MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
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2:00 p.m. ET

OPERATOR: This is Conference #69268772

Operator: Good afternoon. My name is (Emily), and I will be your conference operator today. At this time, I would like to welcome everyone to the second quarter 2017 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 "1" on your telephone keypad. If you would like to withdraw your question, press the "pound" key. Thank you. John McCann, you may begin your conference.

John McCann: Thank you very much, and thanks, everyone, for joining today's call. Please visit corp.mace.com Investor Relations Transcripts and Presentation as we have uploaded a PowerPoint highlighting the second quarter results for the period ending June 30, 2017.

Now at this time, I'd like to turn the call over to Carl Smith, our CFO, to read our forward-looking statement and go through the second quarter.

Carl Smith: Thank you, John. Certain statements and information during this conference call will constitute forward-looking statements and are based on management expectations and information currently in the possession of management.

When used during our conference call, the words or phrases, will likely result, are expected to, will continue, is anticipated, estimate, projected and intended to or similar expressions are intended to identify forward-looking statements.

Such statements are subjected to certain risks, known and unknown, and uncertainties including, but not limited to, economic conditions, limit of capital resources and the ability of management to effectively manage the business and integrate acquired businesses.

Such factors could materially adversely affect Mace's financial performance. 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 second quarter financial results.

After I'm finished, I'll turn the call back over to our CEO, John McCann, who will go over the presentation that he referenced in the opening and can be located on mace.com. Second quarter net sales were $2,510,000 compared to $2,031,000 last year, an increase of $479,000 or 23.6 percent.

Net sales associated with our recent acquisition were $758,000 for the quarter, with these sales being reflected in our Consumer, Tactical and International sales channels. Consumer channel net sales for the second quarter totaled $1,843,000 compared to $1,600,000 last year, an increase of $243,000 or 15.2 percent.

The increase is attributed to increased distribution, partially offset by a single large purchase of a customer in the second quarter of 2016, which did not repeat this quarter. International channel net sales totaled $401,000 for the quarter compared to $252,000 last year, an increase of $149,000 or 59.1 percent.

This increase is primarily attributed to distribution of animal repellent products in Canada, partially offset by reduced demand in Europe. Tactical channel net sales totaled $225,000 compared to $118,000 for the second quarter last year, an increase of $107,000 or 90.7 percent.

This increase is attributed to new distribution and increased sales to existing customers. Net sales classified as other totaled $41,000 for the second quarter compared to $60,000 last year.

Gross profits; gross profits for the second quarter 2017 totaled $1,013,000, with a 40.4 percent gross margin compared to $839,000 and 41.3 percent gross margin in 2016, an increase of $174,000 or 20.7 percent.

The increase in gross profit dollars is mainly attributed to the $479,000 increase in sales. Gross profit margins were slightly lower quarter-to-quarter and can be attributed to mix.

SG&A expenses for the second quarter ended June 30, 2017 were $866,000 or 34.5 percent of sales compared to $860,000 or 42.3 percent of sales in 2016, an increase of $6,000.

There's a nice table in our quarterly report, which was uploaded on the OTCQX's and we'll load on our investment location on mace.com that you could reference. Salaries and related employee benefit expenses increased $43,000 for the quarter compared to last year due to the hiring of additional sales personnel.

This increase was offset by a $64,000 decrease in legal and other professional service expenses, with $45,000 attributed to a decrease of public relations expenditures.

Commission expense decreased $17,000 on a $479,000 increase in sales. The lower commission is attributed to commission rate adjustments to rep groups and lower commissionable sales.

Advertising increased $19,000 compared to last quarter as the company -- last year, as the company increased internet-related advertising expenditures. Other expenses accounted for an increase of about $25,000.

Depreciation expense in the three months ended June 30, increased $11,000 to $50,000, compared to $39,000 in the three months ended June 30, '16.

And this is due primarily to the March acquisition of property and equipment that we had. Operating income for the second quarter 2017 totaled $97,000 compared to a loss of $60,000 in the quarter of 2016, $157,000 improvement due to the factors outlined and discussed above.

Other income net of interest expense was $13,000 for the quarter compared to $23,000 in Q2 of '16. The decrease -- primarily due to a decrease in investment income as the company liquidated a portion of the company short-term investments to fund the March acquisition.

Discontinued operations had a loss of $23,000 for the quarter compared to income of $78,000 last year. The $23,000 loss reflects the contractual reduction to the selling price of the electronic surveillance equipment business sold in November of 2016. As a result of the above, the company reported net income of $87,000 for the quarter compared to a $41,000 income in '16.

EBITDA for the quarter was $124,000 compared to $57,000 in 2016. If you adjust for discontinued operation, adjusted EBITDA for the quarter was $147,000 compared to negative EBITDA of $21,000 in '16, a $168,000 improvement. At this time, I'll make a few comments on our balance sheet.

