

MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
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Operator: This is conference # 6633293080816a

Operator: Good morning. My name is (Zen), and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter and Full Year 2015 Operating Results Conference Call.

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

John McCann: (Zen), thank you very much. And thank you, everybody, for joining us on the conference call today. Before I begin, I want to direct you to our website for a PowerPoint presentation that we will go through during Carl's presentation and my presentation. But if you please go to corp.mace.com Investor Relations Transcripts and Presentations 2016, you will see a PowerPoint presentation for the fourth quarter and the full year 2015.

Again, thank you for joining the call today, and please do realize that due to the fact that we are not currently in a position to discuss our full 2015 financials due to an ongoing resolution of a valuation issue related to a certain non-operating asset, please be respectful of the fact that we will not be in a position to discuss certain aspects of the business for this disclosure reason and also for some competitive reasons.

We will limit this call to one hour which should be more than enough time to discuss and disclose publicly what we are able to. So, thanks again and please visit corp.mace.com Investor Relations, Transcripts and Presentations as we've loaded the PowerPoint highlighting 2015 full year and fourth quarter.

Now, I'll turn it over to Carl Smith, our CFO, for our forward-looking statement and to go over the fourth quarter financial results.

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

I will now comment on our fourth quarter financial results and after I'm finished I'll turn the call back over to John McCann, our CEO, for a presentation that hopefully you guys were able to get to by now. And we will then open the lines for questions.

What I'd suggest you do is if you can go to the slide, kind of fast-forward to the end of the presentation over, both Slide 17, and then through 19, and then you could follow along on my commentary on the quarter. Once again, because of our partially (weak) the financial results due to a valuation issue related to certain non-operating assets, I will limit my commentary to sales growth process, SG&A expenses, and operating loss and continuing operations. As noted in yesterday's press release, we expect to report full financial statements in May 2016 upon the completion of the yearend audit.

Fourth quarter net sales were \$2,051,000 compared to \$1,740,000 last year -- and increase of \$311,000 or 17.9 percent. This increase is mainly attributed to quarter-on-quarter sales increases through our consumer, tactical and international channels, offset by slight decreases in sales to our sporting and web channels.

Net sales through our consumer channel for the fourth quarter totaled \$832,000 compared to \$675,000 last year -- an increase of \$157,000 or 23.3 percent. This increase was mainly due to the increased sales of two major consumer channel customers. Net sales through our tactical channel for the fourth quarter totaled \$211,000 compared to \$92,000 last year, an increase of \$119,000 or 129 percent. This increase is mainly attributed to increased sales of our TG Guard products for the quarter.

Net sales through our international channel for the fourth quarter total \$183,000 compared to \$141,000 last year -- an increase of \$42,000 or 30 percent. This increase is mainly attributed to increased sales in some of our customers located in Germany, and Mace has seen a significant increase in our demand for our products in Europe, which carried into 2016. Offsetting the fourth quarter, sales increases in consumer, tactical and international were slight decreases in sales through our sporting and web channels.

Sales through our sporting channel for the fourth quarter totaled \$724,000 compared to \$759,000 last year -- a decrease of \$35,000 or 4.6 percent. This decrease seems to be attributed to \$125,000 decline related to timing with two of our top sporting channels accounts. And that decline was offset by a \$78,000 increase and distribution to new customers in our lineup.

Sales through the Mace Web for the fourth quarter totaled \$56,000 compared to \$64,000 last year, a decrease of \$8,000 or 12.5 percent. I do want to point out that we are excluding surveillance revenues and expenses as we did in the operating release results and our press release, and those items are going to be accounted for in discontinued operations in the fourth quarter.

Net sales for the year were \$7,145,000 compared to \$6,280,000 last year, an increase of \$865,000 or 13.8 percent. This increase is mainly attributed to

year-on-year sales increases through our sporting, consumer and tactical channels offset by decreases in sales through our international web channels. John will provide additional commentary on year-to-date sales by channel during this presentation.

Now, comments on gross profit. Gross profits for the fourth quarter 2015 totaled \$726,000 with a 35.4 percent gross margin compared to \$672,000 and 38.6 percent gross margin of 2014, an increase of \$54,000 or 8 percent and a decrease of 3.2 percentage points in margin. The increase in gross profit dollars can be attributed to the \$311,000 increase in sales offset by a decline in gross profit margin for the quarter, and I attribute that to mix for the quarter and analyzing the channel and the profitability which is a mix issue for that slight decrease in margin. Gross profit for the year ended December 31, 2015 totaled \$2,755,000 with a 38.6 percent gross margin compared to \$2,312,000 and 36.8 percent gross margin for 2014. And increase \$443,000 or 19.2 percent, and an increase 1.8 percentage points in margin.

The increase in gross margin dollars can be attributed to 865,000 increase in sales and slightly higher margins. The margin increase is attributed to improved efficiencies in manufacturing. Basically, I'm not saying that an increase in sales, we had the same amount of labor and overhead incurred to generate the same -- that increase in sales from 2014.

