carl will finish the analysis, we'll make sure that's presented to the full board and I'm sure they'll make the appropriate decision on that post phase. But, thank you, (Thurman).

(Thurman Lewis): No, thank you for taking my calls and congratulations.

John McCann: Thank you. So, (Chris), back to you. We have a couple of last calls?

Operator: Yes. You have a question from the line of Andrew Shapiro from Lawndale Capital Management. Your line is open.

Andrew Shapiro: Thank you. Several follow ups here. The, again, you know, you're at the breakeven level. You answered I think Mr. (Phil's) question that 911 and Nite Beams was only 1 percent of your revenue. So these two new products with very broad incremental market opportunities have yet to be exploited.

You talked about how on the SG&A, there I think is a thought that you're holding things in check and I want to make sure that an appropriate amount of marketing resources are deployed. It's not the time to be penny-wise and pound-foolish, but to become very strategic as you've mentioned an very efficient to get some national viral type of public relations going on with your products. So, what kind of marketing resources are you planning to put behind the Nite Beams and your safety wearables product lines?

John McCann: Right. So, Andrew, those are kind of works in progress and today, you know, I'd be remiss to give away the marketing plan. On the overhead absorption, I

can't tell you what we're looking at to make sure that everything we do has sales and marketing at its heart. So, anything we would do on an overhead side would be enhancing what we're doing on sales and marketing and looking, can we be more efficient in operations or some of the other aspects of the business. To answer directly on the marketing plan, I just have the whole back.

Andrew Shapiro: OK. So, are you then saying that where you are right now in the second quarter results announced and where your plan is in the current quarter, will SG&A, will marketing and advertising resources will necessarily increase? You're saying that – what is it? Forty-three, whatever the percentage is, is that percent of sales is something that you expect to continue to drop them?

John McCann: Drops slightly with the goal of increasing the advertising and sales aspect of it. So, you're...

Andrew Shapiro: Well, if it doesn't drop slightly – John, if it doesn't drop – I mean, if it only drop slightly, that means you're only getting a dollar for dollar bang for your buck. You're not getting operating leverage.

John McCann: I understand. Maybe I just said it incorrectly. Our goal would be and I – and I don't have all the future numbers of the plans that we have in front of me on that side of it. But our goal would be increasing or advertising our sales and becoming more efficient.

Andrew Shapiro: Right.

John McCann: Whether it's 43, 42, 40, those are numbers yet to be determined. But as we've seen, doing some of the things at a cooperative level, now we have to do it on a national level with a strategic long-term – strategic marketing plan. Month by month, allocation of resources in order to hit our objective and then adjust to our objective because something can happen.

So consequently, it's not just saying, "Hey, that was my plan." It has to be that, "Hey, here's my adjustment to the plan because, you know, the weather changed though the wind shifted.

Andrew Shapiro: Right.

John McCann: So, consequently looking at all that in conjunction, we're in agreement that we should become more efficient with a greater focus now on advertising and marketing. You know, in the first couple of years here was – is the focus on becoming efficient, now it's the focus on being more efficient but then promoting the brand and promoting the products and promoting the story better. Hopefully, that answers the question.

Andrew Shapiro: Right. (I don't) understand (said) as you had \$1 million in sales, we're hoping to see at least \$400,000 to \$500,000 of gross profit.

John McCann: Correct.

(Crosstalk)

Andrew Shapiro: And to generate that \$500,000 of gross profit, you're not spending \$500,000 on SG&A to get it, you know. And so, that means you're spending \$250,000 to get \$500,000 of gross profit, that's \$4 of revenues for every dollar of SG&A incremental.

John McCann: Correct.

Andrew Shapiro: It sounds we're on the same page there. Now, with the new website up for only two of the three months of the quarter, it sounds like I think from one of your slides web sales did not surpass last year's, is that right?

