

MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
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11:00 a.m. ET

Operator: This is Conference # 5099795.

Operator: Good morning, ladies and gentlemen. My name is (Ryan), and I will be your conference operator for today. At this time, I would like to welcome everyone to the Second Quarter 2018 Financial Results conference call.

All lines have been placed in 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 and then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key.

I would like to turn the call over now to Mr. John McCann. Sir, you may now begin.

John McCann: Thank you, (Ryan). Thank you for joining the call today. Please visit corp.mace.com, Investor Relations, Transcripts and Presentations, as we have loaded our Chairman's letter and a PowerPoint detailing the second quarter investor call.

Now I'll read to you a forward-looking statement and go through the six-month ending June 30, 2018.

Certain statements and information during this conference call will constitute forward-looking statements and are based on management's expectation and information currently in the possession of management. When used during

the conference call, the words or phrases, will likely result, are expected to, will continue, is anticipated, estimated, projected and intended to or similar expressions are intended to identify forward-looking statements. Such statements are subjected to certain risks, known and unknown, 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 the opinions or statements expressed during this call. So thanks.

And once again, if you can visit corp.mace.com, Investor Relations, Transcripts and Presentations, you'll see a PowerPoint. I'm not going to walk through the PowerPoint, but we can answer questions at the end of my brief commentary on the quarter.

So once again, we will do a Q&A. The Chairman's letter is on our website, and additionally, the PowerPoint presentation I had mentioned.

So just a quick recap. Sales revenues increased 13.3 percent in the quarter as major customers experienced strong POS sales in the quarter, and we grew our distribution by adding 17 accounts with multiple locations indoors.

One major account has had robust POS, which is POS -- POS as their point of sales as a register, which has led to replenishment orders and off-shelf placement to keep up with the demand. Our current e-commerce strategy has been effective, and we experienced double-digit growth in the category. David Happe has done a great job building on the team to support the category and enhance our brand, our messaging and develop strategic advertising plans to support the category.

Note, in the first quarter, we overspent the category, which led to negative EBITDA, as we tested several ideas and concepts. This was corrected in March and now in line with our expectation.

We have opened new categories to sell our products, and we'll continue to develop ways to engage our customers and consumers directly. We also had some nice pipeline sales in the quarter with a major retailer that led to a 13.3 percent increase.

On the marketing side, we launched a new website late June with some limited success, and we're anticipating more -- making more enhancements to the site as a critical element of our long-term branding strategy.

Just a couple of notes on the web. Unique visitors are up 50 percent year-over-year. Page views are up 192 percent year-over-year. Page view sessions, meaning how long a person stayed on our page is up 89 percent, and our bounce rate is down 76 percent year-over-year. As stated in the Chairman's letter, we are working and interviewing and reviewing marketing companies to take advantage of our world-renowned brand name and excellent products. We expect to hire an agency in the next 60 to 90 days to further enhance our digital e-commerce strategy, along with our marketing strategy overall.

A couple of disappointments to note. Less-lethal tactical has been a disappointment, thus far. Production has been delayed, but now we're back on track as we should have all inventories in-house by September. We have fulfilled some small orders in the past quarter, mostly of 12 gauge products go into a couple of different departments, but we have higher expectations for the category. We have a robust training schedule for the next couple of months, which will expose our brand to large and small departments and agencies in the U.S. and international.

LE, our law enforcement or tactical, has been down year-over-year for a couple of reasons. We've seen department usage has been down. Class trainings have been down. So in order to combat that, we are reversing the trend by increasing our OC trainings and classes to our different departments across the United States and working with several agencies across the U.S. to gain more business.

Internationally, we've had a timing issue with some of our sales. There's been adjustments to the marketplace as the slowdown in Europe has continued over the past several quarters. We have seen an increase in orders and sales in the third quarter, so we're getting closer to our goal. But we saw some work to do in the channel, but we're still optimistic.

I do want to note, India is on our radar. We're working on a profitable solution for the market. The announcement made in India was premature, but stay tuned for more information in the near-term future.

Another slight disappointment for the company in the quarter that was made up by other channels is our sporting goods channel. The channel was down due to less stores. Sports Authority has closed, a couple other key accounts have closed. We have reorganized and reduced our cost in the channel, so our cost to service the channel has been greatly reduced and will be in the going forward. We are seeing a positive trend in the channel, and the smaller formats, smaller footprints, our two-step distributors are experiencing some increases. And we think we're well positioned in the channel to compete, but we do expect the channel not to grow as robustly as some other channels that we do business with.

