

**MACE SECURITY INTERNATIONAL INC.**

**Moderator: John McCann**  
**March 1, 2017**  
**2:00 p.m. ET**

Operator: This is conference # 79653569.

Good afternoon. My name is (Sheryl) and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter 2016 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to draw your question, press the pound key. Thank you.

John McCann, President and CEO, you may begin your conference.

John McCann: Thank you very much and thanks everyone for joining the conference call today to review the fourth quarter and year-to-date results for the period ending December 31st 2016. A quick note. I need to apologize the – we are having a computer glitch with loading the transcript and presentation that we had prepared for this call. So as soon as possible, that will be reloaded – that will be loaded on the Mace corp site. And hopefully, that'll be as soon as we can possibly do it.

So right now, I'll turn it over to (Carl) who'll read the forward-looking statement to go over our fourth quarter and year-to-date results. Thank you.

(Carl): Certain statements and information during this conference call will constitute forward-looking statements that are based on management expectations and information currently in the possession of management. When used during our conference call, the words or phrases will likely result are expected to will continue as anticipated, estimate projected, and intended to or similar expressions are intended to identify forward-looking statements. Such statements are subjected to certain risks, known and unknown, and uncertainties including but not limited to economic conditions, limit of capital resources, and the ability of management to effectively manage the business and integrate acquired businesses. Such factors could materially adverse the effect of 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 and year-end 2016 financial results. After I'm finished, I'll turn the call back over to John McCann, our CEO. My approach would be to walk down the P&L line-by-line commenting on the first quarter followed by comments on the full year.

I will now comment on sales by channel and product category. Fourth quarter net sales were \$2,238,000 compared to \$2,051,000 last year, an increase of \$187,000 or 9.1 percent.

For breakdown by channel, sporting goods net sales for the fourth quarter totaled \$940,000 compared to \$724,000 last year, an increase of \$216,000 or 29.8 percent – a significant increase despite the loss of \$73,000 in sales in Q4 2015 to the now bankrupt Sports Authority. Consumer channel net sales for the fourth quarter totaled \$958,000 compared to \$832,000 last year, an increase of \$126,000 or 15.1 percent.

Web channel net sales for the fourth quarter totaled \$39,000 compared to \$56,000 last year, a decrease of \$17,000 or 30 percent. Tactical channel net sales totaled \$980 – I mean, excuse me, capital channel net sales totaled \$98,000 for the quarter compared to \$211,000 last year, a decrease of

\$113,000. The decrease is mainly attributed to timing of sales of our TG Guard Security Protection Systems.

International sales for the quarter totaled \$81,000 compared \$183,000. This decrease is mainly attributed to timing as international sales are up 71 percent year-to-date. Sales categorized as OEM or other totaled \$122,000 compared to \$44,000 last year, an increase of \$77,000. This increase is mainly attributed to selling \$81,000 of Mace Alert 911 units.

So now, I'll breakdown in the same product sales by category for the fourth-quarter. Sales of personal protection aerosol products or pepper spray totaled \$2,006,000 compared to \$1,879,000 for an increase of \$127,000 or 6.8 percent. Personal protection non-aerosol, which includes Mace stun guns, Mace Alert 911 totaled \$171,000 compared to \$63,000 for the fourth quarter last year, an increase of \$108,000. This increase is attributed to \$79,000 in stun gun sales, a 128 percent increase over Q4 last year and \$80,000 in sales of Mace Alert 911. Sales of Nite Beams products were \$21,000 for the quarter compared to \$24,000 last year.

Home security product sales, which include the door jammer and wireless home alarm systems for the fourth quarter were \$25,000 for 2016 and 2015. Offsetting the gains was a decrease in TG Guard Security Systems, which I mentioned when I discussed the decrease in tactical sales channel above. TG Guard Security Systems sales were \$12,000 for the quarter compared to \$119,000 last year, a decrease of \$107,000.

Net sales for the year were \$9,054,000 compared to \$7,145,000 last year, an increase of \$1,909,000 or 26.7 percent.

Now, I'm going to break these sales down by channel and product category, as well giving you the highlights. Sporting channel net sales totaled \$3,397,000 compared to \$3,016,000 last year, an increase of \$381,000 or 12.6 percent, again, a significant increase despite the loss of \$330,000 in sales, to Sports Authority who filed for bankruptcy. Consumer channel net sales totaled \$3,981,000 compared to \$2,684,000 last year, an increase of

\$1,297,000 or 48.3 percent. We were very successful in expanding doors, adding SKUs, and getting display programs with key customers, as well as opening new accounts, which drove this segment – this channel, if you will.

Web channel net sales increased slightly at \$170,000 compared \$166,000 last year. Tactical channel net sales totaled \$397,000 compared to \$612,000 last year, a decrease of \$215,000 or 35 percent. And this decrease is mainly attributed to a decline in sales of our TG Guard Security Protection System, which tend to be cyclical in nature with 2016 being an off year.

International sales totaled \$908,000 compared to \$531,000, an increase of \$377,000 or 71 percent. This increase can be attributed to a refugee issue experienced in Europe in early 21 – in 2016 and opening new accounts in Poland and South Africa. Sales categorized as OEM or other totaled \$201,000 compared on \$136,000 last year, an increase of \$65,000 or 48 percent. And again, this increase is mainly attributed to selling 81,000 of Mace Alert 911 units in Q4 of 2016.

Year-to-date number's broken down by product category. Sales of personal protection aerosol products or pepper sprays totaled \$8,398,000 compared to \$6,249,000, an increase of \$1,970,000 or 30.6 percent. Personal protection non-aerosol, which includes Mace stun guns and Mace Alert 911 totaled \$408,000 compared to \$209,000 last year, an increase of \$199,000 or 95.3 percent. This increase is attributed to \$254,000 in stun gun sales, a 95% increase over last year and \$89,000 in sales and Mace Alert 911.

