

**MACE SECURITY INTERNATIONAL INC.**

**Moderator: John McCann**  
**August 9, 2016**  
**11:00 a.m. ET**

Operator: This is Conference#63132408.

Operator: Good morning ladies and gentlemen. My name is (Joanna) and I will be your conference operator for today. At this time I would like to welcome everyone to the Second Quarter 2016 and Six Month ending June 30<sup>th</sup> Financial Results.

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. And if you would like to withdraw your question please press the pound key.

Thank you. I will now turn the call over to Mr. John McCann, president and CEO of Mace Security International. Sir, you may begin your conference.

John McCann: Thank you, (Joanna), and thank you for calling in our call today. Please visit [corp.mace.com](http://corp.mace.com) under the Investor Relations tab, under Transcripts and Presentations as we have loaded a PowerPoint highlighting the second quarter in the year-to-date results for the Company with the period ending June 30, 2016.

Now turn the call over to Carl Smith our CFO, to read our forwards-looking statement to go through the second quarter and year-to-date financial results. Carl?

Carl Smith: Thanks, John. Certain statements and information during this conference call will constitute forward-looking statements and are based on management expectations and information currently in the possession of management. When used during our conference call, the words or phrases will likely result are expected to -- will continue is anticipated, estimate, projected and intent to are 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 condition, limited of cap -- 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 that caused 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 second quarter and six months ending June 30, 2016 financial results. After I'm, finished I'll turn the call back over to John McCann, our CEO, for a presentation and, we will then open the lines for questions.

I'll first discuss the quarter compared to last year. For our visual on my sales and gross profit commentary, please reference the analysis that John mentioned at the opening of this call and made available on Mace.com.

Second-quarter net sales were \$2,031,000 compared to \$1,896,000 for the second quarter of last year, an increase of \$135,000 or 7.1 percent.

This increase was mainly attributed to \$830,000 in sales through our consumer channel, a \$312,000 or 60.2 percent increase offset by \$155,000 or 16.8 percent decrease in sales through our sporting goods channel with sales of \$770,000.

The sporting goods decline is mainly attributed to timing as year-to-date sales are up. Margins in both sporting goods and consumer channels are up for the quarter.

International demand remain strong for the second-quarter with sales of \$252,000, compared to \$202,000 in Q2 of 2015, an increase of \$50,000 or 24.4 percent on relatively flat margins.

Sales through our tactical channel for the quarter totaled \$118,000, compared to \$189,000 in the second quarter of 2015, a decrease of \$71,000 or 37 percent. The decline is attributed to \$95,000 in royalty revenue received in Q2 of 2015.

Mace receives a royalty payment on MPG Grenades and dispensers which are sold through a third party. In 2015 significant volumes of this product were sold to state departments and (2016) volume is expected to be nominal in comparison.

Although, profit margins through tactical channel were strong for the second quarter in 2016, margins were lower than last year due to the decrease in royalty revenue that I just mentioned.

Direct sales total \$47,000, compared to \$32,000, an increase of \$15,000 or 46 percent and margins were lower as the Company ran promotions discounting product to drive sales through this channel.

Gross profits for the second quarter 2016 totalled \$839,000 with a 41.3 percent gross margin, compared to \$837,000 and 44.1 percent gross margin for 2015. The decline in margin can be attributed to the high royalty received in 2015 and slightly higher freight costs that we incurred in the quarter.

Selling, general administrative expenses for the second quarter ended June 30, 2016 were \$860,000, compared to \$920,000 in 2015, a \$60,000 or 6.5 percent reduction continuing our trend to reduce SG&A expenses. The decrease is mainly attributed to reduction in salaries and advertising offset by increased expenditures in PR, IR, investor conferences in variable commission expense.

Interest expense for the quarter ended June 30th was \$12,000 and related to the Put interest, which is mentioned in the footnotes to the financial statements that were posted the other day to the OTC and made available to you.

Interest income for the quarter ended June 30, 2016 was \$35,000, compared to the \$69,000 in interest income in 2015, a decrease of \$34,000. The decrease is attributed to a lower return on the \$2.1 million in short-term investments and lower interest income on the security partners' loan, due to the decrease in principle that they're paying on.

As a result, net loss before discontinued operations for the quarter ended June 30, 2015 was \$37,000, compared to a net loss of \$61,000, a \$24,000 or 39.3 percent improvement over second quarter 2015. EBITDA for the quarter was a \$21,000 loss, compared to a \$95,000 loss in Q2 of 2015, a \$74,000 or 78 percent improvement. Adjusting EBITDA to include the \$78,000 in income from discontinued operation and \$44,000 in non cash stock option expense adjusted EBITDA for the quarter totalled \$101,000.

Now to some commentary on the six-months ending June 30<sup>th</sup>, compared to last year. Once again for a visual on my sales and gross profit commentary, please reference the analysis we mentioned and made available on Mace.com. Net sales for the six-month ended June 30, 2016 were \$4,110,000, compared \$3,385,000 last year, an increase of \$725,000 or 21.4 percent.