As of June 30, the company's net book value was $9.1 million compared to $8.8 million at December 31, '16. Mace had $10.8 million in total assets compared to $9.6 million at December 31, 2016.

Cash and short-term investments decreased $1.7 million as the company funded the purchase of Washington Labs in the first quarter of 2017.

Inventories at June 30, 2017 totaled $1,751,000 compared to $1,568,000, with $300,000 of the increase attributed to Washington Labs acquisition and the inventory associated thereof.

The company had $2,641,000 in goodwill related to the acquisition. This amount will be adjusted as the company waits the completion of an intangible asset valuation, and we have some time to make adjustments to that number.

Total liabilities at 6/30 were $1,770,000 compared to $776,000 at year-end, an increase of $994,000, and this increase is mainly attributed to the $1 million note we used to acquire the business. We have positive working capital of approximately $4.6 million and a current ratio of 5.7.

Our NOLs at June 30 were approximately $60 million, with $1.1 million expiring in 2018, $4.5 million in 2019 and $3.2 million in 2020, and the last NOL expiring in the year 2036. That concludes the review of the second quarter. I'll turn the call over now to our CEO, John McCann.

John McCann: Thanks again for joining the call. And as your time allows, please go to our website where you could see our PowerPoint presentation that's been loaded under corp.mace.com Investor Relations Transcripts and Presentations.

I won't go through that presentation, but I'll just make some commentaries on some of the things that happened in the quarter.

Thanks again, Carl, again, for the presentation, and thanks for being on the call. So it was a good turnaround quarter for the company, especially after a less-than-expected first quarter sales and results.

The quarter was in part both domestic and international growth that we have seen. In the international, talking about our international business first, we've seen a large increase in our sales in North America, even as Europe continues to be soft.

Due to the acquisition, we're able to do a lot more with animal repellent in both Canada and some other areas of the world, and we're going to see expanding growth as we move forward, both -- some of it being organic and some of it being through the acquisition. One thing to note on the acquisition is that it's part of a multi-brand strategy that we had envisioned when we made the acquisition.

So as we reported, a lot of our results this quarter when we look at our different channels, we've combined some of our channels together because that's part of our strategic plan, as we move forward, we're going to divide out some other general channels like our e-commerce channel, and roll some of our online business or e-comm business in with our mace.com business to keep a better picture of the business as we move forward.

But as we look at the business today, we've seen a great benefit from the acquisition, and it also is part of our strategic plan as we grow our business both domestically and internationally.

In our consumer business, we've seen a nice uptick in our business. As I said earlier, a lot of it is due to our acquisition, some of it due to our organic growth.

We've seen distribution increases as we've opened up 16 new accounts. The 16 accounts is on top of the 50 new accounts that we had opened in the first quarter.

So year-to-date, we're just under 70 new accounts that we're doing business with. We anticipate in the back half of the year, at least maintaining that same growth or even exceeding that as we look at more retailers.

And as I look at these accounts, it could be from one door to several doors. But as I look at the 66 accounts that we've opened year-to-date, you're looking at possibly 500 to 1,000 doors or individual stores. There are some restrictions where we're able to sell pepper sprays, as many of you know.

So if an account has 1,000 doors, there potentially is 250 to 300 that we are not able to sell in. But it is something that we're also working on, and the State of New York is one of those that comes to mind where it's not illegal to sell pepper spray, it's legal to have it, it's legal to own it, it's how you acquire it begins the difficultly, whether you have to have an S.S. ID card or certain other restrictions that make it harder for the retailers to sell.

And it's something that we're working on with our major retailers to change because it really is antiquated laws that we have to deal with.

Our e-commerce strategy is working. As you'll see in the next quarter, we have a lot of ideas of how we're going to strategically make this a bigger focus of what we have.

We have a strategic plan to both increase our presence through our e-comm, partners and through our social media efforts that has paid some dividends year-to-date, and we expect it to pay more as we go on. Our Tactical channel continues to grow in 2017. The investments we made in the channel over the past several years are paying off.

We continue to win bids and expand our brand. It's the #1 brand for law enforcement and civilians worldwide. The revenue growth came from both the acquisition, organic growth, and also from some of our TG Guard products that have been on the marketplace for a while.

And it's a bidding process that we go through, and we had, not a lot, but I would say, 10 percent of the growth that we got came through some of our TG Guard efforts, but the majority of growth came through our Spray business, which is very good for us because it's a highly profitable business for us and it also extends our brand into the folks that know how to use our product effectively.

On a note there, I will just note that we are launching in the third quarter our batons, our tactical knives and our handcuffs into this division. And right now, our handcuffs will be with the national retailer serving law enforcement starting in September and going through the rest of the year.