Sales of Nite Beams products for the year totaled \$77,000 compared to \$40,000 last year. Home security product sales, again, which include the door jammer and wireless home alarm systems were \$90,000 compared to \$104,000 last year. And the decline here can be attributed to phasing out some old technology wireless systems.

Offsetting the gains was the decrease in TG Guard Security Systems , already mentioned. And TG Guard Security Systems sales were \$133,000 compared to \$275,000 last year, a decrease of \$142,000.

Now, I'll turn my attention to gross profit for the quarter and the year-to-date. Gross profits for the fourth quarter of 2016 totaled \$863,000 with a 38.6 percent gross margin compared to \$725,000 and 35.3 percent gross margin for 2015, an increase of \$138,000 or 19 percent and an increase of 3.3 percentage points in margin.

The increase in gross profit dollars can be attributed to – in margin, \$187,000 increase in sales and margin improvements. The margin improvements include automation in the manufacturing process which increase productivity while reducing labor expense. We also had a decrease in material costs as the company completed its conversion of approximately 95 percent of sales to a (blister card and dome) and a reduction in component housing costs as the company fully amortized the cost of the tooling.

Offsetting the margin improvements was a \$84,000 increase in inventory (reserves) for the quarter. Gross profit for the year ended Dec 31<sup>st</sup> totaled \$3,685,000 with a 40.7 percent gross margin compared to \$2,755,000 and 38.6 percent gross margin. An increase of \$930,000 or 33.8 percent and an increase of 2.1 percentage points in margin. The increase in gross profit dollars can be attributed to the \$1.9 million increase in sales and margin improvements I mentioned.

Moving on to SG&A cost. Selling general administrative expenses for the quarter ended December 31st were \$947,000 or 42.3 percent of revenues compared to \$1,022,000 or 49.8 percent of revenues in 2015, a \$75,000 or 7.3 percent improvement for the quarter. Material favorable variances for the quarter of approximately \$205,000 included reductions in compensation roughly \$14,000 – stock option expense \$19,000 – severance payments last year that didn't repeat this year of \$82,000 – public relations savings of \$48,000 – and advertising and tradeshow expenditures saving of \$42,000. Offsetting these favorable variances were increased legal professional accounting fees, roughly \$49,000 related to selling the surveillance business and the Washington Labs acquisition and 25,000 in variable selling expenses.

And an additional \$31,000 for a favorable right off last year in the quarter that was a one-time fourth-quarter event that didn't repeat itself in 2016. Selling general administrative expenses for the year ended December 31st, 2016 were \$3,719,000 or 41.1 percent of revenues compared to \$3,838,000 or 53.7 percent of revenues in 2015, a \$119,000 reduction on \$1.9 million increase in sales.

Material favorable variances included reductions in compensation of approximately \$228,000 – severance 82,000 – and then advertising marketing and tradeshow type expenses of \$258,000, as the company was more strategic this year in marketing and advertising. And then we also had a \$32,000 reduction in customer penalties, just shipping to our customers a little bit smarter. Offsetting these favorable variances were increased legal professional and accounting fees of \$180,000 related to selling the surveillance business and Washington Lab's acquisition along with last year's audit, which carried into 2016.

Last year, we also have \$144,000 favorable right off of old liabilities. That was favorable in 2015 and didn't repeat itself in 2016. We also had an increase in public relations expense in 2016, of \$57,000, which – and we attended investor conference, which was a \$12,000 variance in 2016.

There was also additional savings, if you will, in the various categories of roughly \$105,000 and these expense items included the payroll taxes, benefits, and insurance.

Operating loss for the fourth quarter totaled \$123,000 compared to loss of \$330,000. For the year, operating loss totaled \$189,000 compared to a loss of \$1,000,223 in 2015, an improvement of \$1,034,000.

Interest expense for the quarter of 2016 and 2015 totaled \$13,000 and this is interest on the Put Note. Interest income for the quarter totaled \$34,000 compared to \$41,000 in 2015. For the year, interest expense totaled \$139,000 compared to \$179,000 – interest income, I'm sorry, totaled \$179,000, a decrease of \$43,000.

The decline in interest is a result of security partners paying off a \$250,000 note in July of 2016. And the decrease in principle under note with the balance going from \$1.6 million at the end 2015 to \$1.3 million at the end of '16, and that's a 5.5 percent interest bearing note.

Other expenses for the quarter totaled \$4,000 compared to \$16,000 in 2015. For the year, 2016 had expense of \$4,000 from disposal of assets compared to \$296 gain in 2015, a \$300,000 change. 2015 included \$322,000 gain related to the early retirement of \$1.4 million note payable to Merlin, and we have further details on this in the notes to our audited financials.

As a result, loss from continuing operations improved to \$199,000 for the quarter going from \$320,000 loss in 2015 to \$121,000 loss in 2016. If you adjust for the \$322,000 gain in 2015, the improvement was really \$521,000. For the year, loss from continuing operations totaled \$120,000 compared \$820,000 in 2015, a \$700,000 improvement. And again adjusting for the \$322,000 gain, the improvement is \$1,022,000.

Income tax, is a \$19,000 benefit for the quarter and year, and this is an income tax refund we have been pursuing with the (Commonwealth of Pennsylvania), which we finally received. Income loss from discontinued operations for the quarter totaled \$222,000, an income compared to \$120,000 – \$129,000 loss in 2015 and in the quarter it included a \$212,000 gain on the sale of the surveillance business to (SecureCheck, LLC, which took place in November 2016. For the year, discontinued operations totaled \$351,000 compared to a \$206,000 loss in 2015. The \$351,000 in income includes the \$212,000 gain and \$139,000 in income as the company continued to service its customer base as we looked for a buyer.

As a result, net income for the quarter totaled \$120,000 compared to a loss of \$450,000 in 2015, a \$570,000 improvement. That income for the year totaled \$250,000 compared to loss of \$1,027,000, a \$1,277,000 improvement over 2015.

