MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
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Operator: This is conference # 20895961.

Operator: Good morning. My name is (Sylvie), and I will be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter 2016 Financial Results. 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 followed then the number 1 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: Thank you very much, and thank you everyone for taking the time participating on this conference call. Before I begin, I want to direct you to our website for PowerPoint presentation that I'll go through later. Go to corp.mace.com Investor Relations Transcripts and Presentations 2016, the final presentation has been added for review.

Thanks again for joining the call. And now I'll turn it over to Carl Smith, our CFO, who will read our forward-looking statement and go through the third quarter and year-to-date financial results.

Carl Smith: Thank you, John.

Certain statements and information during this conference call will constitute forward-looking statements and are based on management expectations and information currently in the possession of management. When used during our conference call, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "projected," "intended to" or similar expressions are intended to identify forward-looking statements. Such statements are subjected to certain risk, known and unknown, and uncertainties including but not limited to economic conditions, limited capital resources and the ability of management to effectively manage the business and integrate acquired businesses.

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

I will now comment on our third quarter 2016 financial results. After I'm finished, I'll turn the call over to John McCann, our CEO, who will go over our presentation, which is available on mace.com.

You know, first I'd like to reference the highlights of our press release -- second consecutive quarter of positive net income, highest revenue quarter in over three years, strongest gross profit and EBITDA in over four years.

Now onto the third quarter results.

Third quarter net sales were $2,706,000 compared to $1,710,000 for the third quarter of last year, an increase of $996,000 or 58.2 percent, noting that most of our sales channels of distribution were up for the quarter. The increase was mainly attributed to sales through our consumer, sporting and international sales channels.

Consumer net sales channel for the quarter totaled $1,493,000, an increase of $823,000 or 122.9 percent over prior year. This increase is mainly attributed to two-display programs we were able to get in with Lowe's, and we have increased volume with other key retail partners including Wal-Mart, Auto Zone and Amazon.

Sporting channel net sales totaled $853,000, an increase of $103,000 or 13.7 percent. This is after a loss of $100,000 in sales last year in the quarter for the loss of the Sports Authority business.

International sales totaled $206,000, an increase of $141,000 or 218 percent over prior year third quarter. This increase is attributed to new distribution in Poland and South Africa.

Web channel, or sales via mace.com totaled $46,000, an increase of $4,000 or 10.7 percent. The company has been running promotions on the web to increase sales, which are promoted via email blast and social media.

Offsetting these increases was a decrease of $58,000 or 42 percent net sales through our tactical channel. This decrease is mainly attributed to timing of T.G. Guard sales for the quarter, which is a sporadic channel or a product line that we have.

Gross profits for the third quarter 2016 totaled $1,166,000 with a 43.1 percent gross margin compared to $641,000 or 37.5 percent gross margin for 2015.

The $525,000 or 81.9 percent increase in margin can be attributed to the $996,000 increase in sales and a margin improvement of 5.6 percentage points. The margin improvement is a result of efficiencies gained through automation in the manufacturing process, increased productivity and lower material cost as a result of converting our packaging from a clamshell with insert to a blister card with dome. And we also have other savings in key component parts.

Selling, general and administrative expenses for the third quarter ended September 30th were $940,000 or 34.7 percent of net sales compared to $925,000 or 54.1 percent of net sales in 2015, $15,000 or 1.6 percent increase on a $996,000 or 58.2 percent increase in net sales. SG&A as a percentage of sales declined significantly going from 54.1 percent to 34.7 percent, a decrease of 19.4 points.

Increases in SG&A for the quarter included commissions, which is a variable expense, and was up $80,000. We had increased legal fees of $22,000 due to a variety of reasons. And prior year third quarter of 2015 included a one-time $33,000 credit offsetting our expenses.

Offsetting the $135,000 of increases just mentioned are decreases in salary, employee costs, which were down $87,000 or 20 percent, and advertising expenditures, which were down $31,000 or 50 percent for the quarter.

Interest expense for the quarter ended September 30th was $12,000 and amortization of a put option described in the footnotes to our third quarter financials.

Interest income for the quarter ended September 30th was $30,000 compared to $44,000 interest income in 2015, a decrease of $14,000. It's mainly attributed to the elimination of a $250,000 note we had with Security Partners, which was paid off in July.

As a result, net income from discontinued operation for the quarter ended was $204,000 compared to net loss of $291,000, a $495,000 improvement over third quarter 2015.

EBITDA for the quarter was a positive $272,000 in Q3 compared to a negative EBITDA of $331,000 in Q3, $603,000 improvement.

At this time, I'll make a few comments on the balance sheet. Company's net book value was $8.6 million compared to $8.3 million at December 31, 2015. Mace had $9.6 million in total assets including $2.6 million of cash and short-term investments at September 30th. Net inventory totaled $1.665 million at September 30th compared to $1.776 million of December -- as of June, and $1.601 million at December 31, 2015, an increase of $64,000 or 11 percent from yearend.

We have positive working capital of approximately $7.4 million and a current ratio of $7.9 million. And again the company has no debt.

Total stockholders' equity was $8.6 million compared to $8.3 million at December 31st. And we have NOLs as of September 30th of approximately

$60 million with $1.1 million expiring in 2018 and the last NOL expiring in the year 2035.

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

John McCann: Thanks, Carl.

And again the PowerPoint presentation on the Mace website, under Investor Relations and Presentations. I'm not going to go through the presentation, but we'll take some questions afterward.

So great quarter so far and great year. We attribute a lot of this to the hard work that we've laid in the past and we're doing now, but there's a lot of hard work in front of us. It continues to be an exciting time for the company, and we anticipate having more good news to share in the near-term future.

Briefly, I'll discuss some of the success and some of the work that still needs to be done. Mace's success is a combination of very sound strategy of promoting the brand and expanding distribution.

First, we fix the image of the company through our messaging and packaging efforts. All of our communications in messaging is consistent and strong. Mace is the brand for safety and security. We created a brand and style guide, which we monitor closely to make sure all our retailers and all of our partners associate the Mace brand with empowerment and Mace is the number one brand in personal defense and security.