This increase is mainly attributed to \$1,530,000 in sales through our consumer channel, a \$348,000 or 29.5 percent increase, and \$621,000 in international sales, compared to \$283,000 last year, a \$338,000 or 119 percent increase.

Despite losing \$99,000 in sales to sports authority, sales through our sporting channel totalled \$1,604,000, compared to \$1,541,000 for an increase of \$62,000 or 4 percent over last year. Direct sales totalled \$85,000, compared to \$69,000, an increase of \$16,000 or 23 percent. Margins were lower again year-to-date as the Company ran promotions, discounting products and drive sales volume in both the first and second quarters.

Sales through our tactical channel totaled \$220,000, compared to \$264,000 in 2015, a decrease of \$44,000 or 17 percent. This decline is mentioned in my Q2 comments and is attributed to the \$95,000 in royalty revenue received in Q2 of 2015.

Gross profits for the six months ended June 30th totalled \$1,656,000 with a 40.3 percent gross margin, compared to \$1,389,000 and 41 percent gross margin in 2015. Gross margins in sporting and consumer were 3.8 points higher in 2016, compared to 2015, as a result of strong mix and lower customer program expenses.

Offsetting the higher margins in sales through our consumer and sporting channels was a decline of 18 points in gross margin on sales through tactical channel as result of the \$95,000 in royalty revenue and slightly higher freight cost year on year.

Selling, general administrative expenses for the six months ended June 30, 2016 were \$1,832,000, compared to \$1,891,000 in 2015, a \$59,000 or 3.1 percent reduction. The decrease is mainly attributed to \$131,000 reduction in salaries.

The Company was also more strategic in advertising and marketing expenses, resulting in \$139,000 or 49 percent reduction in the advertising and the advertising savings were offset by \$113,000 in expenses for PR IR and participation in several investor conferences.

Operating loss for the six months ended June 30, 2016 was \$252,000, compared to \$573,000 in 2015 resulting in a \$321,000 or 56 percent improvement. Interest expense for the six months ended June 30 was \$23,000, compared to \$25,000 in 2015. This is interest on the PUT option which is disclosed in the notes of the financial statements. Interest income for the six months ended June 30 was \$72,000, compared to \$94,000, and interest income in 2015, a decrease of \$22,000.

The decrease is attributed to a lower return on the \$2.1 million in short-term investments and lower interest income on the Security partners note that -- as I've mentioned as the principal gets paid down, we received less interest income.

Other income totalling \$312,000 in 2015 included the gain of \$322,000 on the early retirement extinguishment of debt owed to Merlin.

Net loss before discontinued operations for the six months ended June 30th was \$203,000, compared to a net loss of \$208,000, a \$5,000 or 2.4 percent improvement over 2015. Income from discontinued operations totalled \$84,000, compared to a loss of \$34,000 in 2015 for \$118,000 improvement and the net loss for six months ending June 30, 2016 was \$119,000 compared to \$242,000 in 2015, a \$123,000 or 50.8 percent improvement.

At this time I'll make a few comments on the balance sheet at June 30th. The Company's net book value was \$8.3 million, compared to \$8.3 million at 12/31/15. Mace had \$9.3 million in total assets including \$2.4 million of cash and short-term investments.

Net inventory totaled \$1,776,000 at June 30, 2016, compared \$1,601,000 at year-end, an increase of \$175,000 or 11 percent and this increase is attributed to building inventory for a significant early August promotion we have with the major customer.

We had positive working capital of approximately \$7 million and a current ratio of (7.5). Once again the Company has no debt at June 30, 2016 and there's no change in stockholders equity at \$8.3 million.

NOLs at June 30th were approximately \$60 million with \$1.1 million expiring in 2018 and the last NOL expiring in the year 2035. That concludes my review of the quarter and year-to-date six months June 30th financial result commentary, and I'll now turn the call over to John McCann our President and CEO.

John McCann: So, thanks, Carl. And as evidenced by the numbers, we're in very good position at Mace with everything that we've been able to accomplish in the past couple of months and the past couple of years.

With that being said, it did take us a little longer to file our 2015 year-end financial, due to evaluation issues that we had but that was resolved favorably for the Company and so we were able to postpone the 2015 financials, the first quarter financials and now obviously the first half financials which we're pretty pleased with the results with a lot of work to go.

At the same time as we talked about in the past, we have several product lines, night beams, Mace 911 and then several new product initiatives with our pepper spray line. Some of these I'll talk a little bit about specifics. Some of the products it is an ongoing evaluation and evolution strategy to make sure the value premise is the best situation for all of us.

With regard to our night beams and our Mace 911 line, the POS sell through has been underwhelming at the locations that it's been placed -- the retail and it's a variety of different retail locations so we're revisiting our strategies, our pricing and our programs with our consumers with some of the feedback that we've got from some of our partners.

There is a couple initiatives that we're waiting to close, along with these products that I think will help the products grow both in sales and also with what's happening in the marketplace. With regard to some of the pepper spray products, I have to say on a very small budget we changed the handle which made it more (aero) dynamic to use, easier to use, easier to fire, easier to carry. And then also the new packaging has been very well received as we're reviewing our POS sales from all of our major customers that it continues to bounce upwards and we continue to find more placement and places for pepper spray.

