

MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
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11:00 a.m. ET

OPERATOR: This is conference #: 87668382.

Good afternoon. My name is (Maria), and I'll be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter 2015 Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

Thank you. Mr. John McCann, you may begin your conference.

John McCann: Thanks, (Maria), and welcome to the Third Quarter 2015 Mace Earnings Conference Call. I want to first turn it over to Carl Smith, who will read a forward-looking statement, but also, I would ask you if you could go to corp.mace.com, Investor Relations, Transcripts and Presentations, there's a PowerPoint presentation that we will go through at the conclusion of Carl's remarks. So, Carl?

Carl Smith: I'll now read the forward-looking statement. Certain statements and information during this conference call will constitute forward-looking statements and are based on management expectations and information currently in the possession of management. When used during our conference call, the words or phrases will, likely result, are expected to, will continue, is

anticipated, estimate, projected and, intended to, or similar expressions are intended to identify forward-looking statements. Such statements are subjected to certain risks, known and unknown, and uncertainties, including but not limited to economic conditions, limit of capital resources and the ability of management to effectively manage the business and integrate acquired businesses.

Such factors could materially adversely affect Mace's financial performance and 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 our third quarter financial results. After I'm finished, I'll turn the call back over to John McCann, our CEO, for our presentation. We will then open the lines for questions.

Third quarter net sales were \$1,985,000 compared to \$2,203,000 for the third quarter of last year, a decrease of \$218,000 or 9.9 percent. This decrease was mainly attributed to timing of shipments in our consumer distribution channel and a decrease in net sales in our building security channel, which is a channel our surveillance products are sold through.

Net sales in consumer and sporting goods for the quarter totaled \$1,435,000 compared to \$1,593,000, a decrease of \$158,000 or 9.9 percent. This decrease was mainly attributed to timing of sales to a major customer in the consumer channel. Net sales to this customer were down \$156,000 or 41 percent for the quarter. Shipments to this customer were strong in October and are up 40 percent year-to-date.

Net sales in our consumer and sporting channels are up 21 percent year-to-date versus last year. Net sales in building security totaled \$264,000 compared to \$348,000 in 2014, a decrease of \$84,000 or 24 percent. The decrease in building security is due to a \$38,000 onetime sale in 2014 to a Haiti customer, and a tougher market this year. I believe John will make some points on this during his presentation.

Web channel net sales totaled \$41,000 compared to \$48,000, a decrease of \$7,000. For the upcoming holiday season, we have some cyber specials and other promotions planned to increase sales in the fourth quarter, and I believe John will touch on that as well.

International sales channel for the quarter totaled \$139,000 compared to \$101,000, a decrease of \$28,000 or 32.4 percent. This, again, can be attributed to timing of sales to particular customers. Offsetting these declines for the quarter were increases in sales through our tactical and OEM channel.

Net sales through our tactical channel were \$139,000 compared to \$100,000, an increase of \$39,000 or 39 percent. Net sales of parts and components through our OEM channel were \$48,000 compared to \$29,000, an increase of \$19,000 or 66 percent.

Moving on to gross profit. Gross profits for the third quarter 2015 totaled \$730,000 with a 36.8 percent gross margin compared to \$887,000 and a 40.3 percent gross margin for 2014, a decrease of \$157,000 or 17.7 percent and a decrease of 3.5 percentage points in margin. The decrease in gross profit dollars can be attributed to the \$218,000 decrease in sales and the decline in gross profit margin for the quarter. The margin decrease for the quarter is mainly attributed to 2.7 percent margin decline in surveillance product sales compared to last year and an unfavorable mix attributed to the \$48,000 in OEM sales, with a 12 percent gross margin.

Selling, general and administrative expenses for the third quarter ended September 30, 2015, are \$1,056,000 compared to \$1,095,000 in 2014, a \$39,000 or 3.6 percent reduction. This continues our trend to reduce SG&A expenses. Year-to-date, SG&A is down \$432,000 or 11.7 percent. The decrease in SG&A is mainly attributed to a continuation of the savings recognized in the first 2 quarters which included lower salaries derived from headcount reduction and salary realignment, reduced audit fees, lower business insurance expenses, and reduced legal and IT consulting fees. Offsetting the year-to-date savings in these areas was an increase of \$148,000 in advertising, marketing and trade show expenditures to drive sales.

Interest expense for the quarter ended September 30, 2015, was \$13,000 compared to \$58,000 in 2014, a decrease of \$45,000 or 77.6 percent. Interest for the quarter is related to the put note and prior year interest expense was interest on the \$1.4 million note which was paid off in January of 2015.

Details on both the put option and note payoff are included in the notes with the quarterly financial statements. Interest income for the quarter ended September 30, 2015, was \$44,000 compared to \$64,000 in interest income in 2014. Interest income for the quarter included interest on 2 notes from the sale of the Central Station in December of 2013 to Security Partners, and interest on investments.

As a result, net loss before discontinued operations for the quarter ended September 30, 2015, was \$335,000 compared to a net loss of \$325,000, a \$10,000 increased loss over third quarter 2014. The year-to-date loss from continuing operations was \$597,000 compared to a loss of \$1,719,000 in 2014, a \$1,122,000 or 65 percent improvement over last year.

EBITDA for the quarter was a \$329,000 loss compared to a \$291,000 loss, a \$38,000 or 13 percent decrease for the quarter. However, year-to-date EBITDA was a negative \$585,000, a \$1,010,000 improvement over last year.

At this time, I'll make a few comments on our balance sheet at September 30. The company's net book value was \$8.4 million compared to \$10.3 million at December 31, 2014. The \$1.9 million decline is mainly attributed to using \$2.3 million in cash to pay off the \$1.4 million Merlin loan. Mace had \$9.4 million in total assets including \$2.3 million of cash and short-term investments at September 30, 2015.

Net inventories totaled \$2,567,000 compared to \$1,783,000 at December 31, an increase of \$784,000 or 44 percent from year end. This increase can be attributed to several factors. Surveillance inventories are up \$182,000. In order to correct inventory shortage at year end, inventory was ordered in the fourth quarter of 2014 and so far this year sales are down significantly from prior year, and budget. We're continually working down that surveillance inventory.

Nite Beams, which is a new product line for Mace, that inventory accounts for \$102,000 of the inventory increase. We also have a new line of products in the pepper spray business that we refer to as the Exquisite line. So new items and stock replenishments accounted for \$228,000 of the increase. Timing of bulk non-surveillance inventory purchases from China accounted for about \$54,000 of the increase and the balance of approximately \$200,000, can be attributed to an inventory build to support October sales.

We have positive working capital of approximately \$6.5 million in the current ratio of 7.6. The company had no debt as of September 30, 2015. Total stockholders' equity was \$8.4 million at September 30 compared to \$10.3 million at 12/31/14. The \$1.9 million decrease is mainly attributed to the \$1.4 million charge to Patent Capital on the early extinguishment of debt and the \$577,000 loss for the year. NOLs at September 30 were approximately \$58 million with \$1.1 million expiring in 2018 and the last NOL expiring in the year 2034.

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

John McCann: Thanks, Carl. So one last time, if you go to corp.mace.com, Investor Relations, Transcripts and Presentations 2015. I will make some brief comments and then we'll turn it over for questions and answers.

