MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
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OPERATOR: This is conference # 7699986

Operator: Good morning, my name is Dan, and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter and Full Year Financial Results 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 at that time, simply press star followed by the number one on your telephone keypad. If you would like to withdraw your question, you may press the pound key.

Thank you. I would now like to turn the call over to Mr. John McCann.

John McCann: Thank you, Dan. Thank you for joining today's call. Please visit corp.mace.com Investor Relations transcripts and presentations, as we have loaded a PowerPoint for the fourth quarter investor call.

Now I'd like to turn the call over to Carl Smith, our CFO, who will read a forward-looking statements and go over the fourth quarter and the full year for 2017.

Carl Smith: Thanks, John. Certain statements and information during this conference call will constitute forward-looking statements and are based on management expectations and information currently in the possession of management. When used during our conference call, the words or phrases: will likely result, are expected to, will continue, is anticipated, estimate, projected and 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 the fourth quarter and full year 2017 financial results. After I'm finished, I'll turn the call back over to John McCann, our CEO, who'll provide additional commentary on the results and the company in relationship -- in referencing the PowerPoint that he referred you to.

Fourth quarter net sales were $2,935,000 compared to $2,238,000 last year, an increase of $697,000, or 31.1 percent. Consumer channel net sales for the fourth quarter totaled $2,478,000 compared to $1,937,000 last year, an increase of $541,000, or 27.9 percent. International channel net sales totaled $207,000 for the quarter compared to $81,000 last year, an increase of $126,000, or 155.6 percent.

This increase is primarily attributed to distribution of animal repellent product in Canada, shipments to Poland, and a new customer in Argentina. Tactical channel net sales totaled $192,000 compared to $98,000 for the fourth quarter last year, an increase of $94,000, or 95.9 percent. This increase is mainly attributed to new distribution and increased sales to existing customers. Net sales classified as other totaled $58,000 for the fourth quarter compared to $122,000 last year, a decrease of $64,000 or 52.5 percent.

This decline is attributed to timing on the sale of slow-moving inventory of the fourth quarter last year. Gross profits for the fourth quarter 2017 totaled $1,423,000, with a 48.5 percent gross margin compared to $863,000 and 38.6 percent gross margin in 2016, an increase of $127,000 or 10.9 percent. The increase in gross profit dollars is mainly attributed to a $697,000 increase in sales and better margins.

Gross profit margins were 9.9 points higher quarter-to-quarter. The margin improvement can be attributed to prior year fourth quarter write-down of inventory, accounting for -- which accounted for 6 points of the margin improvement. In addition, the company experienced lower-freight expense as the company increased its case-pack quantities with some key accounts. And there's favorable overhead absorption as a result of increased production and other efficiencies.

Selling, general and administrative expenses for the fourth quarter were $1,348,000, or 45.9 percent of sales compared to $947,000, or 42.3 percent of sales in 2016, an increase of $401,000, or 42.3 percent. The increase is attributed to the following: Salaries and related employee benefit expenses increased $31,000 for the quarter compared to the last year due to the hiring of additional sales personnel. Advertising expense increased $133,000, primarily related to the higher Internet and advertising expense -- expenditures incurred. E-commerce fulfillment fees accounted for $124,000.

Legal and professional increased by $113,000, with these being one-time expenditures primarily and related to the acquisitions and licensing the company was pursuing. Depreciation expense for the quarter increased $10,000 to $49,000 compared to $39,000, and is primarily due to the March 2017 acquisition of property and equipment -- or the acquisitions because the Vigilant one as well. Operating income for the fourth quarter 2017 totaled $26,000 compared to $123,000 loss in the fourth quarter of 2016, a $149,000 improvement due to the factors we just discussed.

Amortization of intangible assets is $63,000 for the quarter relates to intangible assets associated with the company's 2017 acquisition, consisting of customer relationships, trademarks, noncompete and licenses. As a result of the above, the company reported a net loss from continuing operations after tax of $30,000 for the quarter compared to $102,000 loss in 2016, a $72,000 improvement. EBITDA for the quarter was $74,000 compared to negative EBITDA of $103,000 in 2016 for a $177,000 improvement.

Reporting on the year, net sales for the year were $9,983,000 compared to $9,054,000 last year, an increase of $929,000 or 10.3 percent. Consumer channel net sales totaled $8,190,000 compared to $7,547,000 last year, an increase of $643,000, or 8.5 percent. And this increase is primarily attributed to new customers, offset by a single customer's purchase to debt that did not repeat in 2017.

International channel net sales totaled $950,000 compared to $908,000 last year, an increase of $42,000, or 4.6 percent. The channel benefited from distribution of animal repellents in Canada, partially offset by lower demand in Europe. Tactical channel net sales for the year totaled $697,000 compared to $397,000 last year, an increase of $300,000, or 75.6 percent. This increase is attributed to new distribution and increased sales to existing customers. Net sales classified as other totaled $146,000 compared to $202,000 last year.

Gross profit for 2017 totaled $4,403,000 with a 44.1 percent gross margin compared to $3,685,000 and 40.7 percent gross margin in 2016, an increase of $718,000, or 19.5 percent. The increase in gross margin dollars is primarily attributed to $929,000 increase in sales and higher margins. The margin improvement can be attributed to lower freight-out expense, as the company increased its case-pack quantities as mentioned earlier, favorable overhead absorption as a result of increased production and efficiencies, which contributed to the fourth quarter as well. In addition, 1.5 points of margin can be attributed to the prior year write-down of inventory, which I already referred to.