At this time, we'll make a few comments on our balance sheet. At December 31<sup>st</sup>, the company's net book value was \$8.8 million compared to \$8.3 million in December of 2015. You know, Mace had \$9.6 million in total assets including \$2.8 million of cash and short-term investments. Net inventory excluding the surveillance – well, it wasn't with us anymore, totaled \$1,568,000 compared to \$1,601,000, a decrease of 33,000 or 2 percent.

We got positive working capital of approximately \$6.2 million, current ratio of 9.1. The company had no paper debt as of December 31<sup>st</sup> of 2016. NOL's at December 31<sup>st</sup> of 2016 were \$60 million with 1.1 expiring in 2018. And the last, NOLs are expiring in the year of 2036.

At this point, I'd like to thank all you in joining us this afternoon. I'll now turn the call over to John McCann.

John McCann: Thanks, (Carl). Thanks everyone for participating in today's call. First, I want to apologize again, as soon as possible, we'll get the investor presentation up onto the website. We have loaded a lot of information onto the website and we'll continue to do more.

First, I want to thank all the hard-working members of the Mace team from our independent rep groups to our shipping, sourcing, finance, marketing departments. We worked very hard to get to breakeven and even making a couple of dollars. So it's now a great time for Mace and a great time for us in the future.

I will review a couple of quick bullet points. As (Carl) reviewed, we're up 27 percent in net sales with almost every category up with the exception of tactical, which I'll speak about later. In addition, we will have increased our gross margins by 19 percent through the following strategic efforts. Strategic programs with key retailers to drive sales and opportunities continued implementation of our environmentally friendly and cost reducing package initiative, and continuing manufacturing improvements for production to shipment with more changes and improvements to come. We're pleased with the results, but we're not satisfied, as our goal is to continue empower people worldwide through the power of the Mace brand.

A quick review of why the brand has so much potential now more than ever in the past. Mace – the Mace brand is synonymous with pepper spray in personal defense and security. No other player in the segment can make that claim. Mace is both a noun and a verb. The Mace brand is a clear market leader and the only brand recognized by consumers. Mace continues to innovate and differentiate itself from other products in the marketplace from our new handles, which are more cost-effective than our prior handles with our flip top lids and also award-winning packaging. The Mace brand continues to lead the market in thought, products, and performance.

Our brand premise and promise continued to show no bounds as we've expanded in several markets overseas. And now, the Mace brand can be found in nearly every continent on the planet.

Briefly, I will discuss some of the success and some of the work that still needs to be done. As stated earlier, we are pleased, but we're not satisfied as the potential of brand is much greater than our result as of today. Mace's success is combination of a very sound strategy promoting and reinforcing the brand and expanding distribution worldwide. We fixed the image of the company through our messaging and packaging efforts. All safety and security products we've developed are within our brand and style guide, which is monitored closely and we make sure all of our retailers and our partners both online and in brick-and-mortar stores associate the Mace brand with empowerment and is the number one brand in safety and security.

Our new handles are fully (implemented at) retail. The receptions continue to be great. We started working on the next generation as Winston Churchill stated to improve is to change, to be perfect is to change often. So we will continue to look at new ways to answer consumer needs by constantly improving our products and our capacities.

Our new packaging is close to the 90 percent (implemented). We continue to implement the first quarter of 2017 again with the packaging similar – with

our new product handles. We've learned more as we've done more and we're able to create more efficiencies as we move forward.

Every year, the perceived value of the brand continues to grow. Strategically, we have advertised the brand to differentiate ourselves from the competition through our retail partners and some strategic online marketing and also through our partners at Amazon. Based on results, our sell through (POS) sales did slow down a little bit in the fourth quarter due to slow foot traffic in retail. And also internationally, Western Europe continues to evolve with regard to defense spray laws and regulations.

Delivery. Our freight costs were up slightly, but that's due to timing and some of the retail deliveries that we had to make to our different customers. But we're able to do this without tying up a lot of inventory as we reduce our inventory over the year. We also were able to expand into 72 new accounts with multiple doors from one door to 100 doors to 1,000 doors. So we're very pleased with that expansion, but we'll continue to work hard on further expansion both domestically and internationally.

Distribution. We've not only increased our distribution in terms of partners and doors and accounts, we've also made a concentrated effort to be in several different departments within a store. Some of our long-time partners have the Mace brand and products at several departments in the store with multiple ways of displaying our products in their stores. Traditional retail is up double digits, not only due to new distribution but the placement as I mentioned prior in the store. Margins for our traditional retail was up year-to-year due to mix, efficiency and programming with our key customers.

Internationally, we've opened up accounts and distribution in South America, South Africa, and Western Europe with strong sell through results and consumer satisfaction thus far. We are continue to work on plans to expand that brand throughout all the corners of the earth Europe (as with) solutions which are effective, safe, and responsible.

Tactical, as (Carl) pointed out in the financial analysis is down. But within the channel, there are some positives. We've added new departments in 2016, our defense sprays continue to perform well. And we can – we'll continue to look at ways to increase our distribution on our defense sprays.

Some areas that will require some more work and attention. We're still in a holding pattern on our munitions based on supplier working on his ISO certification. As I stated, in the third quarter, the time it has been pushed to 2017 and it might be the middle of 2017 before we'll be able to get in production and really make it a market with munitions.

Royalties in TG Guards were down this year versus last year and somewhat of a secular business. And so a lot of quotes, contracts, and implementations have been pushed out to 2017 and beyond. But we feel 2017 will be a rebound from 2016, and we hope it'll be back to 2015 numbers.

We're working on additional partnerships and product sales, and we had a great SHOT Show in January this past year, which was a continuation of what we had done in 2016. So our distribution strategy continues to work. We've increased and we'll continue to increase our distribution and reach throughout the balance of the year.

As I discussed during the quarter, we have successfully launched the following – new handles, new packaging, cost savings within those segments. And as (Carl) indicated in his numbers, new stun guns that are brighter and louder than the other models on the market. We feel stun guns is a great category to expand from that safety security personal defense point of view, and we continue to look at other products within the segment that we can continue to launch into 2017.