So as we talked about in the past with our different product line looking at expanding the Mace brand name beyond pepper but also realizing there is still a lot of upward mobility within the defense spray category that Mace can achieve as we look towards the future of the Company.

One note as Carl has mentioned in our (TG) -- at -- in our tactical division or tactical division are made up of three major components. The first component is our defense sprays. The defense sprays are doing quite well. We're getting more placements at law enforcement and local police departments.

We don't put out the list of law enforcement as we've talked to a lot of law enforcement personnel. It doesn't help them with their decision-making. It makes it somewhat vulnerable on a pick-off list from some of our competitors because the segmented defense spray sell into law enforcement is highly competitive.

There are a lot of players in the marketplace. We are the brand. We have some unique premises that we go to market and selling both with their foams or gels and our inner traditional sprays and a wide variety of opportunities both domestically and internationally.

So we have added several new customers and we continue to add new customers every day of the week. The next grouping within tactical which is one of the disappointments thus far year-to-date is our TG Guard and what Carl referred to in our royalty's arrangement.

State departments, prisons, correctional institutions and some private placements have been a little bit slower than expected. We anticipated it not being the banner year like 2015 was but right now the implementation of many quotes and bids and offers out there has been slower than we had projected.

We do have an all-hands-on-deck effort in order to improve the results of that segmentation of our tactical division because we do some have unique proprietary properties that we sell well and perform. They're very effective, very safe and when deployed are excellent products.

The last segment within the tactical is our munitions division. Unfortunately as we kick off this division in 2015, we've hit some bumps in a road both with



some ATF issues that we will work on but now we have some production delays from our partner.

So right now we're not where we want to be within munition side but we're feeling we're getting very, very close to the day that we will be able to be full service, less lethal, de-escalation of products in our Mace tactical division made up of three components.

So recapping again the defense spray is growing and continues to be healthy. TG Guard I think we have some opportunities and then really on the munitions side are less than lethal or de-escalation products we really are stumbling out of the gate but we still feel very confident that we will be able to do nice business within the segment and the segment has a high ceiling for opportunity for growth.

Talking about as we look forward there's several new products that didn't factor into this quarter that we're launching. We have with a new pepper gun if you look at the presentation that we put out for the investor community on slide seven.

Slide six and seven really talks about new opportunities within the marketplace that we're launching. There are several items that are in our exquisite line and our hot pink line which are close proximity products that are stylish, easy-to-use and very fashionable.

We're also moving our entire line into our Flip and Grip category away from the twist lock segmentation which we think will also have an added consumer benefit as we look down the road and a lot of our research show and then on slide seven you can see our new Mace pepper gun.

Our pepper gun sales especially in Europe and in segments of the U.S. has done extremely well so we took our current version of our gun, reimagined it, make sure that it was identifiable versus a firearm or a weapon and we will launch this product in the 3<sup>rd</sup> quarter.

All of these products have a strategic soft launch initiative with a hard launch at the 2017 SHOT Show but there are several retailers in Europe especially with the pepper gun that we will launch now. Strategically we will launch these 2 other products online, through Amazon and the mace.com. This will allow us to use the web site to get fit feel and feelings from the consumer so we can make some adjustments as we need to for future success.

The new pepper sprays will be in our exquisite line (Clutch and Carabineer) being our models, we'll take on the same strategy. We have a couple specialties, smaller retailers that will do some testing and bringing some products and will be able to review and analyze that to make sure that we have the packaging, the instructions and the guidance correctly along with our partners at Amazon and mace.com.

So these items will add incrementally to our goal for 2016 and within our internal budget we're exceeding our internal budget both on a top line and bottom line basis more on the top line instead) on the bottom line where we want to be and we're very, very bullish on the year as Carl has mentioned for us to hit and exceed our expectations for the Company within the year.

As Carl has mentioned in his presentation there is some timing issues. You know the loss of TSA which is The Sport Authority in the sporting goods channel is a shame but at the same time we're growing with the top retailers especially Dick's Sporting Goods.

One of the initiatives that we had that we talked about earlier was additional placement within a Dick's store and today we're proud to announce during the third and fourth quarter of this year we'll have double placement in the stores.

And sometimes triple the placement within a store so we will be in the lodge area which is the hunting, fishing and outdoor areas of a Dick's Sporting Goods stores will be in active wear sections or the frontend.

A lot of this is dependent upon the store layout, the store manager's implementation but will be double checking because Dick's is a great partner

of ours but we'll see some added value sales within those sections as we've defined different areas in the store that we feel pepper spray fits nicely into and will sell.

As Carl has mentioned earlier some of the inventory that you see the uptake in the inventory right now is based on a big win that we're able to achieve with their partner Lowe's Home Improvement.

We are in approximately just under 600 Lowe's stores everyday of the week. The end of last week and this week we've shipped out 48 count displays to 1200 Lowe's Home Improvement stores throughout the United States.