Selling, general and administrative expenses for the year were $4,121,000, or 41.3 percent of sales compared to $3,719,000, or 41.1 percent of sales in 2016, an increase of $402,000, or 10.8 percent. Salaries and related employee benefit expenses increased $191,000 compared to last year due to the hiring of additional sales personnel. Advertising and marketing expense increased $159,000, primarily related to higher Internet advertising expenditures. The company also incurred $124,000 in e-commerce fulfillment fees in support of the e-commerce business.

Legal and professional increased $59,000 with one-time expenditures related to the acquisitions. These increases were offset by $74,000 in decreased commission expense attributed to lower commissionable sales and lower commission rates paid on some accounts. Other factors contributed $49,000 in reductions. Depreciation expense for the year increased $33,000 to $188,000 compared to $155,000 and is primarily due to the 20 -- the March 2017 acquisition of property and equipment.

Operating income for the year totaled $94,000 compared to $189,000 loss in 2016, a $283,000 improvement due to the factors we just discussed. Interest income for the year decreased $40,000; this is primarily to a decrease in investment income as the company liquidated some investments to partially fund the acquisitions in 2017. Amortization of intangible assets of $174,000 for the year relates to the intangible assets associated with the company's 2017 acquisitions. As a result of the above, the company reported net loss from continuing operations after tax of $43,000 for the year compared to $101,000 loss in 2016, a $58,000 improvement.

EBITDA for the year for the reasons discussed was $270,000 compared to negative EBITDA $53,000 for a $323,000 improvement over last year. At this time, I'll make a few comments on our balance sheet at December 31. The company's net book value was $9.4 million compared to $8.8 million at December 31, 2016. Mace had $11.7 million in total assets compared to $9.6 million last year.

Cash and short-term investments decreased 9 -- $1.9 million, as the company funded 2 acquisitions in 2017. Inventories at year end totaled $2,137,000 compared to $1,568,000, an increase of $749,000, or 47 percent. This increase is attributed to the inventory from the acquisitions, some new product in our inventory and an increase -- a strategic increase in our Bear Spray inventory.

Goodwill and intangible assets totaling $3,982,000 are detailed on Page 20 in the notes to the financial statements and that reflects the components and the estimated lives associated with each one of those. Total liabilities at 12/31/17 were $2,259,000 compared to $776,000 at year end, an increase of

$1,483,000. And this increase is mainly attributed to $1,105,000 in notes payable that we had to acquire the businesses, and we also had increases in accounts payable and accrued liabilities.

We had positive working capital of approximately $4.4 million and a current ratio of 3.8. Net operating losses at 12/31/17 were approximately $60 million, with approximately $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, and also I can refer you to note 12, Page 28 of the financials for additional expirations on those NOLs, if you're interested.

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

John McCann: Thanks, Carl. And once again, if you like, the presentation is on our website. If you visit corp.mace.com, Investor Relations, transcripts and presentations, you'll see a brief fourth quarter and full year analysis. So with that, thanks, again, Carl, and the presentation is on the website as I had mentioned. I'll go through some of the presentation and highlight some key components of the presentation, as we've achieved a lot in recent years with more to come in the future.

As Carl discussed, the company did have a good year and also a strong fourth quarter of 2017. I will refer to Slide 4 of the presentation. You will see the 3-year history of net sales, gross profit and EBITDA. While we have grown -- all of which have grown, and we made strides in operations and efficiencies. We still feel there is room for more growth and improvement which we're working on concurrently.

Slide 5 of the presentation shows the percentage growth from 2015 to 2017. As the revenue growth from 2015 to 2017 is close to 40 percent, which is -- has been achieved with seismic shift in consumer-buying habits. So we've done a great job of understanding what our consumers want, where they want to purchase it, how they want to purchase it. But it does leave a lot of room to grow in our sales efforts. Again on Slide 5, or Page 5, important sales growth is gross profit from 2015 to 2017 was the combined 60 percent increase. This effort is achieved through manyfolds. First is customer mix and strategic pricing. We were very strategic in our products, in our pricing and also the customers that we do business with to make sure we had the right mix of products and customers.

New products. During this time, over the past couple of years, we've launched several new products and initiatives. Some have been very successful, some of them have not been so successful. But over the last 3 years, we've launched 30 new items. Our LED line has not been as successful as we'd like, but our personal alarms, our flash stun guns, our new handles in our pepper spray, our new formulas of pepper spray and our compact line of products have driven sales very effectively.

At the same time, we yearly do a SKU rationalization, remove our older SKUs to make sure our mix is current and up-to-date and what our consumers are looking for. Again, within this mix of our gross profit, efficiencies and improvements, our manufacturing proficiencies have made great strides over the past couple years. We've tested -- we test all our products before they leave the facility, so we have a miniscule rate of return on our products. It's very critical that our products can potentially save a life; that means our products need to work every time.

We require our suppliers, which you'll see in a later slide in the presentation, to also maintain a high level of competency. Our sprays are twisted -- tested twice for heat levels, which is highlighted in a slide in the presentation. And our alarms are tested at the factory and then randomly tested before they're shipped out for distribution.

Our Pepper Sprays are test-fired before they're packaged in our facility to make sure. So we overfill as we do our filling process and then we make sure any of the products that are made here are tested before they leave the facility, so we know they work 100 percent at the time. We've redesigned our packaging, as you've seen over years, which has been a great success with our consumers, to environmentally-friendly, it's a cost savings to the company, and it creates some manufacturing efficiencies that we've been able to realize over the past couple of years.