Gross profit, just to comment on. We had a 20 percent increase in the quarter due to strong mix of sales, products and customers. During the period, we also have fully amortized tooling expense on our unique flip-top products, so we expect to see continued strong margins year-over-year, as the tooling expenses dropped off as we buy more handles. It's our tooling, so it's a great benefit for the company. We took some costs out in the past. We have some planned cost reductions on our materials as we go into the future.

We're continuing to work on product improvements, both on our current products and some of our newer products that we're working on. We have, additionally, started our SKU reduction as we do on an annualized basis, and we'll continue to reduce our SKUs to focus on the SKUs that are most profitable and the most successful at retail. Major channels like consumer and e-commerce have driven the growth, and we do anticipating maintaining this momentum for the first half to the back half of the year.

And lastly, on EBITDA, in the quarter, we achieved a run rate of 10 percent through operational efficiency, reducing waste and duplication of roles and duties. We expect to continue to review our allocation of resources, so we optimized our efforts and increased our long-term sustainable double-digit EBITDA. We've had some additional expenses in the quarter which we laid out in our PowerPoint presentation namely, legal, advertising, time in the trade shows and personnel consulting. We expect the June run rate will achieve the same run rate into July, and this is just our minimum goal.

Couple of comments on inventory and overall, and then we can turn it over for questions. Inventory, our current days on hand is 129, which is a 33 percent improvement from year-end. We have some large orders in-house that we'll fulfill in the third quarter, so we are tracking well to what our inventory expectations are and how quickly we're turning our inventory. We are -- we do not have any impaired inventory. We've been able to move all the inventory that we need to, and inventory between raw materials and finished goods is tracking to what we expect.

Lastly, just noting on inventory. We are not seeing any issues out of Asia, thus far. We are tracking it. David Happe is tracking, especially with some of our personal alarms and some of our other captured factories that we have in Asia, and we're doing a good job of making sure that if there is any duties or any issues that we have to worry about then we have backup solutions and plans.

And then really just overall, acquisitions have helped the company beyond revenue gains, as we've increased our operational efficiency. There's more to come in the future. The acquisitions were made to align the company for future growth, as consumer buying patterns continue to change, and we're in a position now to service our customers do their changing habits of where they purchase, how they purchase and when they purchase.

Sales pipeline and future orders are strong, so we expect to continue to see double-digit growth on our revenue line in the future. Margins will continue to be strong as we made good decision in the past on products productions and

parts. And we're continuing to see improved EBITDA results as we aligned our internal and external sources to be more customer-centric and customer-facing.

So those are really the brief comments. We can turn it over now, (Ryan), for questions. We do want to limit the questions to one per person, with a couple of follow-up questions, so everybody has an opportunity to speak.

In the room with me, and you can address the questions to the person that you want, Carl Smith, our CFO is here; our Executive Chairman of the Board, Chuck Gehrisch, is here; and then also our Vice Chairman of the Board -- Executive Vice Chairman of the Board, Sanjay Singh, is here.

So with that, (Ryan), we'll turn it over to you for questions.

Operator: Thank you, Sir. At this time, I would like to remind everyone, in order for you to ask questions, please press star and then the number one on your telephone keypad. We will pause for just a moment to compile a Q&A roster.

Your first question comes from the line of Mr. (Thurman Willis), a private investor. Sir, your line is open.

(Thurman Willis): Thank you all, John. Thank you for taking my call. Gentlemen, I had a chance to attend the annual meeting, which I thought was excellent. I was glad to hear a new tone and, Chuck, in your letter of talking about promoting, promoting, promoting and marketing our company. I salute you for that. And I would also like to say that I appreciate the fact that you are having this call. I think that's very important.

So with that, I'll get to my questions. In marketing and branding, we talked about doing some activity there, and could you expand a little bit on the marketing and branding, and does that mean that we may possibly purchase an IR firm -- excuse me, that we may hire an IR firm to help us with our marketing and education? And then I do have one follow-up.

John McCann: Sure. When we speak of marketing and branding, let's put it into two buckets. One of them is through markets, the would-be investors, and the other one is the general consumers. We feel, at this point and it's the evolution of the brand that it's a good time for the company to look at through PR, branding and marketing companies to raise above the clutter of the advertising world as it is today.