We also remodeled our hard case, as I mentioned in the third quarter from a twist lock design to a flip top, which now makes it more consistent with our additional flip top family of products which we are famously known for.

And lastly, the auto valve unit in our production has increased our capacity and – or helps us even with our return ratio, which is almost negligible it – throughout all of our sales. Lastly, on this side of it, Secure Check which has purchased our security business, meaning, our cameras, our NVRs, DVRs, and all of our surveillance products has gotten off to a good start with getting the Mace brand out there into those segments, and we'll continue to do so in the future.

Court Security and Select Security, which we've done a deal with on a marketing program for our dealer networks is yet to start, but they anticipate starting in late to mid-2017. Lastly, on our licensing side, we're very pleased with the start that we've had with our partners who build Vigilant. Vigilant has done a very good job of promoting the Mace brand online. We had several items that were top sellers in Amazon. And now, we're launching the Vigilant alarms at retail with some great success early on. So we're very excited about this product and how we can move forward both with stun guns, personal defense, personal alarms at a retail level along with several other products.

On the disappointing side of the news, our Nite Beams product launch, as indicated by the numbers, continues to be slower at retail than we'd like. With the retail placement we've had, it's still not hitting the goals and numbers that we want. A couple of reasons why, as I stated in the third quarter, continues to be the value proposition. The quality, the awareness, as many of our retailers are advertising, but they're not getting the POS sell-through that we would like. We're continuing to working on our programs with our partners, but at some time, we might have to move on from this product line, as we have some other opportunities available to us.

911 – Mace Alert 911. As we indicated, we had some nice sell-in in the fourth quarter of the year. And we'll know, within the next couple of months, how that sell-through was. But we are working on placement at pharmacy departments at retail. We're working aggressively online with our friends in Amazon. We've also created some unique display opportunities that we're pushing aggressively in the first quarter of the year. And we still have high

expectations that Mace 911 will be a great product, but it will require education advertising and also the right display piece in order to get it out there.

As I mentioned, in the third quarter, we also were able to launch successfully many new items that will bleed into the first quarter of 2017. Our new pepper gun, which we launched late in the fourth quarter has done very, very well, exceeding our expectations. That continues to happen in 2017.

Our clutch models, which fall into our exquisite line, lightweight, user-friendly, exclusive to Mace, has been selling internationally with – and also, online on mace.com and on Amazon. Our Carabiner, our new concept, is truly the first true Carabiner that we -- that had the pepper spray built into it, and we have high hopes for it in the future.

As (Carl) also mentioned, our gross profit in the quarter is a combination of manufacturing change we had made, packaging, to assembly and product mix as this sales team has done a great job working as business managers to ensure profitability.

Lastly, we've done a great job with our inventory. Our inventory's down year-to-year. Our turns continue to be strong and we continue to look at ways that we can optimize both our operations and our shipping and also our partnerships with our customers. Looking forward into Q1, we're closing on our acquisition as we had previously announced we will close this acquisition at first quarter. We're launching new products and we're constantly working on improving our products.

We continue to balance growth spending and strategic opportunities for the brand. Thanks again for your support of the Mace brand. And at this time, we can then open it up for questions and we can take questions from the moderator, if you would like right now.

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

Your first question comes from Thurman Willis or (Willis), your line is open.

Thurman Willis: John, how are you and Carl? I am happy to see that you moved from the pink sheets to OTCQX, and I'm still getting word that a different brokerage firms have us listed as a pink sheet stock. No bus and not available to buy. What are you guys finding out about this and why is this going on still after a week?

(Carl): Well, this is (Carl). So I reached out to the OTCQX and they're making some phone calls on our behalf to investigate that, and I'm waiting for a response from them. It's about as I can say.

Thurman Willis: (Carl), have you tried any specific brokerage firms and see what information they give you?

(Carl): I have not called anyone specifically at this point in time, (Thurman)

Thurman Willis: OK.

John McCann: Well, the OTC markets are working for us on our behalf and calling different brokerages and making sure that they know. We're hopeful that it won't take too long for them to get that message out and that they'll realize and then at the same time we can make a concentrated effort on the different finance sites to make sure that they know we've made that move over.

Thurman Willis: OK. I am going to refer momentarily to the chairman's letter on my second question, and then I'll get off the call, back on the queue. I think we've all been disappointed that there's been no volume since you've to the QX, which definitely tells us that there's no eyes or no fans in the stands relative to the stock no matter what we happen to say. I feel that this overhang that's been talked about in previous conference calls is continuing to cause issues and wondered what the board is planning to do about that specifically.

And then the accretive acquisitions – if our stock price – if our market value were higher, we would have much less – well, our accretion would be much better than with the dilution if we had an \$0.80 stock price. So I know that

we've talked about the stock price being higher. It's the same place it was four years ago with all the announcements that's been made.

So John, I want you to please, please as I've asked about five times to be very specific as to what's going to be done in this area. I'm glad that the chairman decided to write this letter, and maybe he can get involved to help in this (area).

John McCann: (Thurman), we've just had a board meeting. We discussed the idea of the investor conferences and which of the conferences would make the most amount of sense for the company to participate in. We will be participating in some investor conferences. And as soon as that's locked down completely, I'll make sure everybody knows this is the best response I could give you. And also, completing the Washington Labs acquisition, I think will also help us because it'll be accretive to what we're doing with our Mace brand of business. And I think it'd be a very nice addition going forward for the company.

Thurman Willis: Well, we've had other things happened equal to Washington Labs, and I know it's supposed to produce 25 percent revenues in significant profits, but even when it was announced, the stock went down. And again, I'd say there was no volume, 120 shares, you know, today, there's just no eyes on the stocks, so I'm not hearing specifically what the board – (Richard), (Denis), yourself plans to do other than talk about some upcoming investor conferences and not just think it's time for the talk to stop, and the action to begin. Since we have the story to tell, we are profitable. I just don't think that answer is adequate, John, relative to, you know, where we are with no eyes on the stock.