John McCann: Correct. But that's really in conjunction with we're still buying some AdWords, even on the old website. What I can tell you is that we have an increased conversion, so the people that are visiting the website are buying. We need to drive more traffic to the website which is, you know, the AdWords and the SCOs and et cetera.

So, there is an internal team in house, there's an external team in house. The external team in house is coming I believe on the 19th to kind of do a full review to say, "OK, We've done all of this great things. We've tweaked it." You know, "Because obviously you point out some errors, some things we do

more efficiency, some clunky (inesses), “ as (Ken) likes to call it, our IT director.

Now, we're – we really need to maximize SCOs, right? So, that search engine optimization. We need to look at buying AdWords. Unfortunately, we were talking directly to Google and there was a corporate policy put in place that pepper spray would be deemed a weapon, ergo, we're not going to directly sell AdWords.

So now we have to work our way around it because we say and we do that we sell empowerment. That we – we – we sell safety and we sell security, we're not selling a weapon. So, it's a little bit of a hiccup but I think something that the team internally with the external team, I think we can solve.

Andrew Shapiro: So...

John McCann: So, we're very bullish on the website because we think it's a vast improvement from, you know, this – since I've been here, this is our iteration. I inherited something that (I didn't adjust), then we tried to do something cheap. Now, we spent some real dollars not only fixed in the back side of the website, the optimization of the order process, right?

So, now when order comes in, it gets dropped right into our system. They can be uploaded and downloaded very easily, very efficiently. We used Authorize.Net to make sure that credit card information and et cetera, that it's stored properly and safely. The next thing now is to market that great website to a broader base of consumers.

Andrew Shapiro: So, if Google's adopted this policy and it's caused an unexpected hurdle for you, it would seem to me that that new policy should be a disruptive...

John McCann: (Introvertal's wrong).

Andrew Shapiro:...to your competitors who have been market...

John McCann: Correct.

Andrew Shapiro: OK.

John McCann: But then you have to be strategic to work around it.

Andrew Shapiro: Of course.

John McCann: So, there's Yahoo, there is organization that buy AdWords. They can work their way around it because they can position it differently.

Andrew Shapiro: Right...

(Crosstalk)

John McCann: But our competitors would have the same hurdle as we do.

Andrew Shapiro: OK.

John McCann: And it's an unfortunate hurdle because once again it speaks to the problem sometimes with the segment that this miseducation that, you know, pepper spray is the product that people should be carrying instead of a gun or et cetera. That it can keep you safe. That it does save lives. And we've go and we're still working with the Google Analytics team to prove this point out and we have some sympathy amongst their teammates but not at the higher levels where we need it.

Andrew Shapiro: Fine. So, that's fine. But what you're talking about here are AdWords for pepper and your website, which we spent money on and we got all these things on, also includes Nite Beams. That's not blocked, right?

John McCann: That's not – well, the problem is is that they won't say this is the heart of the problem like they want us to create a completely separate website for Nite Beams and drive traffic there. That's not what we want to do. I want to advertise surveillance, Nite Beams, Mace 911, but I wanted driven to Mace.

Well, they said, "Well, then you have to take all your pepper off your site." Well, I said, "Well, we're not doing that." That would be another \$100,000 waste of money because somebody, a corporate though that that's what we should do.

So here then goes the problem, but now if we – we're working with (branch shop) who develop their website. They're working on some creative solutions, say, "Wait a minute, we can work around some of these things. Give us some time, let us come in. Let us present some ideas." At the same time, (Ken), IT guy is working on some solutions. But, to your point, that's how we approached it. That's where we ran in the – to the issue that we ran into.

Andrew Shapiro: And this is the final decision or is there still a process going on?

John McCann: It's a – it's a flag waiving in the wind. In my opinion that the decision could change once they realize, "Wait a minute, we have unintended consequences to something we thought was a good idea."

Andrew Shapiro: So...

(Crosstalk)

John McCann: But classifying Mace brand pepper spray to a gun in my opinion is an apple being compared to an orange. They both do different things.