SG&A expenses for the fourth quarter ended December 31, 2015 were \$1,022,000, which included an \$88,000 non-recurring severance expense related to the departure of a senior executive. Adjusting for the severance, SG&A for the quarter totaled \$934,000 compared to \$1,024,000 in 2014, a decrease of \$90,000 or 8.8 percent for the quarter.

Selling, general and administrative expenses for the year ended December 31, 2015 was \$3,838,000. After adjusting for the fourth quarter severance charge, SG&A for the year totaled \$3,750,000 compared to \$4,162,000 in 2014, a decrease of \$412,000, a decrease of \$412,000 or 9.9 percent for the year. This decrease is mainly attributed to lower salaries derived from headcount reduction, salary realignment to reduce audit fees, lower business insurance expenses, reduced legal and I.T. consulting fees throughout the year.

As a result, loss from continuing operations after adjusting for the severance expense totaled \$242,000 compared to a loss of \$388,000 for the fourth quarter of 2014 -- an improvement of \$146,000 or 37.6 percent for the year. Loss from continuing operations after adjusting once again for the \$88,000 in severance totaled \$1,135,000 compared to a loss of \$1,988,000 in 2014 -- an improvement of \$853,000 or 42.9 percent.

At this time, I'll make a few comments on our balance sheet at December 31, 2015. The company's net book value was \$8.3 million compared to \$10.3 million at December 31, 2014. The \$2 million decline is mainly attributed to using \$2.3 million in cash to pay off the \$1.4 million Merlin loan. This is commentary that I've had in my past few investor calls.

Net inventory -- let's see -- Mace had \$9.3 million in total assets including \$2.6 million of cash and short-term investments at December 31, 2015. Net inventory excluding surveillance totaled \$1.6 million at December 31, 2015 compared to \$1.3 million at December 31, 2014 -- an increase of approximately \$300,000 from yearend. This increase can be attributed to product additions including Nite Beams inventory, Mace Alert 911, and an increase in our safety stock level on KeyGuard Mini. Those are two of our most popular items which are imported with lead times of 60 days, and that one accounted for about \$100,000 of that \$300,000 increase.

We had positive working capitals approximately \$6.2 million and a current ratio of \$7.3 million. Again, the company has no debt as of December 31, 2015. I'm not going to make any comments on on stockholders equity at this point in time. NOLs at December 31, 2015 were approximately \$60 million with \$1.1 million expiring in 2018 and the last NOL expiring in the year 2035.

At this point, I'd 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 so, if everybody has a chance, if they go to the corp.mace.com website, you can see the investor presentation. So, I'll give everybody a couple of minutes. I'll go briefly through the PowerPoint presentation, not stopping on every slide and then there were some questions

and then there were some questions that were sent to the company in advance that I will address and then we could take some Q&A.

So, basically, skipping Slide 1 and 2, I'll go right to Slide 3. As Carl's presentation indicated, we've had meaningful results versus 2014. We had an increase in our sales, we had an increase in our profitability and we decreased our loss on the bottom line. We also were able to expand our core products into several channels, of which we are very pleased with the results of those sales.

So, on Slide 3, it really recaps some of the positive momentum, some of the things that from the cleanup now that the growth segment that we've brought the company to. On Slide Number 4, you'll see a very nice cross-section of new accounts that we have added across all channels. A lot of these are small accounts, a lot of these are big accounts, but each account has a weighted value that helps us with the brand.

As we transform the company from selling products to a brand, we've also created Mace as a thought leader within the category. So now, we went from a product company to a brand company and we're seeing those results not only with stronger relationships with our bigger retailers, but also relationships now with smaller and regional retailers that will really emphasize this brand which will help us as a springboard of growth, even into the future.

On Slide 5, once again, just reiterating a couple of key points that happened during the year, so we talked a lot about growing the top line, improving the results and improving the cost structure which we were able to begin in '15 and we're on the same path in '16. We launched several new products and marketing initiatives, which I'll get into a little bit on the next couple of slides to see how we've been able to transform the company from just defense spray and some of the other non-core businesses into core safety and defense spray and security products company.

We've invested in a new packaging which I really think will be another springboard for the future. We did a lot of the research, the analysis, the

study, the cost in 2015 and successfully launched it at the end of '15 and into '16. So, we once again will transform the brand into that leadership position. Again, Merlin exercised their warrant that we are expecting them to exercise other warrants in '16 and lastly, to note, all directors are now shareholders within the company.

On that note, we will be adding a new Director this week onto the Board. Carl Grassi has agreed to join the Board and I think he'll bring not only business acumen, legal expertise and a wealth of knowledge, especially helping businesses transform from cleanups to growth and also help us with strategic initiatives that the company wants to undertake over the next couple of months and years.

On Slide 6, we're very proud of the fact that we launched six Mace branded stun guns, they're a little unique and different than some of our competitors. One of the biggest things that we did when we look to partner with factories to produce our stun guns is the sound. So, one of the biggest things that you want is a very loud sound when you're using a stun gun, they can almost stop or (run). We were able to achieve this with these introductions. Turner's which is a small sporting chain in the (WEP) picked up the stun guns.