As Carl mentioned in his presentation, some of the timing issues that we experienced in the second quarter – third quarter shipments, I apologize, have been rectified. So if you fast forward to today and if I just took our current flash through November 23, we – total company is experiencing about a 16 percent increase. If I back out building security and that number at 16 percent, with building security, it's about a 10 percent increase. So some of the timing of some of the major orders, that we had anticipated, that went out early October versus September were very good.

The other part that I'd note on the inventory side, that Carl mentioned, that our inventory has been reduced about \$210,000 in that time period with a lot of the new products that we had anticipated bringing in, being able to ship out,

and also holding the line of some of the other inventories to make sure that we had the right amount and not too much.

There's a couple of things that I'll just comment on really quickly is when we look at the metrics of the company of what we want to achieve and what we want to do, we look at 5 major areas, and sales being one and looking at the sales increases in the key areas, looking at strategic opportunities in some areas that are not key, we're achieving that.

Looking at distribution in the quarter, if you refer to Slide number 4 in your presentation, you will see the result, over 20 new accounts that we've opened up in the quarter and they're across the lines with all the strategic segments that we want to compete in, from sporting goods to consumer to tactical to international, you could call it over 20 accounts or 20 key accounts that we've opened up in those channels.

When you look at the gross margins, even though the third quarter wasn't where we want it to be, on a year-to-date basis we're up versus prior years, which is good because then we're taking advantage of the efficiencies we've built and also trying to grow our business.

Last 2 ones that we look at very closely is SG&A to make sure that we're efficient as we can be but then investing in either new products, advertising, PR and IR. As we've noted, we require an IR firm in the quarter, they've helped us with this preparation. We're going through some key messaging and key meetings with them in order to present the company the way we all want to present it in the near-term future.

And the last thing is cutting that operating loss. As you could see, we've had a tremendous efforts in cutting that losses, year to year to year, and this year, especially, as we move towards profitability.

A couple of the other slides that I just want to point out in the presentation is Slide 5. One of the new products that we've brought in, our Nite Beams products. We have the vest at The Q, which is where the Cleveland Cavaliers and some other organizations play. They're wearing those vests. It's been a savings. We're working with them and partnering with them on more. And

then one of our first police departments, the Tupelo, Mississippi Police Department is also wearing our vests.

On Slide 6, you can see cross-section of new tactical customers. It's kind as a prelude if a – department might not necessarily buy directly from us. They will sometimes buy through a local distributor, so Sentry Uniform & Equipment, for example, will be the processor or the buyer and the reseller of our products to XYZ Police Department. So for us, this is great because it gets us into that channel, it gets us going in that segment and then, as we launch our nonlethal products into that segment, we'll have a nice foothold.

One of the big things in the quarter is on Slide 7, and I just want to spend a couple of minutes explaining this. On Slide 7, we've been working on this deal for quite a while, and this will get Mace into the home security segment at a minimal cost. This will be a straight royalty deal for Mace but basically if you look at Slide 7, our partner, Kourt/Select Security will produce all of the things that you see. The wraps on the cars, the signage on the house, the shirts and the information, along with a certified home security package that would be monitored, that would be sold under the Mace brand name.

We selected Kourt because of A, their reach. They have offices throughout the United States. They have Central Stations in California; Las Vegas; Houston, Texas; and also in Lancaster, Pennsylvania. We will be working with each one of these offices. They will be really running the show. They know what they're doing. They have a call center in Utah that they will utilize to actually call home, and they will also be doing all on the contract work.

We, at Mace, will – we produce the style guide for them, we produce the brand guide. We will work with them on the products to make sure that they are fitting with what we're trying to do. Low return, high-quality, high customer satisfaction. And then, also we will be there for their support as they need it on a marketing and sales side. But as you can see, this is a great step for us because it allows us to expand the Mace brand name into a segment that is very competitive, very sophisticated in its own way and you also have to have the right sales force out there. With Select Security and Kourt, we'll have a large sales force that will be selling this, plus they have all the support

they need because they also run their own Central Stations. So it's a big win in the quarter and we're looking at – with the help of our Falls Communications team to make sure that as this become successful, it will roll out.

I will precursor again to – we don't expect this to be generating revenues – meaningful revenues to Mace for 18 to 24 months. There is some minimums in the contract, which we feel they will hit. The minimums are pretty easy for the first couple of years and then we work on a formula of success on later years with the plan, but their team is excited and our team is excited and I think this will be a big change in the home security market, which is dominated by ADT, but the next biggest player in that same market is the local guy selling products. 46 percent of home security sold is sold by a local company. This gives the local company a brand name that they can go after some of the bigger guys. So it's a big win for the company.

Also on Slide 9, as we've talked about, we're driving engagement through social media. As Carl mentioned on the web, we really are looking at the web to be that portal that educates, supplies information and lets Mace become the thought leader within the segment of less lethal, de-escalation, and nonlethal products and strategies. With that, we've seen double-digit growth in Amazon and some of our online retailers. So as we continue to build the web and build up the messaging, we're looking to shift that conversion of buying to Amazon and some of our other partners and thus far, it's been very, very successful. So we're pleased with the progress that we've made because we're getting a lot of complements on the website and also on the education that people are deriving from the website.

I won't go through all the financials because Carl did, but we can answer any questions as we go through the presentation. I will kind of cut it short here but just to say, the quarter on a sales wise, you could say it wasn't exactly what we wanted it to be. The loss was limited or about the same as last year but on a full-year trend basis, we're in very good position. We're seeing an increase in sales, we've decreased the loss, we continue to cut cost where appropriate. We continue to invest as we've done with PR marketing,

advertising and IR now with Falls, and we continue to strive towards that profitability in the near term.

At the same time, we are working on some other opportunities that we think will be transformational for the company, and a couple of those we're hoping to announce in the fourth quarter, which I think will also be a huge, huge win for the company.

So with that, I'll turn it over to questions and comments. So, (Maria), if whoever's in the queue, we can take their questions and comments.

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

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

(Thurman Willis): John, team, Happy Thanksgiving. My questions concern liquidity and visibility. We have these 911 tactical Nite Beam, all new products announced about 6 months ago, and of course, we didn't see any sales in Q3 from those products. Can you tell us very specifically per product where we are and when we could see increased sales in those areas, please?

John McCann: OK, so with regard to Nite Beams, (Thurman), we did experience some sales in the segment, so the vest that we sold both on a corporate level to law enforcement, and also to Quicken Loans Arena were Nite Beams products. Second sold, for example, which is a running sporting goods chain has picked up the product in their stores and I can send that out, so on Nite Beams, a slow start. Let's call it a couple thousand dollars' worth of sales but in the first quarter of next year, through our feeding and seeding the field, we will be in a position to have some major partnership on the product line.

And the same thing with Mace 911. Direct sales partner with CVSL, which is a direct marketing group, has bought a couple of hundred units. We have a couple opportunities out there that we're closing on filling and realize we're

doing this as a pipeline, so we only brought in about 300, 400 units of Mace 911. We've sold all of those out.

Our big shipment of Mace 911 products will arrive here in mid-December and then we'll be in a position to not only promote it harder but also we'll have some alignment. So to answer your question specifically, we'll have some bigger partners lined up in Q1 of next year, along with the inventory to support it because with Nite Beams especially, we wanted to make sure that it represented what we wanted.