EBITDA -- we're still on Slide 5. We've seen a nice improvement in our earnings before interest, taxes and depreciation. This is an increase in focus of the company as we move forward. Improving our bottom line is critical as we grow the company. We're not -- we will not stop investing in the company, but at the same time, we want to make sure, we're delivering a return on investment to our shareholders.

Slide 5, just to reiterate, is that our goals as we move forward, and our focus will continue to be on profits, revenues and EBITDA.

Slide 6. I just want to make a couple of notes. In there, you'll see the 93 percent, that's a growth from 2015 to 2016, taking 2 negative numbers. I know you usually look at just the difference, but it's a huge increase.Same time, our gross profit has improved 19 percent. And then we did see the large change in our EBITDA position from 2016 to 2017 through a lot of hard work, sales growth and also great management of the business.

With all this in mind, we are continuing to invest, as Carl has mentioned, in our marketing to drive our sales and consumer behavior, we anticipate to continue this investment in 2018 and beyond.

Just quick comments on Slide 7. I feel this is one of the crowning achievements in the year. We acquired Washington Labs late Q1. We shipped customers the same day. We had integrated our operation and sales plans prior to closing. We continued to work on partnerships in 2018. This has been a great acquisition for the company, also continued to pay benefits in the future, as Mr. McVay and Mr. Harrison and their teams implement ongoing strategies and plans.

Below that, the Vigilant acquisition was also additionally a huge benefit to the company. David Happe and his team is the motor that doesn't stop. He is building a strong support team that's changing the nature of retail, and we're changing how Mace is changing with the consumer-buying habits that continue to change. Mace is armed and prepared to service our customers, both retail and end users, as they would expect: pricing, products, programs and placement. So we have the right products, at the right price, for the right customers. We've expanded our product range through this acquisition. We've expanded our ability to source products through this acquisition. We make some of the best alarms in the market; they're loud, effective and of very high quality. And additionally, we're opening new markets and new opportunities, both domestically and internationally through this.

Just couple comments on Slide 7. The management team worked tirelessly to acquire and integrate these companies. We also set a path for the future of the company in a very positive and focused direction. There are no products now on our assortment that are noncore. Everything Mace does as a brand is focused on personal protection, personal safety and personal security. It's been a remarkable change in the company and more to come in 2018.

On slide -- still on the same slide. I just want to also add that we've added 112 new customers. In the same time, we've continued our dominant market share with our consumers and our retailers as the #1 brand in pepper spray on the market. We've also done a good job of our changing -- and effectively changing our go-to-market strategy as consumers have changed. One thing to note because it does come up, the 112 new accounts could be a 1-store chain to a 1,000-store chain, but each store and each new door that we open is an opportunity for the brand and for our product. Lastly, to note, as Carl noted, that international markets have changed dramatically. We are looking at our go-to-market strategies as we need to create more efficiencies and a better return on investment in the international arena, which is something we had started working on in 2017, and continuing in 2018.

Lastly, just on Slide 9, we are anticipating based on what we have in open orders and shipments today that will have a robust first quarter. We are seeing the continuation of 2017 into 2018. A lot of it has been what management has done with a focus on our e-commerce, focus on our retail. And then also a combination of organic growth, new product introduction and recent acquisitions adding to what we've been able to achieve.

Again, just on the same slide, just talking about what's working. Our people are supporting from our e-commerce strategies to our warehouse. It's been very effective. We're very focused, as Carl has mentioned, on making sure we optimize every opportunity we have, whether it's change in a pack size or change in our packaging to meet the changing demands of our consumers.

Marketing. We're working with our customers and partners to make sure we pull through product. So it doesn't remain on our shelves; that, that POS, or the point of sale, continues to be strong, which will drive our future sales. And then lastly, we're continuing to invest in our equipment to make sure that we remain the #1 brand in personal defense and personal security.

I will not go through the rest of the slides. But please pay attention to Slide 16, when you get an opportunity. Slide 16 talks about our brand seal. It is something that we've done some research on in 2017, and we kicked off in late 2017, and early 2018. Similar to a Good Housekeeping Seal, the Mace brand seal will know that, that consumer is buying a Mace-branded product. It's not an imitation. It's not a knockoff. We're going to expand the use of the seal in all of our marketing, our advertising, our packaging efforts as we go through the year to make sure we differentiate ourselves from competitors and knockoff brands.

One other note is on the very last slide of the deck. You can look that we have a mission, and we have the ability to continue to grow both organically and through acquisitions. I do want to thank Carleton McKenna for constantly looking at evaluations and opportunities for the company. We couldn't have made the last 2 transactions without their hard work, management and diligence that it allowed management to seamlessly work on an integration and the next steps to make sure that we were successful.

Couple other general comments based on the year and even 2018. As we discussed, it's been a -- it was a very good year. 31 percent sales increase in the fourth quarter, 10 percent increase in the calendar year. Our growth in 2017 came from strategic acquisitions and also organic growth. Even with a slow start and a general slowdown in Europe, we are able to achieve more in the year than we even anticipated, and we're very pleased with the results, but we're not happy. At the same time, we feel like there's more that we can do as a company.