They've committed to our -- the Mace-branded handcuff to being the handcuff of choice that they will promote with many of law enforcement agencies across the country.

Our batons will also be placed in that same retail, and we'll also have classes that will be offered through many of our training and associates that we work with in our law enforcement department.

On another note, I think, as many of you long-time investors have been waiting patiently as the company has been working diligently to launch our munitions division.

We, at the last conference call, had mentioned that we didn't see anything happening until the first quarter of 2018, we're closer, we feel now than ever to make that a reality and we're working very hard to see if we could not make something happen in 2017.

As many of you may recall, we had a supplier and a supply issue. We seem to be able -- we were close, we're not finalized, but we seem to be able to overcome some of the hurdles that were holding us back.

And we're very positive that, at some point in the near future, that we will be in that business, along with the expansion that we did with defense sprays, batons, tactical knives and handcuffs, which will really make us a full-line distribution partner for many of our law enforcement agencies that work with our products today and into the near-term future.

Also, on the last conference call, we discussed the integration of the acquisition that we had made at the end of the first quarter.

And once again, affirming that we've done a great job with the integration. It's fully integrated. We go to market now not only as the Mace brand, but the Mace brand that can give you multi-brand strategies.

So now, it’s opening up the door for new opportunities, new price points, new methodologies, new formulas and new partnerships that, in the past, we would not have been able to foretake.

So there will probably be some questions, and we're going to be delicate on how we answer them because we are going to market in a different way than we had in the past.

It's more effective, it's better for our retailers, and it's better for our consumers that we can bring in different brands to attack different segments of the market, and also maintain that dominant position that Mace is the #1 brand in pepper spray and defense sprays worldwide.

Just to reiterate what we had talked about in the first quarter, new customers was one of the goals that we had with the integration. And as I said earlier, we're able to achieve that with over 66 new customers domestically. We've created a foothold in Canada that we feel that we can now expand upon that.

We are working with Canadian legislation to change their laws. Today, you can only carry an animal repellent or a bear spray in Canada. We would like to see them to have civilian carry of any OC product, as we have in the United States. We are working with the new EPA new registrations for animal repellents.

We think that's a growth opportunity for the company in the future. And as you can see from some of our results, especially in our International division, where a vast majority of our sales increase has come from are bear spray, and bears both domestically and Canada and some other parts of the world continue to be an issue for civilians, and using OC as outlined by the Wildlife Federation and also the Park Rangers offices, is the best way to protect yourself against a bear or potential bear attack.

As Carl mentioned, we're picking up efficiencies. We expect to pick up more efficiencies with the integration of Washington Labs and with some of the other things that we had already done within the company, ergo the new packaging, the new domes, new handles and the new look of the Mace-branded product.

And lastly, the Guard Alaska brand, which is fully integrated into our Mace product line, is now yet another bear animal repellent that we can use strategically with our customers. Some other items to note, our personal alarm business with Vigilant is going very nicely. We placed the product at many retailers in the second quarter.

We'll see a large expansion of that into the third and fourth quarters of the year. We feel that will be a very nice business on top of our pepper spray business because as it falls hand-in-hand in line with the safety security platform that we've created at many of our retailers.

We are looking at a partner shift with Vigilant to actually help us with our e-commerce and our online strategy to bring that to another level than we have in the past.

As we had mentioned on past calls, not only Amazon but a lot of our brick-and-mortar customers are relying heavily on their e-commerce to educate, also to monetize.

But also make them a more rounded retailer and where they can offer things on the Web as they might not offer brick-and-mortar. We're well-positioned as a company, both to fulfill the need of the brick-and-mortar side as well as their online site, and be that partner in safety, security that a lot of them have been looking for.

So on our next conference call, I think, we'll lay out a deeper strategy of our e-commerce business and how we can achieve even greater heights than the increases we've seen in the past quarter. Other things to note is our partnership with Select Security for our home securities solution is still not off the ground as I would call it.

It's slowly working its way there. We are looking at some alternatives in that section because we feel the Mace brand fits very nicely into a home security solution.

So more news to follow, but we are working very diligently on that side of that licensing business. Our partnership with SecureCheck seems to be finally taking root.

They've made some good inroads with our surveillance cameras in some of our systems, and they'll be launching some new product lines in the third quarter that we're pretty excited about, and they've made some nice pretty headways with the customers that they have gained from us, and they continue to look for more customers, which is great for the brand.

A couple of other notes is we've retooled our what we Nite Beams before into our LED safety security products. We are now in the process of launching those products. We spent this past quarter working on the products, making sure the packaging, making sure the products appeal to demographics.

And we will have placement of these products at several retailers in the third quarter. And I think, once we launch them on both online and on our website, you'll be very pleased with the results of our hard work.