(Gebellis), we regained distribution at (Gebellis). We didn't have distribution prior on any products and now we're looking at expanding it because of the sell-through. We've also had some good success with some international distributors, plus some regional distributors. RSR, which distributor to several hundred small sporting goods, hunting, fishing and outdoor stores, is seeing very nice success with the distribution of our stun guns and on Page 6, one of the products is pictured there.

Additionally, as Carl mentioned, our KeyGuard Mini, which is a fantastic selling item that has great distribution amongst big and small accounts, some of the bigger ones are Auto Zone and Lowe's, but there's a lot of accounts that carry this product. We are able to, A, get exclusive on the product, so this is a product that the housing, the design and the spray are all exclusive to Mace, and also, B, enhance our customer appeal and also expand our customer base. Because this is the smallest, most effective for its size pepper spray that's

made on the market. So, we're very pleased with that accomplishment and the sales and the sell-through, especially the sell-through, the POS sales of this product at retail.

On Page 8, similar to our KeyGuard Mini, these were products that we initiated, launched, develop did soup the nuts on them and launched them very successfully in 2015. Extended from our personal line, but we created a line called Exquisite, and we're seeing very nice success both in 2015 and it's continued into 2016 and some of the major retailers are listed there. But what it does is it takes safety and elegance and puts them together and that's why we created the line of Exquisite and we plan on expanding the line of Exquisite products in 2015 and 2016.

Additionally, on Slide 9, we really took a hard look at our tooling. We, versus some of our competitors in this segment, we own our own tooling. We maintain our tooling. We have a great relationship with our injection molding partners that produce our housings and our handles for us. We were able to do several things, as I've indicated on this Slide Number 9, and it's a twofold effect. A, it's for consumers more ergonomic, your finger fits better underneath the flip top lid, so you can hit the actuator button. B, it's easier for us to assemble and put together.

So, not only did we do some things aesthetically to help our customers continue to view Mace as the best product in the marketplace and maintain our number one position. We also incorporated some design features into it that will make our assembly easier in the future. This, again, was a 2015 expense that we'll see the benefits of in 2016 and beyond.

And lastly on the list is Number 10. We just won an award for our packaging and an international award that we'll have a P.R. announcement out later, but our packaging is great. What we've done is we will share the rights to this style of packaging with our supplier. So, no other pepper spray company will be allowed to use this design. We did a couple of unique things to make sure that it's tamper-resistant, 100 percent tamper-resistant which is what our old packaging was. But then, we've made it environmentally friendly. We've

increased our marketing and our word that we can put onto our packaging, and then also it's a cost-effective production now.

So, versus how we were currently preparing the product, this will be quicker and easier, and the materials will cost us less longer term. So, we're very pleased with this, it i took a lot of iterations to get to this point, but it is the number one, most important thing that we've done this past year, is because that's our billboard for our brand. That's what the consumers see and that's what they get. So, once again, we've increased the visibility of our brand in a positive way, continuing to reinforce the fact that Mace is a thought leader when it comes to personal defense and safety.

Slide 11. In the past, we weren't great at our social media and as we've seen, social media has really kind of taken off in a big way in late 2014 and 2015. Twitter, Instagram, Pinterest and Facebook continue to be what the next generation of consumers look at. So, that all of these areas, we beefed up what we're doing in them. This summer, for example, we'll have many interns within the building here, constantly looking at how to reach these consumers, not necessarily sell these consumers, but how to reach them so they realize that Mace is that brand leader then ultimately convert that into a sale with one of our retail partners, Dick's, Amazon, Lowe's, Auto Zone, Sports Authority and etc.

So, this is very important for us to continue that processing of the brand as the thought leader and continuing to make the brand the aspiring brand that people want to carry and also look for for information on how to be safe, and how to how to live safely. I was like, "Well, just some of the wins that we've had in our tactical division as Carl mentioned in his analysis, our tactical division really in the back half of the year started to pay some of the dividends that we expected." We will kind of limit some of our comments on here because we're still working on our munitions side of that business. There are some things that we still need to finish, but we feel comfortable and we expect to be able to launch our munitions side of the business in the near term.

And then Carl really went through, but to reiterate again, both on the gross profit side and the sales side in Slide 14, we saw some nice revenue increases

net of our surveillance division. The surveillance division, we really won't be in a position to talk about it, so we go through the divestiture process, so it won't be in the best interest of the company to spend too much time talking about it, so we finish the process that we have begun on that product line.

And then lastly, I won't go through the rest of the slides, but leaving in and looking at Slide 21, the core thing that we want to leave everybody with is there's significant momentum that's generated in '15 that is turning into '16 momentum and we feel we're very comfortable with where we are. We have high expectations of what we will do next.

So, with that, there were several questions that were sent into the company prior to the call and hopefully, going through some of those will make the rest of the questions a little easier. One of them was is that the valuations, we can't really speak to the valuations, what we're waiting on. But we feel comfortable and we expect that sometime in May towards the middle to late May, we'll have all the answers we need we'll be putting out our financials.