We successfully integrated both companies in the year, and the goal on the acquisitions (been) well above the top line. We saw both acquisitions an opportunity to enhance the company's long-term value. Each acquisition had strategic elements in it, which we are implementing, and we can discuss in further detail at the right time. Some specific comments on some of the channels. As we discussed, the 10.3 percent was across all channels from our Tactical Division to our consumer division, even in our International division.

We still feel that was great, but there is a lot more that we can do in terms of growth. Our future growth will be through our new products. As we discussed on previous calls, we have successfully launched new products in all channels, and we're going to continue to do so. Sell-through is critical with our new products. So we're happy to report sell-through has met or exceeded all expectations, ours and our retailers, which is very critical.

New strategies. We won't go into details, and I know there's a lot of questions on where we're spending our marketing and advertising dollars. But we're looking at the return on investment, the change in consumer habits and also the change in world habits to make sure that we're responsive to where consumers want to shop, how they want to shop, and making sure that our product's in front of them in the right way.

Gross profit, as Carl had mentioned, as we continue to develop marketing strategies and product strategies, we're continuing to watch to make sure the return on investment in all of our products are within what we expect and where we can, even better than where it has been in the past. We're continuing to invest in our retailers, in our products, in our people to make sure that we deliver results even better than the past 3 years have indicated.

Couple additional notes. Our licensing efforts continue to be no news to report at this time as their DIY program with Select Security has been slow to start due to a variety of reasons. Our license deal with SecureCheck LLC is progressing nicely, but we do not anticipate seeing any returns until late '18 or early '19. We are reviewing and analyzing other opportunities, and we'll report any news as when it is relevant. We are continuing to work on programs for schools. We have several solutions, and we've had some success in the recent quarter with some school programs that we've launched with our gel products and a couple other products. And we're also working with the partnership with Secure My Campus that is trying to forge ahead with some school programs. School business is very fragmented, but we are making some headway, and we're going to continue to work on that as we move into the future.

So in closing, I just want to say it was a very good year. We anticipate another strong year in 2018, based on our first quarter results, and we're going to continue to push hard to make things happen. I do want to personally thank 2 of our outgoing board members, Dan Perella and Carl Grassi, just quick comment on both gentlemen. Dan is a serial entrepreneur and a truly -- a true sales marvel.

Dan's help and guidance helped the company, management team and sales staff to focus on success. Dan is a great friend of the company, and will continue to be missed. But his -- we'll miss his input at a board level. But as a shareholder, Dan has continued to support the company beyond his tenure on the board. Him and I just met recently about some opportunities, and he was just in a MACE facility helping out with some other strategies. Carl Grassi is, quite honestly, one of the smartest guys I've ever met in business.

Carl's questions and advice were extremely helpful in making the 2 acquisitions possible in 2017. We can't thank Carl enough for asking tough question and also find -- helping us find the right answers. Our outgoing Chairman, Richard Barone, who we are pleased to remain on the board, does get credit for the hard work, diligence and the rescue of the great brand. Now to continue to help us grow the brand over time and realize the full potential of the brand and the company, he will do as a remaining board member. Additionally, we're very pleased to welcome Chuck Gehrisch and Sanjay Singh, as Executive Chairman and Executive Vice Chairman. Their knowledge and expertise has already helped us, and we know they'll help the company propel us to new heights.

Again, the Investor Relations, the presentation is on the website. So please feel free if you have any questions or if you need some further information, we will take some questions.

John McCann: Before I turn it back over to Dan, we did get a couple questions in advance that I'll just address really briefly. One of the questions that came in was could you separate the growth from the acquisitions from organic growth?

And the answer is, we really can't. Strategically, we looked at these companies as helping us do both. There's some strategies in place, partnerships in place within our OC, our spray business and also with our new products that we combined some products. So we've had a great success in working on combination packs, and value-added propositions, which involve both the current product and what you potentially call new product and that's been very successful. We've coupled a lot of these products into packages that we sell to schools or institutions.

These acquisitions have also opened up doors for current products. So when you look at the mix, and you look at where our sale successful is, we've always -- it's always been a partnership with some of the acquisitions and then also an opportunity for us to do things together.

Question was asked about the new board.

Really, it's too early to comment on the new board. We're very excited about some of the changes that have been happened on the board. We're sad to see some board members leave, but we think some of the initiatives that we've started -- we're encouraged about our new board members. We're encouraged that they feel this excited about the brand that they're willing to put a lot of their own money into play to help grow the business and also grow our bottom line.

Somebody had asked about the (roll craft) and Ancora. That's a private transaction, so the company really has no comment on it at all.

And then e-commerce, e-commerce is an ever-evolving strategy. And the question was asked what is the -- what's different today than before?

Without giving away competitive information, as we all shop and change, our habits are changing. In Mace, we are focused on making sure that we have the products in front of the people at the right time, at the right price, similarly to what we do at retail.

And then lastly, school shooting.

We just pray for anybody that's been involved in that school shooting. We are working on what we think are very good solutions and remedies to help mitigate some of these. I don't think we can ever stop them unless we have a fundamental change in human behavior. But in the meantime, we think Mace is part of the solution on an ongoing basis, and we are working diligently to be part of that solution.

So with that, Dan, we will turn it back over to you, and I think the first question will come from Lawndale Capital and Andrew Shapiro.

Operator: Certainly. At this time, if you would like to ask a question, please press star followed by the number one on your telephone keypad. Again, to ask a question, that's star followed by the number one on your telephone keypad. Your next question comes from the line of Andrew Shapiro with Lawndale Capital Management.