Lastly, we're also working on a couple other partnerships with Carleton McKenna, our investment banking group, and organically within the company that we will hope to launch prior to the end of the year.

So with that, we're very bullish on 2017. We know we started out at the gate not exactly where we wanted to be. We feel the second quarter is more in line with our expectations for the full year, and we will continue to look at all opportunities that come to the company.

Whether they'd be products or other opportunities that we still fit within the safety and security nets that we have created and that number one branding that we know we have within the marketplace. So with that, we will turn it back over to the operator, and we will open it up for questions.

Operator: At this time, if you would like to ask a question over the phone, please press "star" then the number "1" on your telephone keypad. If you would like to withdraw your question, press the "pound" key.

We'll pause for just a moment to compile the Q&A roster. And our first question comes from the line of (Thurman Willis), a private investor.

(Thurman Willis): Hey, John, hey, Carl, hope you guys are doing well.

John McCann: Thank you.

Carl Smith: Thank you, sir.

(Thurman Willis): Good quarter. My first question -- and John, you mentioned it somewhat -- but could you drill down more into the investment banking group that we hired last quarter as to how they are progressing relative to enhancing shareholder value, which we know shareholder value may come through by sell, partnerships, et cetera, but could you be more a little specific about that? Then, I have one short follow-up.

John McCann: Sure. We really can't be too specific about it, Thurman, because they're working on many fronts within the company to look at what opportunities are out there for the company, we can tell you that they worked very hard in line with the company to help us integrate the acquisition we made in March of this past year.

And with that, they've also helped us, as I have mentioned, our Tactical Division, making sure that issues that might have presented itself in the past, they've come up with some solutions that we've been able to attack.

So I think, overall, they presented the company with a lot of ideas that will enhance shareholder value over time, and it's just a matter of working through them and implementing them.

And then, obviously, until we're in a position for the board to approve that, we really can't talk about it publicly. But behind the scenes, I think, Carl would agree with me that they've done a very nice job helping enhance the company, which ultimately will enhance the shareholders.

(Thurman Willis): Let me move to my second question, and that is, I think, about a year ago, the board adopted a board member policy that board members had to own stock. And my question is, Carl, when will the door open for insiders to purchase and have all of the board members purchase stock in Mace?

Carl Smith: All of the board members do own stock at Mace. And the window will open two days following our earnings release. And they open for a period of 45 days.

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

Andrew Shapiro: I got a few questions, and I'll back out and to break it up but come back to me. So in general, I want to ask a little bit more about Washington Labs and the acquisition strategy here. In what ways has this acquisition met, and it what ways has it disappointed with your expectations?

John McCann: So it's met all of our expectations, and quite honestly, there is very little that we would find negative about it. I think, to some aspects, it exceeded our expectations because it's been able to accelerate some of the weaknesses that we potentially had prior in animal repellents and then also enhance our relationships that we were able to expand some of our distribution into channels that we weren't in prior.

Andrew Shapiro: OK. So as a result of this acquisition in your new ownership of Washington Labs, can you discuss in general the new business you've gained as a result of this? And has there been any kind of customers or clients that because of your ownership and acquisition have decided to move elsewhere?

John McCann: There is no customers that I'm aware of today that has moved elsewhere. What it has done is it open up customers that we hadn't done business with in the past to do business with.

And then, on the flip side of that, customers that we might have been doing a small amount of business, now we're doing a greater amount of business because they're able to see both the full catalog -- if you would, the full catalog of their products and the full catalog of Mace products.

Because we present everything together and allow them to have a menu of different solutions that fit different needs and different price points and different formulization.

So on that regard, it's been great. And then, I -- I can highlight, Canada is a great example. We did very little business in Canada prior to the acquisition.

We now feel very strongly that we have tremendous growth opportunities in Canada, especially with animal repellents, tactical and bear sprays. So with that regard, I think, it's been great.

Andrew Shapiro: OK. And when is the measurement and on what performance metric is the potential clawback on the seller note, in a sense, a reduction of the purchase price that you have worked into this transaction?

John McCann: I'm sure Carl can address that, Andrew.

Carl Smith: At the end of August, we'll reevaluate the clawbacks, our working capital adjustment that was measured working capital at the time of the acquisition at the end of August. So we'll revisit that. We've been monitoring it all along, and any kind of adjustment at this point in time is really immaterial. It's not that much.

Andrew Shapiro: However, is there not also an earnout of some sort that was to be a clawback on the seller note or is there incremental consideration or compensation to be paid?

Carl Smith: No. There's no incremental compensation to be paid.

John McCann: No, there's no incremental compensation, so it was …

Carl Smith: (Inaudible) working capital adjustment that was the only …

Andrew Shapiro: There was no earnout?

John McCann: There is an earnout, the note is the earnout.

