# MACE SECURITY INTERNATIONAL INC.

**Moderator: John McCann**
**June 19, 2013**
**11:00 a.m. ET**

Operator: Good morning, my name is (Nicole) and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter Fiscal 2013 Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key.

Thank you. Mr. John McCann, President, CEO at Mace Security International, you may begin your conference.

John McCann: Thank you very much, (Nicole), and thank you all for dialing in today. We truly appreciate your support.

Before I begin, I want to direct you to our Web site where we loaded a PowerPoint presentation that will go through later on this call but it also hopefully will answer a lot of question that you may have.

So if you go to mace.com, to our corporate site, and investor relations transcripts and presentations then the third PDF in 2013 labeled 2013 First Quarter 2013 Investor Call Presentation you'll see it there. So that's http://corp.mace.com.investorrelationshareholdertranscriptsandpresentations, the presentation will be there.

Quickly, I want to do a brief history to give you some perspective on today's call. At this point in time, I'm about a year and a half into the role and I just want to talk about all the achievements we've been able to do on this year's time.

You know, when I got on board, you know, quickly, I've point out that we had a dysfunctional staff. We had two pseudo-corporate headquarters, California and Pennsylvania. We had four active carwashes. Today, we do not operate any car washes and we're down to one location in Arlington, Texas, that I'll talk a little bit about in a minute.

Also we occupied or leased buildings in the following states: Pennsylvania, Texas, including carwashes and warehouses, New Jersey, Florida, Vermont, California, and in California we had an HR office, a Mace Central Station, and storage department.

We also – we're under a proposed debarment and suspension by the U.S. EPA, not the Vermont EPA, and I'll talk a little bit about that too. We did not have any distribution in grocery or driver accounts. We did not ship any products to Mexico and we were burning money – we were burning cash and losing money.

Fast forward in today, just really briefly, as I have mentioned before we do not have any active carwashes. We have one carwash that we're trying to sell. We had a contract on it as of a week ago, but unfortunately because of some issues with the city of Arlington that we're trying to deal with on signed, that contract fell through but we're actively pursuing to get out of car washes completely.

We've reduced our corporate footprint and all of our facilities footprints into four basic locations as of today, Vermont, a small office; 15,000 square feet in Florida; our California central station; and, of course, our Arlington carwash.

We have an office in Ohio. We do not pay any overhead or rent in our Ohio space. We just pay our utilities and our phone bills. And then we've eliminated all other offices and leases. So New Jersey is gone, Pennsylvania is gone, Texas is gone, and et cetera.

Additionally, we're going to do one more consolidation that we think will both help in our manufacturing efficiencies and our corporate oversight is that our consumer products which will be our security cameras, our Mace pepper spray, and all of our manufactured products will be moved to Ohio. Corporate will be incorporated into that building.

That building will be just under 50,000 square feet and it will allow us to have vertical manufacturing, sales distribution for all of our consumer products. We will also move some of our Videofied products that we fulfill out of California into this location and a further consolidation at the same time.

We are completely cleared from the proposed debarment by direct negotiations with the U.S. EPA. So I just want to stress that this was painful, stressful, and a monumental achievement to get it done plus it was expensive. The company and fines and, et cetera, by close to $1 million and I believe once the legal bills are all done, it will be over $100,000.

We'll get into it a little bit. There'll be some ongoing recurring cost associated with it on our maintaining side but now we stand very – in a very good position with the EPA which positioned us well for a growing international government law enforcement and other channels that we'll talk about a little bit later what we're calling our tactical division.

We have exclusive now with the following retailers: Ace Hardware, AutoZone – we're shipping AutoZone in Mexico –TSA which is The Sports Authority, and DSG which is Dick's Sporting Goods. We're also shipping many drug and grocery accounts, C&S, Buehler's, (Harbor), just to name a few.

Additionally, and this was an expand that occurred in the fourth quarter and now going to the first quarter, is that we've done a lot of research. We have product plans, channel management, integrated marketing strategies in place that pronounced we are Mace.

We are Mace whether we're Mace monitoring, Mace security cameras, Mace pepper spray. We're end-to-end security. We have our first licensing deal that would secure outcomes which is a forensic fingerprint machine. We are looking for more of those to come in the future.

Additionally, we're working with the State of Massachusetts on a change in their restrictions of the sale of pepper which we feel very comfortable that in the – over the next couple of months if we continue to work hard we'll be able to achieve which will then just make one more state where we will be able to distribute products in an easier way.