Andrew Shapiro: So, John, perhaps your PR agency might be able to help in providing Google the insight that pepper spray is saving lives.

John McCann: Correct. And that's why part of the strategic as we've talked about at the beginning and putting this all together into a strategic long-term message.

Andrew Shapiro: OK. Well, now, are there other ways other than SCOs and AdWords et cetera that can drive traffic to your website instead of us being passive here with a really nice pretty website that could – that could fulfill and sell products, but people aren't being driven to the site. Doesn't that mean you need to potentially do more direct to consumer advertising that either...

(Crosstalk)

John McCann: Correct. And to that point, that's a good point.

Andrew Shapiro: So, the product (who'll) drives into the site?

John McCann: Yes. And we're working on all of those. We – you know, we're working very closely with, like, for example the American Red Cross. The American Red Cross love the Mace 911 product, loves the Nite Beams products. Can't do anything with pepper spray so now we're working on and, you know, we'd done some donating to the Red Cross. We've worked with their national team and their local teams to use their email systems then to drive traffic back to our site.

We get our products listed on the American Red Cross store. So those are in process, we're hoping to close the loops in some of those. But then again, CVSL, we've created a micro site for CVSL that drives business both to our site, to their site. So, we're not – we're not doing nothing, waiting for, you know, (Gadelle) if you would. They are working very feverishly on different ideas.

We're doing a better job on our own – cultivating our own list that we own, looking at buying list that potentially we can sent out email blast that, you know, Google for example can't do anything about that gets our message out the way we want to get it out. And also then working with a lot of our customers and tagging to their website so they can get the benefit of the sales, like DICK'S. DSG.com I believe is up, you know, in double digits again on sales.

Andrew Shapiro: Now, is traffic to the website already up? I know that the web sales...

John McCann: Traffic has been pretty healthy. Like, we've seen – we've seen more – we don't see the level of the traffic. We'd like but the levels of traffic are increasing as we do some of these things.

Andrew Shapiro: OK. Regarding 911, you mention CVSL. Is that what it's called?

John McCann: CVSL is an organization where that – that we've given them the channel direct to consumers. So, one of their – you know, they (a long in burger), they own several varied direct selling machine. So we've trained them. We've done seminars with them.

They are – they are in the process of building a marketing and sales plan to go directly after consumers, like a house party for example or an email blasts for example. Or other ways of contacting consumer directly, because that's how they're build. Organizationally, we're not built 100 percent that way.

Andrew Shapiro: When do they expect to roll things out?

John McCann: In the next couple of weeks. They are building up. They do a lot of education before they even gave a product out because that salesperson that goes out is their key player. That's their store front.

Andrew Shapiro: OK.

John McCann: So, we've trained them. You have products in the (long end burger) store and now we're working with them on the next steps of their go-to market strategy. And there's a little bit of a timing because as I mentioned, October, November is their selling months because there's a lot of traveling in this July, August, September periods. So, they also have to look at that seasonality too to make sure people are at home and people aren't distracted or they're not on vacation et cetera.

Andrew Shapiro: Rightly. Now, you mentioned about \$100,000 of inventory potentially for them. Is that revenues...

John McCann: No, for them in total. That's for like is Mace 911 because not only them. Us selling it to traditional retailers, us selling it, you know, to CVSL, our website and traditional retailers.

Andrew Shapiro: Oh, OK. And so revenues have not been booked on sales to CVSL yet then?

John McCann: A couple of hundred units have been booked on sales in the quarter.

Andrew Shapiro: In the quarter, OK.

John McCann: Yes.

Andrew Shapiro: Now, they have the direct to consumer channel. What are the other distribution channels you're already marketing this product through and what additional channels you have planned and when?

John McCann: Well, it's not going Andrew, but we're making presentations to traditional retailers. Sporting goods, not as much. But mass, consumer, club, electronic shopping, our own website. Working with cause or marketing campaigns, like as I mentioned the American Red Cross because it's a great item if you lose your house, you lose your phone. This way you still can connect.