So, for example, our dog leashes and dog collars will be 100 percent waterproof when we're done. Not water resistant, waterproof, because through some of our learnings and testings, we realize that would be a major benefit to our consumers. And then, also test pricing to make sure that it fits into the marketplace at the right segment.

Along with new products, I do want to note that the new pepper spray, as Carl mentioned, the Exquisite line, which is a polka dot personal pink – sorry, polka dot purse model has done extremely well in the distribution that is in.

For example, Meijer, which is a – it's a great chain of stores in the Midwest, has picked it up. AutoZone, for example, this past quarter has picked up our black polka dotted unit and is in full distribution with promotions behind it. So not only on our new products Mace 911, Nite Beams, but also with our exquisite line, and we have 1 or 2 new pepper products that we will be launching in the first quarter of next year too that we've worked on this year.

(Thurman Willis): So I take it we could see some marginal growth in Q4, but the major growth in Q1?

John McCann: We will – right now, God willing, we're seeing very, very nice growth in October and November, and we anticipate that to continue and flow over into Q1. And Q1, for us, is a major, major month because almost every major trade show we participate in, it happens to fall in that quarter from the Housewares Show, to the SHOT Show, to the CES Show, to some regional police officer training shows, those are all in that Q1 period. So we expect we

can – our goal is to pick up the pace of these sales. They've been nice, incremental and now, we'd like them to be meaningful and larger.

(Thurman Willis): In this environment, I don't know that you spoke about tactical. You did say that some of it had been approved. Do we still have some hang-ups on some of our tactical?

John McCann: Correct. We have – so on our defense-grade side, and some of our less lethal products, we're in a position to ship those. We have some of our larger ones, which includes our CS, our flash, our tear gas grenades, we still have a little bit of work to do in order to be in the position we need to be in with the ATF. Kind of just expanding upon that, the ATF, and if they're right and they're doing what they think is best for everybody, change the rules of storage, and so consequently, we have been – as they've changed them, we have been changing to make sure we match them and now, we feel we're very close in what needs to happen. We've moved the Earth, as we like to call, and we've created the bunkers in which they foresee as the need. Now there's a couple of other steps we have to finish and then, we'll be in a position.

But to the point, we are talking to everybody. We had a great International Association of Chief of Police Show. We have a lot of positive response. We feel we can make a difference in that segment. We just have a little more internal work to do in order to be where we need to be.

(Thurman Willis): Last question pertains to liquidity. This is an area that I have hammered on and hammered on and hammered on and of course, the folks that I have talked to in this environment just cannot understand why Mace basically has no volume, no fans in the stands. We hired a PR firm 5 weeks ago, I haven't seen anything that they've done to increase liquidity. A follow-up to that would be – I haven't seen directors buying any stock. Would like to know when the window opens for directors and is it a policy of the company that directors buy stock? So specifically and very specifically, can you talk to me about liquidity because people are tired of seeing the stock trade at \$0.38 with all the accomplishments that have been made. And where we go back a year or 2, we're trading at the same level, it's not the same company. So I just specifically need to know what's going to be done to increase liquidity?

John McCann: Sure. Carl is to answer, I believe it's 3 days after earnings release.

Carl Smith: Well, the window opens for officers and insiders on the 26th of November and then it stays open for 45 days, which I believe takes us in and around to January 8 or 9. So the window opens on the 26th.

(Thurman Willis): So in other words, directors could buy on the 26th or insiders could buy on the 26th. John, can you tell me, I think there's 2 or 3 board members that don't own stock, where are we on that? And do we have any procedures that directors are following for owning stock to be on the board?

John McCann: Right and I think that's an ongoing conversation amongst the board. The Chairman of the Board has brought to the attention of all board members and so, I kind of leave that at that but we are on agreement with you that all board members and insiders should participate. I know all senior management own stock and most of the board members do, and I think we're working on a plan to do that. Part of your greater question, (Thurman), I think and it's a good one is, is that one of the big reasons we engage Falls Communications is not only they're PR savvy but they're IR savvy.

Keith, maybe and Rob Berick both have excellent experience in corporate communications. They've been very helpful in coaching and educating and the process that we're on right now is really, they're doing a deep dive into Mace, looking at everything, making sure that they understand everything we do. Then we are doing messaging sessions with them over the next couple of weeks and then, we're looking at the conferences that are right for us to go to make sure we get that message out.

To your greater point on liquidity, as once – as you like to say, (Thurman), as once we get more stand – more fans in the stands, they'll realize this is a great game and they'll realize why it's a sound investment, especially with where the company was to where the company is going and where the company ultimately will end up, that it will be a very positive experience and with that – we're taking those right steps because we – Falls has been very engaged in everything we're doing because there's a couple of initiatives that we're not in liberty to talk about today, that we're working very diligently on, that we think

will have a great effect on the company in the future but at the same time, working on that external communication to get this message out, to say, look at what we do, look at how we do it, look at how we've transformed the company. I think is a great message and that is something that we're keenly aware of, and I think you've brought up several times and we are addressing.

(Thurman Willis): I'll get back in the queue but I would encourage, because I think the strongest message that can be sent to your investor base is for directors, management, CFO, CEO, et cetera to buy stock and lift this overhang – over 40 percent and show us with action and not words that they believe that this is an undervalued company and is going forward.

John McCann: Sure.

Carl Smith: OK, (Maria), if there's anybody else in the queue? Hello, (Maria)?

Operator: Your next question comes from the line of Ken Fell of Fell Capital Management.

Kenneth Fell: Good morning, gentleman. Thank you for taking my call. Really appreciate this conference call as they are a great source of information. My first question has to do with Slide 7 and the Kourt/Select Security JV. You gave us a lot of color on Kourt, John. I really appreciate that. Am I right in saying that there's no upfront financial considerations from Mace regarding this JV?

John McCann: Correct.

Kenneth Fell: Great.

John McCann: A part of it, to kind of expand upon that, is that the way they want to go to market with door knocking, calling and whatnot, they're making a huge upfront commitment on their side monetarily and since we were looking at this as an opportunity but not a core business strategy for the company that we thought – not requiring them to give us an upfront fee but also in the contract, they're required to spend some money to get this rolling, it was a win-win because it allows them to invest into the product and in the product line and then it allowed us to, quite honestly, we're hopeful that there will be thousands

of homes that have a Mace sign in front of their home, then they'll say, "Hey I'll buy some other Mace product." So really, I think it could be win-win and they were also having the other side of business, which is the monitoring side, I think, was key because they are end-to-end security on a home security system product line.

Kenneth Fell: Great. That's good color. Appreciate that. In the Q3 release, you talked about the WiFi-based home security system that's going to have the Mace brand on it?

John McCann: Correct.

Kenneth Fell: Is there anything that is new about this WiFi-based system? I mean, really what sets you apart from all those other WiFi-based systems out there?

John McCann: OK, so there's a couple of things. New for Mace is that this is smart technology, so basically everything within this product that is integrated into your smart device, whether it be an iPad, to an iPhone, to an Android phone or a tablet.

Second thing is that we have a very, very unique system that is completely transferable and what I mean by that is, that this is a system that would fit into, to an apartment dweller, to a first-home buyer, to even on an elaborate home or a second home. It's got a 3-amp sticky, so basically, the door sensors and the window sensors can be removed to take it with you when you leave. So if you're a renter in New York City, for example, or Los Angeles, you can install a home security system, not violate your contract, but then you can also take your home security system when you leave that premises and reset it up in a new premise.