John McCann: OK, (Thurman), I can bring – I can carry the water again, all we can tell you that we'll continue to work hard to improve the company as we've done every year. And yes, we'd all like to see the stock improve. And as we improve the company, I think the stock will continue to improve, but I'll make sure that your message and all the board members who are listening to this conference call that they understand your passion for the brand and we appreciate that.

Thurman Willis: I'll get out of the queue. I have a couple of other questions. And thank you for taking my questions and let the next caller come on.

Operator: Again, if you would like to ask a question, press star then the number one on your telephone keypad. The next question comes from the line of Andrew Shapiro of Lawndale Capital. Your line is open.

Andrew Shapiro: Hi, thank you. I'm going to try to get a bunch of questions in because I might have to run to catch a plane. Regarding the Washington Labs deal, are you able to expand upon or update us on deal terms? Because it mentions how the deal would be a combination of cash and stock, which at these price levels was a little remarkable. And what barriers are there that exists to closing on this acquisition, which you had announced you thought would close by the beginning of February?

John McCann: So we're not going to talk about the deal specifics, Andrew.

Andrew Shapiro: Yes.

John McCann: And the closing was estimate in February. And we're going to close it before the quarter ends as we said in our press release.

Andrew Shapiro: OK. Are there regulatory requirements or governmental things that get in the way of doing this?

John McCann: It's just a timing issue.

Andrew Shapiro: Great. All right.

(Crosstalk)

Andrew Shapiro: OK. And then a few questions. You had some really good year-over-year performance versus last year's Q4. And I'm not sure if it's seasonality or to what extent is seasonality, but can you answer a few questions I have here regarding these Q4 numbers relative to what was a really good Q3 to understand what's going on sequentially?

So first off, with the incremental Mace 911 Q4 sales, which I'm really pleased to see, your sequential pepper and other sales versus Q3 was down quite a bit. Why is that or is this a seasonality thing?

John McCann: That was really a seasonality that the Mace 911, we're a little bit bullish on because as we present it to more customers, they get the value proposition versus the competitive products in the marketplace. So we're hopeful for even more action in that regard. With regard to the traditional retail sales from the consumer to sporting goods and some of the other channels, there's really a timing issue. There was some shipments that left that were recorded in third quarter that actually would have been recorded in the fourth quarter, so they left just a bit early.

But if you normalize that, you would have two, three shipments that were quite large to a variety of retailers left earlier. And if you had put them into the fourth quarter, you'd say, So not really seasonality...

Andrew Shapiro: Oh, OK.

John McCann: ...the only thing that's a concern is just – you didn't ask this, but the only thing there was a concern, there was slowdown at retail towards the end of the calendar year in 2016 – 2017, sorry, you know, due to slower foot traffic at retail.

Andrew Shapiro: Now, we're in February. Following up on an answer, we're in March now. I understand December might have slowed down, but how have things looked then in January and February? Did that slowness continue?

John McCann: The slowness had continued. We're really bullish about the budget and the projections we've put together internally for the year, but it has started a little bit slower. General retail is little bit slower. There is more change as you know on the sporting goods side that's gone out of business, and there's some consolidation happening on the traditional retail side.

So with that in mind, we have focused on beefing up our staff. We've added a salesperson for our .com and some of our boutique retailers that seem to be

doing nicely, even though your bigger retailers have slowed down. And we've also beefed up the staff in order to prepare for the acquisition of Washington Labs.

So in general, February to January, February we're not exactly where we'd like them to be able, but we're really confident in another good year similar to 2016.

Andrew Shapiro: OK. And with the revenue timing shift between Q3 and Q4, I'm not sure in terms of the payment terms on your customers, but your receivable – while your inventory terms have greatly improved, your receivable terms – turns sequentially have dropped – not dropped, but have – yes, dropped quite a bit? And so I was just wondering what do you attribute to the increase in your receivable days for the Q4 versus Q3?

Carl Smith: Again, probably, again, it's just a timing of the sales versus Q3. You know, Q3 was loaded heavily in the early part of the quarter and Q4 was just, you know, towards the middle or we had just the timing of the sales. I think there's an issue...

Andrew Shapiro: All right.

John McCann: ...there's no issue with collectability or mix of customers. It's just timing of the sales.

Andrew Shapiro: OK. And why did the gross margin percentage in Q4 drop versus Q3?

(Crosstalk)

Andrew Shapiro: ...if it helps – you're talking about in Q3, you had growth margin I believe almost as high as 43 percent. And while 38 percent, 39 percent year-over-year was great versus your 35 percent in the prior year. It's a 400 basis point drop from last quarter. So I'm just wondering if, you know, what we're doing and if yet – is it a mix? Have you not – do you not get as high a margin on Alert 911?

Carl Smith: Well, the Mace Alert 911's sold in Q, in the fourth quarter, did have a margin hit on that. We didn't sell that at quite a high profit as the rest of the mix of products that we sell. I'd have to look into it further at the top of my head. I don't see any specific reasons...

(Crosstalk)

John McCann: Based on 911 just like further on that was an opportunity that we had that we took advantage of. And as you know, we have a partner on that that we licensed technologies, so it's a profit split. So even – it's a great product at a higher price point than we typically sell a lot of our other products, but then with the profit split, it is going to be in a lower marginality than our traditional products.

Andrew Shapiro: Right. Well, I'm just checking that that might have been the issue, but I, you know, (offline) if you can get back to us, let me know what...

(Crosstalk)

Andrew Shapiro: ...yes, because that's a pretty big sequential margin decline and maybe it's got other issues behind it. But I just want to get on top of that ahead of time.

(Crosstalk)

Carl Smith: ...Andrew, there's nothing to systemic there and, you know, we'll look at it, you know, we'll look at it from a mix perspective and...

(Crosstalk)

Andrew Shapiro: ...no, on 911, this \$80,000 revenue level for Q4, again, a very nice start. I think you implied it was a frontend load into the distributors. What visibility of sell through have you seen from the distributors here in the first two months in the year already?