We're working with the professional organizations such as The Visiting Nurse Associations and et cetera. And we're also working though a relationship with Security Partners through the 1,700 dealers that they have on their books now. So, every channel of distribution we're working at we're focusing first on the (drug) channel and some of the mass-market channel as well as (consul) marketing.

Andrew Shapiro: OK. And so, have you signed anyone up yet?

John McCann: We have a couple customers that were just waiting for the orders, that have given us a verbal, "Yes, we want to pit the products in."

Andrew Shapiro: OK. I have some more questions, I'll back out. If you can please come back to me.

John McCann: Sure.

Operator: Again, if you'd like to ask a question, press star one. And your next question comes in the line of Andrew Shapiro. Your line is open.

Andrew Shapiro: I'll carry this over to goal on here. In security, surveillance and monitoring, I guess what I want to get a feel for here is last quarter the inventory build was described as surveillance sector and backorders. So what I didn't understand is if that's the case and build inventory, we didn't have it, you had backorders. Why wouldn't security and surveillance then be up this quarter? Why was it declined and down again? And I, you know, I see the inventory and I'm a little concerned here.

John McCann: Right. We're less concerned because we think we can move the inventory, but we did lose some backorders to competitors. I would say there's three or four things happening in the field. There's some changes in technology that's happening in the field that we need to react to. There is also Chinese strategy I would call it where they are being more aggressive in selling and marketing direct.

So companies that used to sell to American distributors or put American brands on it, now they're going to bolder statement and selling direct to end users which really didn't happen, you know, before and that's newer. And then overall there's some frightening pressure on the segment. Ergo, once we saw that some of the backorders we weren't going to be able to sustain or some customers said, "Yes, I know I ordered these cameras, but I want to push that order out a little bit because I'm not sure when I want to take them." That, we've experienced a little bit of that.

With the inventory, it's a little higher than we liked it to be. But we were putting in some plans to move the inventory. And I will also put in some brand ideas that – and strategies that we feel will keep us in the segment and protect us. But maybe slightly change our go-to market strategy.

Andrew Shapiro: So, John, when I hear someone saying move inventory, that usually puts some hair up on the back about reduced margins and moving inventory. And I'm just wondering has this management team been asked by the board, has the board been presented? Are you guys evaluating the amount of profits and return on investment that this product line provides to the company? I mean, I've been an investor as you know long before you've been here.

John McCann: Absolutely.

Andrew Shapiro: And I have seen the security and surveillance monitoring business go through multiple iterations of having to revamp the product because of technological change, having to deal with Chinese or other low margin competition, inventory write-downs. I've just – I've experienced it all so much now that when I'm hearing these comments and I'm seeing these things, I'm just wondering about resource allocation return on investment. Are we – I would

rather see more advertising moving more Nite Beams products and a Mace Alert 911 and other things, than just breaking even and tying up all that capital in the surveillance business.

John McCann: Sorry, Andrew, I can't tell you what we're planning on doing but I would tell you two things. That we agree on your last statement. And B, I would suffice to say, knowing you, you know, for the past three years that I have you'd be very pleased and in agreement with what management wants to do with this segment. And I would leave it at that.

Andrew Shapiro: OK. Fair enough. The company...

John McCann: One second, to tell you Andrew, just last thing. Of which we have assigned (LOI) for part of what we want to do. We have as you said, two minutes ago, we have to push it across the goal line and what else do we want to do. But suffice to say, I think it's a good plan and it allows us to do the other things that you had mentioned, the advertising, the products that we're launching.

We still have a lot of advertising and a lot of education we can do just on a traditional pepper sprays of which the whole time – you know, in the back half of the year, we're going to change the packaging a do a couple of upgrades to it that I think are marvelous and well over overdue. And we've done them on nickels and dimes, but I think we've been tremendous at doing it.