Today, I remind everybody that pepper spray is legal in all 50 states. There are some restrictions on how you can acquire the product and we're working on changing those because they're antiquated and outdated.

Lastly, we're still losing money. We're working on reducing that and that our goal of profitability is our number one goal. But we also have reduced the cash burn and Carl will get into that a little bit as we go on through the presentation.

So I just want to kind of talk about the achievements because in a year's time, we've been able to do a lot. We're very bullish on that – what we've been able to do and we're very, very committed to making more progress in the near term and in the future.

So I'll turn it over to Carl really quick but thank you.

Carl Smith: Good morning, everyone. I'm Carl Smith, CFO for Mace Security and I'll go over the first quarter results and then after that I will turn the call back over to John McCann for some additional commentary and then John will go through a PowerPoint presentation that hopefully you're able to use your laptops in and get to our Web site and access that PowerPoint presentation.

Before we begin, I'd like to take a few minutes to read the following forward-looking statement. 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, as anticipated, estimate, projected and intended to or similar expressions are intended to identify forward-looking statements.

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

Such factors can maturely adversely affect Mace's financial performance. It can cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during this call and also apply to John's opening commentary.

Now, we review our first quarter ending March 31, 2013. Consolidated first quarter revenues were $3,244,000 compared to $3,433,000 of last year's Q1, a decrease of 189,000 or 5.5 percent. You know, this decline was mainly attributed to $319,000 or 46 percent decrease in revenues from our electronics surveillance products.

Electronics surveillance revenues totaled $372,000 which were down from a prior year revenues of $691,000 and flat to Q4 of 2012. Last year's revenue in this product line was higher due to an emphasis to sell some off older excess inventories and preparation to move distribution from Texas to Vermont.

Revenues from personal defense and law enforcement aerosol products were $1,820,000. This is compared to $1,669,000 last year for an increase of $151,000 or 9 percent over last year's quarter. And this is also up $45,000 or 2.5 percent above Q4 2012 revenues of $1,775,000.

So to break this down a little bit further, our aerosol and defense sprays were $1,507,000 compared to $1,339,000 Q1 2012 which is up $168,000 or 12.5 percent. And then a further breakdown within that segment are non-aerosol which includes the Big Jammer and other non-spray products, non-pepper spray products were up $217,000 compared to $141,000 in Q1 2012 and that’s up $76,000 or 54 percent, you know, and then the significant increases were all set by lower law enforcement in TG Guard product sales.

Now looking at the other segment which is our monitoring business in Anaheim, California, revenues from that business were $1,052,000 which is compared to $1,073,000 for slight decline of $21,000 or 2 percent from Q1 2012 and it's flat from Q4 of 2012.

Now focus on gross profits for the quarter. They totaled $1,265,000 compared to $1,348,000 which is a decrease of $83,000 or 6.2 percent and overall gross margins were 39 percent for both quarters. And then breaking this down a little bit further, gross profit on our aerosol products were up $83,000 on consistent margins. No aerosol gross profits – non-aerosol gross profits were up $31,000 on slightly higher margins.

Offsetting these increases was a decrease of $142,000 in our electronic surveillance gross profit and this decrease in gross profit was a decrease of $319,000 in sales but we had slightly higher margins. And then on top of that, we had an $82,000 decrease in gross profit from our wholesale monitoring business quarter to quarter or this first quarter of 2013 versus quarter of 2012 and then this decline is attributed to lower sales and higher direct labor personal cost quarter to quarter.

Between second quarter last year and now we going to make some – personal adjustments were needed and stabilize the workforce and we had some direct personnel within the overhead department which contributed to the lower margins this quarter. That started basically at the end of the first quarter last year and those increases were in the second and third quarter of last year.

Consolidated operating loss for the quarter was $658,000 compared to $458,000 loss last year and then this $200,000 increase in loss can be summarized by the following points. You know, we had a gross profit decrease of $83,000 which I just discussed and then we had a slight offset and depreciation of $6,000 and, you know, if you look at our SG&A, SG&A of $123,000 or 7.3 percent increase which I'll try to break down a little bit further.

You know, the first thing we need to do to explain the $123,000 increase in SG&A cost is to – we had one-time charge last quarter where we recognized

$100,000 gain for the sale of IBF so that’s, you know, one time that we have to apply to last year's first quarter.

And then this quarter, if you look at our corporate expenses, they're down $218,000 and this $218,000 savings quarter and quarter from further corporate expenses if you will, for the savings that we incurred by personnel changes, moving corporate headquarters to Ohio, and eliminating other cost facilities needed with being a reporting company.