Andrew Shapiro: If I could expand further. Because Chuck and Sanjay have joined the board with their sizable investment in Mace in the role of Executive Chair and Executive Vice Chair, which is a bit different than the past, can you expand on what you feel they bring to the table? And in what ways they will be working with you and the rest of the management team on a more involved somewhat day-to-day basis?

John McCann: Well, day-to-day management, they're obviously -- that's our responsibility. I think they recognize that the management team's done a good job. I think what they want to do is enhance performance and potentially speed up performance as best as possible of the company. With regard to the role changes, I think that was something that was discussed at a board level and agreed upon. So we welcome the change on that side.And then operationally, our interactions with especially Sanjay, Chuck, and several other board members has been great. I think Sanjay and Chuck bring a lot of operational experience to the table and a lot of methodologies that we already have started adapting to date. And I think there's more to come in the future.

Andrew Shapiro: That's what I'm trying to get at. Are you able to expand upon some of the incremental changes and the incremental direction that the new ownership structure is taking the company?

John McCann: Yes. I think there's a no comment at this point right now. I think like you're going to see it in our results.

Andrew Shapiro: OK. Then talking about some of your recent initiatives. Recently, you've launched, what you call the Mace Brand Safety Kit for schools, homes and businesses. Can you talk a little bit more about the product and its reception in the marketplace? Is it something you're marketing directly to schools? Is it something that you're putting through to your distributors? Or your Secure My Campus joint venture partner?

John McCann: Right. So on the distribution side, it's all of the above. We're marketing directly to some schools. We're marketing directly through our distribution network, and we're marketing it through our partnership with Secure My Campus. The product is tremendous. It's a gel-based OC formula. It -- the can empties within 6 seconds and it can shoot 30 -- 25 feet. The big benefit is that it's a great deterrent.

Any child that might come through cross-contamination, they'll be fine within -- quicker than an adult. But what it will do is, it will start to disable somebody that is in an active shooter situation and give first responders time to react. We did it with a MK-IX can, as we call it because it's light weight, it's easy to use, it's a trigger-pull handle that just like hairspray or any kind of aerosol product that anybody shot in the past, you're able to deploy this product very quickly.

And that as an added benefit, we've added in our tea-based solution that is a decontamination solution that then allows some people that might have had the ill effects of it to recover even quicker. But we do know it's a known way to slow down a would-be attack, which then the research that we have back from our law enforcement and our first responders have said, "If you give me a couple more minutes, I potentially can save a couple more lives."

And I think that's what we're doing. We are working on in the first quarter of this year, more initiatives to push this a little bit more to work directly with a bigger group of schools. The sad thing that you have to report on the school side is, it's very fractured. There is not a system in place that allows you to go to one entity and be able to sell this product or get in front of the right people in a cost-effective, timely manner.

The other part of it is, is that even the best of our schools, they struggle for money for safety and security because they're still buying pencils, and computers, and smart boards and et cetera. So we have seen some success with it, limited success, and I think we'll see some more in the future. I do also -- the only other comment I'd make on it, Andrew, is I think we're well structured now with the right people in place between David Happe, John McVay, some of David's team that's in the building here in 4400 Carnegie, we can respond quickly to this, where in the past, we might not been able to respond as quickly.

Andrew Shapiro: OK. And then segue into David and his team in the personal alarm business. I mean, they've had some personal alarms, Vigilant, well-known brand, very focused on success in that area. These aren't really high-ticket price items. Can you comment on at least what you guys feel is the total addressable market for this? I know there's some legislation pending that might mandate and accelerate the sale of these alarms. But what are we talking about in terms of market size, domestic and I think recently, you opened up an initiative to promote this in Europe as well.

John McCann: Correct. So the biggest benefit of the acquisition with Vigilant, is it opened up some factories that were somewhat closed to us before because of the relationship with Vigilant. So now those factories are available to us, they make a very high-quality product. We try and keep everything 120 dBs to 130 dBs, so we're reaching pain, but also that sound will resonate a little bit further with these alarms. Secondly is the addressable market is very, very hard to indicate.

There is no data of Nielsen, none of the other companies scan it. What we look at is, we think the addressable market is very similar to Pepper Spray. The consumer is very similar to Pepper Spray. Anybody from the ages of 16 to 66 years old, we jokingly say, anybody with a cash register as a retailer is potentially a client. It does help us with our e-commerce because sometimes we can't always advertise Pepper Spray with Google and with some of the other players in the marketplace.

It gives us an opportunity to lead with an alarm that is just as effective as some of our other products. And so that we're very pleased with. And then also David, I like to call him, he is teaching people to fish. So he -- because of his background of being a former buyer at Best Buy and Sam's Club and et cetera, he understands the nature of the retailer, which is the gatekeeper to us, to our end consumer.

Then he also understands the changes that have happened at retail in recent years, and he is teaching a lot of staff members to think differently, and also approach the market as if you were a buyer to make sure that you're answering those questions that need to be answered before you go to market. So once again, lot of opportunity. Factory.We're very pleased with the relationship we've been able to strike with the factory because quality is utmost importance in our mind and in our consumers and our retailers' mind. And then thirdly, go-to-market strategy allows us to lead with pepper if we can't -- lead with alarms if we can't lead with OC and some of our other products.