The advertising world is very fragmented. Most kids watch things on their devices. They don't watch traditional television. So getting that Mace brand out in front of the people, we need to -- it is a critical element of our next steps of what we need to do.

The other big portion of it, (Thurman), is, is that buying habits have changed dramatically, right? So if you look at the fourth quarter of last year, Amazon accounted for almost 25 -- non-Amazon web purchases accounted for almost 25 percent of all purchases. That trend is going to continue. So what we're looking at is how do we address that digital media, how do we address making sure consumers know our products that are available because a couple things that we know is when they see our products, they buy our products, when they buy our products, they like our products, and they also trust the brand.

So we're looking at interviewing and talking to branding and marketing companies as we speak. And I think the elevation of the next steps after that will be looking at IR firms, looking at translating that message that we brought to consumers into investors, so they understand what we're doing. We would really like to see a couple more months of 10 percent or above EBITDA and double-digit top line growth, because I think that's the best thing to help investors understand it.

And then lastly, investors are like everybody else in the world. If they see us all over the place, they're going to be attracted to a brand, which then will make an IR company's job a lot easier because they'd walk into XYZ retailer, they'd go online and they'd see us, and they'd see a consistent branding message that we are the product that will protect you, we are the product that you should have with you at all times.

I don't know if Sanjay and Chuck might ...

(Thurman Willis): No, thank you. And let me go to my follow-up. The next -- the follow-up is on enhancing shareholder value. I think all of us that have been shareholder for a long-term have watched our stock languish at this \$0.33 to \$0.35 level. I was glad to see that more emphasis is going to be placed on this. I have given some three to four suggestions, which includes a buyback program authorizing stock repurchase when our stock falls to these lower levels.

So in enhancing shareholder value, I'd like to address this to Sanjay and Chuck, and I ask that now that you're in pocket for about four months, you own 20 percent of the company, what basically do you plan to do to get rid of this seemingly overhang that's been in our stock? I think we all agree that at some \$0.33, \$0.34 it is undervalued, especially with \$1 a share in NOL. And so could you speak specifically to plans of execution to enhance shareholder value as it relates to potential buybacks or getting rid of the overhang, et cetera. If you could be very explicit about answering that. And that question goes to Sanjay or Chuck or both.

Sanjay Singh: (Thurman), so the share buyback program that you have -- you mentioned at the annual meeting is on the board's radar. It will be a topic of discussion the next time we meet.

In terms of the overhang, if the buying opportunity is right, yes, we will look into it and execute on it. It needs to make sense to us.

In terms of enhancing shareholder value, you've seen a short-term uptick in EBITDA, and you're going to continue to see that as we move forward. The company is taking actions to increase the enterprise value of the company.

John McCann: So thanks. (Ryan), we'll turn it back -- so (Thurman), we'll give a couple of other people a chance to speak now, but thank you very much.

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

Vijay Marolia: Congrats on the quarter, guys.

John McCann: Thank you, Vijay.

Vijay Marolia: Thank you for doing the call. I agree with (Thurman), and Andrew and the rest of the shareholders that these calls do help. So the quick and dirty math looks like if the one-time expenses are really one time, we're going to be building cash flow pretty aggressively moving forward, especially looking at your guidance for the third quarter. Is there something that I'm missing there? Or is that how you guys see it as well?

John McCann: Oh no, we see it the same way, and we think there's a lot of opportunity for upside. We're seeing a top line revenue growth, and now we're making sure that we have no leakage, making sure that, that growth is sustainable, which we feel it is, based on what we're doing.

We think there -- we're looking at some expenses as we move forward in marketing to further enhance that long-term value of the brand, but we definitely think the double-digit EBITDA is within our grasp, and like I said earlier, 10 percent we think it's just a minimum.

Vijay Marolia: OK. Also the website looks fantastic. Great improvements there. Approximate -- so I'm assuming if there is one-time expenses in the third quarter, it will probably more related to marketing than legal, right?

John McCann: Correct.

Vijay Marolia: And do you have -- can you kind of give me some color on the amount you want to spend? Can we make it kind of performance-based like we talked about?