John McCann: Pretty good. We don't have full visibility to it yet because part of that the partnership with our partner is that they're monitoring that, but I think by midyear, we'll have a really good read on how it did and how repeatable it

will be. But there are some other channels to trade our traditional retail channels that we feel pretty good about, that we'd be able to attack based on some of the things that have happened thus far.

Andrew Shapiro: OK. And those Q1 distribution...

(Crosstalk)

John McCann: ...that'd be – front half of the year would be my goal, no later than the third quarter.

Andrew Shapiro: OK. And can you describe the increased disclosures or requirements on the company toward uplifting to the OTCQX best? And what are your expected benefits from making this action?

Carl Smith: Well, we – I mean, we expect – first of all, from a disclosure standpoint, the supplemental disclosure that's required really mimics, if you will, the information disclosed in the 10-K. We're working on that, and probably within, you know, the next couple of weeks, that will be uploaded to the OTC and made available to the investment world.

And again, by going to the OTCQX, investors look at that Exchange as being companies that are on there there being more open with the information, more current with their information and providing investors a better look into the organization and get a very much better comfort level with buying the shares that are traded on that Exchange versus the pink sheets.

Andrew Shapiro: OK. Hey, I got additional questions. Hopefully, you can come back to me fairly soon because I got to catch a flight, but I'm going to back out and let others on the call give some questions.

John McCann: Thanks, Andrew.

Operator: Your next question comes from the line of Vijay Marolia of Regal Point Capital. Your line is open.

Vijay Marolia: Thanks, guys. Congratulations on the quarter. We've seen some movements in the currency markets, and I was wondering if the dollar's strength has impacted the growth overseas.

John McCann: A little bit, but not really because of – we're trading in U.S. dollars. To some extent it kind of fluctuates, but most of it was the immigrant crisis especially as Germany experienced it. We are a little bit concerned as they got on that side because Germany is looking at laws of less-than-lethal products. And then they're also re-examining what they will do. Longer-term though, we've opened up South America, South Africa, and we see no currency effect on some of the other areas of the world that we've been able to ship products to. But in some...

(Crosstalk)

Vijay Marolia: ...Italy and France specifically, John?

John McCann: Pardon me?

Vijay Marolia: Any changes or changes in the trends in Italy or France specifically?

John McCann: No, right now, what will happen – it typically happens in consumer markets especially as Germany changes, those other markets will change. So like the U.K. for example, there's never allowed pepper spray, but we make a product called "(stoppa red)" that we own the patent on that we ship to that country. It's a red dye irritant, but it contains no OC. Spain, France, and Italy have not made any changes or done anything differently with their laws and regulations with regard to civilian carrying a pepper spray, but our fear is that if Germany does enact stricter laws with regard of carrying pepper, they might follow suit, which is typically what they do.

Right now, German – Germany is kind of in a standstill. We'll continue to ship them. It's not at the levels that we did prior. We still – we have a great, great partner in Germany and we'll continue to work with them on what they need, their labeling requirements, and as the regulations change.

But right now, it's just a little bit of wait and see what happens, but we're setup nicely with our distributors there. And then, we're looking at growing that, you know, worldwide from the success that we've had in Western Europe.

Vijay Marolia: Thanks, John. Just two more questions...

John McCann: Thank you.

Vijay Marolia: ...this one, I'll try to just keep it simple as I can. But when you see the positive momentum, why would we use stock to do an acquisition?

John McCann: Well, it kind of made sense on our side, and plus the buyer really wanted to – the acquisition like we view it almost internally is a little bit of a partnership because there are a lot of his employers who are coming over, and he really liked the brand, and he really wanted to have a piece of action of the brand to be honest with you. And that way, it also protects our liquidity, so we're not using up all of our capital that we sell dry powder if we want to go out and look at more acquisitions.

So strategically, I think it makes a lot of sense. And then, you know, quite honestly, he's tied to our results, so that's also good for us because he wants us to succeed in the future because he will be a shareholder.

Vijay Marolia: OK, that's fair. I appreciate that. Last question is do we have anything on the schedule in terms of an annual shareholder meeting or an analyst day?

John McCann: We do. We'd love to have an analyst day in conjunction with our shareholder meeting. We actually are working on it. It will probably be the last week of June that will happen, and we'll make sure that's out in advance because at that point, we'll be fully integrated with the acquisition. We'll have some more new things to talk about during that time. We'd love to give people a plant tour and realize that 90 percent of the pepper spray products we make and sell, we make them right here, you know, in the United States, which I think with President Trump's mandate to buy American as often as you can buy or by or made by U.S.A. We're, you know, we're great example of that.

Vijay Marolia: (And so with that), well, thank you for your time and congrats on the quarter.

John McCann: Thank you, sir. Thanks for participating.

Operator: Your next question comes from the line of Thurman Willis. Your line is open.

Thurman Willis: A couple of quick questions. Is (Richard) or (Dennis) on the call?

John McCann: There, (Carl) and I are together in a conference room, so they're not with us, but they might on the call. But they would have to dial in like you would, Thurman, because they're not on the speaker line.

Thurman Willis: Well, I do appreciate (Richard's) letter relative to the very positive thing he had to say in his letter. And this was discussed two years ago or a year and a half ago, but it's overhanging and I wonder if this overhanging was discussed in the board meeting yesterday, and if there's any plans to do anything with the overhanging, so that we can remove that in the stock and move on up.

John McCann: You know, the prudent thing to do is to make no comment at this point on that like we're all aware of it. We, you know, we all are aware of the power of the brand and the potential of the brand, and we just have to keep on working as best as we possibly can to make sure as many people know that, and also, that we do a good job and we continue to build out both our retail distribution, our partnerships, and sell the product worldwide. But we do appreciate your passion, and trust me that the board and everybody are aware of it. But at this time we really shouldn't comment.

Thurman Willis: OK. That's fine. And one final question. I appreciate over the last four years all of the numerous and many achievements for those of us who have followed the stock for this timeframe, and again, the stock is trading at about where it was at that point in time. And we are in a great environment for pepper spray for Mace and for its products.