Additionally, we changed the handles of our pepper sprays products to make them ergo-dynamic, easier to use and cost-effective for the company, so we have a higher retail value, but at the same time, we're able to cut our cost in manufacturing. Our new packaging is about 60 percent to 65 percent implemented with an anticipation of 100 percent implementation by Q1 of 2017, which means that we feel we'll have more efficiencies that we'll gain as we continue to implement our new packaging.

Our new packaging, through our testing, has a very high perceived value at retail, so we're able to then also command a higher price for our products at retail because we're giving a better value.

Based on the results, as we've seen also on our retail side that the consumers are also believing in our packaging and like the message of empowerment and positivity that we've been able to project through our new packaging.

Delivery, and Carl mentioned a little bit in his presentation, we struck a new deal with FedEx, so we'll see some additional savings in the future, and we're also what we call "just in time" with most of our key partners, which means that their inventory dollars aren't tied up and we can turn our retail very quickly both from our stock to their stock.

And then we have with all of our major partners at a 98 percent in-stock or better, which is a very hard thing to achieve because of a lot of our retail partners are very demanding, but we've been able to be at 98 percent or higher, which means that typically we're not out of stock in the retail shelf.

On the distribution side, which was one of our key strategies, was increasing our distribution not only in terms of partners, so we've opened up 65 new doors just in this year, 19 in the quarter. We've also made a concentrated effort with several departments within a current retailer to extend our brand into different departments within the store, which means that if we're in the hunting and fishing area, we're also in the automotive area, the impulse aisle, women's active wear, and shoes. Wherever a consumer is looking to be active, we have a product that fits their lifestyle.

Traditional retail sales are up 65 percent, but not only through the new distribution, but also the new placement within the stores that we had distribution. And our margins for traditional retailers, which is our consumer, our sporting goods channels were up 3.5 percent, a lot of that increase and success is due to the new packaging.

Internationally, one of our key goals was to gain distribution. We've gained distribution in South America, South Africa, extended our distribution in

Western Europe, and we're looking at other areas of the world, too, where our products, we feel, will be very, very strong.

We always pick a partner that will continue with our brand and style guide, present our brand very consistently. So when you're in the United States or if you're traveling around the world, the Mace brand is presented exactly the same way with the same empowerment and safety and security thoughts in mind.

Tactical, as Carl pointed out on our analysis, is down, but some of the positives are there are 16 new agencies year-to-date, nine in the quarter. The defense spray product line ontinue to grow and is driving revenues in the channel for Mace, so (munitions segment needs more work and are a bit of a concern for us, so we're still on a holding pattern with munitions. Basically, supplier had some startup issues. They've had some ISO certification issues and production timing issue.

We are still confident that we'll be supplying products this channel, but timing has been pushed to 2017.

We're also behind in our T.G. Guard, sales are down year-to-date, mostly due to expenses being pushed up by many agencies to 2017, so our T.G. Guard is typically a bid. It sometimes a G.S. A. contract that we bid on, and a lot of this is just for a variety of reasons have been pushed out.

We are working on some additional partnerships and product opportunities, and we're hopeful to show some new products at the SHOT Show in January for our -- for our Tactical channel.

So our sales distribution strategy is working. We've increased and we'll continue to increase our distribution reach throughout the balance of the year. And also jwe launched during the year and in the quarter, we have successfully launched new handles, packaging, new stun guns, which are louder and brighter than our competitive models on the market. We've updated our strong selling hard case line to move from a twist lock design to a flip-top design, which is running changes and happen as we speak.

We've added an auto valve dropper unit into our production facility, which has increased our capacity and our quality on all of our products. And as Carl mentioned earlier in our presentation, it is also, over time, will continue to help with protecting our gross margin.

Additionally, as we announced earlier in the month, we have signed two agreements with SecureCheck LLC, a Houston-based security company.

With regard to our surveillance and security business, SecureCheck has bought the customers in the inventory related to the business and will pay Mace an ongoing royalty for the use of the brandname under cameras, NVR's, DVR's and certain surveillance products. SecureCheck has submitted to adhering to our brand and our style guide, which will ensure our brand value statement will be consistent through all of our Mace branded products.

Additionally, this worked hand in hand with the previous deal we signed with (KORT) Select Security. (KORT) Select will launch a home monitored solution in 2017 similar to ADT but branded Mace, so the Mace brand will be well represented in the home security channel distribution, and we hope to enjoy healthy future royalties from this channel in the near-term future.

Lastly, we have inked a deal with the company named (Vigilent). (Vigilent) is founded by David Happe who has become a partner of Mace. (Vigilent) is the leading provider of personal alarms. (Vigilent) will provide Mace with eight new personal alarms, which are ergo-dynamic, user-friendly and most importantly, very loud. They range from 125 to 135 decibels, which the level of pain is considered 120, so this will all exceed that.

We've already begun to test some of the items and the results, thus far, are great. We're Top 10 New Security Item on Amazon. And with (Vigilent's great online presence, we'll be able to offer unique combo packs and kits this year and next. We've landed distribution with new alarms at regional drug chains, which we'll roll out probably close to the end of fourth quarter, early first quarter or next year. We expect to gain retail distribution on all products in the coming months and years.

(Vigilent) will be our online partner, working with many retailers and also Amazon. These products are great complimentary items to our world-class defense sprays.

On the disappointing side of the business, just to talk a little bit about it, our Nite Beams product launch sales and retail is sluggish at best. And a lot of it is due to the following value, we're reexamining the price matrix and the proposition is POS sales, which are point-of-sales at retail, are below expectations. We are testing with two retailers now, lower retail and newer displays.

Quality still continues to be an issue as the LEDs are underperforming. Early failure, inconsistent performance, which was an unacceptable loss, because throughout all of our products, through our testing and through Ideas and Focus, Gallup and Harris, we have a 91 percent satisfaction rate in all our products, so we continue to work on the quality of the NiteBeams products that awareness is not where it needs to be. The advertising is not ---- not breaking through the clutter, so we're working on e-shopping, infomercials and other ideas to drive sales.

We're also working on a new strategy with a plan of 911 Help Now. We are working with our partner HTC (R9 Marketing) on an infomercial to promote the product nationally. We're also working on placement on pharmacy departments at retail, and we are being much more aggressive working online with Amazon and other e-tailers.

We feel this is a very great product. It just needs the right education, advertising and an emphasis to make it happen in the coming months and years.