John McCann: Also a lot of what we're looking at, interviewing marketing companies is a performance-based plan, because we think we have a great product, and as that great product gets out in front of more eyeballs, we do see more sales. We are pleased with the initial launch of the website. I think there is some more work that we can do to enhance it and focus down that message even a

little bit further. Even with this website, a portion of the work was done on a success basis, on conversions, and page views and et cetera. So we're tracking a lot of that.

And then the other part of the website that I think will help enhance us in the future, there won't be an expense in the future as we changed our back office for the website. So we went from one platform to another. The newer platform allows for greater conversion, easier shopping, easier cart, basket, if you would, and easier checkout, which is like one of the critical elements of any website that you see a product, you want to put it in your cart, you want to be able to purchase it very easily. And that was one of the expenses in the quarter.

The other one, like, David Happe has an aggressive plan on our e-commerce strategy to make sure the right messaging, the right video contents, the right message to our consumers are out there, because we do have a different message based on that product, whether it's a pink jogging product or it's a black jogging product, whether it's a stun gun that we're seeing some success in, we really want to keep that business going.

Vijay Marolia: Yes, I totally agree. And David Happe's plan makes me happy. So congrats guys. I'll back out.

John McCann: Thanks.

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

Andrew Shapiro: Hi, thanks. Thanks for having the call. I'd first like to direct my questions to Sanjay and Chuck, sort of the big picture here. I appreciate it. It will be another 60 to 90 days before you complete development of your long-term strategic plan, as your letter says, but at this interim point, can you at least provide some insight as to what products and/or segments or channels you've identified for greater or lesser resource allocations?

Sanjay Singh: The channels that are being reviewed by us are the law enforcement and, specifically, the less-than-lethal munitions play. As you know, that's been in

play for last six months. There have been several delays that John talked about. So that's under review, either we're going to be in that business or not, and that will be figured out in the next 60 days.

Andrew Shapiro: There is even a chance we would not be in that business? What is the cause of the delay at this time? Before you didn't have someone who had the ability to store, manufacture. What's causing the delay in terms of partnership at present?

Sanjay Singh: Raw material delays from our supplier.

John McCann: Right.

Sanjay Singh: It's caused the plans to extend out about 90 days.

Andrew Shapiro: OK. And when your letter said you're now averaging a run rate of 10 percent adjusted EBITDA in the last 90 days, were you guys referring to 90 days ended July or ended June? And more importantly, for you Chuck and/or Sanjay, is over the next three years, what do you see as a realistic EBITDA margin target for the reenergized Mace that you two envisioned?

Sanjay Singh: The first point is that the EBITDA has been averaging about 10 percent in the last 90 days, (counting) July and backwards, so July, June, and May. April was not a good month. Looking forward, look, we have an internal target, but until we sort of figure out the execution plans, let's put it this way. The team is committed to 20-plus percent EBITDA is what we're shooting for. Whether we will achieve it in the next 3 years or 12 months remains to be seen. But there are plans and actions and attitudes and behaviors in line to achieve that.

Andrew Shapiro: Well, that's why I gave you three years in the question. I have other questions, but I'll back out in case someone else is in the queue, but please come back.

John McCann: Thanks.

Operator: Again, if you would like to ask your question, please press star and then the number one on your telephone keypad.

We have a follow-up question from Mr. Andrew Shapiro of Lawndale Capital. Your line is open.

Andrew Shapiro: Thanks. Chuck and Sanjay, can you guys discuss your international sales and what you guys see is working and what you see is not working? And is this an issue of seasonality or regulatory burdens that have not yet cleared up in the international marketplace?

Sanjay Singh: So we see a couple of things going on in the international marketplace. There is a fair amount of activity coming from, whether it's South America or Europe, Belgium, and even in Asia, Taiwan, Taipei, or the Middle East, we get a lot of inquiries. There are some issues around labeling that John can get into more detail in Europe where there is some regulatory approval that is required by the government in Germany, and I believe in Belgium.

Our international presence is the brand is well-known. We get a lot of inquiries. It's directly proportional to the conflicts that you hear about in the news. And that's when we see inquiries sort of pop up. It's not a significant play at the moment, for us.

John, do you want to expand a little bit.

John McCann: Yes, I can expand a little bit, Andrew. So if you look at it in bucket, most of Western Europe, what Sanjay referred, has gone through some changes with labeling and requirements, which has slowed down the usage and also the distribution of the product. But we're seeing some light at the end of the tunnel there. Some of our big customers in the past are finally now figuring out what they need to do, so they can purchase.