The other very, very unique feature on this is that our motion sensor is twofold. It's a pet immune motion sensor which means that it has a filter in there that can filter out pets, so you don't get a lot of false alarms.

The second part about it, and a lot of folks have a pet immune pet sensor, so that's not as unique but it's a nice feature is that it's on a ball and magnet. So

basically, we're the first motion sensor monitoring system that is movable. It's still on a sticky, so the base can be stuck to the wall but then even the motion sensor could be moved from side to side and up and down in order to capture more of the space or change the angle in which you're looking.

The other part of it is, is that the motion sensor then can be removed from its mount, put on a table, put on a chair or put it in a different location and it will still respond 100 percent.

The third part about it is, is it makes it very easy to use because now – because you can take your motion sensor down and it's battery-operated, you can replace the batteries, remount it with little to no trouble.

Most times in a home today, if you have a home security system or even in a business, these are mounted, they're hardwired into the wall and they're non-movable. So if you made a mistake or you're not catching the right part of the home that you want to monitor, you have to drill new holes in your wall.

With our system, it's completely transferable and you can take it and take it with you, you can leave it. It's perfect, we're going after that collegiate market, if you would. The people that are moving off campus into a home. Sometimes, they're not the most well captured or the safest areas but they're – a lot of the college kids to live their life outside of a college campus, or that new homebuyer, or that apartment dweller, it's a perfect mobile security system at a great price because it will still be under \$500 and then, it's yours. You can take it with you, you can give it away, you can bring it to your next home or you can put it in your second home.

So for us, we look to those key elements which are different than some of the things you'll see on the market today.

The last part of it is that it's a self-monitored system. So you don't have to – we could monitor it, you don't have to monitor it. So basically, you're going to get an alert, let's say, your son comes home and you've set the alarm and he wasn't supposed to be coming home, you're a going to get an alert that the door opened or there's motion inside your home. The alarm is going to go off

in the home but you're also going to get an alert no matter where you are in the world saying, "That your alarm just went off", so it gives you time to react and also call the police or do whatever you need to do but also 3 other people can get that same alarm.

So your next door neighbor could get an alarm if you felt comfortable telling them "Hey, we're going to be out. If you see any activity in the house", they can also get that same alert. So it's kind of a unique buddy system, if you would, that allows inexpensive home security with the real true difference. That's – and the biggest thing I would stress is that it's transferable. You sell your home, and you can take your security system with you. Because today, if you had a home security system that was hardwired, it stays with the home and when you get a new house, you've got to either pray they had one or you've got to put one in.

Kenneth Fell: Great. Sounds very good. Very versatile system. Appreciate that. Last quarter, you had mentioned a new Google corporate policy that they deem pepper spray a weapon, and it was causing some search issues when people were looking for Mace pepper spray. Has this been satisfactory resolved in your opinion, John?

John McCann: No, they still – they have kind of taken a hard line with weapons and even less lethal or de-escalation product. We are working around it, for an example, instead of saying pepper spray, spray pepper and some other keyword searches in order to drive – noticing strategically is we're looking at our website to be more educational. And we've had a lot of success driving volume to Amazon and letting – because Amazon, you can still search any word you want, to find any product that you want.

So we see that as an opportunity. We're still disappointed in the ruling that Google has had with this approach and we feel the change but we're constantly talking to them about why we don't think this is advantageous for them or for us.

We're liking it to a situation like they give you an example because we liken it to a situation in Massachusetts. The great Commonwealth of Massachusetts

for years made it very restrictive in order to buy pepper spray. We worked with Representative Cariddi, and also Governor Patrick on changing that. Governor Patrick, a year ago, changed the law in the great Commonwealth of Massachusetts and now, you can buy pepper spray at sporting good stores and convenience stores and et cetera. They've had zero incidences and actually, they've had customer satisfaction raises, so now women or men, whomever have a less lethal device that they can carry with you that makes them feel safe whether it's against a human attack or a pet or an animal attack. So we're still working with them and working around it, if you would.

Kenneth Fell: Very good. And it's not just a Mace specific problem. It's all manufacturers, right?

(Crosstalk)

John McCann: Correct.

Kenneth Fell: Correct. Great. Well, all my other questions have been answered already. So once again, thanks for having the call. Appreciate it.

John McCann: Thanks, Ken. You're welcome.

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

Andrew Shapiro: Hi guys. I have several questions and I'll ask if you then get back in the queue. A few of these are just expanding on or trying to get, drill down, into some detail in what you answered on (Thurman's) questions on a few of your initiatives. So if we can go to Mace tactical. Can you discuss the barriers or approvals needed and the milestones that existed at the end of the quarter and I guess, today with respect to offering the full line of the ATF products because – of the nonlethal products. It sounded as if you reported that for the quarter ended September, very few of the new product offerings have been available.

John McCann: Correct. So talk about milestones to your point. At the end of the third quarter, we are in a position to manufacture. We are very close to the storage. Answering the storage question that has changed slightly from the end of the quarter to today with regard to the ATF. And the easiest way to describe it as is, for 20 years, you were allowed to store it, let's say, at 4 feet to 6 feet apart in a magazine rack, different products.

Today, that's not the case. They've tripled that storage and so basically, in a storage area where we had cubed it up to 4, that storage area now would be 20. So now we have to go back and revisit everything because of a slight modification they made in a ruling that upon appeal, the superior in the ATF and they all – there's a local ATF, the national ATF, they all work together to loosely manage this process, it's just – it's causing some delay with regard to storing of the products, how we store it, where we store it and there's a lot of new regs within that storage.

None of this we're complaining about or saying that it's arduous, it's just the change and therefore, anytime a change, it takes a little while to figure out exactly what we can and can't do with regard to that. But the other side of it, our defense sprays and the some of the products we are shipping. But most of the new that we had anticipated, we're still in a delay mode.

Andrew Shapiro: Right. So when do you anticipate that you will satisfy the ATF requirements and that they're scheduled to come out for another final inspection?

John McCann: We are hoping – we are working quickly. Our goal would be within the next 6 to 8 weeks that we have it completely resolved and we have 100 percent approval for storage of the products. We would – our milestones would be within a month that we've identified. We've had it cleared within 2 months that we've had it approved, because the final step is really not – we call and they tell us when they're going to come out. So it's kind of like when you order the cable service, they tell you when they're going to come out.

Andrew Shapiro: OK.

John McCann: So consequently, we're at their whim but we are working feverishly on several different solutions in order to make their job very easy to say now this a 1000 percent of what we want.

Similar to the EPA, we're trying to do more than asked of us to in order to make ATF's job very easy.

Andrew Shapiro: OK. And maybe we're spending too much time on it, I don't know. What is the addressable market that we're talking about for the products that – whose rollout and satisfying tactical department needs are delayed on right now? I mean, if this is just a small market opportunity, I don't want to waste more time asking questions about it, but I perceived this before that we're talking about millions in revenue opportunity that can come from being able to offer and sell these products.

John McCann: Correct. We view the market and there's not really specific numbers, but we view this as a multimillion dollar market of which there's not a brand name. There's several very good competitors within the segment, but of which, there's not really a brand name that an officer or a Tactical Division would say, yes, I recognize that.