You know, then the remaining increase can be explained by following increases at both MPD, SI, or company located in Vermont that market sales and distributes our aerosol and non-aerosol personal defense products and the electronics surveillance products, and then also at our wholesale monitoring company in Anaheim, California.

So some of the bullets there reconciling that difference, if you will, in the increase in SG&A cost.  Net salary and payroll-related increases are $17,000 excluding changes in corporate allocations.  So if you eliminated some corporate allocation differences, we had net salary and payroll-related increase of $17,000.  We had some increased insurance cost of $26,000, you know.

I'm reviewing the timing of that to see if they were in some quarterly adjustments, the $26,000, you know.  I know our insurance cost went down. We have a smaller footprints, smaller exposure, so my expectation is that insurance is going to come down.  So from quarter to quarter, it just seems like an anomaly.

We also had some timing of trade shows.  You know, last year, our trade shows were in the second quarter whereas this year we had $28,000 of trade show expense in the first quarter.  And, you know, the most significant item I guess, if you will, explaining the increase in SG&A costs and increase of professional fees of $118,000 which, you know, included our continued expenditures and brand investments, some PR consulting and some other marketing expense that, you know, John can comment on later.

So as a result, net loss from continuing operations was $706,000 compared to a net loss of 514 and increased loss of $192,000.  The $57,000 in income for discontinued operations if you're following our P&L is due to recognition of an insurance claim for some equipment that was stolen from the remaining carwash that we had in Arlington, Texas, and as John alluded to you earlier in the conference call, you know, we're hoping to sell this carwash.

We did have an agreement, you know. I was so excited. I thought we're going to sell it, but again City of Arlington we have permissions with signage and buyer kind of walked away at this point.

Adjusted consolidated EBITDA for the quarter is negative $550,000 compared to adjusted EBITDA of negative $442,000 and really, when I say adjusted EBITDA, you know, this quarter I really didn’t do anything with the EBITDA, it's $550,000, meaning I didn’t recognize any significant one-time expenses and I took last year's net income, computed to EBITDA but then accounted for the $100,000 gain. And so, if you look at it that way, quarter-to-quarter we're 550 this quarter versus 442 last quarter for a difference of…

At this time, I would like to make a few comments on our balance sheet and cash flow items. The company's net book value was $12.9 million at March 31 compared to net book value of $13.5 million at December 31, 2012. You know, Mace had $5.5 million in total assets including $4 million of cash in short-term investments at March 31, 2013, compared to $4.9 at yearend.

So, you know, for the quarter we made significant strides in reducing the cash burn. We had positive working capital of approximately $0.5 million and current ratio of 7.4 compared to $8.5 million at December 31 and a ratio of 5.6.

Totaled debt at March 31 remained at approximately $1 million and that’s consistent – consisting of the debenture note with Merlin Partners and that matures March 30, 2016.

We have an inventory reduction of $182,000 for the quarter but I was pointing out to John earlier in the second quarter I would anticipate our inventory levels to go up as we build some stack of some of our high moving items in anticipation of our move to the Cleveland office in the July-August timeframe.

From a cash flow perspective for the quarter ending March 31, we used approximately $748,000 of cash in operating activities and this is significantly down from the fourth quarter and third quarter of 2012 where we used $929,000 and $1.7 million in the quarter prior to that.

And then if you look at the balance sheet, you could see that our total cash change quarter – from yearend to now is $222,000 but I'd also like to point out if you’ve taken the consideration looking at the balance sheet the restricted cash and the short-term investments, you know, the net change is $86,000. So, again, supporting our further strides and reducing our cash burn for the quarter.

At this point, I'd like to thank you for joining us this morning and now I'll turn the call back over to John McCann where I think he's prepared to go through the presentation.

John McCann: And if you can't get to it, it will be on our Web site so you can always refer to in our future. I just want to make a couple brief comments and then we'll open up for questions as we go forward.

Part of it as you see and over the last couple quarters we spent the money on product research, brand development, product development so I want to address a little bit of that, you know, as we go forward.

But then also a little specifics into the quarter and then the view of the quarter versus the fourth quarter prior just to show you the trend it has got, you know. So with any company, in Mace did not have this before we put together our mission statement and we also put together some core values that we're sticking to.