Then you look at other buckets. South America, what Sanjay had mentioned, we're seeing some nice growth. We had some nice pickup in some different markets in those areas. And then also, Canada, we've seen some nice pickup with the acquisitions that we're seeing distribution on our bear spray up in Canada.

And then lastly, we've had some success down in Mexico. So it's a little bit of a mixed bag. We do think that longer term, that, a, the brand has universal appeal; b, there is market segments that we can service a little bit better and a little bit more proactively; and then, c, we're responding to bids now for police forces worldwide that we hadn't been in the past.

So I'll give you an example. We just landed a -- Chile, the prison systems that we'll be distributing some products to over the next couple of weeks, and hopefully, that will be a longer-term contract. So that last segment could be a nice win for us that if we -- on an international basis, if we get more OC, as we call, pepper spray out into different departments and police forces worldwide.

Andrew Shapiro: OK. Chuck and Sanjay, a lot of these questions is for you guys. You're the new lead investors here and your vision and energy as to where you're taking this and what you see as assets or untapped opportunity are what's important to me here to understand as a long-term investor of the future. So with little seen from Select Security, SecureCheck and other license deals that were cut before you guys were here, what are your views regarding monetization and licensing of the Mace brand, this seems like a huge high-margin opportunity that has not been realized over many, many years?

Sanjay Singh: Yes, we haven't looked at licensing opportunities, Andrew, specifically because of the fact that we feel that the brand is under-leveraged in our minds. The addressable market for the brand is much larger without having to go down a licensing route. Our intent is simple, to make the lives of our customers safer and more secure. And I think we've just started that journey and earnest in terms of a strategic view of the business looking at the thesis that way.

Andrew Shapiro: OK. But as you're considering, for example, potentially leaving the law enforcement market or other markets, it would seem that someone who is in those markets and who can do well with using the Mace brand would provide our company a 100 percent margin royalty streams to be used against our NOL and monetize our brand in areas that you guys may choose that we're not going to be all things to all people here.

Sanjay Singh: That is a possibility. But just to clarify, we're not saying we're getting out of the law enforcement business. It's under review.

Andrew Shapiro: OK.

Sanjay Singh: Yes, just like any -- and it's more specifically the LLM, it's simply under review. And we're not ruling out any licensing opportunities. In fact, we are considering more at the moment whatever makes economic sense. It is not something that, that is our exclusively or single most important priority at the moment. There are several other priorities.

Andrew Shapiro: OK. Could you -- maybe I didn't -- so what are those priorities? Let's just get a feel for where you guys are focusing on.

Sanjay Singh: Attacking the domestic market. Going to having a strategy that gets our products in every household.

Andrew Shapiro: OK. And in addressing that, I guess, I have a question here regarding, I guess, a few of the vertical markets. The company launched a safety kit for schools, homes and businesses that includes pepper gel product that can be effective from 25 to 30 feet, which is a great distance. We also saw media reports of an Ohio school district installing a pepper spray base system for fending off or unmitigating loss of life and act of shooter situations, something that should be an attractive kind of system for all school districts all over the country. Can you talk some more about your products and this other system and what inroads pepper spray and, in particular, Mace is making to address this large and sizable market need?

John McCann: OK. So Andrew, we're aware, but we can't really comment on one of the products that you had mentioned. We're very aware of it. We are doing some work with it. So that being said.

The other segment of it, yes, David's group, our e-commerce group and our direct marketing group, is working with different individual schools on the benefits of our products, that's why you saw that safety kit. We're still promoting that safety kit on Amazon. In the near-term future, you will see a

couple of other kits come to market that we think also address some of these needs.

And as Sanjay said, we're looking at all opportunities within the domestic market to grow the business and even in the international market, and schools are a big segment of it. But we have a lot of partnerships that we prefer not to address at this time.

Andrew Shapiro: OK. At the annual meeting, management discussed some notable accomplishments and marketing and starting to see sales of the Mace Alert 911 product. And I think it was with respect to one of the home shopping networks. What were the revenue levels of Alert 911 in Q2 versus the prior year? Had they become meaningful yet, because it seems to be a product that would have a large opportunities out here?