The other thing that we'd say – so it's a big market and a multimillion is how I would characterize it. The other thing, Andrew, that I would say is that as the world's changing, this is a fast growing segment within that market. So as we look at all the issues that happen and when we talk to Chiefs of Police and one of our board members has been very helpful, Terry Gainer, who has a boatload of experience in law enforcement, from being in Chicago Police to working with our government that de-escalation is the buzzword amongst both tactical, military and local law enforcement, and that's where the product line that we anticipate will play a huge benefit.

And I think, as hopefully with our conversations through media, we'll be able to change that to say there's a huge segment between gun and no gun, and that's where Mace and less than lethal and de-escalation products can fill that gap.

So twofold, large market. You could estimate at a \$100 million or \$200 million. No brand name in the market, which is another aspect that we looked at when we looked at reentering the market. And then the third thing is a growth rate that we see being very optimal for us.

And then the last segment, I'd say is that, it's highly used in training. So consequently, there is somewhat of a high usage within a department for the products because as we've talked to officers and we've learned for – even from our sales force, Eric and Doug, who have a lot of experience in this segment, 90 percent of everything used will be for training, so then 90 percent of everything used would be replaced, without a lot of fanfare. So then it becomes a cycle to get into it. Our delay in starting it unfortunately (gets to the) delay of delivering. Go ahead.

Andrew Shapiro: The training budget not just a – it's a training budget then, too. OK. Now as a result ...

(Crosstalk)

John McCann: It's a training budget, too. And it gets you into these other segments and then officers on the defense freight side, now you become a bigger partner for a department to say, hey, I can buy all these different products from you.

Andrew Shapiro: OK. Now so you expect to be able to satisfy the ATF's needs, then you'll schedule the cable man to come in basically, and they'll hopefully bless everything. Are you presently submitting then for RFPs because these RFP processes take a long time? Or when might the first RFPs be awarded? How long of a time line, guess, it's from submission on an RFP to awarding of an RFP take place?

John McCann: So, it's – there's – it's 3. Some of them are immediate fulfillment. So it's just an RFP. We need these fulfilled as soon as possible, and a lot of times, those are your rubber bullets, your beanbags and your defense sprays. Those types of situations, we are looking at it and bidding on it as best we can.

Typically, it's a 3- to 6- to 9-month process that an RFP will go out because a supply officer will look at everything that he has in-house and what he needs

to replenish, and then he will put forth a usage of funds application to his superior that typically will get approved, and then he'll put it out to 3 or 4 different companies, a lot of like Cleveland Uniform, for example, or Sentry, and then they'll start looking at fulfilling those.

We do work with distributors that have GSA contracts, so we can bid on GSA contracts through their contract and not necessarily have to be a GSA-approved by ourselves.

The longer – the bigger fill orders, especially for tier flash and OC, we have to wait a little bit because in the RFP process, if you say you can deliver it on April 1, you have to be able to deliver it on April 1, and we need to make sure that we can store it before we can say we can deliver it. So we're doing some, not enough.

Andrew Shapiro: OK. Now you've gone to some trade shows here in the tactical area, but you also are beefing up and doing trade shows in Nite Beams, and I don't know if you're doing trade shows yet for Mace Alert 911. But do you do an ROI analysis on this, on the trade show expense? You've gone to the SHOT Show for many, many years. We've had pretty nice displays, good locations, et cetera, and that stuff can't be cheap. And it's – certainly, we want you to be spending money on marketing and moving sales dollars on these products, but we've experienced and seen some flat sales experience, and so I'm just trying to understand to know your process if you do an ROI and say, this show has not been producing for us, let's either not do it again or let's scale back and reallocate our dollars elsewhere.

John McCann: Right, and we do. Every show, we do a post-show analysis, and we look – and it's threefold (almost). We look at the leads generated from the show to say, was that sufficient to be in the show? We look at the publicity, for lack of a better world, to say, was it worth us to be in the show? And then we look at actual sales that we can generate from being in the show, and with that, we're constantly weeding out shows. Some of the bigger shows, quite honestly, like the SHOT Show, for example, is more of a publicity to make sure we meet with the customers we need to meet with. We entertain the customers we need to because the SHOT Show is somewhat of an anomaly,

everybody thinks of it as being tactical, government, law enforcement. We actually meet Dick's Sporting Goods there, Wal-Mart, every major retailer also visit that show because of the plethora and the different products that are presented at it.

But with that, we constantly revisit, and I would say, we probably have about a 20 percent to 25 percent turnover in a show that we won't redo to a show that we will do. So for example, we've gone to grocery and drug shows in the past couple of years, GMDC, FMI. We've found them to be low return on investments. It's almost better going to the bigger drug and grocery stores on our own.

So we've dropped those shows, but then we picked up like SWAT Tactical roundup in Florida, which we'll do again this year, which is on the heels of the International Chief of Police Show. International Chief Of Police Show, my first 2 years we walked it, we didn't display. The past 2 years, we've displayed. Next year, we're going to have a little larger display because of the education, the PR and also the potential for orders that we got from it.

So when we look at a total on an annualized basis, Andrew, and this might be granular, we spend about \$125,000 to \$135,000 on shows, and we're constantly looking at the model to say where should we be and where should we not be. And we also look to say, can we have some exclusivity at that? For us to show, we'd like to be the only spray company at the show, and that's to our advantage, too.

Andrew Shapiro: Yes. Do you find trade shows are a better expenditure than other forms of advertising or public relations?

John McCann: We shall see this year because on a typical basis, in the shows we participate in, you can't get that many retailers into a room at the same time with your – with the consistent message. This year, we're actually looking at that blend of, can we be more efficient in our PR along with more efficient in our shows, because to your point, I don't know the answer 100 percent to that today.

I do know the way we've presented at our shows, we've gotten compliments on really love the brand, really love the regeneration of the brand. Some of it, quite honestly, is, especially at the International Chief of Police Show, we've got a lot of compliments on like, huh, the brand looks so much better than it did the last time I remember it.

Like, one department and we replaced some of his products was, he remembered the old chemical Mace, if you would, and it was a great opportunity for us to reeducate him, and then he sent another department over to say, hey, Joe, send us over because he thought I should check you guys out. So it's hard to say which way is better. I think ultimately, it'd be a blend of both. Efficient, so showman tact along with PR that couples on top of it.

Andrew Shapiro: Well, it seems in tactical, word-of-mouth and reference citing and all that is very, very important. On the consumer side, you've opened a lot of distribution channels, and I was just wondering whether or not we're getting enough consumer pull through after you place that inventory with them or if we're getting inventory backing up in the warehouse.

John McCann: Well, we're not getting inventory backing up in the warehouse, and on the consumer side I can tell you, we're not in the door that we need to be in. We've probably had a 20 percent to 25 percent compounded growth increase year-to-year since the new management team came over, which means that we're in more doors every year for the past 3 years, but we're not in all the doors we need to be in.

Like, quite honestly, now, our target next year is, there's still sporting goods doors that we need to dock down. There's automotive doors that we need to dock – knock down. There's pet departments within even mass merchandisers that we need to knock down. There's running. There's also specific biking and other shops that we should be in, and consequently, some of generically what we call the consumer and the houseware shows, those are those opportunities to get that brand out in front of us, and there's still education that needs to happen.