You know, our mission statement is to empower you, your world through safety and security. So it really covers this end-to-end security concept that Mace came to become. We view, according homeland, – I'm sorry – Homeland Security estimate, this is anywhere from a $30 to $50 billion worldwide business that you can grow exponentially to 2020 to an $80 billion segmentation.

We can't compete on all those segments but we can compete in a vast majority of those segments from civilian to law enforcement to government and we've positioned our company to be competitive in all those segments whether through product development ourselves, better distribution of the products that we currently have, new products, new licensing deals, and also brand affiliations with products that make sense for the Mace brand name in the world of safety and security.

You know, we're telling our customers, we're telling our employees and we want our shareholders to realize that we're going to deliver best in class products and services. We're going to be a great place to work where you can be inspired to do more. And then for our shareholders, we really want to be a disciplined forward-looking brand driven by to maximize shareholder value.

Kind of just a couple of bullet points on the first quarter achievements to date I'd call it is is growing the core business which is our pepper spray or defense spray. Then also growing on non-aerosol which to me is important because there's not every account will carry pepper spray but every account can carry a Mace-branded products.

So Carl alluded to our small monitoring products that are perfect for every apartment, our Big Jammer product which is perfect for our elderly community. We made a concentrated effort especially in grocery and drug to get those products out there and also work hard with them to create a section that is right through their consumers and their retailers.

We also, as I mentioned before, completely resolved the EPA issue. This is a threefold of fact, not only will allow us to work with the government, work with international parties, the state department and, et cetera, but also helps us on our domestic business with regular retailers because our competitors love the fact that we had these issues.

Now we've put these issues behind us, and if anything, we've become very appreciative to the EPA and the EPA I think is appreciative to the efforts that we put in resolving this issue and taking it seriously.

And then I point out AutoZone in Mexico because Sarah Butterfield, one of our sales people did a great job of working with AutoZone to increase our distribution and gain our presence in Mexico. It's not a huge order but for me small winds along the way are going to create, you know, what we need to do.

Lastly, I just want to point out a couple other things in the quarter. We did finalize which through some negotiations to avoid our friends defaulting on the Eagle carwash. We did finalize that sale and received the last cash which was an extension because the final payment was actually due in 2012 and we worked with them strategically to make sure that we recognize that and they we're able to pass and they were by the end of the first quarter able to do so. I can't stress enough that we are actively and creatively trying to sell the car wash.

And then two other big bullet points for me is if you go on our Web site, you'll see a completely different Web site. We are now investing again – that cost a little bit of money but it's a lifestyle Web site, it's integrated Web site that we can fulfill your needs no matter what you're looking for product-wise and what stage of life you're in.

And then lastly, I think a big point – the company used to operate in silos, now everybody is integrated. We're selling pepper spray to our dealers. Our regular customers, our retail customers are aware that they we're a monitoring center, Mace monitoring, that we, you know, loss prevention department of XYZ retailer. We can make those calls because we can work with a dealer in order to increase his RMR which optimally will increase our RMR.

And then I can't stress enough reducing the corporate overhead. We view once we have manufacturing and corporate together we'll be living and breathing. You know, our products and it will help us, I think, strategically make sure we make decisions quicker and also are aware of what the market will bear with our products and what we need to do in order to achieve our goals.

Speaking at that point just briefly is as Carl alluded to July and August will be big months. We have plans – backup plans and redundancies in place because we do own several filling machines, we do owe some packaging equipment that will be able to go in a dual production for a period of time if need be.

So we're confident that we're going to be able to facilitate a move in a timely fashion and not lose any orders or actually conversely be able to still expand our business as we make this move.

Just, you know, Carl reiterated on, you know, we're not really happy with the sales results but there's couple of reasons why especially with the surveillance products lost there. You know, when we look at it our consolidated base is the SG&A and we look at the marketing cost, we do see a decrease in overall SG&A but those marketing expenses need to be made now in order to constantly fulfill our brand promise and also help our pullout of our retailers. Because we just don't want to sell in. We have to sell it out at a retail level.

Couple just comments and Carl alluded to is when I broke down the numbers and looked at it quarter to quarter, you had timing of trade shows. So we had a large, you know, almost $30,000 trade show total because we had several trade shows that we had not participated in the past with our central station in order to promote Mace Central Station and Mace monitoring.

You also had product development which was on the 6 percent of the increase was gear towards product development and it's a couple of projects. We talked to every customer on a statistical relevant basis. So we couldn't talk to every customer but what we did is we cross – talked to a cross-section of our customers both Central Station, direct consumer customers, and retail customers to find out what do we do well, what do we not do well, what would they like to see improve.