With regard to our sale and to our business -- sorry, our building security division, we have a good game plan. We just can't talk about it at this point because it wouldn't be to our competitive advantage to do it. One thing that was also asked is the insiders are still blocked from buying stock, so, as we can diverge more information, we will be in a position to do it, but right now, we really can't talk too much about buying stock as insiders because of some of the information we're in possession of that is not public yet.

New product lines impact, if any, in the fourth quarter. As I mentioned, as some of the slides indicate, some of our new pepper spray and our stun guns really added to the mix. We are going to see that continue within 2016 and also expand as we look at some other innovations that we will be bringing to the side of that business. One level of Nite Beam safety wearables in fourth quarter revenue, they're still minimum revenues in the Nite Beam side that we have several tasks and several initiatives underway that, for competitive reasons, we do not want to talk about yet and it's similar with Mace 911. There's several programs, initiatives and tasks that we have underway, but for our competitive advantage, it's best not to talk about them right now.

Level Mace tactical in Q4 versus prior year versus Q3. Sales in Q3 were up 39 percent. Sales in Q4 were up 29 percent. Total sales were up 25 percent in the total year. So, after a very slow start, we picked up some nice momentum, we've picked up a lot of smaller agencies, a lot of cities and townships and we're going to continue to do the same thing. Mace.com, there was a question, what is been the company's traffic experience with the Mace.com website. Traffic has been up double digits, and the website's working. We don't discount off of our website, so consequently, what we're seeing is a huge increase in our traffic at Amazon, which was one of our overall goals. To make the websites a place where you check and look and gain information and we have a lot of blogs, we have a lot of information, we have a lot of how tos, but then also, convert that to a sale over our partners at Amazon and some of our other online retailers. And it seems to have been worked very, very well.

Social media, as I mentioned before is we use Google Analytics and some other tools to look at how we're doing. But the biggest thing is increasing that base. We have a very small base with our social media and we have a lot of opportunities increase that and build upside. And once again, building off it is telling a story of why Mace is the best solution, then letting our consumers pick where they like to buy their products, because we do partner with some of the biggest retailers in the world that we want to continue that. And so, we do our part by educating, making sure they know why to buy Mace and then we tell them where to buy Mace.

There's several questions on security, surveillance and monitoring. All of these, we will hold off on comments as work through the divestiture process on it. One to note though is that we did sign a J.V. with Security Partners, (best-selling) intact Security Partners will be moving forward with the Mace DIY program that they plan on rolling out in 2016 and beyond. So, that partnership is intact and it actually helped us with the divestiture process as we have indicated in the call.

"Last year, you spoke at about investment conference." We did the Midwest Investor Conference in Cleveland, we've added the B. Riley and the Markham

conferences which will all happen in late May through the early part of June. We will, in conjunction with the Midwest Conference, will hold an open house in conjunction with that event. So, as we solidify that we will make sure that everybody is aware of that.

The question on the fourth quarter sales with sporting goods. Sporting goods is somewhat driven by open to buy by buyers and also driven by their seasonality. We feel very good about where we are with our sporting goods business. We had a healthy increase in 2015 and we're continuing to see a healthy increase in that segment in 2016.

PSA, which is a sports authority, we were in good position with them prior to their filing for bankruptcy. They are in the midst of working through some different aspects of the bankruptcy, but we are shipping them again and we have a very good relationship with their management. So, as long as they are, as an entity, they will continue to be a Mace exclusive product. As they end up in the marketplace, we'll see how it goes.

One of the other tangible benefits we talked about was moving some of our products out from the hunting and fishing area. We were able to do that, we're very pleased with the presentation of the brand at some of our larger retailers and also their willingness to move it beyond hunting and fishing into other areas of their store or move it from automotive or hardware, and to an impulse area of the store. So, that is one of the continuing goals of the company, so we get the product in front of more eyes, versus just being in one location in a store.

One of the other questions was 2016 successful launch. Should we experience increased pepper sales as a result of the new design handle? The handles really came out late December. We will see more of our competitive in advantage of that in 2016 and beyond. Regarding the new packaging, it's basically the same. We will see the benefits of our new packaging and the new handle in 2016.

And then on the stun gun side, enhanced brand appeal. One of the things that we are the most recognized brand when it comes to pepper spray. One of our

goals is to expand that brand appeal beyond pepper spray with strategic products and categories that make sense within that segment, so people view pepper spray. Stun guns has been an example of where we've been able to do that successfully and people are looking at the brand differently. Now, we want to do that several other products as we have mentioned. So, those were most of the questions that were asked. Once again -- and I apologize upfront, we might have to not answer questions just for a variety of reasons, so we do apologize upfront. But with that, we can open it up to questions with the last 30 minutes we have left on the call time.

Operator: Right. 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 will pause for just a moment to compile the Q&A roster.

The first question comes from the line of Furman Willis, a private investor.

Furman Willis: Gentlemen, thank you for taking my question. The first part of my question, I know that we talked about -- did you see any tangible benefit from being moved to the front end of Dick's. You previously said on the last call that you were working on some unique ideas with Lowe's and other sporting good. Can you now elaborate on what they were and whether tangible benefits have resulted so far.