Andrew Shapiro: So you commented about you feel the personal alarm market would be anyone who'd be a Pepper Spray. You know kind of the Pepper Spray market and we're the leader in it. But we're selling thousands of units of Pepper Spray. Are you already selling thousands of units of personal alarms? Or 200,000 (alarms is a lot) to make up already.

John McCann: Yes. We're selling thousands of... now quite honestly, because of the hard work that Vigilant had done in the past, we have been able to benefit from that. To your point, it's opening up new markets that might triple the reach of the product, like for example, the service industry between hotels, service workers anywhere, that's a potential market where pepper spray might not be deemed OK by an employer, where this might be deemed OK. But it's also a door opener to have a conversation about Pepper Spray.

So When I talk about these partnerships, sometimes we're leading with the product in order to achieve another goal, to educate somebody and say, listen, Pepper Spray is safe. Pepper Spray is legal in all 50 states. We make the right amount of active ingredient to hit any law within the United States. But to your first question is, yes, we are selling thousands. We're pretty pleased with where we are, but the cap on alarms could be actually much higher than the cap on Pepper Spray, because there is -- we fall into some regulations or some areas, there is really no regulations with regard to personal alarms that are on the books today. Quite opposite to that is that there's several states, counties and municipalities that are saying, hey, we think service workers should carry these products, and David's at the forefront of that having written a very well done white paper on alarms and Vigilant is one of the leaders.

Andrew Shapiro: Let me -- I ask a numbers question, then I'll go back out in the queue, I have many more questions across the line here, but I -- I don't want to preempt people. SG&A expense jumped in your Q4 from a prior run rate and as a percent of sales. What amounts were one-time spends in the Q4 SG&A? And what's the expected payback on the new sustained higher level of spending that otherwise is indicated in the Q4 SG&A?

Carl Smith: OK. So Q4 SG&A, there is -- and as I alluded to, a spike in the e-commerce advertising for the fourth quarter to focus and drive sales in the e-commerce, which we didn't have the e-commerce business in the fourth quarter of last year. So advertising primarily focused again on that October, November, December sales season. We did have some legal and professional expenses hit in the fourth quarter timing related to the acquisitions, which would be one time.

Andrew Shapiro: So what was the legal and professional? The one timers? So I might look at what the new sustained higher level of spend is because I would hope if you're getting a good payback that...

Carl Smith: Well, quarter-to-quarter...

Andrew Shapiro: I would hope, if you're getting a good payback that the e-commerce advertising and all that will continue. But what's the (correct) time?

Carl Smith: Correct.

John McCann: Andrew, maybe for the sake of time is we can do a little recap to look at the one-time, because the legal acquisition, I believe, was in the $100,000 range during last year, which we anticipate it being fractional to that this year, unless another situation or acquisition becomes intriguing to the board and the management team. On the advertising side, and I alluded to this in the analysis of the first quarter, we are continuing a higher level of advertising, not only e-commerce, but e-commerce goes to some of our brick-and-mortar as we work with some of the brick-and-mortar accounts that are look -- reengineering their go-to-market strategies to include a more e-commerce spend into it. But we can send out later a kind of a deeper analysis of that, so we don't run out of time, because we've got about 15 minutes left. So maybe we'll let you back out, Andrew. We'll definitely come back to you before we close, and then we'll see if there's any other questions or comments.

Operator: And again, to join the queue today, please press star followed by the number one on your telephone keypad. Your next question comes from the line of Vijay Marolia with Regal Point Capital.

Vijay Marolia: I noticed that -- well, we know that you guys have done a lot of work over the last few years and part of that was selling off the unrelated businesses. So we see some numbers on the discontinued operation. How long should we expect that to continue going forward?

John McCann: We don't expect any further impact from the discontinued operations on the P&L at this point.

Vijay Marolia: OK. Just another side question. It looks like the cash flow from operations, it's improved significantly. Does that -- is that trend likely to follow? Or is that kind of based on the 2 acquisitions and consolidating the numbers?

John McCann: No. It's kind of -- it's a very good question. Thanks, Vijay. So based on these acquisitions and also of customer mix that we have, we should see a continued positive cash flow effect.

Vijay Marolia: Excellent. Just a quick last question. I saw a press release regarding the initiative that you guys have with the hospitality industry, and I just got back from the Hunter Hotel Conference in Atlanta. We're familiar with the state, can you talk a little bit about what the goal is there?

John McCann: Just like really on a higher level, it's just bringing safety and security into a different segment that I think is underserved today. We really don't want to go into specifics, because not really advantageous. But there is a team here that's focused not only on that segment but the school segment, and we feel the company has a lot of direct-selling opportunities that we're working on as well as we work on our e-commerce and our traditional brick-and-mortar side of our business.

Vijay Marolia: Got you. That’s all I’ve got for now. Congrats, guys. I’ll get back.

John McCann: Thank you, sir.

Operator: And again, if you’d like to ask a question today please press star followed by the number one on your telephone keypad. Your next question comes from Andrew Shapiro with Lawndale Capital Management.

Andrew Shapiro: Can you discuss your international sales and what is working and not working? And what do you mean by a cyclical downturn in international sales? And what can you do again to grow international sales and make that growth permanent and not a temporarily blip?

John McCann: Sure. So there are several things that we're working on. A lot of specifics we can't go into, but there is a lot of markets that are underserved today. For example, we have some testing protocol going on in Asia, as we speak. Some markets over there, we feel could be good. We look at couple of things: operational cost, logistics cost to say OK, what is the best go-to-market strategy in order to make sure that we're delivering the right products at the right price with the right partners.