Oh, I don't know if I want to carry Mace, and we're constantly saying, do a test. We guarantee you do a test on one store, you'll give us 10 stores then you'll give us the whole chain. And so I don't see that as an issue. The inventory backing up, and I still see a lot of opportunity for growth especially with Nite Beams, Mace 911, Mace WiFi Alert and our traditional pepper spray. Since we launched some new pepper into 2016, too, I think it's another opportunity to reengage some of those customers.

Then on top of that, just the last one I'd make is within every mass merchandise store, there's several departments that we've also targeted. We fit nicely in the front end. We fit nicely in automotive. We fit nicely in sporting goods. We fit nicely in fitness. We fit nicely in men's and women's running clothing.

So within a store, like taking your typical Wal-Mart, which will have 70-some departments, we could potentially fit into 12 or 15 of those different departments, which also means calling on 12 or 15 different buyers within a segment. So at a trade show potentially, and you can see all those buyers, and then there's a lot of follow up to do, but you can also get that message out.

On the tactical side to your point, when we talk to the Chief of Police, he's like, well, I'm not reading press releases, I'm talking to Joe and if Joe says, hey, I like these guys, they did a good job because on the tactical side it's do what you say, say what you do. If your product says it does this, it better damn well do it because the officers are unforgiving. So that's why we test, and we make sure that anything we tell them it's going to do, it does because that's where you're going to win, not saying I'm in this department, that Department because most of the time those officers don't care. It's actually being at a show and then that other Chief of Police saying to another Chief of Police, go check out Mace, I like those guys.

That's where those shows are very important. That's why in the '15 and the '16 budget, you'll see a lot of regional tactical shows to make sure we're out in front and they know we're back in this area, and we're backing up what we said.

Andrew Shapiro: OK. I have other questions, especially on Nite Beams and other things, let me back out because your answers were nice and full on the tactical but I hog the line. So come back to me, please.

John McCann: Thanks, Andrew.

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

(Thurman Willis): John, management has done everything necessary in rebuilding this company to have the stock price trade much higher than it's trading. I know that we had about 3 PR/IR firms that we've dealt with in the past that didn't work out. What is Falls Communications telling you guys as far as exposure, as we often say to get fans in the stands and to get you recognized? What made you – what made the board choose Falls Communications? And how long do they think that it's going to take to expose you to the investment community?

John McCann: OK. One of the big reasons we chose Falls is that they're a unique organization, and the fact that they are an IR and a PR firm, as I had mentioned before, with Robert Falls being the Chief, strong on the PR promoting story building, product building, product placement side, with Rob and Keith, you have two – Keith is in the Hall of Fame, the Investors Hall of Fame, on building an IR story.

So what their goal is with us is we've identified some products that they think should be our champion heading into 2016 to make sure that we get that story straight; b, getting the entire corporate story to say, this is what we've done, this is where we're going, this is who we are to get that story.

Then within the next – it's hard to put a time frame on it, but my goal would be in the next 3 months to surpass some hurdles, that we have this story, we're constantly telling the story, we're telling the story to more people then within a 6-month process that we're going to the bigger investor conferences, and the story is so great that people want to read it, they want to hear it.

And then we also have the backup materials that folks are looking for. So quarter-on-quarter growth, continue to cut your losses, potentially hitting a break even or even making money. Then also looking strategically at

acquisitions and other potential companies that fit within this safety and security umbrella that we're building, and I think that's why we chose them. It was both the ability to tell a story at the consumer level and the ability to tell a story at an IR level or investor level that was very consistent.

And then, being a genuine company. Like we stressed their products – 90 percent of our products are made here. They're tested here, they're shipped out of here. We're a Midwest company with Midwest values that constantly are striving to do things better than our competitors, but also at the end of the day, we test spray every unit before it leaves because we want to make sure that when you need it, it works.

So I think to your point, it's going to take some time, but I think we're really at the beginning of this process, and really, the 1st week of December, we're doing quite a bit of messaging, training and education to make sure that the story is there and then also we – then the next step will be getting that story out to more folks.

(Thurman Willis): Well, as I had said before, I think a lot of time has passed and a lot of accompaniments have been made and our stock, which is our report card, still lags and in this environment, I just hope that Falls agrees that you're underpriced, and I think we're such a small company, it doesn't take long to have a turnaround and get the news out there.

So I just – I guess, I respectfully disagree that our story needs to be gotten out there and gotten out there tomorrow. I just finished up on a call – conference call. Their stocks moved from \$0.05 – from \$0.03 to about \$5.15. As you know, they are a security company that provides wall defenses and protection for many companies.

They have started their ROBOGUARD. That ROBOGUARD will be using pepper spray, and if you haven't contacted them recently, relative to using your pepper spray, I think the timing is right because they're now selling that product.

And then lastly and I just – I want the board members, I want management, we don't like the stock selling where it was. The best way to send a signal is for insiders and board members to buy this stock if they think it's undervalued. Otherwise, they are saying to us it is not undervalued, it is fairly priced, and we're just missing something.

So if they can't buy, it's going to disappoint us greatly and I mean buy like in a very few days, so we should express that to the board, to management, and I harped on it and harped on it and again and I know the things that I think you said that we have to do, but we have to start with insiders buying stock because there's only one reason insiders buy stock and that's because he thinks it's undervalued. And that I think can help Falls Communications get the story out there and 1 month, 2 months, 3 months is too long. It's time that it be done now because we're selling at the same price we did 2 years ago, and that's absolutely insanity. So somebody's got to step up to the plate and take responsibility, so that your report card can show the accomplishments and all the accomplishments that I agree that you've made. Otherwise, we just keep pushing the ball, down the hill, down the hill, we kick the can to the next quarter, to the next quarter, to the next quarter. We do all these things, and we get no publicity, we get no consistent release.

I think it's been 90 days since anything informative has been released from the company relative to how things are going. You need to get out more press releases. I know they cost, but you need to keep the investors updated to increase your market value, and as you increase your market value, buying will promote buying, and the stock will go up, and you've done the things that it ought to go up. Now investors are ready to see it go up. OK?

John McCann: Thanks. (Thurman), a couple of points. One of the things I want to stress is Robert Falls, who is the head of Falls Communications, has committed to buy stock. When we met with him, he said not only do I want a contract with you but when the window opens, he's planning on buying some stock. So I think that's a strong indication of his feeling of success.

Secondly, Magal, I will reach back out to their VP of Marketing because he had said they weren't quite ready on the drone project and the ROBO project.

So I've already e-mailed him as you were speaking. So I'll keep you posted on that. Thanks, and I'll make sure – and I believe some of the board members around the conference call that – I'm sure they've heard your comments, and we'll take them to heart.

(Thurman Willis): And Magal is now selling the ROBO system as they just mentioned on their conference call at 10:00. So I would tell you that it's no longer in the production process. It is in the implementation process, and I'm glad to hear board members are on the call, and I think there is a number of shares you have to be to be on that board, and if the board members can't buy stock, they need to get off the board. Plain, simple, end of discussion.

John McCann: Thank you, Sir. OK, (Maria), couple more minutes of questions and then.

Operator: At this time, again, if you would like to ask a question, press star then the number one on your telephone keypad.

Your next question comes from the line of Andrew Shapiro.