John McCann: So, Furman, thanks for the question. And yes, so, last year, we did a display program at Dick's. They've actually re-upped that display program and also, have plans in the back half of the year which is their heavier volume time to have us in the front end, so we'll be more in their impulse area, but both on terms of shipments and POS sales, we've seen an increase. And the same could be said with some of our other partners. We're still finalizing some of the programs, but the testing we did with a lot of these partners had a nice benefit for the company.

Furman Willis: Good. A followup to that is, what exclusive accounts were added during the fourth quarter? Of those recently added, had they sold through their initial inventory build, and what has been your re-order experience in this quarter? And I think I understood you to say that Nite Beam and 911, there were no

sales in Q4. So, what about Q1 and because, in your slide presentation, you really didn't go into anything relative to Nite Beam and 911?

John McCann: Right. OK, so, doing the last part of that question first. Nite Beams and 911, there were some small sales. We're doing a lot of testing, Furman, because both products require some education. So, we're going to refrain from former comment because we have some plans and ideas that needed time to work through.

On your other question, of the 20-some accounts that we brought on between - - especially in the sporting goods area, several of those are exclusive accounts. Like Lowe's, for example, is only carrying Mace brand pepper spray. Turner which is a small sporting goods chain, is only carrying Mace brand's pepper spray. Big 5 is also another nice regional account, 74 stores, sportsman warehouse, the same things. They are either moving to or will be exclusive accounts for Mace. So, we've seen a nice movement on that side.

And yes, the POS sell-through and all the metrics have been measured -- in order to continue this.

Furman Willis: OK. Can you speak to Nite Beam and 911 as you roll out these plans as when you expect any volume from those roll-outs, and then can we look to Q2, Q3, I mean, we announced it about a year ago.

John McCann: Right. And so, in both of those items, we only brought in the inventories late in the fourth quarter as we did some testing. We're doing some retesting, but right now, for example, Nite Beam is in every Pep Boys stores across the country, it's in small regional players, so if you looked at the sales in Q1 for Nite Beams, it's over \$100,000 worth of merchandise.

The product needs education, so we're looking at some programs that we think are unique that will benefit the product to benefit the company on a longer-term basis, because you can't just put it on the shelf and expect that to sell, people need to know what it does, how it does it and why it does it. So, that's why we want to refrain and I can't give you a timeframe because I don't want to set expectations that we're not to be able to meet, but do know that we

have some good analytics on the products now, and we have a good game plan and we just need time to execute it.

Furman Willis: All right, the last question I had was really -- relates to general P.R. and I.R. which I've concentrated on. Last year, you spoke at the first investment conference, the Midwest Investment Conference in Cleveland and organized an Investor Day, which I attended, that was very nice, at your headquarters and manufacturing facility. You recently announced that Mace will be presenting at this local conference again along with two larger conferences at the Cleveland Conference. Will Mace again organize an onsite Investor Day with a facility tour as well, and with the financials sort of on hold, do we still plan to attend all of those three investor conferences?

John McCann: The answer to all of that is yes.

Furman Willis: OK, and what initiatives does your P.R. firm that has now been on retainer for several months embarked upon? What products or channels are you focusing these P.R. resources on? And have you seen any visible return from the investment yet, or when do you expect some metrics to measure return on this investment? And I believe they've been on about six months.

No, that's wrong, I think ...

John McCann: On or about October. Right, on or about October, they joined us. And we -- it's always hard to measure P.R. but as you see some of our press releases, some of the information is a little more organized, it's better put together. They will be an integral part of helping us with the presentation at the investor conferences. And they have also helped us with the strategic plans that we've put together for some of the aforementioned products and also the launch of our Exquisite, our packaging. Our packaging just to -- because we just got the award, I believe, this week, we won an award for the packaging that they had some input on. Jessica Adanich, our creative manager, really, and (Brent Grainy) were the two folks that did the majority of the work, but what we're staying as a build, because part of the process with the I.R./P.R. firm is to create Mace as a thought leader within the segment and we feel we're making momentum towards that activity.

And so, when you look at the things that these are intangibles, we won't awards for our catalogs, we won't awards for our product presentation. We've won awards for our design of our packaging. So consequently, we feel that we're striving towards where we need to be and now we'd like to continue that road.

Furman Willis: Thank you, and thank you for taking my questions.

John McCann: Thank you.

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

Andrew Shapiro: Hi, John. Thanks for answering some of those prior questions. I think it's still in a few blanks on those that would be helpful. I think you've said that you had minimal revenues in Nite Beams and 911, Alert 911 for Q4, so I don't need to really compare it to Q3.

But what I wanted to understand is, with the Nite Beams product, I totally understand the need to educate and the right joint venture partners on Mace Alert 911. But on Nite Beams, what we're talking about our flashing LED lights with a button that clicks on and off, etc, basically safety wearables, what kind of education is needed other than the brand, and the nice pretty collars of the flashing lights on creative forms of wearables?

John McCann: Andrew, I have to refrain from some of it, because I want to tell you more than I think it's prudent. But some of the testing indicated that it needs more than that. If you look at the competitive landscape of leashes and collars, you're asking somebody that sometimes spends twice as much or three times as much on a leash and collar. Ergo, it needs to be explained and we need some -- we need some materials asset in order to do that.