We've created a dealer council where we flew in our dealers to our central station and had a man-to-man and woman-to-woman conversation about where do we need to improve, how can we help them improve their RMR.

We did the same thing with our major retailers. We talked to consumers, we talked to a statistical relevant cross-section demographically correct segmentation of the market to say what do consumers want with pepper spray, with defense sprays, what is the brand and clearly we came out as the number one across all segmentations for growth, for opportunities and now will be the execution to make those things happen.

As we alluded to before, you know, corporate should be a service to our sales and to our marketing efforts and so we reduced our corporate expenses, you know, year-to-date over 47 percent versus a year ago prior all in with all the changes that we made. It's almost $230,000 positive adjustment.

And then lastly, Mace Central Station, because we did some investing in the brands and we have a bit more to do, we did expand on focus groups and, et cetera, which caused the negative effect in their SG&A for quarter to quarter analysis.

Lastly, I'll just touch upon, because we're strides in our surveillance products as Carl alluded to, we did have to close out. We did an auction this time a year ago. We removed a lot of products that weren't relevant.

Now we have cloud-based technologies. We have a pro division. We have a retail division. We have a direct to consumer strategy. We have an integrated strategy both for our dealers, our retailers, and our direct to consumers with their surveillance products that we can feel that need.

One of our successes is the dealer that we've done a lot of business with just landed a school system and we're working on integrating some cameras and integrating some other technologies and also doing the monitoring on that and those for us are big wins especially with the EPA situation behind us.

Lastly, and I'll just do a quick, you know, in comparison versus quarter – fourth quarter to this quarter, we still saw an increase in our defense sprays. We were flat sales-wise which is a nice thing on our surveillance products that were picking back up some of those sales with the newer lines and some of the other things we're trying to do. We also are margin improved with our surveillance products now that we're in a better position.

So those were, you know, just some of the number highlights and like – I put it together in the deck, you can see some of the things that we want to do with regard to the three different divisions. There is a lot of opportunity with any each of these divisions and I won't go through all these because I want to leave time for questions and answers.

But what we've pulled together is a cross matrix that was helpful because we've talked to consumers, we've talked to our retailers, and we've worked amongst ourselves to come up with our cross-marketing strategy for all of our products because we're now targeting a channel distribution with the right products and the right mixes and when we look at our monitoring side, you can almost fit everything we do into some of what we're doing with our dealers.

Lastly, real quick, in the deck you'll see, and hopefully, you’ve seen some of it out there because the market expense isn’t half that big, but just to point out some of the highlights, we have articles now in campus safety which goes to almost every major university and school across the country.  We have articles being written out why less lethal options like pepper spray – or topical sprays is sometimes they like to call it – is great, we have safe secure schools with our Mace logo on it.  We have social media, Twitter, Facebook, Instagram and all of those channels now being monitored with messaging that Mace means security.

We also have been in print advertise and in several different trade magazines especially outdoor magazines and home magazines, we've been on television on the daily buzz, manufacturing marbles.  We've had a billboard on the Strip in Las Vegas and a billboard on Times Square in the past couple of months.  So I wanted to really reiterate some of the marketing efforts.  We're seeing some return on this on the investment and we'll see more return on the investment in the future.

So, with that, I think it's appropriate now to open it up to questions and go from there.  But thank you again.  There's a lot of work to be done.  We felt like we did a lot in a short period of time but there's a lot more to do.

So Nicole, we'll turn it back over to you so you can get the queue going on questions.

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

Your first question comes from the line of Thurman Willis. Your line is open.

Thurman Willis: John, I'd like to congratulate you and Carl and the other management. I think you have done a fantastic job in your year and a half in turning this company totally around from company that was headed in the wrong direction. I think, really, you're a little conservative on your press release in highlighting some of your accomplishments which you did today.

The first – I'd like to concentrate on two things in potential – market potential which you alluded to briefly. You know, to me, disbarment released from EPA is a major, major factor in the potential market that you have because right now your sales are $13 million and everyone knows and you're basically cash flow breakeven or very close with an estimated $50 million in the potential market, or I should say pepper spray.

If we got our 51 percent of that like we have in the other pepper spray market, then, you know, we could move our sales to, you know, $38 million in a fairly short period of time. So I just like for you to address briefly and you have done this but naturally, in shareholder appreciation or shareholder enhancement, potential market is everything and with this EPA disbarment released, you know, to me that's major in this company.