And we're very happy and excited about this program, based on the POS sales that we had in the key making kiosk and the key making areas of the Lowe's store the buyer is putting in what they call the racetrack or the runways of their major stores with 48 count displays. This win along more sales and placements at Ace and Auto Zone is great news for the company.

We did a container program with one of the franchisees of Ace and he has taken in an all-in efforts with our product line both a little bit domestically but really in the Philippines where we're going to be as number one promoted product during the third and fourth quarter of the year and of course AutoZone again we have several promotions planned in the fourth quarter that will continue to boost their sales.

So looking at in general where the Company is at some of the new product launches- we are a little bit behind where we'd like them to be but we're looking at the overall strategies to making sure that we have the right plans, programs and also reach the consumers the way we need to.

You look at our core products we're continuing to grow with some huge opportunities both still in the pepper spray category traditionally to consumers and also in the tactical division as we're finally able to launch munitions through our manufacturing partner.

One of the big items to note is the investor conferences we went to that we spent a little bit of money on the RR and PR we feel are having some positive effect on the company. We attended three different conferences with good audiences and interaction at each conference.

We've had some very good follow-up with some investors that we're going to continue to work with them, not being able to fully disclose their financial (hurdles) but now we're in a great position because in the favorable evaluation of the asset.

We were able to now post all the earnings and share the positive news of growth at the company and the bright future for the company-- we are looking at the OTC markets and where we should be and where we're going and what is the best fit for the company based on, the financials track, the sales and marketing ability.

And the \$60 million in NOLs we think we're very nicely placed in the market to have the kind of year that we've all been expecting and we're really thankful moving from that turnaround phase into a true growth story.

One of the footnote is we talked about before our building security surveillance division which we moved over in our (discontinued) operations. We're close to an agreement to work with a third party on the segmentation which would be beneficial to the Company and that's all we'll say about it but they -- we'll have more information I hope within the next several weeks about that transformation and then very lastly one of the things to mention is our partnership with Kort and Select Security.

Kort/Select Security division has been funded with the Mace branded program so the Kort/Select dealers -Mace program is now a full go. They have full funding from Goldman-Sachs.

Steve Firestone along with the small team from Mace are working on the product lines and we're very excited about the progress they've been able to make that a Mace home security program will be launched within by the end of the year through Kort Security and Select Security.

And I think that's another benefit to the Company because it's yet another set of eyeballs on the Company and also that branding out there to consumers that will allow them to not only see the Mace brand in consumer, see the Mace brand with law enforcement but also see the Mace brand protecting somebody's home.

And all these relationships although they took time, they took effort. They're all now coming to fruition which is a great benefit for the Company and then lastly just to reiterate again our brand awareness continues to stay high.

Our brand satisfaction continues to stay high. We are still the brand leader within the consumer category and we will grow to be the brand leader in the tactical categories.

So that's really it.

(Joanna) we can turn it back to you and we can take some questions. Would you have a hard stop at noon so we like to get through as many questions as possible prior to noon.

Operator: At this time I would like to remind everyone in order for you to ask question you may please press star then the number one on your telephone keypad.

Our first question comes from the line of Mr. (Thurman Willis), a (private investor).

(Thurman Wallace): John, congratulations on reaching the milestone of an inflection point of finally turning to a growth company instead of the turnaround that has now been complete.

Can you please -- I have one question and one follow-up, can you please comment on how we can move to better IR and PR as it relates to our company because we know that we basically have no fans in the stands though I've been very pleased to see the volume over the last three days.

John McCann: So (Thurman) thanks. I think one of the things that at board level we've had the conversations about the same.

Looking at the different markets, looking at the decision the Company made which I think is the right decision at the time to go to the OTC pink market we've been challenged by our chairman to say OK what is the right market within the OTC to look at, what are the right costs, what are the right value equations to come back to the board and say, "OK here's where we think we can trade it on which to your point I think would have a positive effect on the Company.

Then the other thing is through the three strategic investor conferences we went to although I have to say Cavaliers winning the championship on the day of the midwest conference kind of put a damper around it because there was a million and a half people for the (Parade) and less people at the conference but the other two conferences were -- we were very well-received and there's a lot of good follow-up we have from those conferences.

Now that we have you know the six months ending June 30th financials out and last year's financials and the comparables are very variable to the Company and the trajectory as a company I think that will also have a doubling affect on what we're able to do and then lastly there's always the strategic opportunities that we continue to evaluate.

You know companies that might make sense with the Mace brand, companies that have some complementary products that will really allow us to bring a Mace brand now. Some of the findings that we have on some of the products and the partnerships we did is we do have to be strategic to make sure that the right promise in order for us to have success.

(Thurman Wallace): OK and then the follow up to that is I appreciate you in attending investor conferences and you might just want to jot these down so you can respond to them. I would now like to see you even get more involved in investor conferences.

I would like the board that has been very conservative and now that we are a growth company to, you know, consider company repurchase program.