Andrew Shapiro: Hi, I'll ask some more questions, because I'd rather get answers rather than soapbox about the stock price. It will do what it does when you guys start delivering and executing, but I'd like to know about the delivery and execution. So regarding Nite Beams, you had introduced it in the June quarter, didn't have a full quarter. You've introduced it. You've had a full quarter with it here this September, and I think you've responded before that we do have Nite Beams sales during this quarter. Obviously, year-over-year, it's up from zero. Could – did you quantify or because it's not clear where Nite Beams is in your various channels that you've shown where sales are up or sales are flat? In general, what has Nite Beams sold because I think the addressable market for Nite Beams could grow to be something far larger than pepper, so I'm trying to get a handle on where we're at and what we're likely to ramp with, with Q4 and next year?

Carl Smith: Andrew, this is Carl. So for the quarter, sales in Nite Beams was approximately \$13,000 and that would be a mixture between the consumer and online sales.

John McCann: Along with some tactical sales. So like if you look at the corporate, the vests that went to the different departments, there's some more vests on order for different departments. So to your point, Andrew, it spread across a lot of segments.

Andrew Shapiro: Right. But it's only \$13,000 in the September quarter, so basically nothing for the September quarter, yet you've had flat revenues. So when this kicks in, this is going to be another revenue driver above and beyond tactical, which you've also admitted is not really been able to do the full line of nonlethal.

John McCann: Correct – oh no, we anticipate in next year's budget and even the closing this year that both of these will kick in. Nite Beams more because we're looking at planogramming it into several bigger customers. We're going to see online Amazon sales. Some small strategic opportunities, but the bigger opportunities will be the first quarter of next year.

A little bit of delay there was it caused design innovation. So basically, we went from the clunky battery pack that was presented to us, and almost everything we're trying to do now will be a USB-enabled rechargeable battery, especially on the vests that – the new vests coming in and some of the other products and then as we've mentioned on the dog collars and dog leashes, making sure they're 100 percent waterproof.

Andrew Shapiro: Are you making – are you planning on making those kind of consumer dog leash, dog collars USB-enabled rechargeables? Or just the vests?

John McCann: No, not the start. Most of it, we're looking at some of the armbands and especially the vests being a USB-enabled because the beauty now with dog collars there, it's simple battery.

Andrew Shapiro: It's going to materially raise the cost?

John McCann: In the vest, it kind of added a couple pounds to the vest's weight, and so when you go USB, it's a lot easier, and then with the growth of USB in the United States and in the world, it's so easy to charge. You can almost charge it from anywhere then.

Andrew Shapiro: No – yes, I know, it's a – that's a great idea. Does it materially raise the cost of the units?

John McCann: Not materially.

Andrew Shapiro: Great. With the new website up for a full 3 months, did web sales yet surpass last year's?

John McCann: No. But part of it strategically, as we had mentioned, when Canada asked about the Google issue if – I pulled out the Amazon sales. Our Amazon sales, especially on defense prices, more than doubled from a year ago. So for us, it's a win-win. We'd like to get our pepper spray sales up on our website. We're doing some interesting things.

We, as Carl mentioned, we have a couple of Black Friday events. We have a couple of Cyber Monday events, but more and more, when you price shop it, you're getting educated by me now or the Mace's website but you're buying on Amazon, which is a win-win. And we're seeing even beyond the third quarter strong Amazon sales and strong Amazon activity.

Andrew Shapiro: Well, it's a win-win but you probably get better margin if you sold it on your site but – and you're spending the money to do the educating, but at the end of the day, if you're still making – if we're still making 30-some odd percent margin or high 30s, that's a good day, if you can start growing your revenues, which we are very eager still to see.

Did your – your sporting goods store sales performed OK here in the third quarter, but my query is did it – where did the sales kick in here in the third quarter versus your expectations?

John McCann: So kind of it's twofold. The bigger box was a little bit of a disappointment. So there was a slowdown in your larger scale sporting goods stores that we dominate. The beauty for us is that the secondary level, the regional players, we've had some nice uptick. So a Big 5 out West, which is a big regional player on your side of the country, Andrew. Cabela's has done very well, and then we have Turner's and some smaller chains that performed very well.

So overall, like even I'd look at my November estimate, sales through November estimate, we're looking at double-digit increases in sporting goods and double-digit increases in our consumer side of our business. If you took just those 2 channels, you'd be looking at \$1-million increase versus a year ago on shipments out the door to that segment of the market.

Andrew Shapiro: OK. Now you said you got 6 new sporting goods accounts in the quarter. Any of these noteworthy?

John McCann: Turner's is a noteworthy account that we've done very well. And Big 5 is the biggest one in the quarter, which we anticipate some healthy growth because that's a great – it's a well-run organization, and it's a great chain.

Andrew Shapiro: Where are they? Where's their geography?

John McCann: Colorado and West, all the way up to Cali.

Andrew Shapiro: OK, consumer side again, is the Mace Alert 911 – what level Mace Alert 911 sales were during the quarter? Very little, right?

John McCann: Very little, a couple of hundred units.

Andrew Shapiro: OK, that's not a lot. So has there been success with the CVSL and their rollout of the product? And are they doing reordering yet?

John McCann: They are not doing reordering, but I did speak with them, and they're – they've been mildly successful. Some of theirs, they said there were some challenges in the queue that they hadn't anticipated, and so they're looking at the fourth quarter of driving a little bit.

Strategically for us, as I had mentioned earlier, the bulk of the inventory we ordered because of some packaging and some other ancillary things that we wanted done, we're not really actually receiving the inventory till later in the year of this year.

Andrew Shapiro: OK. You mentioned on prior calls new ideas with respect to creative, lighter, easier to use packaging for pepper products. Has that been implemented? And what's been the reception?

John McCann: Correct. OK. So it has not been implemented. We're in the process of doing it right now. We've gone through testing phases and consumer reaction phases, all of which have been very, very positive. Our goal today would be on or about 2 one shipments out to our customers with really revolutionary packaging in our opinion and a really nice change in the brand style.

Andrew Shapiro: OK. The Kourt Select Security joint venture because of the names are all interchangeable, so I want to get some clarification. So a year ago, or a little more now, you sold the wholesale alarm monitoring business to an entity called Security Partners. We have a receivable from them. That's a different entity than Kourt Select Security? Is that, right?

John McCann: Different entity, but the same owners.

Andrew Shapiro: Oh, OK. So that why this exclusivity thing is allowed because you mentioned on this deal is exclusive. How does that all interact with respect to Security Partners and then Select Security? Is Security Partners the back end monitor for Select Security?

John McCann: Correct.

Andrew Shapiro: OK. Now can you summarize then, we don't put any money up front. They're going to spend money putting the Mace brand name and label on all their little signs and everything else they're doing. When and how are they buying product from us, if anything?

John McCann: Well, they're not buying from us. So that was part of the kind of – the negotiations is, is that we will help them source it, but they will – they'll inventory, ship it, they'll do all the logistics side of it. We looked at every way, the signing of the deal. We came back with this being the best way to do it. Kind of to amplify a little bit more.

Kourt Select Security are actually the security dealers in which they operate and they sell products today. Security monitors over 700 different security dealers outside of (Select in Kourt). Kourt will be doing all the marketing, distribution and sales for this. What they did is they did a task within their account and said that the select – so they sell products under Select brand name today. They sell products under Kourt, marginally successful. When they tested Mace-branded, it was much more successful, which means there was a higher level of convergence that they feel that they would achieve. When we were to do – go ahead.