John McCann: Absolutely and it's a great question. The debarment getting behind us really opens up the doors on law enforcement and international government. Government statistics anywhere from 50 billion to 100 call it. Well, we look at the segmentations that we could compete in. It's several million dollars. I call it upwards of just on less lethal or non-lethal which is right in our wheelhouse.

You know, it's called, for the sake of argument, $50 million but we should be 51 percent or more of that because what we did in our product research, whether they've done it or not, people think they own Mace. And so now, with the debarment behind us, we're creating a tactical division.

The tactical division will be headed up by a gentleman that worked Under Armour, worked at several other key operation selling government, working with the military, working internationally. He's – there'll be a press release coming out about him beginning of next week.

But to head up this tactical division, to take advantage now of what we've done with new products, what we've done with the EPA getting behind us and really getting our brand name out there, then at the same time, we're parlaying in that into relationships to say to – like Secure Outcomes and Jack Harper, if you have a great product, we have a great brand. We can team up now with you strategically because we'll have the distribution, we'll have the sales and we'll have the ability in order to take advantage of those.

So to your point, Thurman, I think it's critical on the next couple of months that we execute because getting the government contracts, we're back in the cycle to bid, takes a little bit of time to get into the systems but then – then we have to take advantage of it but we're going whole – we're going very hard into the segmentation in creating this tactical division. We're pretty excited about our prospects in that area but I would agree that Mace should have its fair share of that and that could be several million dollars.

Thurman Willis: Good. Let me go to an item you have covered that, you know, here we have a stock, of course, we're on the Pink Sheets and I fully agree with the reason to have done that and I'm sure that will change in the near future. With this on the verge of profitability, a lot of companies have sizeable NOL, net operating losses, carry forward and are never recognized because the company does not turn to profitability.

In your situation, my last calculation was that you had approximately 53 million in net operating loss which is basically a dollar a share and if you're able to turn profitable, you know, that's with our book value roughly where our stock is trading now, you know, not considering that net operating loss, I'd like for you to just to speak to that briefly if my 53 million correct.

And again, when somebody looks at Mace and looks at the market value of Mace, which I don’t think is followed very well, I think everybody knows the

40-year name of Mace but they still identify it with, you know, a lady on a key chain, having a pink sprayer or either spraying dogs and I'll get into that later into the vast products that, you know, you do have. But anyway, can you speak to the NOLs and if it is 53 million?

Carl Smith: Thurman, yes. This is Carl. The NOLs are 52.9 million with the first layer expiring in 2018 of basically 1.1 million.

Thurman Willis: OK. All right. And as we turn to profitability, of course, we can use that and we can recognize that, correct?

Carl Smith: Yes. Yes, sir.

Thurman Willis: OK. And lastly and I'll get back in the queue after this, I know on previous conference calls, and again now that we have been released from this EPA debarment, I'd like for you to speak briefly, John, on the digital fingerprinting company that wanted to be Mace and now that you can no longer fax fingerprints to Washington you have to digital use them that they chose the name Mace will get a franchise fee value, you get upfront sales value and continuing revenues.

And to me, when you look at potential market, that again opens another tremendous area for us in this franchise segment now that we're, you know, we're disjointed from EPA. Can you speak specifically to the digital fingerprinting which I think is very exciting and I don’t think people know about and I'll leave it at there and get back in the queue.

John McCann: Right and that's an excellent point. So we did have the – we have the license deal with Secure Outcomes which is a forensic digital fingerprinting product. We have started selling that product under the Mace brand name in comarketing efforts.

We're actually in conversations with Secure Outcomes about expanding that in the future, looking at some other technologies because Mr. Harper who's the president of Secure Outcomes is a very dynamic gentleman that really knows that end of the market. All of the products coming out will be Mace branded and we're working especially now with this reorganization, the tactical division, on how do we accelerate that.

But more to the point is that how do we bring other products into that mix? We're in conversations with several other manufacturing partners, potential manufacturing partners into expanding that area because to Thurman's point, digital fingerprinting is not only just for bad guys anymore. If you want to coach CYO basketball, you have to be digitally fingerprinted. If you want to do home healthcare in California, you have to digitally fingerprinted.

So there's several opportunities that we're working with Jack Harper not only on the government side, right, or the law enforcement side but also on the civilian side that there's a potential to have these products in multiple venues. And it's an excellent point and it's another revenue stream especially in the future now that EPA is 100 percent behind us to grow and expand it.