Of course, inside -- insider market purchases is something that each individual has to decide but some of your board members own very, very little stock and I strongly suggest you go to the OTCQX and move away from the (pink) sheets as sort of being the wild west, you know, stocks.

And just want to know if the -- if you think we will see a philosophy from a new philosophy from the board as it relates to spending money like Taser does and one follow-up comment.

I know one conversation one board member. I was saying that, "I thought we ought to trade over \$ 1." And he said that, you know, that would be (\$60) -- that that would be a \$60 million market cap.

And I think we have to pull out the Mace brand name for that which I've been told is \$30 million and then we've got \$60 million in tax loss carry forwards which basically would wipe out those sales so Taser trades at (7.35) of market cap to sales.

And lastly if you would comment on the need to get the stock up with the overhang that's, you know, of the market caps, you know, just, you know, \$20,000 million-some odd and with a \$1 or \$2 market cap when you talk about strategic opportunities that would really give us an opportunity to really move forward so hate to be so rambling with that, but I (won't you) would like for you to comment on each matter.

John McCann: Sure so I -- with regard to the repurchase I think I don't know if we're right there yet but I wrote it down and we'll bring it up with the board meeting. Insiders obviously- We still have a blackout because there's something that we're working on internally that would be considered inside information so it might be a little while before board members and management can get back into the stock but we're working quickly on a couple initiatives that we think

can be very positive but based on legal outside counsel advice that it will be hard for insiders to do anything right now.

(Thurman Wallace): OK.

John McCann: And with respect to the markets we are talking to the OTC. They've given us some good analysis of the different markets to look at as the next step. I think there are some opportunities that we will discuss as a board and take the advice of our chairman.

With respect to the stock I think we're all in agreement that we would definitely like to see that as an opportunity for the Company to continue to increase, you know what the right evaluation and is to be determined.

But I definitely think that we have some great opportunities especially now because we're talking about growth and strategies versus cleaning up and issues and I think that's always a positive thing because stressing again the sell growth of current products the launch of the new packaging and branding and some new items being softer than expected we still achieved great growth.

And every company launches products with the hopes of everyone being a home run, not every product is a home run but I think we have some great strategies behind some of the products and some of the products as I mentioned earlier we have to re-strategize because the premise of the sales with the value proposition to the consumers is not heeding what it needs to be.

(Thurman Wallace): Well thank you for taking my question. I'll get back in the queue. One thing that I did touch on that I don't believe you commented on was our IR and PR firm.

I understand that we're trying to get on the Home Shopping Network which I think would be one of the smartest things we could do but I understand that we're having problems with the networks so wouldn't there be an IR or PR firm out there that could easily get us on the Home Shopping Network



because I really haven't seen anything that our existing hour be (or firm) is done.

John McCann: Well the IR/PR really do not help or work with the Electronic Shopping channels. We have what we call representatives that our independent reps working these accounts and we have strategies in place with the right products for these accounts.

But we do have very good representations both at all three different shopping channels and I am directly involved in a lot of that and there's a little bit of work to do in order to get our product's place on electronic shopping as a channel but we would agree that we think it would be a great opportunity both for the electronic shopping purveyors and for the Company to get that message out of empowerment because everything -- all the products we do from our defense spray to every product that we sell is empowerment.

But the IR PR firm really -- it won't sway in (HS) center or QVCs on a purchase. It's a value proposition and then it's legal things that have to be overcome at both those but those are both opportunities (Thurman) and we're in alignment with you that we think those are great opportunities for the Company.

(Thurman Wallace): Thank you for taking my question and congratulations again.

John McCann: Thanks

Operator: OK your next question comes from the line of Mr. (Don McDonald) from Consilium Global.

John McCann: Hi (Don).

(Don McDonald): Hi how it's going?

John McCann: Good. Thanks for being on the call.

(Don McDonald): Please a couple of questions. First one your net revenues for the year to date is up 21.4 percent. Do you think that is sustainable going forward and what are the primary drivers of that?

John McCann: We do feel that double-digit growth is sustainable in the near-term future.

Two big reasons is there expansion and our success rate in the international market so traditionally we had sold Europe, now we're selling beyond Western Europe and into Eastern Europe. We have our first orders for South Africa. We've expanded Eastern Europe and we see some real true opportunities there.

If you look at the U.K. situation of, you know, some opportunities exist there also - pepper spray as it stands today is not legal for consumers but we make the product (Stopper Red) that seems to be making some nice inroads - it's a nonirritant red dye that would mark a would be assailant in those markets.

There are many in the consumer markets we think there are some huge opportunities especially traditional consumer market so we've expanded in to what we call big box or your home improvement and we're seeing some nice success with more to come in the future. Plus expansion in Tactical sales is a big opportunity for the company.

So we see some opportunities there and then lastly because of Dick's great success in the management in their stores and their discipline of their stores they're taking over several of the old TSA stores which is good for us due to our relationship and success at DSG.

We are still through our PR efforts positioning Mace as a thought leader between guns and no guns because we think we hold that fertile ground and we're great alternative to that discussion and fit in both camps with great products and solutions.