Additionally, we'll be also launching five new defense spray products in the fourth quarter and the firstquarter of 2017. All these products were developed during the last couple of months. We'll have a new Pepper Gun 2.0. It's lighter weight, orange barrel, easy-to-use, plus it's reusable as is the current gun, utilizing our bag-on-valve technology, which can spray O.C. pepper spray 25 feet or more.

We have a line of clutch models, which will fall into our personal range of products, light-weight, user-friendly and exclusive to Mace.

Our Carabineer will be a brand new concept exclusive to Mace. This is a true -- first true carabineer, which is fully deployable pepper spray, which is discrete and effective tool for everyone. It's basically a carabineer that can actually shoot pepper spray. Now, so anybody that's an outdoor or outdoor enthusiast will really love this product.

All these products are in our new catalogue, and if anybody would like a copy of the catalogue, there should be a link on the PowerPoint presentation to the catalogue, but if you want a catalogue, please just contact us and we can send you one.

As Carl mentioned during his presentation, gross profit for the quarter is really a combination of the manufacturing change, the improvement in the packaging and the handles that we've done, but also a great job of our sales managers who are really business managers ensuring profitability along with strategic partnerships at retail with both U.S. and international customers.

Looking forward to the fourth quarter, our October results are in line with third quarter and thus far shipments and open orders are strong for the remainder of the year, so we expect to finish the year very strong.

We continue to balance growth, spending on strategic opportunities for the brand, and we want to thank you again for joining us in the presentation and the conference call today.

The only other item that I would note is that we've done a very good job managing our inventory. With the excellent growth that we've experienced during the quarter, we still managed to shrink our inventories by over $100,000 from previous year and it's only a modest increase from yearend inventory, so we've done a great job of both managing that. And when we look at on a (turns) basis, which Carl and I have done extensively, our core products turned sometimes as many as 10 times a year to 12 times a year with most of our average inventories being turned at least 2.1 to 3.1 times a year.

So between the management, the sales organization and the distribution growth, we're really excited about the future of the organization.

With that, we can turn it over for questions or commentary.

Operator: At this time, I would like to remind everyone, in order to ask a question, press star then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Again, if you would like to ask a question, press star then the number 1 on your telephone keypad.

Your first question comes from the line of Andrew Shapiro of Lawndale Capital. Please go ahead.

Andrew Shapiro: I'm on mute. Sorry, I was on mute. Good morning. A few question -- I have several questions, but I'll ask a few and then get back up in the queue if that's OK and then come back to me.

So, what I -- you went through this and I do appreciate you had a nice good thorough script, but some of this one came through a little too quickly, so forgive me if I ask some things that were exactly in your script or otherwise. But when you talk about the huge surge in consumer channel, and I think you mentioned it was -- it was Lowe's, but there was also, I think, new customers that also accounted for this jump. Can you mention who those were?

Carl Smith: Well, you know, we were up at Lowe's, like I mentioned, Andrew, and we also had quarter-on-quarter good success with some of our ongoing key retailers including Wal-Mart, Auto Zone and Amazon was…

(Off-mic)

Andrew Shapiro: So you're in Wal-Mart. You mean all the doors of Wal-Mart?

John McCann: We are -- so we're two departments at Wal-Mart today. We're in about, I would say, , 500 doors in their sporting goods department, and we're in roughly 90 percent of the doors in the automotive department. So we're seeing a nice pickup in their POS sales, so their sales to consumers have picked up dramatically.

Andrew Shapiro: OK.

John McCann: And then also Auto Zone, we're in two departments within Auto Zone now. We're in the frontend and then we're also in their hardware areas. And it is one of the goals to your point, great success at Lowe's, newer customer, success with ongoing customers by expanding distribution within different departments. And then roughly, we've opened up -- I can tell you exactly, we've opened up in the channel, call it, between sporting goods and consumer, we've opened up about 42 new doors year-to-date, and all of those are adding to it with the fact that the Top 10 retailer has disappeared off the map, which is the Sports Authority.

Andrew Shapiro: Right. Now, in Lowe's, are you in all the Lowe's stores already?

John McCann: We're in 1,800 Lowe's stores.

Andrew Shapiro: OK. And I don't know how many -- the total they have. I'm just wondering in terms of…

John McCann: I would say, Andrew, we always parse everything because we're never in their New York door. So typically, we're 90 percent. We are working on a plan -- and sorry to interrupt you -- we are working on a plan with key specific retailers to gain access to the New York state market. The New York state market has some archaic laws with regard to pepper spray, where paper work has to be filled out.

We've developed a form. We're working with our legal team. We're working with the state of New York to modify it and make it easy enough for a retailer to carry the product. So we're in all the doors we can be in today like in Lowe's. So…

(Crosstalk)

Andrew Shapiro: In Lowe's, OK.

John McCann: …100 doors in Lowe's. In New York, we're not -- we tell them specifically in a presentation, we don't want to be in those doors because it's too arduous.

Andrew Shapiro: Yes. Well, with respect to Wal-Mart, I think you said 500. How many stores do they have outside of New York?

John McCann: Well, 500 in sporting goods. We're in -- we're in close to 3,000 in automotive.

Andrew Shapiro: So is that -- is the plan and there's an opportunity to go from 500 towards 3,000 in sporting goods?

John McCann: Absolutely.

Andrew Shapiro: OK. And if you're in Lowe's, does that preclude you from getting the foot in the door at Home Depot?

John McCann: Nope.

Andrew Shapiro: Is that -- is that a near-term goal?

John McCann: Strategic -- it's a strategic target.

Andrew Shapiro: OK. So now you're getting in these doors, you're in the particular channels and this -- to what extent is the sales surge just stocking or do you have visibility on the sell-through and their inventory levels are low and thus you're getting, you know, reorders, et cetera, coming through this already?

John McCann: Right. And so maybe I glossed over a little too quickly. We feel a combination. A little bit of it is new distribution. The bulk of that and we're seeing this in the fourth quarter, too, is the sell-through. So we do see their POS, right? So Wal-Mart has a -- Wal-Mart is probably the best in the world with their analysis. And we're seeing that the product is moving to the stores and moving right off the shelves, and their reorders are very strong behind it.

It's the same thing with Auto Zone, our replenishment orders at Amazon, and with almost every retailer with the exception one or two, the POS sell-through is tremendous. And a lot of it we feel to is that our packaging now is being widely accepted and it's drawing attention to people that are buying our product because we're still an impulse buy. So strategically, being in the right place at the store with the right message at the right time to be sold is critical.