John McCann: So they're not meaningful to the organization. What's meaningful to the organization is, is that we have -- we're sourcing some products that go along with the Mace 911 that you'll see on some electronic shopping channels, and you'll see some distribution out in the general public that fits into what we wanted to do. And you'll see that in the future revenue streams as we move forward. We've had some success in electronic shopping through our partnership, again.

Andrew Shapiro: OK. And Chuck and Sanjay, is Alert 911 a product line that you envisioned to get more focus in resource allocation going forward or it's something that will be more your joint venture partners obligation and focus and not Mace's concern as much?

Sanjay Singh: John, I think you should take that.

John McCann: OK. Right now, we're looking at everything, Andrew, so I'd say it falls into a bucket of under review to make sure that it's the right product and it fits with what we want to do.

One of the things that, like, when you have some outsiders come in and you really look at your house, you say, "Hey, I should have focused a little bit

more on this area and that area." And I think one of the things that, that I'd agree with, too, is that -- with Sanjay and Chuck, that we have a lot of opportunity just in OC and pepper spray to get a bigger share of market, and I think that's a major focus, and then we look at what other things can go wrong with that focus.

But just even when I came in, we focused on pepper. Maybe we took our eye off the ball a little bit because we fell in love with the shiny toys in the corners and whatnot. But now somebody come in and saying, "Wait, you make the best products in the world, don't worry about the other crap, let's get this done." And I think that's the message been, and I've been to the management team and the management team is fully supportive of it.

I think as we look forward, we'll look and see how this fits into that strategy and make sure that that's the best strategy. You will see some things bucketed around Mace 911 in the near-term future along with the kits idea because we also think that's a great way to raise our (ASP). But right now, it's under review. I would say as a recap, but like OC and pepper, we still have a lot of opportunities in that segment.

Andrew Shapiro: OK. I have other questions but I've asked enough here, I'll back out. Please come back to me this time.

John McCann: Sure.

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

(William Rankin): Thanks, John, for taking the call. It's been a long time coming, but I'm really pleased to see the positive board changes, and again, congrats on the quarterly results. It's very positive and it looks like you've got your plans well underway.

On the growth side, you expect, if anything, significant growth and that's what's got, hopefully, more investors that will be coming along, get excited

about, do you think you're going to need to raise new capital to fund that growth? And if so, is that going to be debt or equity?

John McCann: Currently, we're not looking at any capital raises. We're feeling pretty good about we can fund the growth with our own resources.

(William Rankin): OK. And as far as your production plans, do you expect to take on production setting up internal operations, or outsourcing most of your production?

John McCann: We are not looking at outsourcing our production. What we are doing is looking at that from order to production to see what efficiencies we can drag out of that. And then also, like, I think a big, big point is that allocation of resources to be more customer-centric, more forward-facing to our customers, so we attract more customers into it. We think there's some efficiencies we still can build out by ourselves, but we are always open to looking at what's the best way to go to market.

(William Rankin): OK. And just on that -- related to that, as far as your employment base, how many employees do you currently have?

John McCann: We have less than 50 FTE.

(William Rankin): All right. All right. That's my one follow up. I'll jump back in the queue. Thanks.

John McCann: Thanks, (Bill).

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

Vijay Marolia: John, I saw the article about Mace India, and we're all very excited about that. Of course, I don't need to repeat the demographic story. And Jay, our partner there, has some very aggressive expectations. And although the expectations there are very doable in terms of math, it would require, in the next six months, a lot of actions. So are we planning on going to India and opening up a facility in the next six months? And if not, then why not and when?

John McCann: OK. Excellent question. So once again, I want to have a preface, because we do have a great partner in India. He jumped the gun. He was misquoted by the Indian papers that's why we didn't see anything in the United States, just to get that out there.

Second thing is we are working on a phased approach, as we have been with our Indian partner; a, finding the right partner; b, we're working with the former Ambassador to India to make sure that operationally we can do what we want.

Third, the level that we're still at today is really making sure what the market needs, right? So in rupees, the Indian currency is making sure that we hit what's affordable, what hits the right market segments and we can hit the right consumers.

And the last thing is, is working on production because right now, one of the drawbacks of doing business in India, it's an over 35 percent duty just to ship product into India, so it's not sustainable to continue to ship products out of the United States.