Andrew Shapiro: Right. That's what I'm saying, so what is the metric (inaudible) …

Andrew Shapiro: … measurement for which the note could be reduced?

John McCann: It's revenues, Andrew. So we have a very specific formula within the revenue table that we created. We did not use the '16 revenues, we used the year prior revenues to make it flatter and both fair to the company and fair to the seller.

At this point, what I think Carl is saying is there's -- he's not even looking at it because we're going to exceed the numbers that we had anticipated hitting. So we have …

Andrew Shapiro: That's what I wanted to get that. OK. So whatever you're expecting, you're going to exceed it, you're going to pay the money and we're going to be happy to pay it.

John McCann: We're going to be more than happy to pay it. And as of note, because it doesn't always happen, the prior owner, I was with him this morning, he has been uber cooperative to make sure the business grows and we know everything, and quite honestly, he'd call a customer with me if I had asked.

So I think, because of the way we implement it, which is a great platform for us to do more acquisitions and the way we treated both him and his customers, it's a win-win situation.

Andrew Shapiro: OK. Now on the last call, you anticipated 80 percent to 90 percent of the consolidating integration would be done by the end of this quarter. Where are you versus your anticipation? And is there more to do and more to gain?

John McCann: There's always operating efficiencies we're looking at. But as we look at the 5 to 10 checkpoints, we exceeded them. So what I would say, and Carl can agree with me, I think, he's shaking his head that we're 100 percent integrated with what we want to do. Our next phase will be is looking at any other operating efficiencies we can drive out of the process now that we're fully integrated.

Andrew Shapiro: Right. And would you say, during the quarter ended June, so that's April to June, that this got squeezed out and the efficiencies were there, and you hit this somewhat 100 percent level at the beginning of the quarter or the end of the quarter, in other words, did this quarter's results really fully reflect that integration or it's going to be the current quarter ended Q3?

John McCann: I think, it was probably the middle of May to the end of May where we've really felt like we're hitting on all cylinders. So if you took the three months ending June, you would say 60 percent of it we were -- we got the benefit of it.

So you took April and you took parts of May, and say, OK, you were still feeling your way, making sure suppliers and etc., making sure everything was made into a simple formula.

By the end of June and July, we're rocking and rolling where we need to be. And to your point, in the third quarter, July, August, September, we should get 100 percent benefit of the full integration.

Andrew Shapiro: OK. And my last question on Washington Labs and then the acquisition strategy, and I'll back out into the queue, I have other questions on the other parts of the business, but has this acquisition shifted your focus at all when looking at new acquisitions in terms of size, scope, markets?

And more importantly, can you elaborate further on what you're looking for and what Carleton McKenna is helping you to look for in terms of new acquisitions like you presented at the B. Riley Investment Conference presentation deck?

John McCann: So that's a great question and I'll take it in parts, and ask again if I don't answer it fully, Andrew. So first part is that we were able to integrate the company almost seamlessly with a very small staff, right? So that part leads us well into the belief that we could do this again quickly.

We had originally told our board that maybe we shouldn’t look at other acquisitions for another year because it might take that long to integrate. Now we feel like we could look at other acquisitions almost immediately.

The second part of that is, yes, the longer-term strategy with this acquisition was then to, I want to say reorganize, but reprioritize where we go to market and how we go to market, and that process is happening as we speak.

So as we fully integrated operations and everything else, we reevaluated where our prioritization should be, and ergo, that's why I spent some of my commentary on the e-commerce channel to structure ourselves dynamically to be able to be both the answer to brick-and-mortar and both the answer at e-comm.

And I think, the third part of your question is Carleton McKenna's help is now that we've integrated this, we are looking at both, if you recall it, software and hardware in the safety and security areas to say we have the ability to integrate, we have the ability to market shift and process, now we can look at things that possibly you don't have to make possibly their buy/sell relationships where you can manage their process, where the integration would be less.

In that way, potentially, you could do more acquisitions that don't involve potentially manufacturing, whereas a buy/sell, or if you're buying technology or you're buying IP and branding it under the Mace banner.

So hopefully, that answers your question. It's taking that Mace brand and be able to expanding it, but staying within that personal defense, personal safety and security realm.

Andrew Shapiro: OK. But in all cases, you're looking to acquire pretax income because you have an NOL that …

John McCann: Correct.

Andrew Shapiro: … you need to get $1.7 million out of it and that part's gone by end of next year.

John McCann: Right. So by (inaudible) our goal would be is not only just organically, but even through acquisitions, looking at that NOL, and I believe it's $1.1 million expires in 2018, and $4.5 million expires in 2019, with $3.2 million expiring in 2020.

Andrew Shapiro: Yes.

John McCann: And then, they last all the way to 2036. But looking at that next bucket, that $1.1 million, obviously, you'd love to be able to use all of those.