Andrew Shapiro: OK. I'll move on to an area that's of great importance to me and I think a great opportunity for the company. Somewhat had been a disappointment, but it looks like you're getting some takeoff, but -- and that's Mace tactical. So, on Mace tactical, I'm looking at your chart on Page 18 and it looks like there

might have been \$200,000 of revenue for the quarter, which seems that kind of run rate is still paltry to the potential market opportunity for Mace tactical.

So, what I wanted to get a feel for here is at the end of Q4, where were you -- where was the company on the ability to store and sell the many consumables that Mace has announced as part of its expanded tactical product line in November of 2014, and here we are now in April, where are we today regarding the ability to store and sell these consumables?

John McCann: So, to your point, that's only defense spray sales. So, credit to the sales manager, Doug Melzig, who'd done a tremendous job and you're right, that was a great build off of the year prior and we're seeing some of that in 2016. We are still working with the ATF and the folks that need be in order to solve the storage issues. And we feel we have a solution, we're working towards that solution. Unfortunately, because of the ATF, it was a moving target.

They had issued many new licenses for storage of less than lethal products and with that they decided to change the parameters in which you could store it, which meant we had to abandon the site that we originally looked at because in layman's terms, they doubled the space in which you need to store two of these products. So, consequently, now you need a much larger footprint in order the store the products.

Andrew Shapiro: Fine. Where are you finding the new site? What's our time ...

John McCann: We are very close. Like, you've seen some of the press releases that didn't come out from us, but we're very close. We feel on the federal level, the state level, we're working with the right parties and we're hoping and we expect that we will have this resolved in the near term.

Andrew Shapiro: And then once you found the location, how long before -- how long does it take to prepare the location, such that you get the green light that you can then offer ...

John McCann: Right. We're working in tandem, both in preparing the site and working on the proper certifications and etc, and at the same time, we have the manufacturing schedule ready. So, kind of from a goal point to you point,

Andrew, we will have the other three legs of the stool in place -- manufacturing, the moving of the earth, if you would, for lack of a better word, and all the certifications. So, we're doing all three at once, because we know ...

Andrew Shapiro: So, once you ...

John McCann: ... unless the target moves again, we have the answers. But the target could move because of ...

Andrew Shapiro: Once you've locked the site ...

(Multiple Speakers)

Andrew Shapiro: ... John, once you've ...

John McCann: Pardon me?

Andrew Shapiro: ... locked down the site, are we talking about weeks or months? Or quarters?

John McCann: Call it months, just because it would be a multiple of weeks. So, if you look at 6 to 8 weeks, you could say 6 to 8 weeks or you could say two months.

Andrew Shapiro: OK. So, the \$200,000 for the quarterly sales is just tactical pepper?

John McCann: Just pepper. Expansion of pepper and TG Guard, which is another product that we expect to continue to do very. TG Guard, as you know, is the product that can be dispersed from a ceiling tile.

Andrew Shapiro: Right. But it's not the less than lethal, consumable, explosive-like devices for a variety of tactical SWAT team users, etc?

John McCann: It's not for a SWAT team use, but it does hit two of the primaries you just said. It is a consumable, it is -- it's a pyrotechnic fuse, and it also is replaceable. So ...

Andrew Shapiro: Yes.

John McCann: ... it's used in a wide variety of ways and venues, and it's presented at law enforcement as the other products that are presented.

Andrew Shapiro: OK. You previously supplied products to foreign military customers like Israel in the past. Certainly, with the migrant wave in Europe, there's a greater demand for such products. Is Mace tactical in the conversation, and are you making sales or at least participating in these larger bulk RFPs?

John McCann: Both through ourselves and through partners.

Andrew Shapiro: OK. In terms of the Nite Beams which you kind of are restricted at talking too much about, with respect to the products -- certain products, such as your LED safety vests which you were trying to market to corporations, safety workers beyond Cleveland's Quicken Loans Arena, have you made any progress on that, or what are you doing to market these vests or other products to institutional-size customers to finally generate some bulk sales to go along with your consumer marketing which I understand is more top secret?

John McCann: Correct. So, on that side, it's just been a bit of a disappointment. We've put out a lot of RFPs, they're on every tactical law enforcement show, they're in every show with partners of ours, Security Partners, for example, had them and has displayed them with all of their security dealers and building initiative shows. Product -- the problem with the product is people love the product, hate the price. So, it is thought that we are going back to the drawing board because if you look at a typical vest, you can buy a typical vest for under \$10. We can't produce this product for that price range, and so, to some extent, some of those guys are coming back to us and saying, "I can't do it because it doesn't fit within what I want and what I can afford to do." Even though they ...

Andrew Shapiro: There's \$10 vests with the lights, or just vests for \$10?

John McCann: Just vest.

(Multiple Speakers)

John McCann: Just reflective vest. But having extensive conversations with construction companies, for example, and Triple A is a great example. Triple A love it, they think it's better, they think it's safer. We could never pay that. So, we're re-engineering, we're looking at it, we're re-evaluating it, because it is an innovation. It's a true, great product. It's where we have to come over the mindset of that you have to pay for safety, because it's -- to your point, versus a reflective vest that it has 10 other features.