Andrew Shapiro: OK. And then following up on the sales surge and then I'll -- I will back out in the queue and please come back to me, I have more questions.

John McCann: Sure.

Andrew Shapiro: The sizable improvement -- and you got here now in gross margin percentage -- on yours and Carl's script, you discussed this was attributed -- you attributed mostly or at least what you're calling out on attributing it to as new packaging and automation, but it wasn't -- was not mentioned and I'm trying to get a handle to what extent this was a factor to get a feel if there would be much gross margin impact from continued sales and volume growth is overhead absorption.

So, you have the sales surge and you also have greatly reduced the costs, and you mentioned how the new packaging has improved the value, which might be assisting in your price per unit on the revenue side, so is overhead absorption not a sizable component in the cost of goods sold based on the way your product is and the way your manufacture it?

Carl Smith: Andrew, it is. And when we're producing go forward at the capacity that we're producing it and doing bigger runs, we're able to -- with the same staffing levels and the fixed overhead cost that we have -- absorb a greater amount of overhead so that's contributing. You know, as far as the percentage to the overall increase, that's probably a contributing factor of about 30 percent of the total improvement.

And like we mentioned, given the efficiencies in automation in the fill room along with the efficiencies and increased productivity with -- going from a clamshell, which bottlenecks at a Ka-Bar machine to a three, four, six pressing stations that we're able to use with a blister card, we're able to produce a lot more product and finished goods at a quicker pace, eliminating any of the bottlenecks to meet this increased demand.

Andrew Shapiro: OK. So presently, we have the benefit then of both the new packaging and cost -- new packaging automation cost reduction. We have the potentially higher net revenue per unit because of the higher value-add, and we also have the overhead absorption.

When did you -- so I'm trying to get a feel now of the timing of when we will anniversary the gross margin benefits of the new packaging in automation and that our subsequent gross margin benefits will just be on the overhead absorption. When would you say you guys introduced and you are starting to generate sizable new revenues…

Carl Smith: Yes.

Andrew Shapiro: …as a result of the new packaging and automation?

Carl Smith: Right, good question. I would say the -- going from the clamshell to the blister card was phased in, really, you know, initiated or implemented in production, probably second quarter. You know, at the beginning -- by the end of the second quarter, I would think the majority of the transition from clamshells to blister cards took place as far as some key component cost reductions going to a larger capacity mold and changing our housings on our -- on our pepper spray. That again is a phased approach. We'll still continue to see additional savings in some of those housing components of the pepper spray business.

So, you know, we've recognized some from the first quarter, second quarter. And I believe fourth quarter, we'll see probably an additional 8 percent reduction in some of the component costs of our sprays contributing to, you know, a better margin.

And then as far as productivity and capacity on the shop floor with regards to the conversion of the Ka-Bar to the blister card presses, again same thing with the phase in of the blister card. I would say the second quarter we initiated it and we probably have one or two, three more additional SKUs that we'll be converting from the clamshell to the blister card by the fourth quarter. So, you know, it's just been phased in. But I would -- I would think anniversarying it going into 2017, most of -- most of those will be in place.

Andrew Shapiro: So it sounds though, based on things are phasing in that this might have been only the first quarter of seeing the gross margin profitability, the percentage…

(Off-mic)

Carl Smith: We have the full quarter for that, yes, the full quarter...

Andrew Shapiro: So there's three quarters -- for three coming quarters, we have the gross margin benefit of this before it anniversaries. And, of course, if you can continue your sales growth, there'll be obviously continued overhead cost absorption and margin -- gross margin benefit that we hope to see, obviously, continuously. But that's helpful to know.

I have other questions. I want to back out in the queue, but please come back to me.

John McCann: Sure.

Operator: Your next question comes from the line of Don McDonald of Consilium Global Research. Please go ahead.

Don McDonald: Hi, John. Congratulations on a good quarter.

John McCann: Thanks, Don.

Don McDonald: Question is on the international side. Going forward, what do you think the mix will be domestic and international? What is -- what is your target for that mix of revenues?

John McCann: OK, it's a very good question. So right now we're under 10 percent and our -- and our goal would be closer to 15 percent to 20 percent as we grow. We have established some strategic distributors and partners in Europe. We actually have several sales guys in Europe today working on the 2017 plan, but my goal would be to double that as a percentage of our total sales. So roughly, if we got to 15 percent or 20 percent international growth -- international as a percentage of the total, we'd be very pleased.

Don McDonald: What do you think the effect of the strength of the U.S. dollar will have on that?

John McCann: It's a wait and see because, to your point, it's a great question. Some of our -- some of our partners have said they cannot wait on this order until we see what happens to the dollar at the end of week. So right now, it's a push-pull, but longer-term we'll see what happens. But there is other ways to go to market, too, like if that becomes one of the defining moments, we are investigating whether if we produced over there –became more viable for us to do that because one of the biggest factors in all of that with our international business is sprays more like because we are protected in our freight so we can't use everybody. We have to be in certain places on a ship or a vessel. And consequently, it might make sense to produce overseas especially if we continue the growth that we've seen. But today we're not -- we're -- we watch the dollar, but we're not as concerned about it, but in the future, it could make -- it could make a big difference.

Don McDonald: OK, thank you.

John McCann: Surely.

Operator: Your next question comes from the line of Don Scammell of Consilium Global Research. Please…

Don Scammell: Hey, guys, thanks for taking my questions. You know, I want to follow on my partner Don's question there in the international front. You know, this is, for unfortunate reasons, exciting times to be in the security and defense business. I got to think an enormous tailwind is behind companies like yours. And internationally, it just seems just intuitive that that would be a huge opportunity with particularly the women and they're being told to get sneakers instead of high heeled shoes so they can run away from the refugees. This kind of product seems to be a fit.

What is the -- what is the -- other than the dollar, what is the true market opportunity internationally say in the next three years without having to build overseas a plan to produce your product? And then I want to go under the (Viligent) market dynamics.

John McCann: Sure. So, the market opportunity, we think, is tremendous, right, whether it's in the hundreds of millions or in the hundreds of thousands, we are trying to take advantage of it as best we can. There are areas that still have certain registrations, restrictions and laws versus carrying a pepper spray.