Andrew Shapiro: Yes, let me back out. But I do have other questions so please come back to me.

John McCann: Sure, thank you, Andrew.

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

Don McDonald: Yes, hi, John, congratulations on a great quarter. Looks like everything's going in the right direction.

John McCann: Yes, sir. Thank you very much.

Don McDonald: On the acquisition, what is the margins look like? Did you acquire a higher-margin business? Lower-margin business? What are margins look at the acquisition?

John McCann: So today, we knew going into it that it's slightly lower margin than our current business is. But on a blended basis, where we wanted to go strategically, it worked out, as you could see in our numbers. But it's a slightly lower-margin business than our current business.

Don McDonald: OK. And what are you going to do with that to help fix the margins or raise the margins there?

John McCann: There's a couple of things. As we talked about, on the integration side, there are some things. And then, also, on the formulization side, we've looked at some of the ways they were doing businesses and some of the things we could do. So taking the best of theirs and the best of ours, we think, we'll be able to get their margins up a little bit higher.

The other part of it is, is that their margins will never be the same as our margins because we're dealing in different marketplaces. But strategically, we wanted to be in those segments.

So on a blended basis, we look at more of the growth opportunity than the branding opportunities that we were able to acquire from this. And then, also, looking at that blend of margins to say slightly less on theirs, slightly more on ours equals where we need to be.

Don McDonald: OK. On the international side, how are things going there? Reason being I asked, you had real strong U.S. dollar last year, and the dollars really backed off this year. How is that affecting your international business?

John McCann: Yes. No, it's a great question. And the net effect of the dollar has not really affected the business per se, because even last year, it was a little bit higher at points, some people wanted to wait if the euro was a little weak to the dollar.

What the acquisition has helped us is that we had a very strong 2016 in Central Europe, if you would, and especially in Western Europe.

Today, things have calmed down, the use of some of our products has not been as robust than they've been in years past. So we still have a very nice business in the Central Europe area, but where we really think some nice expansions is Africa, South America and North America, which, prior to the acquisition, we had small businesses, we had almost no business in Canada, to be honest.

Now we have robust businesses, which then can offset where there can be weakness in the Central European market, we picked it up some other places. Given the fact that we're on a (call), we only deal with friendly nations to United States, nations that follow UN protocol and NATO protocol.

So we're very careful on where we sell our products to. And the only other thing to note is it does get washed a bit into our international number per se, but some of the product that we're selling would rightly fall into a tactical category. But as our systems work, they're coded into our international column because it's a truly international customer.

So what I mean by there is one customer might buy a little bit for tactical that he distributes to law enforcement in, let's say, Argentina, and the rest of it might be for civilian sale. The only thing I'll note, and we'll announce it within the next couple of weeks, is we've made a nice segue into India.

And we feel India for us could be a tremendous, tremendous opportunity for this stock, for the stockholders and for the company, because, obviously, as everybody knows, their population exceeds 1 billion, so it's three plus times the United States.

And we've chosen a partner that is both established in the marketplace that knows the marketplace, that understands the nuances in the marketplace, and also understands the brand equity that Mace brings to the project.

So we're very excited in future weeks that we'll be able to talk more about where that will be and we look at 2018 to be a big opportunity for us there.

Operator: Your next question comes from the line of (Thurman Willis), a private investor.

(Thurman Willis): John, one of my questions always is fans in the stands, and I know we talked here a lot about acquisitions and talking about increased revenues, which sounds great, but our stock still is at 36 cents here. And my question is I would hate to see us do acquisitions with such, I would call it, such dilution with our stock price where it is.

So I don't think we have any (IR PR) right now. And if we found the right group that could really promote the liquidity of the stock and move the stock price up, I would surely hope we would look at it so as not to dilute with 36 cents stock.

John McCann: Correct. I think, strategically, and the board is well aware of it, as we talk about the (IR PR) elements, make sure that we're in the right position to support the right campaign.

And the other side of it, as we look at opportunities, we do discuss how we potentially acquire or look at that to make sure that we take all factors into account. But it's very good question, Thurman.

(Thurman Willis): But presently, we do not have an IR firm right now?

John McCann: Presently, we do not.

(Thurman Willis): OK, all right. Thank you again for taking my question.

John McCann: Thank you.

Operator: Your next question comes from the line of (William Rankin), an investor. Your line is open.

(William Rankin): Yes, thanks, John, for taking the call. Thurman just preempted me. My question really had to do with the IR function.

And I know, I've been in your shoes, having your name on the person to call for IR stuff could make you pretty busy, and I would hope that you will make some move in that direction. Just a separate question, how many employees do you have now?