And if that become more of the public conversation we feel we're well-positioned within that segment so international growth still domestic growth

and expansion of our product line and then the changing dynamic of the world.

(Don McDonald): Just I don't know if you noticed in today's paper in New York two very unfortunate incidents, one was the murder of a young woman jogger in Queens and then I guess there was New York City Google manager in Massachusetts while jogging also was murdered.

What the paper said it looks like the (sales office) called booby-trap bars with Mace are now flying off the shelves. Are you seeing that?

John McCann: Correct. So yes now we're aware of both situations and the tragedy is that (out about) a year ago Governor Patrick of the Great Commonwealth of Massachusetts passed a law that allowed pepper spray to be carried so now the acceptance level within the Great Commonwealth is much higher.

So people can carry legally a pepper spray whether it's 3 to 4 ounces, different formulizations and so you're seeing that. Unfortunately in New York pepper spray is very restrictive, it's very hard to buy, there's a lot of concerns.

And so it is another opportunity that, you know, when you're revisited statutes and its regulations to look at that as an opportunity and then (Jennifer) who is the founder of Booby-Trap Bras when she was developing our products she reached out to us and we were able to come together and it's a nice arrangement. She makes a great product. It's easy to use.

It fits on your arm or for a woman or a man, she makes a wide variety of products that make it easy to carry and conceal your Mace-branded pepper spray as you're jogging and we actually are scheduled to speak again this week because to your point on the media side some other things.

There are some opportunities that we're going to take advantage of but she makes a great product and we make a great product so it's a great marriage.

(Don McDonald): And one last product -- one last question from me those profit year to date up 19 percent is that sustainable?

John McCann: Yes -- we've made some changes both -- so with the new packaging is actually more cost effective. The new handle is more cost effective for the Company and we are not seeing the downward pressure on invoicing pricing.

There's always deficiencies that would factor into that like for example international orders we got flooded in January with some international orders that we spend a little more time putting together.

But now we have a system in place that we think that both the sales side and the profitability side are sustainable and I can imagine like Booby-Trap Bra is a great example, that's a great partnership where she could take advantage of the Mace brand name now and in the future. So thanks, (Don).

(Don McDonald): OK, that's it for me. Thank you, again.

John McCann: Thank you, Sir.

Operator: Next question comes from the line of Mr. Andrew Shapiro from Lawndale.

Andrew Shapiro: Hi, John. So if you could help expand a little bit further here yes we're at the inflection point finally off delayed it to hit a break even and we've done it with some nice growth.

You just answered some questions about how your -- can we continue the growth but you're talking about primarily it sounds like the pepper business and that has a nice market opportunity.

But the market opportunities we've talked about on prior calls with your tactical Mace alert 911, the night beam safety wearables are market sizes that are equal or greater than your pepper side and you have zero revenues in those right now it sounds like you haven't done anything so I just like to go down these three areas if you could and one by one.

John McCann: Sure.

Andrew Shapiro: Here and confirm and articulate what your strategy is to grow these products so with respect first off with night beams and we'll use a broader category safety wearables what is -- you haven't had any sales for much from this but then again all I do is I see some Web site work and I see some tweets. What can your -- what's your strategy to grow this product to it's market potential.

John McCann: Sure so on the on the wearable side we haven't had the success as the market is not there yet and then I'll talk about night beams in a second but on the wearable side we haven't had success. We have entered into several agreements for different products whether it be tracking devices, smart products or wearable safety technology, none of them really have taken off in the marketplace so you look is it the market or is the consumer not 100 percent ready for it.

We're, you know, we had like as we had talked about The Defender which is a great product, it still hasn't launched as it is more difficult to have the right value premise than imaged prior.

With regard to her night beam side we do have sales within the segment and across the board from tactical to general consumer as a percentage of our sales they're still small. I would say they're under 10 percent of our total sales year-to-date. The problem being, Andrew is we have to refocus and relook at our strategy and working with several of our retailers to pick up the product for example Pep Boys who we have night beams in every one of the Pep Boys stores the POS sales are not to anyone's expectations.

Some of the feedback back from the consumers and the accounts are -- were reevaluated and re-strategizing on it. Some of the other accounts that we have talked to about the product in the segment have quite honestly flat out, that we're not interested in the segment even though we think it- it has the potential.

So and then regard to market size the market size for defense sprays continues to grow so some of these might have a higher cap today but it doesn't -- we shouldn't diminish the fact that defense sprays could have a market cap greater in the future.

With regard to Mace 911 the same type of situation. We have some direct selling. We had some accompanied (CVSL) that does party planning and they actually do Mary Kay style product placements. We have not seen the sellthrough that we needed to see with regard to the product. We have it some grocery and drug accounts with lower pos sales then expected.

We'll work with some pharmacies to put it in because we love the premise. We think it's a great product but once again a lot of the return orders off of the initial base so based on a POS sellthrough at the account level and we have to re-strategize because we're not seeing the bounce that the account, the consumer and the Company anticipated.

Andrew Shapiro: John can I interrupt before we get on to the tactical munitions.