So, for example, the U.K., civilian use of pepper spray is not legal. In most of…

Don Scammell: OK.

John McCann: …China, except for some provinces, the civilian holding on pepper spray is illegal. So there's some challenges that still have to be overcome. But in Western Europe, especially as we look at Italy, Germany, Poland, Spain, we're seeing -- we're seeing huge opportunities. And just in those markets, we feel, you know, quadrupling our businesses has a great potential.

The other ones that we're very excited about is that we're selling into some of the Asiatic markets -- Korea, Thailand, the Philippines, for example, through our partnership with (Ace) that was gotten through one of our great representatives, SRS Innovations, those are great opportunities.

And then quite honestly, one of the areas that we think is a huge opportunity for the organization and we have our foothold now into South Africa is looking at the African nations to…

Don Scammell: Right.

John McCann: …we're exploring how we can dynamically get into those marketplaces because they offer a great opportunity. We have a very effective product that's cost-effective that, in Africa, we think that there could be a tremendous opportunity.

And then lastly, South America. We're in Chile. We're in Argentina. We're in a couple of areas, and we see a tremendous opportunity for growth and expansion in those markets.

The South American markets, especially Brazil, is going to fluctuate heavily with the dollar and especially with the Brazilian dollar on a currency exchange basis. But to that point, it's not only just at Western European, it's also the African nations and the South American nations that we -- that we're exploring deeply on how we can -- we can go to market.

We commissioned with a local university, Case Western Reserve University, to help us with graduate students to put together go-to-market strategies and the different areas, each one slightly differently because each one's customs, culture and et cetera a slightly different way. And we're looking at implementing those in 2017 and beyond.

Don Scammell: Right, so it's a lot of barriers that you don't have here in the States. And, you know, there's not a lot of, I guess, giant retail…

(Off-mic)

John McCann: Correct. Western Europe -- Western Europe, we have partnerships then so we can get into world media, Media Markt and some like (COSTCO), for example, is a big player in Europe.

When you get to some of the other market, it's a completely different go-to-market strategy because you're looking at smaller shops. You're looking at, you know, different styles of commerce. And so consequently -- plus you have different rules, regulation versus the United States where we have a very good system of rules, regulations from a state local to a federal level. These are -- you get to a different province in China and the rules might change completely depending on who knows…

Don Scammell: Right.

John McCann: …whom and who knows what. So…

Don Scammell: Right.

John McCann: …but these are all things that -- and to your point though, it's a good -- we're in a good place. We're positioned well in the marketplace. We can react to the marketplace because great example why we have our V.P. of Sales right now in Germany as Germany changed the laws in some of the holding laws for pepper spray, so now we complied with the new laws. We have the new labels available. We have some other requirements that they requested that we have available, so we feel strongly that in Germany, Poland and that area of the country, the world will be able to compete effectively because we're on top of it.

But as you indicated earlier, registrations and restrictions change, quite frequently.

Don Scammell: Right.

John McCann: Then strategy on top of it is a key initiative for us.

Don Scammell: Well, that's -- it's great to see you be successful on the packaging and getting on the shelf and seeing a lot of sell-through drive that the channel optimism, which is well-deserved. And I -- that leads me to think on this (Vigilent) -- I'd like to -- the (Vigilent) product that you have, a partner that you have. It seems very important that you've got that toehold in a growing number of the -- you know, impulse purchase point-of-sales points, and they're showing success. Is this the -- are you going to roll in (Vigilent) products next years and what type of unit dynamics and unit economics are there in that part of the business of…

John McCann: Sure.

Don Scammell: …the alarms? Is that a whole different business model?

John McCann: No, that's the beauty of it. It kind of falls perfectly into our defense spray, right? So you have the same kind of economics, right? We're looking at products that sell anywhere from $15 to $100, same kind of marginality with what our retail partners are looking for.

Packaging, we'll be very consistent with our current Mace-branded packaging. They'll be blister cards with domes that will effectively be able to promote the product.

And then beauty is that if you run into an account where they might be, why, I'm not sure about carrying pepper spray, which we still have in the United States. You'll be able to show a very effective tool for anybody, not just young women or man also that will be able to alert somebody of a situation that they need help with. So we think, to your point, it's a great complimentary line of products.

We have eight slotted, we have two or three under development with (Vigilent). He is David Happe. He is a tremendous entrepreneur, if you would. He is a former buyer at retail, so he gets the -- he gets the metrics of selling into retail. He's been with some of the largest retailers in the world and started his own company. And his philosophy of empowerment, safety, security is the same as ours, so it's a great marriage.

And once we launched these eight successfully, we have some ideas for future launches and future products. And then the last thing is it gives us a great opportunity to increase the ring, if you would, at a retail. So one of the things that we did is we tested a combo pack, a current (Vigilent) alarm with a Mace-branded pepper spray, one of our key guards, one of our better selling products, put them together, sold the whole package for $27 on Amazon. It sold very well. Within a couple of weeks, we had sold over 600 units in a variety of colors.

So from there, we had a testing ground to say, hey, this is complementary product that matches, but that also gives us an opportunity to increase in our retail ring in order for a consumer to see greater value. So for us, it's a great extension. And then with this, we can take this to Europe. We can take it to other areas of the world because they're battery-operated. They work effectively no matter where you are in the world.

And the biggest thing is their Q.A. and our Q.A. are working together to make sure that they were loud as possibly can be, so you draw attention to a potential incident and you quell it before it start.

Don Scammell: Thank you.

John McCann: Thank you very much.

Operator: Again, if you would like to ask a question, that's star followed by one on your telephone keypad.

Your next question comes from the line of Andrew Shapiro of Lawndale Capital. Please go ahead.

Andrew Shapiro: Yes, hi. Some follow-up questions on what you just answered if you could help, and then I have some other incremental ones.

So you went -- this would certainly script -- you read too fast. First off, is it (Diligent) with a D or a V?

John McCann: (Viligent) with a V.

Andrew Shapiro: With a V as in Victor?

John McCann: Right, yes.

Andrew Shapiro: OK. And it's basically a personal…

John McCann: V-I-G-I-L-A-N-T.

Andrew Shapiro: OK, and it's a personal alarm that's different than the Mace Screecher or that is the Screecher?