And so I know that I'm accused often of talking about stock price and I remember being told by one of the board's members, "Just wait until we get profitable, and then we're going to move forward on that." Well, we're profitable and I still don't see any material evidence that there's any marketing

– there's any education that's going on to try to get new eyes and new fans in the stands on the stock. Like I said, Washington Labs has been announced. The facts about the revenues and the significant profits have been announced. The stock doesn't trade or it moves down, which as the last caller said it's frustrating to us as investors because if you had an \$0.80 stock price, that would have been a lot less dilutive to us, even though it would still have been – even though still the deal is accretive, and still, I'm not hearing the specific things that are going to be done and I've been asking for two years. I presented a 10-point presentation there not too many years ago that I thought would help the stock price. And a higher stock price is going to help everybody. A higher stock price will make your job in acquisitions much easier, but I have just not seen any movement toward this educational or marketing. And then lastly, I understand the window opens the day for insiders, so we expect any insiders to be buying stock.

But John, I'm going to keep pressing the issue of the stock price because we now are profitable. We have a story to tell. The institutions liked to be on the frontend. I think the institutional conferences we're going to are too large. We need to cut down to the size of conference that is relative to our company.

And I just don't understand how the board can meet and not be specific about what we're going to do to get eyes on the stock. All we have done is talk about it, talk about it, talk about it, and I just think it's time for action.

I know you see the board hears me, but they don't act on it. And if they're not going to act on it, we're going to stay here \$0.40 forever no matter what you announce. So I just like a little more color.

The reason I'm sort of frustrated here, I'm extremely pleased with the fundamental progress of the company. I'm totally displeased with the technicals of the company when it comes to marketing and education.

You had three PR firms or four. All of them have failed miserably and they're bound to be firms that are out there that are not necessarily in the Cleveland area that can take the story and move it forward. And we could sell at a know,

we got a dollar NOL. Probably, the brand name alone is worth where the stock is selling now.

And so I just don't understand and I feel like I got the round around instead of specifics about what the board is going to do.

John McCann: Thurman, thanks very much for your call. Thanks for the support. And I do know all the board members either dialed-in or listening to the transcript of the call. And all I can tell you is we're going to continue to work hard and do good things, but I do appreciate it.

Thurman Willis: Ask him to please execute all of the plans of getting more eyes on the stock. And it's not hard with a stock that has a \$24 million market cap to get eyes on the stock in this environment. It's just plain, not doing our homework, or not engaged. Plain and simple.

John McCann: All right. So, well, thank you. So I think we have only time for a couple of more calls that Thurman, if you don't mind, maybe we'll try and grab...

(Crosstalk)

John McCann: ...has a flight to catch. Thank you.

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

Andrew Shapiro: Hi, thank you. I got a few questions. I'll try to carry that over the goal line as I got – get to that plane.

You said that you got a \$1.1 million of the over \$60 million of NOLs are expiring in 2018. Can you give me – can you give us a little bit more forward guidance to what else expires in 2019 and 2020?

Carl Smith: Sure. Yes, in 2019, \$4.5 million. And then in 2020, \$3.2 million. And then in...

Andrew Shapiro: That's good enough. We – I, you know, you guys can make \$8 million and chew that up before it expires. Then, Thurman won't have much to complain about, so I just need to know the next few years. That's good enough for now.

Now, Mace Tactical. I mean, for me, this has been a disappointment, but maybe it's just all hidden behind the TG Guard, which comes in waves every few years. Excluding TG guard, what was the level of Mace Tactical product sales during Q4, compared to last year, not counting TG Guard?

John McCann: Andrew, how about we do this – we could get you that information offline to look at the defence sprays outside of the royalties and outside of TG Guard product.

Andrew Shapiro: OK. Because I just want to know if you're growing there because that leads me frankly, into my next questions. You know, you've been to the SHOT Show multiple years in a row. I've been here forever and you've been the CEO for a long time, and we always hear about the SHOT Show. And I'm just trying to get a feel here about what's ever come in terms of cash flows from the SHOT Show. And, you know, because we're not seeing as meaningful of growth in Mace Tactical as I would expect after multiple tradeshows and purported marketing efforts to penetrate the RFP market opportunities you got to do with the law enforcement.

John McCann: OK. So don't be fooled with the SHOT Show. The SHOT Show stands for Sporting , Hunting, Outdoor, Tactical. So Sporting, Hunting, and Outdoor are the biggest segments of the show. And we do...

Andrew Shapiro: OK...

(Crosstalk)

Andrew Shapiro: ...you do well there. I understood...

(Crosstalk)

John McCann: Yes, so if a Tactical is a small segment, most of it, which is the right – we're making right amount of investments in the tradeshows at the Tactical side.

Once we can get our munitions line up, which we would love to do as soon as possible to get the ISO certification, so our manufacturing partners are comfortable, then you'd see more of investments into the SWAT Shows that happen almost every month are regionally based – and quite honestly, you know, we're blessed to have (Terry Gainer) on our board that, you know, works with the big city chiefs and works with the Justice Department. He's very knowledgeable about what steps we need to take. It's really a matter of as you're disappointed, we're disappointed in our inability to get the manufacturing agreement done and get the products made for the chemical munitions side of the business.

But we will – we'll get to that analysis on the defense spray side because we've had some nice gains. It can always be better, but it's more each time...

(Crosstalk)

Andrew Shapiro: Right. Did you see – we see Taser announcing all these. Every month or every quarter, they provide a list of all the agencies, et cetera, that they're penetrating and that they have such a great market share. And I know we're not technically competing directly with the Taser device, although we do have a stun gun, et cetera.

But it'd be nice to know that we're making penetration and that these law enforcement agencies you're getting into can and are serving as reference sites to get into others because, you know, the police chiefs – they'll talk to each other, and it's not appearing after so many quarters of hearing this stuff we're not getting what I think is the execution that we ought to on the existing product lines.