Thurman Willis: I don’t want to ask this question, as I said I'll get back in the queue but I hope somebody covers your product line because with the Boston situation and the cloud cameras that you mentioned you have plus the Connecticut school sad event, you know, I know understand that you have products that in my opinion are the best products possible and you are the only company that can profess to be a non-lethal security company because no one has ever died from pepper spray so I think we have a tremendous advantage there.

Don’t you want to respond to that other people, you know, to ask questions but I'm most impressed with the products. And lastly, I'd say that, you know, I think, you know, to me, the potential now that you’ve ridded yourself of all of this items that you’ve had to deal with, I think things are poised to really move forward.

So, again, I congratulate you. I appreciate you taking my question. I appreciate everyone's hard work because I am a long-term shareholder of the company and getting out of the carwash business and back totally in the security business is the right way to go. Thank you for taking my question.

John McCann: Thank you.

Carl Smith: Thank you.

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

Andrew Shapiro: Hi, good morning.

I'd like to ask you a few questions here that might clarify or tie-in some points that Mr. Willis was making and you were answering on here is I've been a long-time shareholder. I've watched this company hemorrhage. I've watched the losses get reduced but I've also watched the losses not get eliminated.

And so, we have a really nice asset in a $53 million tax NOL that was gone to great lengths to keep intact by doing the right offering rather than bringing in a ton of outside money and you have a long-time shareholders put up new money to get rid of these losses of growth and through cost-cutting and we still have a pretty sizeable earn rate.

So if you could walk me through, John and Carl, how we're – how and in some respects when we are going to stop this earn rate and let's just tackle it with one step at a time here. One is, are there are additional – have we cut to the bone? Are there additional cost-cuts or are there additional savings on a quarterly and annual basis that you have projected and forecasted for the board in selling the board on the whole consolidation of facilities thing, et cetera, or have we – are we at right now running at accost level that is our base level and will only grow as a means of needing to invest to further grow the business?

John McCann: Mr. Shapiro, thanks for your question.

It's two-fold. There is further reduction that we feel we can make especially with the consolidation of the manufacturing process that will be more efficient. currently, our manufacturing process involves multiple layers, multiple steps to some multiple floors. We will be in one flat facility with cellular manufacturing. So basically, we'll be able to manufacture, move it, without going up and down in elevators, store it and be able to ship it.

Second part of that is logistically because the location of the current facility, our cut-off time right now for FedEx, UPS, and et cetera expedited shipping is close to 2:00 in the afternoon. My experience is in the greater Ohio area, we can ship 2/3 of the country in a day. We can drop cans from UPS, FedEx, or even LTL carriers in our yard, stage them, and be able to ship as late as nine or 10:00 at night and still make our requirements for our retailers.

The third part about that is that the overhead, we we're looking, you know, if you went backwards, we had a lease rate in Horsham, PA, and a lease rate in Vermont and so you had double overhead. Basically, now, we'll have one overhead and base rate on our lease will be less than what we're paying today in our Vermont facility. Couple that with some of the efficiencies we think we can make in the manufacturing side, I think we'll be poised for future growth.

The only investments we see will be in new products and development, I have to stress that the current product and tooling is close to 15 years old. So with that, our product development strategy will be – next phase will an investment in tooling to bring our ideas to life. We have a goal of a soft launch in the fourth quarter of this year with a hard launch at our SHOT Show which is the major show for our industry which will be in late January, middle to late January of 2014.

And the last segmentation that I can't stress enough to is revenue growth especially on this segmentation and that's why not only did we look at products, product development, talking to the consumers to make sure we're hitting their expectations and needs, this cross marketing channel strategy where we can sell direct to consumer through retailers, through distributors in order to achieve other goals.

And with that, our new lines of product will allow us a couple different strategies. We'll be able to use our current line of products and be strategic with it because we'll take a lot of cost out of them and have price points that will allow us growth that our new products will allow us to expand because of the features and benefits to price points that they'll be sold at.

So for us, back to your original question, in conferencing with the board, we looked at a forecast within this year of eliminating the cash burn, you know, through that. And our budget this year that we've addressed with the board is not pie in the sky, we're looking at like close to a 15 percent increase year-to-year so I didn’t put in a homerun or I said I'm going, you know, I'm the next Babe Ruth or Micky Mantle or like that.

I need to go out there. I'm actually leaving today to meet with a large U.S. customer with that goal in mind. Little wins, strategic, efficient, focused, will get us to that cash burn. I think Carl could comment on, you know, timing a little bit on the cash burn side, too.