John McCann: Sure.

Andrew Shapiro: Both night beams and Mace Alert you described your strategy as kind of retail push rather than a demand.

(Multiple Speakers)

Andrew Shapiro: Consumer. I just saw your nine -- your Mace Alert 911 was just recently -- I am seeing tweets on it from you but I am seeing tweets now that you priced at hundred bucks.

I mean at \$100 at one time \$100 purchase for a device that can call directly through the 911 anywhere where there is cell coverage for grandma or my mom or whoever has got to be able to knock out Life Alert in a heartbeat with its recurring payment model except you guys are not marketing this to the consumer.

And I know it cost some money to do it but you going to spend some money to make money and instead of wasting money with IR and I don't know what - - where the PR is going is it that Mace Alert 911 product should be flying off the shelves.

And there should be massive demand at \$100 for a device like that. Are you not finding any pull-through on that? I know it was priced at \$200 and know you got it in \$99.99 it should be flying it's a one-time sale.

John McCann: There are some of the strategies we can't talk about publicly but we are working on direct response style campaigns to bring the product to market. Once again some of the testing does not hit the metrics that it's flying off the shelf.

I've been in the infomercial world. I know the cost per call, cost per order, MER, GRPs that you have to generate and Andrew we agree, we think it's a great product, we did the deal, we like the people that made the product, we are re-strategizing how we can make it fly off the shelves because today through direct response testing and we retail testing it is not where we want it to be.

(Multiple Speakers)

Andrew Shapiro: ...articulate a strategy. Do you have a strategy?

John McCann: I can and we have a strategy but I am not going to do it publicly because that would be detrimental to the Company, Andrew.

Andrew Shapiro: Fine let's move on then. If that's the reason then I'll back off on that and I want to move on.

Munitions you just talked about -- we have had ATF's requirements, rules, and changes, things that required us to store and to properly handle the munitions in order to get the permitting and the licensing and be able to do it.

That's taken a lot of time it took longer than you had hope for. I don't know if we're already in a lease agreement and now we have fixed cost but you mentioned today on the call that now there's issues with the partner in production.

Can you expand a little bit about what that is and the time horizon for and the likelihood that production issue will be overcome and when the broader line of basically consumable nonlethal or less lethal munitions will be a revenue line item for Mace.

John McCann: Right so we have no hard cost associated with it. We are ready with the jumping into the hard cost as need be with me with the leases with all the ATF requirements. We feel we're in a very good position there.

The problem that we have now because some of the delays related to the ATF is actually a demand issue. Our partner who we know very well has greater demand for his products than he has capability of producing so now it's -- we're negotiating with him is how we can slide in production to make it effective into this calendar year. There is a great potential due to his capacity constraints and demand especially his demand in Europe that if might slip a little bit further.

With that being said we also have teed up two or three other suppliers that were qualifying as we speak to see if we couldn't get in motion these consumables which are I think is a good phraseology for the tactical munitions segment going a little bit quicker.

So with that, we'll give more advice as we have it but it's definitely a demand issue today and a capacity constraint from our partner.

Andrew Shapiro: OK. Now with the night beams on we'll call it the industrial commercial bulk side. Have you made -- what progress have you made getting these products such as your LED safety vests into corporations and safety workers, etcetera, beyond Cleveland's Quicken Loans Arena?



John McCann: So right now it's one of the things that I'll (parts) my answer because some of it gets into strategies costing and defining the product a little bit further. We have several large corporations that we have quote out to but we're not seeing the momentum and a little bit of it just, you know, peeking into it is that we're selling something that is a multiuse versus disposable.

Some people in the category viewed as a disposable so even though the features benefit and quality of our products are far superior to their product they think, "Wait. If I can buy one for a couple bucks then I throw it away, I'll give him a new one that's a better promise."

So we're running some ROI to show him that this has better quality, longer lasting and over time it's a better savings and a better value proposition for your -- (both it) whether it be a guard, law enforcement, correctional or corporation that has people that are at risk in different environments.

Andrew Shapiro: OK what exclusive accounts were added during the first and second quarters?

John McCann: It -- really most of the accounts that we had during the quarters were nonexclusive. We have had great pickups in distribution that we took away from our competitors, We are in new sections of the stores to that we have added into the mix but the majority I'd say is that have picked up are on exclusive accounts.

Andrew Shapiro: But you've gotten into these -- you've gotten into new accounts and just not exclusive yet because you're now gaining and taking share.

What -- have these new accounts sold through their initial inventory build and what has been your reorder experience this quarter?

John McCann: Right. Some of it it's hard to tell but majority of them I would say were very positive situation that with the exceptions of some of our newer products that their sell-through has been above their expectation.

And then also within the segmentation, there's several accounts that have increased their -- we started with the task of let's say 20 doors they've increased that to half the doors. And, you know, for example like Lowe's we've gone from 500 doors into 1,200 doors and our goal is will be in all doors this time next year.