Andrew Shapiro: Well, again, it's signal, I'm seeing inventory go up...

John McCann: Absolutely.

Andrew Shapiro: And up times we're tying up a bunch of capital. If there was a way to free this up, I mean, I'd love for Mace to earn a 100 percent royalty stream through the use of our name and have someone else make the low margin. Make a margin but make a low margin in the process who might be able to compete more effectively and stop this distraction because that's what it's become. And let's start moving – I mean, the Nite Beams product you've represented and please reaffirm this, is that the margins on the Nite Beams products are as good as if not better than pepper spray.

John McCann: They are similar to pepper spray. I wouldn't call them better but similar to pepper spray.

Andrew Shapiro: All right. And I think no one would dispute that the addressable potential market of the Nite Beams products through multiple different verticals, and of course Google doesn't mind them. You know what I mean? The point is that it's a much – it's frankly a much bigger addressable market than selling pepper spray.

I'm not saying get out of pepper spray, but it's a big market and see big opportunity as long as Mr. (Phil) asked the questions about inventory and quality as long as we can get the inventory, have the quality. You guys could move a bunch of these out. So...

John McCann: Agree. OK.

Andrew Shapiro: On the LEDs stuff, you talked about in the last quarter that you are targeting corporations for the idea of selling, you know, we'll call a wholesale quantities to corporations, safety workers, et cetera. The vest were not available. Then, are they available now?

John McCann: They are – they – we move through a lot of the vest that we brought in. Inventory-wise, we're bringing in more but, yes, that is part of the total strategy and it's – and it's in process to the much longer lead time on that corporate side. Much longer than I even thought.

But we – I would (badge you) to say there's there probably top 500 companies that we're talking to about not only the vest, the Nite Beams, pepper spray and a total corporate B-to-B client.

Andrew Shapiro: OK.

John McCann: Like one I can tell you like Quicken Loans Arena is just a small order of 50 vest but they are starting to buy our vest. And we're working with construction, energy companies. Manufacturing companies about the same thing, doing a corporate to corporate program where they're buying it at a

wholesale price which is still a very margin to us instead of a retail price. And then they're getting the brand.

(Crosstalk)

John McCann: And they're getting an association.

Andrew Shapiro: Right, and it's a big quantity. But, so...

John McCann: It's a big quantity and it's a one – and it's a– it's moved out right away so no call off, no returns and some of the other things. Right.

Andrew Shapiro: Right. So, you mentioned 50 to Quicken, is that Q2 revenue recognition? Is it Q3?

John McCann: No, because the order came in just this past couple of weeks. And then I believe we're delivering them in two weeks when the inventory come in.

Andrew Shapiro: OK. So, the orders been taken. It's this quarter's, the order. The inventory is not here. The vest are somewhere on a boat in – off of LA then?

John McCann: They're at the factory. I believe, they're being brought in. I can't get – I don't have the exact data in front of me. But within the next two weeks, they'll be delivered.

Andrew Shapiro: OK. And that's fine, but then where's the rest of the vest inventory right now? In China, on a boat, on the train, on the plane?

John McCann: The vast majority of the inventory went as T&E samples I had mentioned before both to the reps and the boat to buyers and to groups.

Andrew Shapiro: Right.

John McCann: And then we placed three order of inventories that is being manufactured at the plant that would be here within the next 15 to 30 to 45 days.

Andrew Shapiro: So, in other words, you will, in a sense, manufacture and ship inventory less on spec and more on ordered then with the corporations and wholesale blocks?

John McCann: Well, with the corporation side, we're doing some specialized things like Quicken loans for example. That's going to have the queue listen on it, right? So...

Andrew Shapiro: OK. They want printing.

John McCann: Right. With some of the other guys on the corporate side, Andrew, it's completely different. Like those have been made to order, those will be forecasted and purchase because we'll put logos on there along with the Mace logos.