Andrew Shapiro: So they're going to dump the Kourt Select Security name and use the Mace name then?

John McCann: Not necessarily. What we will be is the premium product, right? So we'll say, "Hey, I can give you this package at this price or I can give you this package at this price and you get the Mace brand name," plus it opens up the door that then that same consumer can go to mace.com or buy directly through Select Security Mace-branded products at a discount that otherwise they wouldn't be able to do. But what it does is it creates a national brand around the local company.

Andrew Shapiro: So it's going to be – there's going to be like a micro-site or a password where if you're a Kourt Select Security customer, you're getting the discount on all of our Mace products.

John McCann: Right. They're being almost a micro-site. But then our go to market strategy will be very similar to an ADT. They will be investing a lot of time and money into people calling and people knocking on doors, selling home security solutions under the Mace brand name, which they feel kind of is an icebreaker for them. They say, well, I don't know who Select is. Oh, well, I do know who Mace is, all right. Now you've got 5 more minutes of my time, make me interested.

Andrew Shapiro: OK. And then where and how do we get actual revenue? How does the royalty work?

John McCann: We are paid a royalty on the entire – we're going to get a royalty of the entire sale. So not only the product sale but also on the RMR.

Andrew Shapiro: OK. So why do you feel it's 18 months before we see our first check? It's going to take them that long to rollout?

John McCann: I want to be conservative because this process, like products that are sold on an infomercial, you're a lot of times cash upside down until you start recognizing revenues. So consequently, we might see some small revenues, but like I think it's really going to be 18 months when they have substantial revenue. Their revenue model that they've shared with us, I think, is somewhat aggressive, but it also looks at that 18-month window to say, "Hey, these are truly recognizable revenues."

Andrew Shapiro: OK. And then, is there a size or a range of the type of business these guys do so one might make an estimate of what kind of 100 percent margin cash flow we might see in 2 years?

John McCann: Well, they've shared that with us, and they have 3 different models from your homeowner model to your corporate account, to kind of a combination in between that. So we do have that information. I just don't think we can share that at this time.

Andrew Shapiro: OK, fine. If you're not comfortable, that's fine. Now last quarter and it looks like it's still there this quarter is we've got a ton of surveillance inventory. You talked about the idea of bringing in partners or some other way of moving this out. It's a rapidly changing, very low margin suck up of our company's capital. I'm not sure the return on capital's worth it, but I was wondering if you have any update as to the company's plans of reducing our inventory, enhancing our return on capital in that segment.

John McCann: Right. Well, as Carl indicated in his presentation, it's only about 25 percent of the total inventory dollars are tied up in surveillance. A lot of it is the buildup in some of our other inventories. From the end of that queue to today, we have reduced the inventory about \$207,000, but to your point, I am – we are still a work in progress with our new go to market strategy with surveillance.

We have some more fine-tuning to do in order to fix that or create a better solution for that product line.

Andrew Shapiro: OK, I've only a few more questions. Last year, this time about, you spoke at the company's first investment conference, the Midwest Investment Conference, the local one in Cleveland. You had an Investor Day at the new headquarters and manufacturing facility, and I enjoyed attending. I'm just wondering if you have no specific plans as of yet, why is it not time yet to tell the story, somewhat to (Thurman's) point?

And it was 2 years ago it seems, when our company's largest shareholder and their Chairman, Richard Barone, wrote, I thought, a very good letter, saying it's time, but then there really hasn't been follow-up about that, and I – wondering if the stagnation in our stock price for multiple years is not a function of some of that, I guess, staying in the bunker?

John McCann: OK, I think the board and the management's in agreement that, that we would like to be out there if the right investor conference, telling the story. I think a couple of things, as I had mentioned to (Thurman), with Falls versus anybody else we've had in the past, they are doing a deep dive into the company and saying like, here's the root, here's what we think the messaging should be and then crafting that message so it's very, very consistent. One.

Two, I think as you had mentioned with some of the changes in the marketplace, especially like if you look at the building securities at the surveillance segment, changing dramatically this past year that, that was the change with the company.

Three, we expected to have the tactical up quicker than it has been, along with the ATF and the storage and the changes. So that was a little bit of work that the company had to do. But to that point, we are hitting the point where we are dominating at – like if you backed out building security from our sale, we're dominating in a lot of segments that we want to dominate in and which we are (goaled).

Sporting goods, consumer, we're seeing some growth even when I pulled forward the November sales even in tactical and a couple of the other areas. So I think one other thing that the board said is continue the – to get growth and get profitable growth.

B, I think this – honing this story and telling the story and then making sure that everybody is on board with the story, I think is very critical that Falls has said every successful company they helped grow has been because down at the roots, they made sure everything was healthy and everything was what it's supposed to be.

And the last thing is I will tell you that they are here, Falls, again next – the week after next and finalizing this messaging, and then we're looking at the right conferences to attend because, as I mentioned earlier, we can't disclose today but there are several other initiatives that we're working very feverishly on to finalize in this calendar year that I think will help that message even more. So kind of a little bit of ...

Andrew Shapiro: Well, yes. That's great. I guess some of it is this is a small company, and typically small companies are entrepreneurial and fast on their feet and not as slow as an aircraft carrier trying to do a 180 in the ocean. So I'm just trying to put a little bit of one's feet to the fire here that it's time, and there is going to always be the ATF or there's always going to be something out there but there are other things where there's not a barrier, and you say, well, if we back out, building and building surveillance or building security, well, let's not back it out. If we have to back it out constantly to show the growth, then maybe we need to get rid of it.

John McCann: Correct. And I think we're saying the same thing, Andrew, and I appreciate your candor that in your mind, it's time to do all that and also do the investor side, and I can definitely make sure that when the Chairman and I meet again next week that we discuss it, and I feel comfortable that Falls has put us in a position that we can represent the company and current investors and new investors wholeheartedly. I understand your message.

Andrew Shapiro: Now the company's going to get some cash here at the end of the year, I'm assuming. Logical theory has it that when you have a warrant or an option and it's in the money, you tend to exercise it. Ancora and the Barone clan there have ton of warrants from their bailout financing they provided 4, 5 years ago. Are those warrants are expiring here at the end of the year and then also again in March? So I'm hopeful that in addition to the exercise of the warrants, which are already in the money, that when one asks for incremental financial commitments and purchases and putting one's money where their mouth is and hopefully, we'll have everyone else jump on board and we then put that cash to good accretive use.

John McCann: Duly noted. OK, thank you, Andrew.

So I think (Maria), I think that might be everything unless you want to do one last round and I'll wrap up.

Operator: There are no further questions at this time, sir. Do you have any closing remarks?

John McCann: OK, well I just want to thank everybody for participating, and I – we always appreciate your candor and your honesty in these efforts. In the third quarter, we achieved a lot. We think there's a lot more that we can achieve, and we're looking for some exciting announcements coming up within the next couple of months and especially successful launches of a lot of things we discussed today. So I do thank you, and any questions that we didn't answer, we will make sure that we follow-up on again. But thanks and Happy Thanksgiving, everybody. That's it, (Maria).

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

Carl Smith: All right, thank you.

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