And with respect to the new product lines, the broader range of less-lethal munitions, can you expand a little bit more about the ISO certification? Because that the way you described it now, it sounds as if there are some steps that Mace has to take in order to move this forward where I have the impression previously this was solely on the NLT and your manufacturing agreement.

John McCann: There's nothing we can do about it. It's completely on the manufacturing side.

And the other point that you made is Taser is a technology company, so when they're announcing – a lot of times, they're announcing some of their weapon sales – their Taser weapons. A lot of times they're getting contracts that have been awarded on their camera side.

If you look at what they're doing because it's apples and oranges, we're more at the commodity side of what an officer would be carrying, which is very, very highly competitive. What Taser is doing especially with some of their products and they've done a nice job, and it's a good company, and we know them pretty well and have a lot of respect for them. It's completely different than what we're doing because we're up against, you know, a lot of different spray companies with ours.

And so yes, chiefs talk, but it's better for chiefs to talk in private than for us to say, "Hey, we're in this department or that department." So I think there, you know, there are some different dynamics that work there. But back to that original, the ISO certification it is not (stat) on us, it's on them and it's a process like everything else, whether we like it or not.

Andrew Shapiro: OK, and with respect to your competitors you're talking about. You mentioned – and I appreciate that we're, you know, 80 percent, 90 percent of what we're doing is made in the U.S.A. and that might, you know, be good for the current team. But to what extent do your main competitors manufacture outside of the U.S.A.?

John McCann: Most spray manufacturers are producing within the United America.

Andrew Shapiro: OK. All right. So that's not a competitive advantage. It's just that it won't be competitive disadvantage for us.

John McCann: Correct.

Andrew Shapiro: OK. On consumer personal defense, excluding Sports Authority, which I guess you did have some sales to last fourth quarter, how did Mace sales in sporting goods look this quarter year-over-year versus without Sports Authority in the mix?

John McCann: They were – like I think as (Carl) said, in his analysis of the fourth quarter. The sporting goods channel, we're up about \$216,000 or about almost 30 percent. And a lot of it was – as I mentioned in my commentary is placement within the store, so not only we were – we were in one department, several stores, we were in several different departments with different selling promises, which goes again to our packaging and our marketing acumen, if you would, that that we had different messages on different products to hit different consumers.

Andrew Shapiro: Right. OK. And along that same line regarding (Walmart), which we kind of discussed on the last call, you said, previously, you're in about 500 of their sporting goods section out of a potential 3,000, give or take some that are in New York State or some other regulated state. When did you get into the 500 store level and what are the milestones remaining to get into the other, say, 2,000 sections? Because I know like you can't get into New York because it's a state-ish regulatory issue.

John McCann: Right. So I don't want to get into specifics, but like we have some plans to expand that distribution and it comes with the different modifications and sets that different retailers do. With regard to New York, we are starting to work with their representatives to see if we could get some laws changed because we're very successful in doing that in Massachusetts. So antiquated laws in New York that don't allow people to carry personal protection we think is really not apropos in today's current environment, especially with the modifications and changes and modernization of the products that we now make, being almost 100 percent all-natural, made in the United States, safe to use, and effective, you know, when used in the right circumstances. So I don't want to get into the account specific details, but, you know, we are looking forward to increasing our distribution across all channels of trade in 2017.

Andrew Shapiro: Now, there are some talks of legislation in Canada to open up the Canadian market to personal defense sprays as well. Where does that stand? And is – would Mace have an opportunity to benefit from that and then is involved in that legislation getting passed?

John McCann: We have a huge opportunity to benefit from it both because of the acquisition and also just to Mace brand itself. Right now, it's a 50-50 proposition because unfortunately it was sponsored, and I don't have her name in front of me, so I apologize, by a woman to change that. And then it was opposed by another woman legislator in Canada. And so now, it said a bit about standstill, if you would, or a standoff.

Andrew Shapiro: Right.

John McCann: So great optimism. That would move quickly. Now, I think it's going to move a little slower. Our hope is that like most, you know, we're legal in all 52 states in the United States that they would realize that this is the way for people to defend themselves and be able to live their lives safely.

Andrew Shapiro: OK. Thank you very much for taking my questions in a timely manner.

John McCann: Right. All right, well, that wraps up – but we have one more call, then we'll wrap up because I think we're a couple of minutes over.

Operator: Your next question comes from the line of Thurman Willis, a Private Investor. Your line is open.

Thurman Willis: Just one more word to the board. I'm going to quote Donald Trump. He gave himself an A on what he had done. So I give Mace an A on fundamentals and he gave himself a C to a C plus on messaging. And I think Mace fits right into that shoe and they must improve the messaging to get the word out because the chairman would not have written the letter if he was not bullish in thought. The stock price was under-priced.

So we as shareholders want to see a higher stock price, which is the fiduciary responsibility of each and every board member, and also, managing the company.

Thank you for letting me harp on this, but I just do not think after many meetings, visiting with the board that I've got my point across, and I want to get my point across in no uncertain terms.

John McCann: All right. Thank you, sir. On this, I'll wrap up the call. One last note is I do apologize, but we will have that PowerPoint presentation on our website as soon as possible.

As always, we thank everybody for their participation. We're pleased with our results. We're not satisfied with what – where we are, but we will continue to work hard in the future. And if anybody has any other questions, please feel free to e-mail us at our investor at (corp@mace.com). And then I'll let (Carl) wrap up.

Carl Smith: Yes, just getting back to one of Andrew's questions with regards to the margin, you know, I do want to confirm that the \$81,000 in Mace Alert 911 went out in a low margin plus quarter-on-quarter Q3 and Q4. In Q4, when we closed the year, we did increase the inventory reserves on some of our inventory, which was, you know, almost at six, you know, like \$85,000, \$90,000 increase in expense through cost of goods sold. So that's the majority of your marginality change, you know, in Q4 versus Q3.

John McCann: OK. Well, thank you very much. This will conclude the call.

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

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