What we have done in the first half of this year that's in that marketing spend, sent products over to (seed the field) to make sure that we have the findings that would indicate that, "Yes, it's right for the market."

There's three things now that need to happen is we have to solidify a plan, we actually have to solidify the partnership, and then the third thing is we have to solidify that go-to-market strategy to make sure that we're priced properly for the market and we're promoting properly for the market.

So the short-term plan is not to go to India today, but that could change if we can get everything lined up the way we think we can do, and then also like in the United States be the dominant player, the premium player in the market.

Vijay Marolia: OK, thank you.

John McCann: Sure. (Inaudible), brother.

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

(Thurman Willis): Yes, a quick follow-up. Chuck, I thought the Chairman's letter was very clear, precise, and I think it's what we all wanted to see. The problem we thought once the company became profitable that our stock price would improve. We've talked about a 10 percent to 20 percent increase in revenue, so we've seen a nice quarter, as people had commented on. And yet with the great news of yesterday, as usual, the stock goes down in price, can you speak a little more specifically of steps to enhance liquidity and to improve the stock price as revenues are increasing and you're projecting a 10 percent to 20 percent growth rate going forward, but yet, we're still languished, so more specifically, one, two or three things that you're focusing on that's going to improve liquidity and improve stock price? That's for Sanjay.

Sanjay Singh: We are in the process of interviewing IR firms. We talked to one, it wasn't a good fit. We have recommendations from others, and we are in the process of interviewing them. That's one step that we're looking at executing.

In terms of the overhang, as I mentioned few minutes back, we'll look at what makes sense, and now that the earnings are out, and see if Chuck and I want to execute on that.

On that particular topic, (Thurman), that's all I can offer at the moment. We're not happy that the stock price is down after the earnings came out, and I think a lot of us understand the reasons why. So that is a top-of-mind, but that's what I can share at the moment.

John McCann: Right.

(Thurman Willis): Thank you for taking my question. And again, it was an excellent quarter and excellent letter to talk about our plan and strategy. So, we as investors thank you for that.

Sanjay Singh: Oh you're very welcome.

John McCann: Thanks, (Thurman).

OK, (Ryan), if there's a couple more questions, otherwise we can wrap up a little bit early.

Operator: We have one last question from Mr. Andrew Shapiro from Lawndale Capital. Your line is open.

Andrew Shapiro: Hi, a quick accounting-specific question and then a broader question for Chuck and Sanjay. Regarding the accounting-specific questions, regarding the Vigilant, I noticed in this quarter's financials that the company is now accrued for all of the cash portion on the Vigilant earnout. Is this based on already hitting the earnout milestones like you did in Washington Labs acquisition?

John McCann: Yes.

Andrew Shapiro: Or is that, at this point, simply estimating the achievement?

John McCann: We hit all the milestones.

Andrew Shapiro: Already. That's kind of early.

John McCann: Yes, yes.

Andrew Shapiro: And then when does the measurement and accrual for the equity component of the earnout take place?

Carl Smith: That's two years from the acquisition.

John McCann: So two years from October of '17.

Andrew Shapiro: Is when that equity would vest?

John McCann: Right.

Andrew Shapiro: OK.

John McCann: Measured on net contribution margin.

Andrew Shapiro: OK.

John McCann: As we have mentioned repeatedly, when we did the acquisition, it was not only the product line that we thought enhance what we're doing. We also thought David Happe's talent fit very nicely into what we imagined as a new Mace.

Andrew Shapiro: Yes, and from what I see -- so far, at least from what I can see from the public side, you'd certainly has may -- had effectiveness and raised the profile, which is great.

Chuck and Sanjay, representatives of Carleton McKenna attended the recent annual meeting that I was at. I was wondering if their involvement in your acquisition work is via a retainer cost arrangement or it's a best effort success fee? And more particularly, what are your focus -- both of you guys, focus when looking at new acquisitions in terms of size, scope and subsector market if you have that focus yet?

John McCann: So Andrew, this is John. Because I work directly with Carleton McKenna last -- Sanjay and Chuck, obviously, bring strategic advice and knowledge to the situation. Carleton McKenna is on a tiny retainer, I'd call it, on a quarterly basis. And they do a lot of analysis. They look at everything for us to make sure that we look at it at forward-looking and in investor point of view, so they did help with the PowerPoint presentation that we put together and a couple of other items.