John McCann: Currently, FTEs, as we call them, we're probably right around the 36 to 40 range. And if you break it down, there is probably 50 percent of that are related to production, shipping and manufacturing of our products. And then, the rest are either sales, marketing or finance.

(William Rankin): So all of your operations side of it, but not including sales force is in Cleveland?

John McCann: Yes, sir.

(William Rankin): OK, all right. Thank you very much.

John McCann: Thank you, sir.

Operator: Our last question comes from the line of Andrew Shapiro from Lawndale Capital Management.

Andrew Shapiro: Yes, hi -- well, I'm not sure it's -- I hope it's not the last, I have a bunch. But anyway, regarding what you announced regarding less lethal munitions and the handcuffs and batons, so the handcuffs and baton product lines haven't yet been offered, and they're part of Tactical. So Tactical grew without them presently, but you -- starting in September, they're going to be going through the channel, is that correct?

John McCann: Starting in September, they will be going through the channel.

Andrew Shapiro: OK. And in terms of the less lethal munitions, you mentioned that there is a prospective opportunity to, I don't want to use the word accelerate because we've been waiting for this for over a year, but the introduction of widening of your consumable munitions line, is this with the former partner that delayed us, (NLT), or someone else?

John McCann: Maybe we'll hold comment on it, but we're cautiously optimistic.

Andrew Shapiro: OK. And then, following up more on the new accounts and everything here. You mentioned 16 new accounts, all channels. This quarter, 70 year-to-date. When you give those numbers, is that net of lost accounts or is that just new accounts gained?

John McCann: It's really new accounts gained. There is -- with the exception of some bankruptcies in the sporting goods section, there's really no other losses.

Andrew Shapiro: OK. And from those numbers, how many of those new accounts are attributable to having acquired Washington Labs versus -- you guys have been gaining those.

And I think, that could be gained after acquiring Washington Labs, that's still a new account, but in terms of when did you acquire and include that in your number, I'm trying to get a feel for what the legacy and organic businesses added?

John McCann: Sure. So if you look at it, and I would say it's almost 30 or so would be attributable to the acquisition and the rest are organic.

Andrew Shapiro: OK. Excellent. Now ex-Washington Labs sales for the next few quarters, you're obviously -- with Washington Labs, you're obviously going to have year-over-year revenue growth and such, but are you projecting organic revenue growth for 2017 not counting Washington Labs?

John McCann: Yes. The only area of caution that we have, and it's part of -- as we did the acquisition I mentioned earlier, is reprioritizing our accounts. The sporting goods channel is changing dramatically and quickly. And so as you can see, we've morphed a lot of that into our consumer business.

We're still doing a nice business in that channel, we didn't project a lot of growth coming out of it, but we look at a lot of growth coming out of both our International and Tactical and our consumer channels, net of the Washington Labs acquisition.

Andrew Shapiro: OK. Now regarding Nite Beams, which I guess you're now calling Mace LED, is that right?

John McCann: Correct.

Andrew Shapiro: So regarding the Mace LED and the Mace Alert 911 product, what resources is the company presently and planning to devote towards these newer products?

John McCann: So right now, if I look at the spectrum, there's not a lot of resources being dedicated to either product line at present. The LED products, we have some preorders to place them into some retail.

We're looking how that will work on a sell-through basis. We have some nice programs, as we call them cooperative programs with several retailers to push the product.

On our Mace 911, we're working with a partner that owns the patent on the product so it gets some joint venture opportunities within the product to accelerate some of it.

Some of the reason why I say limited resources are being put towards it is the testing that we've done and the sell-through, even though we love the product, has not been as robust as we had liked to say.

So for a good example, Secure my Campus, that does a lot of K-12 schools and works with a lot of administrators, have done a lot of testing, both at the child level and the teacher level, and the results have been mixed. The money that he has spent promoting it hasn't garnered to double those efforts.

Now we're still very bullish. We think it's a great product. We do like the DR space, as it's called, the direct response space, and we still are bullish on the opportunity if we can put the funding model together that would be appropriate to push the product within a DR television atmosphere, what they would call short form.

Andrew Shapiro: Yes, I understand idea of moving this towards -- I mean, it's not like you spent much resources on it, but to have the Alert 911 going into the younger and the campus set, this thing is a direct competitor to Life Alert, "Help, I've fallen and I can't get up." I mean, what are you guys doing there? Or is that what Vigilant is doing for you?

John McCann: That is something that we're still working on. So it's a little early to comment on exactly what we're doing. But look, I know the Life Alert folks very well. We understand how much they're spending to get what they're getting.

And we're looking at how you can do that effectively and have the right folks involved and make sure the funding is there to continue that progress.

And that's what I'm talking about on DR. Life Alert runs what they call short form and long form, and they run it to the tune of several million dollars in order to do what they do. They have a high drop-off rate, too, of over 12 percent. So it's a risky game once you get into the DR world because only 1 in 10 products work.