John McCann: No, it's a -- it's a brand new series of alarms. What we can do, Andrew, is get you a catalogue. They're already in our 2017 catalogue that we…

(Off-Mic)

Andrew Shapiro: OK. And is it -- when you -- when it's marketed, is this marketed with the Mace brand name? Is it…

(Crosstalk)

John McCann: It's marketed with the Mace brand name.

Andrew Shapiro: OK. So say like Mace (Viligent).

John McCann: Most of these will just be Mace branded.

Andrew Shapiro: Oh, OK. And it's with the -- and with the Mace brand on it, it's still going to -- it's going to have the -- it's going to generate for us comparable margin to the other products that we're selling. Is that right?

John McCann: Right. And it's -- once again, it's two-fold. So (Viligent), which is a very successful online retailer, David's group will be paying Mace a simple royalty on the use of the product. Mace is paying (Viligent) a simple royalty on the technology and the products themselves that David has developed. So consequently, we will -- Mace will enjoy the gross margin and the profits on the sale. And then we have another stream of revenue when David sells Mace branded products that he'll be -- he'll be paying us a royalty back to the company.

Andrew Shapiro: OK. So when you sell it and you're getting the margin comparable to what you're doing, that is net of the technology I.P. royalty you're paying them. Is that right?

John McCann: Right, right.

Andrew Shapiro: OK. So that will be your normal sell-through. There's no extra bottom line cost below the gross margin line when you're selling the Vigilant product. And then when they sell the Mace branded product, they make their margin and we're going to be collecting 100 percent margin royalty revenue stream. Is that right?

John McCann: Correct.

Andrew Shapiro: OK. And is it a decent type of a royalty percentage? What kind of royalty percentage is the Mace brand typically beginning to generate because we're going to get a royalty on the sales from your secure tech on the surveillance product sales as well. So what kind of royalty percentage range, you know, you don't -- you don't have to -- unless you're going to be disclosing it exactly. But what's kind of the range we get for a Mace brand royalty deal these days.

John McCann: It's consistent with the premium brand in the marketplace like without divulging exactly what the different ratios are is that they're all very consistent. And so as we look into 2017, it would be a critical year because it's not Mace's performances or partner's performances. You have (Court) Select Security with Home Security Solutions. You have SecureCheck LLC with our surveillance and security solutions. And then you also have (Viligent) with our personal alarms and pepper spray products.

So with those -- without divulging exactly what it is, Andrew, it's what you would expect from the Mace brand…

Andrew Shapiro: OK.

John McCann: …with license of the Mace brand.

Andrew Shapiro: Well, I don't know, I expected something from the Mace brand many years ago. I'm happy it's coming in finally.

And in -- and with this Vigilant and SecureCheck, and the court security, will there be a line item in your revenue presentation for our income statement that will start next year that will be royalty or where will we start being able to track and see the royalty stream come through, which we will obviously presumably be 100 percent margin stream.

Carl Smith: We'll probably make reference to it in the -- in the financial statements based on materiality that will determine whether or not it gets a separate stage, if you will.

Andrew Shapiro: OK, all right, because I just want to figure out what the -- what our -- to keep track of the product margin discussion I had in my last round of questions for you. I want to try to keep track of all of that and not let the royalty stream kind of mess with the analysis in a large amount.

Carl Smith: Once it becomes immaterial, I will start -- you know, and it's of interest, so once it becomes immaterial now, we'll start making reference to it in the investor calls and highlighting those…

Andrew Shapiro: OK.

Carl Smith: …as well.

And just to clarify, Andrew…

Andrew Shapiro: Your margins…

(Off-mic)

John McCann: …Vigilant, right, because…

Andrew Shapiro: Yes, so that's -- go ahead.

(Crosstalk)

Andrew Shapiro: You're calling (Viligent), it's Vigilant. I see it now in the web.

John McCann: Right.

Andrew Shapiro: Now, internationally, which has been having remarkable growth, and growing from a -- you said it's now a 10 percent share. You'd love it to be 15 percent or 20 percent, and I'm assuming it's grown from a very small share before. But your net margin percentage on international, what is it relative to your domestic margin and what accounts for the -- either higher or lower margin?

John McCann: So on the growth side, it's -- for example, looking at the reports right now, on the growth side, it's consistent with our other channels. What -- on the net side, it's a little bit higher because you don't have any additional cost. Once the freight product cost and everything is taken care of, there's no rep commissions that we typically have to worry about. There's no advertising costs and there's no return.

So on the net side, and I like Carl comment a little deeper, is your international gross margin mirrors your international net margin where with some of our other channels, you have advertising, you have accruals for returns, you have accruals for other things as it caused (destroying) field instead of returning, you know, products to you or they have products stolen. And they'll deduct that from what they pay you.

But typically, international, with this maybe a slight variance is it mimics our gross margin to our net margin.

Andrew Shapiro: Got it, great. And then can people internationally buy your product on Amazon?

John McCann: So we are working -- it's a very good point. So with David Happe, we are working on taking up Amazon CA, which is Amazon Canada. We are not today working Amazon in Europe, but if you went to, for example, brite-strike.eu or you went to German Sport Guns, you would actually see eerily similar to the Mace brand website in the United States within those countries, and they can deliver within the European countries.

One of the big initiatives going forward is Mace Caribe will be active in the fourth quarter of this year, so for South America and everywhere, call it, south of the United States, we will have a Mace Caribe website set-up that will be in Spanish and will be able to transact sales within those markets. And that's set-up with a partner of ours in Puerto Rico. And we're very excited about that.

We can talk about it because we're testing the website and it's out there, but Mace Caribe, once it's up and running will then give us another pillar. So we have Amazon and a lot of online retailers, and we're growing the number of online retailers in the United States. We will start doing business with Amazon Canada through (Viligent).

Andrew Shapiro: Vigilant.

John McCann: Vigilant, sorry. I always do that.

We have great basis in Europe that we're doing business with and looking to expand it, and now we'll have South America.

Andrew Shapiro: And when do these some of these things go live during the current fourth quarter or…

John McCann: Well, Brite-Strike and German Sports Guns right now are live in Europe, servicing Europe. Amazon United States and mace.com, obviously, are live in the United States. Amazon Canada will be up in the fourth quarter. And Mace Caribe will be up in the fourth quarter of this year. And Mace Caribe…

Andrew Shapiro: OK.