Second part of it is, is their retainers draw against any activity that we might have, which mean an acquisition or anything else, so it works out to be very nicely on the success fee side of it.

And then the third part of it is, is that it's a narrow, narrow focus of what fits within what we want do. Namely, if you look at us as being the number one pepper spray company in the world, are there any pepper spray companies we

could acquire? Can we acquire them at the right price, at the right parameters, and the right math? And so I think they add a lot of value within that.

But it is truly a narrow focus. It's not like we're looking for car washes or anything else. It is within that personal protection, personal safety and personal security segment.

Male: And (we won't use) them any more than anybody.

John McCann: Right.

Andrew Shapiro: Great.

John McCann: That answered your question?

Andrew Shapiro: Yes, I think so. I was trying to get Chuck and Sanjay's focus for the board ...

John McCann: Sanjay. They can comment, too.

Sanjay Singh: Sorry, can you say that, again, Andrew.

Andrew Shapiro: I wanted to get -- again, you're our new lead investors here. Your take on over leadership over the board, and I'm trying to get a feel for yours and the board's focus when looking at new acquisitions in terms of size, scope or markets, if it has it. And if there's been any shift, and to what avenue or focus is that shift?

Sanjay Singh: So I'll speak for the board, there are acquisitions that have come our way. We've looked at them in terms of our acquisition parameters, we're extremely focused on the return on investment and payback. It has to be something that is very good for our end customers, so, i.e. it's more likely a value buy that will have a quicker payback. So that sort of limits the size of the acquisitions that the board is willing to look at.

The company is not in a position to do any big deals at the moment. That can change. So the focus is very narrow. We want to grow organically, and we

will only look at acquisitions if it is very, very good for the market and, obviously, the shareholders.

Andrew Shapiro: Right. Well, you don't have any acquisition currency right now, and with the -
- your purchase of 20 percent, that would leave approximately 30 percent of our very low market cap available through equity even if we were to use it. And that would certainly limit the size of an acquisition, if we want to keep those NOLs.

And with respect to that, well, this year's expiring NOL is a small amount, the annual amounts that expires start kicking up. We sensitized (too) that there might be steps the company could take other than generating immediate profits, of course, to use or to refresh these NOLs. Have you guys taken further steps and have identified or become informed as to what you guys could do to potentially refresh and keep some or all that NOL value?

John McCann: Yes. So Andrew, I thought we had some follow-up on that with you specifically and directly with regards to the steps that we're taking with regards to not accelerating anything that would enhance the tax deduction. And I believe the last time there I saw the communication, we're going to loop you in with our tax partner for further discussions on what you're referring to with regards to that term refresh, so I'll pick that up ...

Andrew Shapiro: That was months ago since the annual meeting, so I just wanted to know if by now, you guys at least have identified what you need to do and considered whether to do it? Not yet (inaudible) ...

John McCann: So Andrew, like I said -- we're familiar with the term refresh, and we're implementing those strategies to not take or enhance tax deductions now to save those for down the road.

Andrew Shapiro: Yes, you could also be generating gains now that would automatically reverse out and create losses later. The IRS doesn't have a problem with that. They like that.

John McCann: OK, so we have the tax accountants working on it.

Andrew Shapiro: Good. Well, that's the point I want to make ...

John McCann: Sure.

Andrew Shapiro: ... is or to find out is if there's been follow-up and they say, "Yes, this is what you guys need to do," and you guys have to figure out if you want to do it or not?

OK, I have no other questions. Thank you.

John McCann: OK. So, (Ryan), is there any more questions in the queue, otherwise, we'll thank everybody for participating.

Operator: We have one last question from Mr. Vijay Marolia of Regal Point Capital. Your line is open.

Vijay Marolia: I'll keep it quick. I was actually going to ask about the NOLs. For 2019, what's the amount, it's like \$4.5 million?

John McCann: \$4.5 million.

Vijay Marolia: OK, all right, that gives us some motivation. Thanks, guys. Great quarter.

John McCann: Thanks.

Sanjay Singh: Thank you.

John McCann: Thanks, Vijay.

Sanjay Singh: Thank you.

John McCann: OK. Well, thanks again, everybody, for participating in the call. As I mentioned, that all the documents will be on the website. Within the next 10 days, we'll also have the transcript from this call on the website. Thanks again, and we look forward to talking to you at the end of the third quarter.

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

END