So right now I'd say it's very positive and you can see it in our results -- of our sales results just even peeking a little bit further we feel we're going to have a fantastic August on top of a very solid first quarter and second quarter so the tea leaves show that our third quarter should be just as robust as our prior two quarters.

Andrew Shapiro: Great. How do you address and keep control and manage risk in Mace's inventory levels. The days sales while down from prior years still seem kind of high.

Is that -- is this our going to be the best we can do or how do you keep the inventory fresh and avoid kind of what we had with the video surveillance inventory set?

John McCann: Right. I think we can analyze it a little bit but as we're adding new and we're adding some different. It, you know, there's always those risks. I would say that we turn over -- if you're in our warehouse today we turn our product very, very quickly so some of it is that we have packaging changes.

We had box case changes. We made some modifications so you're going to see an increase in our supplies on hand for the different segment and then some of it is we hold a couple of exclusive SKUs for an account or two.

One of the things that the Company is undertaking and we undertook and when I started is the SKU rationalization that has already begun for the rest of this year in 2017 to say if 80 percent of volumes coming out of the 20 SKUs then we have to reevaluate these other SKUs to make sure that we keep our inventory and our expectations in line with our growth.

Andrew Shapiro: Right well when you say you turn it quickly, you know, my inventory calculation showed us at 133 days, your AR turns are at 66 -- 68, your AP turns are at 28 so your cash convergence is 175 days that's still pretty high and I am just wondering if what's in the back of the back -- of the warehouse is -- what is the method you have to manage that risk and keep things fresh?

Carl Smith: Well, when we checked -- this is Carl. When we changed products going from a different packaging we had a strategic role over rolling out of one product into another so with regards to our pepper spray and our, you know, bread and butter type products we do turn those a lot quicker.

You know some of the inventory that is -- maybe training trending your (calculation) a little bit higher is, you know, some of the Mace Alert 911 inventory which there is not a shelf life on it but we have to give it to (move).

The night beam's product which is in our inventory that is -- doesn't have a shelf like that, you know, we're working on the program as John iterated in his commentary to move that inventory so you have a couple of items that hold that calculation or view it the other way.

Andrew Shapiro: OK so we will -- I mean we watch it. We want you to watch it and it sounds like you got a program for which to deal with it. What is the sizable machinery equipment purchase that was made in the first half and is that purchase providing the expected returns and payback for you?

Carl Smith: So the increase in fixed assets is there's a couple of items, you know, one is the (tooling) that we encourage (expense) on remodeling and giving our pepper spray a different look so that will be the increase there.

And as John alluded to that was well accepted in the marketplace with regards to customers accepting that and again they're talking about inventory. We did a rolling change with that conversion and new look so it's not like we doubled up on our inventory.

We rolled out a one rolled into the other and the other one was an automatic valve drop machine which is (then) scheduled for an implementation and in two weeks.

And basically what that will do is that will increase productivity in the (field) room with the elimination of one person on the rotary machine so (augment when) situation there. So third and fourth quarter will start to see some increased production and lower direct labor cost in that area.

Andrew Shapiro: OK and last question I'll back out into the queue if there's time to come back but the -- you had a wave of investor presentations; I think it helped you put together and articulate a strategy in a presentation.

You've taken a little bit a hiatus which has provided you now the time to put out on the table financial numbers and more importantly a positive cash flow and the growth ramp. What programs or what investor engagement do you have on the calendar and plan for the rest of the year the next four months if any.

John McCann: Right now I think we're in talking stages with the board on those next levels. I think a couple of callers are on the call today were the result of the investor conferences that we attended.

And then also the board or the chairman of the board had asked management to look at the QX, OTCQX because there are some features and benefits on some virtual marketing assets that would -- they could make available so if we make the switch to the (QX I think there are some added opportunity on the investor side too).

Andrew Shapiro: OK. Well, I'll back out in the queue. I think the main thing you got to do is you got to put some more growth -- gross profit growth on the table and I think you probably got to spend some money to accelerate into a widen and ramp out your revenue growth which means you got to grow that gross profit a little higher than what SG&A probably has to move up with.

John McCann: Thanks.

(Carl Smith): Thank you, Andrew.

Operator: Sir we do have a question again from the line of Mr. (Thurman Wallace).

(Thurman Wallace): Nice to see Mace make a new 52-week (out of day) don't hear many investors talk about the stock price but I think we're so far undervalued.

I am glad to see that hopefully some of these investor conferences and other things that you're talking about, John, will look move our stock price up because (eyes on) investor still judge a lot by your report card being the price of the stock, thank you.

John McCann: Thanks- So I think we're at 12 o'clock. I think if there's maybe one more question (Joanna) and then I think we can wrap.

Operator: OK, as of the moment, Sir, we don't have any questions.

John McCann: OK. Well, once again we want to thank everybody for participating and really stressing again that the Company is in a good position. We have \$60 million worth of tax loss carry forwards. We're seeing positive growth momentum and we feel with some of the changes in strategies that we'll have in place we'll see continued growth and margin improvement as we move forward.

So I want to thank everybody and always if you have further questions, please don't hesitate to contact the company.

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

END