John McCann: …I believe, if you went on it, you'd see it in the test mode as we speak.

Andrew Shapiro: OK. And taking a step back, I know it's off the royalty side, but in the sale to (Secure Tech) of all of our…

John McCann: SecureCheck.

Andrew Shapiro: …SecureCheck that all of our surveillance inventory, this is the line item called Asset Held for Sale on the balance sheet, right?

Carl Smith: Correct.

Andrew Shapiro: OK. So now that -- it was a November sale, that line item is going to come off the balance sheet and then replacing that it's going to be a bunch of cash that comes in and cash in excess of that line item, so there will be a -- you're going to have a one-time non-recurring gain there. Is that right?

Carl Smith: That gain will be reported down in discontinued ops.

Andrew Shapiro: Discontinued ops, it will come off, and then that will be a conversion into cash. And I presume that gain will qualify for use against the company's NOLs so there will be no taxes against it, right?

Carl Smith: That should be correct, yes.

Andrew Shapiro: OK, excellent.

Migrating over, if I can -- first off, let me back out. I have questions on Mace Tactical and a few other things, but in case someone else has questions, let me back out.

John McCann: Thanks.

Operator: There are no other questions.

Andrew Shapiro: OK. So can I continue? Can you hear me still?

John McCann: Sure, so we have about six minutes…

(Crosstalk)

John McCann: …so I think you want to…

Andrew Shapiro: I didn't know if my line was still open.

Mace Tactical…

John McCann: Yes.

Andrew Shapiro: …so year-over-year things are down with respect to the numbers, but that's because you said, you know, you had T.G. That's a bulk sales that happened in various times. It's not necessarily even seasonal.

But with respect to the other Mace Tactical, the underlying Mace Tactical market for which we had been -- and still do expect growth -- has -- did growth occur with respect to the law enforcement and agency sales to your underlying pepper and, hopefully, one day munitions products?

John McCann: Yes, so if you broke down Tactical, you have three buckets, if you would, Andrew. You have defense sprays. Defense sprays are up, so we're in more departments now than ever in the past.

We have a royalty component of it with replacement canisters for our T.G. Guard product, which is a third party partnership that those royalty sales are down right now. They -- it was very healthy last year, almost $100,000. This year it's probably $10,000, but we expect some royalties by the end of the year because we know there were some activity but still minor.

And then the third bucket is our T.G. Guard new installations of products, which are typically government contract to embassy approvals. And those have almost been on hold during the back half of the year, which is somewhat typical in election year, so it's -- we're disappointed, but we're not panicked given the fact that sometimes government spending stops when there's a change in power.

Andrew Shapiro: Right, but this would be government spending to protect our embassies, which seems to have been a criticism of the newly elected regime.

John McCann: Correct.

Andrew Shapiro: So…

John McCann: And so that's why we're somewhat bullish on the future within the segment. The biggest disappointment like no holds barred is that we have not gotten our munitions division up, so the products that would complement our defense sprays, flash bangs, blunted munitions, teargas, tear/smoke products, we're still not where we need to be.

Andrew Shapiro: Right.

John McCann: We have confidence so that if we can overcome all of the other hurdles that we…

(Off-mic)

Andrew Shapiro: What are the hurdles and what are the timing milestones to get them overcome?

John McCann: So, right now, by the end of the year, our partner has to be ISO-certified, and then also has to build into the production schedule the Mace branded products.

The biggest thing is the ISO certification, which is under the hands of beyond us and beyond our partner that certain things has to be met. They have to come in. They have to test that it's certain -- so we started with (ATF). We overcome that, which was twice as long as it should have been.

Then we have production delays, which led to the ISO certification delays and now the ISO certification delays are further hampering the production start because you can't start production until you get the ISO certification. They're certifying folks. The company has said that at the end of the year beginning in the first quarter so…

Andrew Shapiro: OK.

John McCann: …our goal and our hope is to still be active in the segment in the first quarter of 2017, but it may be disappointing.

Andrew Shapiro: So once ISO certification is obtained, there is not much of a time lag thereafter to get the products offered out there.

John McCann: As long as the certifying companies doesn't demand huge changes in the manufacturing procedure, that's the only odd bone.

Andrew Shapiro: OK.

John McCann: As long as they say, "Yes, we agree with how you do it today, yes, you can continue to do it the way you are without changes, we should be OK.

When the ATF came in, they said, "Wait a minute, we're going to rewrite the rules here and we're going to make you do some things differently." So they increased the bunker space, they increased the storage space. They made some changes to how you can store and et cetera.

Andrew Shapiro: Right, but that's…

John McCann: So as long as…

Andrew Shapiro: …been satisfied now, is that right?

John McCann: That's been satisfied. But it could be -- the only thing I warrant it could be similar. ISO might say, "Well, wait, we want to change how we look at this because we haven't looked at it in a while."

Andrew Shapiro: OK. All right. And then migrating over to the new products, based on your comments last quarter and your comments this quarter regarding newer products like Nite Beams and Mace Alert 911, they had taken a backburner to improving the sales of your existing pepper products to become profitable. Now, it seems clear that Mace has become -- using the pepper products only almost -- sustainably profitable.

So now that you're generating increased profitability in two straight quarters, is the company and the board now able to allocate the resources and the time to make these new products significant contributors to your revenue and profitability growth? And, of course, with your script now, it sounds as if Nite Beam still won't get additional resources or tell me what additional resources and what -- and articulate the game plan with Nite Beams. And then separately, tell me kind of the additional resources or what you're going to do on Mace Alert 911 to the extent you can and -- but articulate your strategy there because it sounds like one might get more emphasis on the other, but it's not clear if Nite Beams is going to get no emphasis at all.

John McCann: OK. So taking 911Help Now Mace Alert, more resources will be allocated towards that both through the company and a partnership with the patent holders of the technology. We've reached a confidence level that with an infomercial and some enhanced advertising that the product would sell and we'd be able to distribute it through retail as we do our pepper spray and some of our products -- our stun guns, for example, because it's just not pepper spray that's driving some of our profitability.

We feel very bullish about where we're going with that and the game plan for that through an infomercial advertising and then your traditional retail distribution play along with some online plays with the help of some partners. So that bucket, I think, will move forward nicely. We've recrafted a lot of the little elements of it. We have some good now analysis and testing to say where it's at and what we're doing.