So for us, to mitigate some downside, mitigate some risk, we're working on the right formulization because we do have partners involved with the product to see what we can do.

In the meantime, we've tested different aspects through either through some nursing home placement, some school placement, some retail placement, and the results have been mixed.

So before we allocate a lot of resources, and when I talk about resources, it's mostly money resources, we want to make sure that we feel comfortable with it.

Along those lines, one of the gentleman that we brought on with the Washington Labs has a vast amount of experience in the DR space that work with Total Gym, had worked with BOSU, had worked with Shamwow, if you're familiar with the Shamwow product.

So John McVay is also now on that team to say, OK, how can we do this effectively? What is the right spokesperson? What are the right dollar amount? So we are with you, we love the product, that's why we signed the deal. We're compliant with our partners on the deal.

It's just looking at the right funding models to see what we can do to elevate it and make it like a Life Alert. Life Alert, you have to realize, they lost money for several years before they started making money.

People have to realize Total Gym, everybody wanted to jump off a bridge for the first five years of Total Gym, but that was 20 years ago now. So it is a very risky DR game that's played, but we do think there's some opportunities at the right time and the right funding.

Andrew Shapiro: OK. Can you explain what the discontinued ops are that provided the small loss?

John McCann: Sure. I think, Carl said in his commentary that there was just an adjustment on the customer side with SecureCheck and the Surveillance business, and I think it was roughly about $22,000.

Carl Smith: Right

Andrew Shapiro: OK. And then, you have a receivable, a note receivable from the purchaser of the former Monitoring Services business. That note was to resume principal payments yesterday, did that occur?

John McCann: Yes, sir.

Andrew Shapiro: OK, about time. And lastly -- well, not lastly, the Kort Security, the situation you say you're looking at alternatives -- is this alternatives with the agreement itself, another company, another geography?

John McCann: So maybe I'll hold back comment until we're a little further along. We are looking at everything.

Andrew Shapiro: OK. And why is this situation, which was talked about so highly previously and they're funded by Goldman Sachs, et cetera, et cetera, why did this not pan out after so long?

John McCann: Short answer is they were premature on the Goldman Sachs' funding.

Andrew Shapiro: OK. And you went to B. Riley. You were at the Hollywood Microcap in Vegas, you did a bunch of conferences, made nice presentation, but it seems to me that you made some prospective investor contacts, et cetera.

It's not been seen or visible in the trading volume of our company stock despite our up listing and we -- there certainly seems to be shares available versus there's no shares and buyers are looking.

What are the next set of investor engagement, whether it's non-deal road show, investor conferences that you and the board are committing to allocate to and keep the word going?

John McCann: I think, Andrew, it can't be specific, but all the things you have talked about is on the board, with the board and that we do talk about, be it a conference call with the board or also individual notes being passed to the board.

I think, the different committees are looking at the allocation of resources and saying what should we do and where should we go. So I, as you know, at the last conferences, I think, you did pick up some small investors, but it didn't make enough of a difference to tweak the stock price at all as...

Andrew Shapiro: I don't care about the stock price tweaking, but there is no trading activity going on and there's a supply of shares. So it just seems that no one's attending to the story despite the progress you're making, and it seems to be a story that one needs to continue to tell.

And I'm just fearful that you guys -- you took your shot at some things a year and half ago, and then you guys stopped, then you've done it again, and you've taken a decent shot at it, and I'm wondering and wanting this to be somewhat of a regular quarterly continual process.

John McCann: OK. Duly noted. And I think, the board members are listening, so I will make sure it's on the agenda at the next board meeting.

Andrew Shapiro: All right. I'll back out in the queue, in case there's someone else.

John McCann: Well, we only have about four, five minutes.

Andrew Shapiro: Well, in case there's someone else, I just took a lot of oxygen out of the room.

John McCann: It was good oxygen, though, Andrew.

Andrew Shapiro: OK.

John McCann: So I don't know if we have any other questions, otherwise we can go back to Andrew.

Operator: There are no further questions at this time. Andrew, you can queue back up for your final questions. And there are no further questions at this time.

John McCann: OK. Well, we want to thank everybody again. As the results show, we had a good quarter. We're always striving to do more, but we feel that this quarter is more in line with what we expect for the full year. As news comes, we will definitely make sure that we will get that news out.

And as my e-mail is on, the information, if anybody has any questions, I always look at every e-mail, and I direct it to the right parties within the organization, whether it be the board or one of the disciplines within the company. But we want to thank everybody for their support of the brand.

We're very bullish about where we're going and what we've been able to do over the last couple of years, and we feel we have more to do, but we are the right guys to do it. So thanks again, and have a great weekend.

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

John McCann: Thank you.

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