With the slowdown, what happened is that in 2016, because of the immigration crisis in Europe, specifically in Syria, Turkey and Germany and some of the Western European countries seen a large surge in immigration, which then -- which led to a large surge in less than lethal, non-lethal products being purchased. What happened is, is that pipelines got filled, pipelines didn't get emptied as quickly as you would anticipate. And then the second thing, there was a bigger thing, is a labeling initiative went into effect then in Germany.

Unfortunately, because the German government had no leadership for a long period of time, things stagnated. Now the finaling, the labeling, some of the requirements to do business within that EMA, if you would, that marketing statistical area of Germany, Poland, Switzerland, Sweden and et cetera, has now been finalized, we can see some of the slowness moving away. But there is new requirements to do business, which we're addressing to make sure that we address them efficiently.

But then lastly, like as Carl alluded to, we see some opportunities in South America, not every country in South America is Pepper Spray allowed. Brazil, for example, is not. But we see growth in Argentina, we feel that will continue. We've seen some growth in Chile and some other smaller countries. And then also, as I mentioned, we feel there's some opportunities in Asia, and we're working through the diametrics to make sure that we have the right cost and then the right structure to address the market. We are, at the same time, and you'll see in the first quarter, we're making some investments into these markets to make sure that short-term, it's an investment, longer-term, we have a handle on the ROI and the time frame of the ROI.

Carl Smith: And John, if I could add, we do, with the new acquisitions, have new distribution opportunities in Canada and our e-commerce business also internationally.

John McCann: Correct.

Andrew Shapiro: OK. What were your web sales during the quarter? Were they meaningful?

John McCann: They were somewhat meaningful. We won't go into details, because now web is somewhat different for us. So mace.com, vigilant.com, we run a wide variety of websites where we're seeing some nice growth, different buckets. We are in the process of evaluating mace.com and revising -- how would I say this -- we're updating the software to current software platforms that need to happen, so the conversion can be improved. And that's being led by Jessica and David and a couple other team members here. And we feel that channel along with what we're doing with some of our partners on e-commerce will be a huge benefit in future years. We will get a (inaudible) Andrew (inaudible) work with the retailers, like mace.com is always going to be the highest priced on the marketplace. And we also look at that to see where we can filter sales to effectively to make sure people get the right products at the right price.

Andrew Shapiro: Right. John, did you guys revamp the website only 2 years or 3 years ago?

John McCann: A couple of years ago. But the problem is that it's like an iPad, it's like your car. The fundamentals of anything electronic and especially anything web-related, the Internet of all things changes dramatically.

Andrew Shapiro: So it's a constant development expense?

John McCann: It's constant -- we had a shiny new Mercedes that we were driving. Now all of a sudden a new Mercedes come out with more bells and whistles. And we're just addressing to make sure that it's concurrent with the market.

Andrew Shapiro: OK. Days inventory relative to your cost of goods sold jumped to a pretty high level. Is there obsolete inventory building up? Or what's this increase attributable to?

John McCann: It's timing because like, as Carl alluded to, the expansion into some of these other markets, and our expansion in animal deterrent, we will see a lot of that moving in the first half of this year. Bear season in specific, really starts now and it goes through June. But because of some EPA -- pending EPA that never happened and some other regulation that potentially was happening, we made a lot of product in the fourth quarter of last year to service the first half of 2018.

Andrew Shapiro: OK. I'd be remiss if I didn't ask about Tactical. I think you talked about Tactical product sales during Q4 were higher than prior year, right?

John McCann: Yes, sir.

Andrew Shapiro: OK. Now as of the end of Q4, what was your ability to store, sell an expanded line of less-lethal munitions and other consumables? And where is it today at the end of March? And what are the barriers or approvals and milestones still in front of the company?

John McCann: All right. So we'll break Tactical down into a couple segments. On our defense sprays and our less- than-lethal products, our batons, our knives, our handcuffs, we're seeing a nice return on investment. Those are no regulations on storage, so there is no issues. We have seen a little bit of slowdown in the use of OC amongst Tactical. So if they're not using it, they're not replenishing it. So we're working that through the first quarter. Then the second side of that is our less-lethal munitions.

So anything that would require some either firearms license, ATF approvals or DOT, or DOT approvals, we are in process. We're -- I would call it, we're 45 to 60 days behind due to some production delays and some licensing requirements that need to happen, but we will be in the back half of this year where we need to be versus future years. We do see a small pipeline for our less lethal along with our OC, and our batons, and our handcuffs, and our knives that we're already selling into that segment.

And we are not happy with the slight delay that we have in launching our less-lethal munitions. But we're on top of it and it's not the situation we had a couple of years ago with our partners that they ended up not being able to produce at all. We feel pretty comfortable, because a lot of the products are either in process of being produced or have been produced, and we do know there is a pipeline out there that we can take advantage of.

But I would caution and note that first half of -- or the first quarter of 2018, across the board on the Tactical side has been a little bit off. Police departments and law enforcement and tactical have not been using as much product as they had in the past. Training, which is almost 80 percent, 85 percent of every -- even defense sprays are used in training. Trainings amongst officers or departments is down.

Andrew Shapiro: OK. Now your Tactical offerings were expanded in November, I guess, or subsequently presented at several shows, including the SHOT Show and you had a release about that. Are you seeing cash flows from these past shows? And what's kind of the takeaway from, I guess, your expanded offerings from those shows?