Andrew Shapiro: Good.

John McCann: Our traditional inventory, we will stock, you know, for...

Andrew Shapiro: Yes.

John McCann:...rangers for example of for some of the other accounts that we're going after.

Andrew Shapiro: Understand.

John McCann: If it's a traditional retail account, they'll order and we'll have – you know, Carl will have (Min Maxis) in the system that will...

Andrew Shapiro: Right.

John McCann:...monitor inventory sales.

Andrew Shapiro: So now, when you make them to order, you're getting the deposit or you're getting money up front then? And we're not even putting up the working capital or shouldn't?

John McCann: Depends on the account, you know. Some of these accounts are a lot bigger than us so we, you know, we can – depending on the account.

Andrew Shapiro: Yes, (inaudible) vest that says Q1 and sell it to someone else.

John McCann: Right. But we will have a binding agreement that they're buy in, you know.

Andrew Shapiro: Yes.

John McCann: So, whether it's cash up front, I don't want to say that it might be, at some accounts, it might be like, "Hey, you know, we'll get an email confirmation that we will buy that product."

Andrew Shapiro: Got it. All right. Now, you know, we're not surprised if some new initiatives with some of these startup companies and joint ventures that you've announcement may not live up to expectations. But can you update us on which ones now you see actually generating cash flow? And the timing of when there will be milestones on some of them?

(Crosstalk)

John McCann: Well, as we talked about like Nite Beams and Mace 911, that will be in the back half of this year. A (tax though) will still be in the back half of this year. To that point, Mace Wear which was – which was a deal with First Sign. They've gone under First Sign.

We didn't lose any money, they just couldn't generate the funding that they thought of. The Defender which we have a deal with our money, we have the statement of accounts of the \$100,000 that we've invested with them. They're retooling their plan. I would say if we're lucky, it'd be sometime in 2016 unless, you know, corporately we decide that's too risky.

There is – we have several marketing initiative, none of which have caused the company (in my) like (Berrigate) for example where it is percentage royalty back and forth. That one is...

Andrew Shapiro: No, you don't – you don't have to go done, John. You don't have to go down all the ones you've announced and, you know, explain them. I just want to know which ones of the ones you've announced do you actually...

(Crosstalk)

John McCann:...it's definitely Nite Beams, Mace 911 and Mace Tactical. Those three are priorities, all equal priorities because they involve different people in the organization. But those three, we feel very confident that we will monetize in the back half of this year. But the levels, I don't know. But...

Andrew Shapiro: And then are there any others of the ones you've announced that are, like, you know, they're going to be a focus or this is the focus and there's nothing more right now?

John McCann: Those three along with what we're trying to do on our traditional pepper products, I would say, is enough to ensure some levels of success.

Andrew Shapiro: Yes.

John McCann: You know, Mace Tactical, again, reiterating, that's a game changer because it gets us back into that segment that we have not been in probably for five or six years or longer. Mace Nite Beams gets us in as you said in a higher cap position at retail and also can stretch the company beyond just traditional retail into a B-to-B type atmosphere. And also it gets us into the (pet) segment, you know, we're working feverishly with a known supplier in that segment to do a limited partnership that we think would be a game changer, not only for Nite Beams but then bringing in Mace branded defense sprays into segments that we haven't been in before.

So those two, along with Mace 911 were very bullish on. And to your point, along with updating our pepper line and doing some dynamic things with our traditional line. Because, in the house or in the building, we always look at our core, pepper is number one.

Then we look at all these other segments and say, "OK, do I lead with Mace 911." And then show pepper, "Do I lead with Nite Beams," and show pepper. But all along, we try and tie the two together and then we just lead with the segment that we think has the greatest chance for success.

Andrew Shapiro: OK. Great. Thank you.

John McCann: OK. (Chris), I think that's it.

Operator: Thank you. This conclude today's conference call, you may now disconnect.

END