Nite Beams is a different story because Nite Beams has been a disappointment due to several factors. A, the quality.

Right now, we're -- it's running above the quality -- it's running below the quality levels that we expect with all of our products, meaning the returns are higher than we want, so we're dealing with the factories and the inventor on why is that, right? The failure rate is just too great.

B, the sell-through. So we placed it strategically from a drug account to a sporting goods account to a consumer account. The value proposition, which means that what a consumer is expecting to pay, what they're willing to pay for the product is not there, so we're testing as we speak.

Right now, lower retail pricing, placement within whether it's a (line) section of an account or a pet section of account to see if that value promise is a little bit greater before we pull the trigger on some advertising. We have done some testing on some light advertising and the -- what you call the cost per call and the cost per order. We're not in line with what your expectations would be to be successful, so Nite Beams is one that unless we can prove it at retail, that consumers will buy the product outside of their initial enthusiasm saying, "Well, that's a great idea," it is somewhere that we're still testing and not -- the management, not the board, the management is not suggesting not to spend a lot of money on it because we can't get the metrics, the consumer value proposition to where we think it's a great value…

Andrew Shapiro: OK.

John McCann: …meaning that I don't want to put a product on a shelf that's not going to sell and I'm going to take them back.

Andrew Shapiro: OK. And then what about the niche within this, which are those LED safety vests which would go to corporations, construction entities, unions, et cetera, that are actually higher dollar per -- you know, their decent dollar per unit, but there is a different value proposition that goes with safety vests?

John McCann: Right.

Andrew Shapiro: So with that, we have tested so Quicken Loans Arena, for example, the feedback came back, "Hey, we're not going to spend – as we are twice as expensive at best, right?" So they are paying 25 for this vest and they pay 12 for a typical vest.

They've gone back to say, "We're buying the disposable vest because what happens is we put in on a kid, we don't get it back, then we request a new one." And that disposable pricing is better than the premium pricing and we need to charge because it's lit. They got it. They love the features and everything else, but (ODOT) to Quicken Loans Arena to several other venues, they're like it's just too expensive.

So consequently, that is like I'm the backburner because once again unless we can get the cost down and the value proposition of where people will do it, it's not there. And, you know, for example, Quicken Loans Arena, the hockey team won the championship, the (Cavaliers) won the championship, they had thousands of people in there, they still didn't want to buy the more expensive vest.

Andrew Shapiro: OK.

John McCann: It's a shame because it's a great product, but it is one of those things that people like, well, I love it, and then they say, "Well, no, I'm not paying you that for it." And that's what we have to overcome or figure out how we change that.

Andrew Shapiro: Now, you know, there's -- I'm seeing it right now, there's 300,000 shares offered for sale. There's constantly a sizable amount of shares offered from one or more long time holders that are just sitting there, wanting to get out. And the query I have is you have a good story. You have a sustained profitability now. There's lot of growth and momentum.

Other than -- and I appreciate for a company that's -- you know, doesn't have to file a K or Q . et cetera that you have these conference calls and you are transparent and you make your financial statements available and doing what you're doing but -- and you attempted early in the year, you attempted various non-deal road show conferences. What's on the plate? What kind of time and resources are you wanting to or planning to? Are the board resourcing you to be able to go do and when?

John McCann: So it's a very good point. And we actually have an upcoming board meeting the 21st to just discuss that -- how we -- how we look at that in an enhanced level.

Well, there are several things that we're doing. As you know, the OTC Pink were looking at what other marketplaces make sense, so easier to trade, right, easier access to look in our stock.

Andrew Shapiro: It's not difficult to acquire. It's just that you don't have -- there's not a lot of -- as (Thurman Willis) (inaudible) says…

(Off-mic)

Andrew Shapiro: … "fans in the stands," we don't have a lot of prospective buyers here, now maybe it's -- on this particular -- on the Pink's, there are certain parties that are not qualified to buy it, I'm not sure, other than we registering and melding to be a bigger public entity with the inherent cost that come with that. Just swapping to another little exchange, it will bring the buyers in as much as getting out there and tell them the story.

John McCann: Right. And I -- so I think what I'm saying is, hand in hand, we're making some moves on the market side…

Andrew Shapiro: Yes.

John McCann: …you know, which is just an announcement itself, and then looking at an enhanced schedule of investor conferences that the board has made some recommendations, the management is making some recommendations. And so with that, we'll be able to comment further on it once we come to a conclusion that management of the board is agreeable to.

Andrew Shapiro: OK. And you had a partnership before -- and I think it was for Mace Alert 911 with an entity, I think it was (CVSL). And I was wondering if that is a channel or a partnership for which you're still working with and leveraging off of that. I was just wondering if you had any talks, what you'd have to do in order to qualify for something like QVC, something like, you know, bigger and broader.

John McCann: And so (CVSL), unfortunately, is falling on some hard times. They did some acquisitions. And I think if you look at their stock…

Andrew Shapiro: Oh, yes, you know, their stocks get crushed.

John McCann: Right. And consequently, some of their joint marketing strategies have fallen to the wayside, too, that we still do some business with them. It's miniscule at best.

Andrew Shapiro: OK.

John McCann: On the electronic shopping side, we're in agreement. We have strategies and we have presentations in place to break through the clutter to look at that channel as an opportunity, but it's a future opportunity.

Right now, we're personally very aware of (QVC), (HSN) (Shop NBC) and even the shopping channels in Canada have been on them in the past that it is a priority and a goal. We're just not there yet.

Andrew Shapiro: OK. And is there anything you have to do to enable it?

John McCann: Legal -- Andrew, there's a laundry list.

Andrew Shapiro: OK.

John McCann: And we're working on them. We're working on them.

Andrew Shapiro: All right. And I think I only have or two more questions and…

John McCann: We're 10 minutes overtime so…

Andrew Shapiro: Well, fine. I'm done. It's -- you've…

John McCann: No, no, if there's anything you wanted rather -- if there's questions you have, we can take a couple more minutes.

Andrew Shapiro: I'm just looking through the list, and I think I'm good.

John McCann: OK. Well, thanks -- well, we want to thank everybody for your time, and we look forward to future conference calls and future good news coming soon. Thanks.

Carl Smith: Thank you.

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

END