John McCann: Right. So as I mentioned, we break it down into buckets. The OC sprays, the batons, the handcuffs and the knives, we're seeing a nice return on investment in that segment. Our less than lethal, as we did a soft launch, we didn't launch it at all in 2017, we did a soft launch at the SHOT Show. We are -- we really haven't made major investments into it, because we're waiting on the inventory. But we do anticipate seeing a nice return on investment in the back half of this year.

Andrew Shapiro: OK. And then regarding the supporting goods going back to consumer side. In Q4, how did you guys do in that year-over-year? And has it bottomed out?

John McCann: OK. So it's a very good question. What we're seeing, so Q4 of last year was not great, right? We were able to offset that because of some of the programs that we had in place, especially with like Dick's Sporting Goods, it was just a premier outlet for our products and does a great job as a partner. We were down but it could have been a lot worse. Q1, just speaking to Q1, we're seeing a change in buying behaviors within the sporting goods industry that have made us somewhat bullish on the year with regard to sporting good, and the big reason why is that there's mergers at the top with some of the bigger groups.

What's happened is some of the smaller buying groups and also independent sporting goods operators are seeing a nice little lift in their business. So with that regard, we've had 2 or 3 buying shows, as they're called, between the sporting goods industry, we've had a nice return on investment. We're seeing some benefits to this long-term partnership that we have with Dick's Sporting Goods that as they change their go-to-market strategy and change some of their product assortment that we see that we will have some benefit to that into the future. So mixed bag, last year not great, but not as bad as we thought it was going to be. This year, pleasantly surprised with the outcome thus far.

Andrew Shapiro: Regarding Walmart, you previously said on a call you were in about 500 sporting good sections out of potentially 3,000. When did you get in those 500 stores? And what are the milestones remaining to get into the other 2,500 or so? Or given the states that you can't market in?

John McCann: So we're not going to really specifically comment about that. The only thing I can tell you is that we're very pleased with our relationship with that retailer specifically. We feel that our products have done extremely well. We're seeing some nice expansion, and we see some nice opportunities in the future, specifically with that retailer. I would note is that -- I heard your comments that we're in more stores than that, so I don't know where those comments came from, because I don't think it was me specifically.

Andrew Shapiro: No, no, it was in past calls. You were only in 500 and you are (inaudible).

John McCann: Correct. Yes, I think it might be -- and I apologize, Andrew, I was either misquoted or it was misinformation. We have more stores than that and our growth is dynamic.

Andrew Shapiro: OK, great. And Mace Alert 911, I understand you commented about the LED and that's not working out or getting shrunk down or closed out. But Mace Alert 911 had a great opportunity. There is some market for it. You guys are still not like hitting the right spots. Are you putting resources into this? Is this still a product line that you see potential in, et cetera?

John McCann: Yes. So we definitely see it as a product line with potential. Part of the struggle with it was that the operating group that we licensed the product from had some big difficulties, right, that we were managing through.Now we feel they are in a much better place. They've reorganized. We have a team internally that are working with them. We feel there's still great potential and now that they've been reorganized that we're -- we have operating partner that we can trust and rely on.

We feel 2018 that we'll make some more strides with it. But definitely, we're -- at retail it's doing nicely, we just need to expand that, but now we feel that we're going to have the backup and also the product to do it. I would note, within our schools program through different groups, we have been getting some product placement out there, especially for some younger children that might not have a cell phone or might not feel safe all the time as they get off the bus and also with some teachers. So we also feel it's a great solution within the packet of solutions that Mace can provide.

Andrew Shapiro: So were the revenue levels in Q4 something worthy of calling out on yet?

John McCann: Not yet.

Andrew Shapiro: OK. And lastly, you guys have taken it seems like a pretty long hiatus from investment, nondeal roadshows or just investment conferences. Do you have anything that is on the calendar that the board has authorized you to commit to and move forward on?

John McCann: Right. So the LD Micro, we're planning on doing with (Chris). We feel that there could be a great opportunity in the June time period. And then we have discussions at the board level. I think strategically, the board had given me the direction of like, hey, we know we're going to have some transactions that -- private transactions, not involved in the company last year, which did happen this year. And so now I think we'll take a deep dive into looking at what makes sense.

And I think either at the end of the first quarter or the early-April period, I'll get some more direction on it. But definitely excited about the LD Micro event, because I think that's a perfect opportunity for the company to present itself. And then we feel, as I mentioned, we anticipate -- we expect that first quarter to be pretty good on the revenue and gross margin side that I've seen. So we're bullish on the year, which is just another good time -- good timing then to present that and this year to a -- in the LD Micro event.

Andrew Shapiro: OK. And much improved slide presentation by the way. Thank you very much for improving those graphs and things.

John McCann: You got it. OK, well, now I think we're at noon. So Andrew, if you have one more, we can take it. Otherwise...

Carl Smith: No. If there's someone else in the queue, I'd rather they ask their questions.

John McCann: OK. So we'll go back to Dan, and we'll see if anybody else has a question. If not, we'll wrap.

Operator: There is no one else in the queue at this time.

John McCann: All right. Well, want to thank everybody. Thank you, Dan, you did a great job. You got a great voice. And we look forward to talking to everybody in the future. But thanks again for the support of the company.

Carl Smith: Yes. Thanks, everyone.

Operator: Thank you, everyone, for attending today. This will conclude today's call, and you may now disconnect.

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