Andrew Shapiro: Right. OK. Moving on to a 911, are you able to talk about and any retail partners or retailers that you're signing up for the product?

John McCann: What we've done, Andrew, and that we're magnanimous, we've done several tests on the product with retailers. And we're taking that learning towards the next phase of our strategic plan with the product. Once again, it's a great product. If we do a comparison to a Life Alert, for example, they're spending millions on advertising to build up that consumer base. We feel, if we're successful with partnerships that we plan on the product that we will see some generous revenue growth on the products in the future, but right now, it's better not to talk too much about it because we have to implement the plan and monitor the plan.

Andrew Shapiro: On the consumer personal defense side, regarding the new packaging, you talked about its cost-effectiveness in materials and assembly, and it was just introduced in the end of the Q4, OK? With respect to the lower cost, how much cheaper is it or the company than previous packaging in terms of margin enhancement, and would we start to see that margin enhancement in cost to goods sold starting in Q1 that we just completed in throughout the rest of this year?

John McCann: We will see cost improvements throughout 2016. We kind of do what most companies do that a consumer products companies, we did a role behind in the (face) end, so basically, there's three things that we did, the very critical. We updated all the packaging but we kept dimensions the same. Why? Because now, we don't have to put any burden on our retailers, that they can buy this product like they bought the other product.

Two, we maintained some dual inventories. As Carl mentioned, some of our inventories, we increased our safety stock position to make sure that we are never out of stock and we are able to shift. And then thirdly we made sure that the master pack, the outer boxes remained identical, so once again, we didn't have to worry about logistics with our retail partners.

So, starting in Q1 and going throughout the year, we will see some benefits. With our bigger customers implemented this and began shipping the new packaging and then we're going to phase out of all the old packaging as we go through 2016. So, it'll be a tiered effort and as we see benefits, we should see benefits in almost every quarter. And especially as we end the year with the majority of the products being in the new packaging.

Some products, just because of their size and etc, will remain in their current clamshells. Ber spray, for example.

Andrew Shapiro: Yes. Now, you talked about driving traffic to Mace.com. Have the traffic metrics increased for Mace.com?

John McCann: The traffic vectors have increased. We've seen increase in traffic flow to the site in the double-digit range, realizing that it's still smaller than it should be. But, the conversion is not there. But, twofold here again, we are not buying SEOs, we're not buying ad words. We are generating a lot of organic traffic to our site. But then, we also continue this in 2016, we have partnered with Amazon to convert that traffic from a Mace customer to Amazon to increase our positioning there.

You could argue that we make more money selling directly off the Mace website. But, as we build the brand and make sure that that brand is lasting in that thought leadership position, it's much better than to, say, build some traffic onto Mace, convert them on Amazon, because now they've had two experiences with the brand. We hope both of them are positive that they were educated on Mace.com, they purchased off Amazon and we ship and fulfill as they request it, and Amazon's reach is a doubling effect of our reach, because they're going to constantly talk to that customer in ways that we just couldn't afford.

Andrew Shapiro: Well, wait. So, John, you're saying, if I go to Mace.com and I want to buy something that's going to send me to Amazon?

John McCann: No. That's now what I'm saying. What we're experiencing, Andrew, is they come to Mace and we know they're buying in Amazon, through the Amazon metrics and some of the Google metrics that we have. We still would sell you if you buy it on our site, but we're selling it at full list or above. Amazon selling it at retailer and a more effective pricing.

Andrew Shapiro: So, what you're saying is, OK, they go there. You'll be glad to sell them to me on site. Here's our list -- this is our list price. If someone's industrious, they may then do a price search, find it cheaper on Amazon or some other retailer and then they will go there and are you saying you just know that the next site they go to from Mace.com is to Amazon?

John McCann: Right. We're doing a better job with the analytical, so we know that a majority of these customers are leaving us and going to Amazon, which is good. And then, the second thing, which maybe ...

Andrew Shapiro: Wow.

John McCann: ... maybe I didn't explain thoroughly is ...

(Multiple Speakers)

Andrew Shapiro: ... a lot from you, but a sale is a sale, I understand that.

John McCann: Well, but it's also then they're seeing more information on the Amazon site, which is good for us, and then Amazon's analytics are second to none. So, consequently now, they can trace that customer that we just don't have the ability to. The other part of it is, we are buying ad words because they're fractional in cost through Amazon than if we are buying them through Google, Yahoo and etc. So, consequently, it's kind of a win-win-win.

(Multiple Speakers)

Andrew Shapiro: Well, Amazon enhances analytics. They share them with you?

John McCann: Yes, we work directly with their folks to see how we can improve ...

Andrew Shapiro: And otherwise, it just sounds -- it just sounds like, OK, we're driving the sales to Amazon which is lower margin to us.

John McCann: It's a partnership.

Andrew Shapiro: OK.

John McCann: OK.

Andrew Shapiro: On the security, surveillance and monitoring, I might have been late to the call but I wanted to at least clarify this. The revenues for the quarter of \$2.051 million, are those revenues for the quarter are without surveillance, correct?

Carl Smith: Right.

John McCann: Correct.

Andrew Shapiro: And the prior year revenues in the press release are also without surveillance?

Carl Smith: Correct.

Andrew Shapiro: Do you have available -- what third quarter revenues were without surveillance? Because the third quarter revenues I have total were \$1.985 million. And I'm just trying to understand to know better the momentum from third quarter to fourth quarter that was taking place in this company without the declines of surveillance.

(Off-mike)

John McCann: Andrew, probably. So, Carl is looking at some of that. We can get back to you when ...

Andrew Shapiro: OK, you don't have it handy, what we do is to know offline is if you could maybe provide ...

John McCann: Comparables without surveillance.

Andrew Shapiro: ... what the four quarters for the year were, without surveillance on the revenue and potentially also on the gross profit basis, because what appears to have been in 2015, on the last several quarterly calls, was a stagnant company may very well have been shielded by a declining surveillance business offsetting the growth that you have and that you have already for the whole year of 2015 been experiencing growth that we would hope will continue in 2016, but at least it's not "Oh, we've just started to grow in 2016, but in fact, we've been growing in 2015, but it was shielded and couched in a stagnant or declining business that you finally have decided to monetize and divest."

John McCann: All right, so, we'll send you that. We'll send you the four quarters, but to your point, is, yes, and I think even if you look back at the script and I pulled the script from the third quarter, net sales in our consumer and sporting channels, we're up 12 percent year-to-date. Building security was down 24 percent. So, when Carl does a rollout, he'll be able to show you that we've had substantial growth in channels ...

Andrew Shapiro: If nothing else ...

(Multiple Speakers)

Andrew Shapiro: ... for you. If nothing else, I'm suggesting for you guys a slide which you would then make your presentation publicly available on your website, but a slide for your upcoming investor shows that shows the quarterly performance of this company at least, in 2015 and potentially, even into 2014 of the company's income statement X.

The surveillance business that is the part of discontinued ops, if it's discretely defined in your auditors and legal approve of it, is to give us that stuff, going back quarterly as far as you can. You're going to need it anyway for the first quarter income statement report and for all your subsequent 2016 reports. So, you're going to have to create it anyway, but if you create it now, have that slide, I think that's a good slide for all of us to be made aware of and also to be in your upcoming investor presentations, especially if you can bring it all the way down into the gross profit line item.

John McCann: Correct. And thanks for the

Andrew Shapiro: I hope you can do that for SG&A. Do you guys allocate the SG&A in any way, or that's all corporate?

John McCann: It's somewhat all corporate, but we can -- and Carl's working on some methodologies to allocate. But we -- to your point, because -- we have two minutes. We can and we'll do that, and part of our first quarter, as you said, that will be part of the analysis.

But it's a very good point.

Andrew Shapiro: OK.

John McCann: Thanks for the input.

Andrew Shapiro: Can you discuss at all what the surveillance inventory levels are down to at your end?

John McCann: I think we did, but I can tell you, in the quarter, they're down significantly also. So, it's -- we don't want to comment too much on the building security, safety, surveillance. But Carl can -- I think he said it in the call, but he can reiterate it right now.

Carl Smith: As of yearend 2014, surveillance was around \$390,000 and net value after reserves and at the end of the year 2015, it was around \$265,000, and we continue to ...

Andrew Shapiro: OK.

John McCann: ... it did support the business with being aggressive on our inventory management.

Andrew Shapiro: Is there any goodwill on the balance sheet associated with this business that's going to be discontinued and divested?

Carl Smith: No.

John McCann: No.

Andrew Shapiro: OK. And what was the marketing advertising expense this Q4 versus last year and versus Q3?

John McCann: We could put that on a slide when we update net of surveillance.

Andrew Shapiro: OK.

John McCann: We can pull it.

Andrew Shapiro: All right, because you're allocating it, is that -- is there some marketing advertising ...

John McCann: Right.

Andrew Shapiro: ... in surveillance as well?

John McCann: There's a marketing and advertising in surveillance, there's some -- we came to the decision on divestiture, we had done several tests to see how these product lines would play in different channels, and it helped us lead to the -- it helped answer questions that we had that led to our decisions.

Andrew Shapiro: OK. Excellent. And the last thing, if I could recommend for future calls, if you guys could head ...

John McCann: Headset?

Andrew Shapiro: ... or get closer to the microphone to be ...

John McCann: I think ...

Andrew Shapiro: ... cavernous Mace facility there on a speakerphone is ...

John McCann: Right. We're in a tiny room, and we're both sitting on top of it. I think, unfortunately, because we dialed up twice to the company, we'll research companies too, because we didn't have this problem before. So, I think it's a bad line, to be honest with you. But we will invest in headsets.

Andrew Shapiro: OK.

John McCann: Thank you, sir.

Andrew Shapiro: Thank you.

John McCann: OK, thanks, everybody, and I think that concludes -- we'll have some follow-up information and once again, to reiterate, as soon as possible, we will be posting the full-year results as we work on resolving this last valuation issue. But thanks again for the time.

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

END