Andrew Shapiro: If not, John, I mean, when you made this presentation, if we just broke it down, do you have an estimate? You know, this in terms of cost cutting, you know, this is $300,000 a quarter, or, you know, a million a year that we're going to cut out, we think it's going to add X hundred basis points of gross margin due to these additional manufacturing cost savings.

Did your analysis in your presentation with the board take that task for which you can share some of those ranges without being so specific with us or, I mean, what you say sounds good but I'm just wondering if there was more tangible numbers behind this with respect to what you propose to the board and what you might be able to share with us.

Carl Smith: Andrew, this is Carl.

You know, not quantifiable by quarter, you know, you asked, you know, is this bare bones, you know, no. Because there'll be some additional savings that John alluded to when we shift the manufacturing to Cleveland. It's really difficult to ship out efficiently and manufacture in Bennington, Vermont.

You know, did we build those into the budget? Yes. You know, did we quantify them categorically? Not exactly.

You know, and then looking at additional cost savings, you know, we realigned – in realigning, you know, the sales force and the pay structure within that that will result in some, you know, additional payroll and commission costs on a go-forward basis. So, those are couple of comments that I have.

Andrew Shapiro: Right. Then you have revenue growth as well. It sounds like the bulk of getting to, you know, you got a $2-1/2 million a year or $2 million a year burn rate where you're currently existing with. It sounds like the way that you're going to need to overcome that is with at least 5 million of incremental annualized revenue.

Carl Smith: Well, you know, right now, I look at the burn rate based on, you know, first quarter of being closer to 800,000 if you just continue the current burn rate but I don't anticipate that happening.

Andrew Shapiro: Well, your current burn rate you referred to includes a $600,000 non-recurring cash windfall from collecting Eagle Truck.

Carl Smith: No, exactly, you're right. And we also did have some significant first quarter outlays, you know, we had a – from the TCCI or not TCCI but (CCS) acquisition. We had, you know, holdback of 160,000 something that we paid out in the first quarter.

Andrew Shapiro: Right.

Carl Smith: You know, we also had some inventory and, you know, and we – like we have mentioned earlier, we're going to build some additional inventory, you know, going forward.

Andrew Shapiro: So you feel axing all of those non-recurring things out that your burn rate is only 200,000 a quarter?

Carl Smith: No. No, no.

Andrew Shapiro: It's been higher, right?

Carl Smith: Right. Yes. It's a bit higher than that.

Andrew Shapiro: OK. So, am I in the ballpark that you need about 5 million of incremental revenue to get you do breakeven when you take into account your lower costs and whatever you're expanded margins might be?  Or can you do it with less than 5 million of incremental revenue?

Carl Smith: We can do it with less than 5 million because there's some efficiencies that we can still put in play.  Additionally, so to your point, it's a combination.  I don’t think it's quite 5 million because we looked at an increase in sales in roughly 15 percent range for the year.

Segmented out, you know, a little differently, you know, heavier on some of our consumer products, small growth, you know, almost above our attrition rate on our Central Station side but then also what we are counting on that we did in fact to 100 percent but we know is there is some efficiencies on the manufacturing, the corporate side that we can layer on to it.

Andrew Shapiro: So you think…

Carl Smith: So definitely a combination.  It's not quite 5 million but it's an achieved…

Andrew Shapiro: Do you think it's 3 million then?

Carl Smith: I would look into $2 million to $3 million range on the revenue side, along the other efficiencies…

Andrew Shapiro: OK.  So you got 2 million to 3 million on revenue growth, we ought to be seeing from you breakeven and if we don’t see breakeven from you at a 2 million to 3 million revenue growth, we ought to be yelling at you, is that right?

Carl Smith: I would agree with that.

Andrew Shapiro: OK.  Because now we can say it's 2 million to 3 million realistic and obviously you can get to breakeven sooner because you do some more cost cutting or, you know, X and Y, that's what I was trying to get at with this question pretty much right up front.  And I'd like to just move on to the next question if I could and not belabor…

Carl Smith: Absolutely.

Andrew Shapiro: So now that's our core business profitability. Taking that off the table now and looking at you got a Mace brand, you've licensed with Secure Outcomes. That's just one area. You talk about a 20 to 30 to growing to $80 billion security market, we cannot be all things to all people. We are a 16 million revenue business, we are small, we don't have a lot equity. I mean, right now, we don't have a highly-valued stock as currency.

We need to use up that NOL and get to be profitable and one way of doing that is to license this Mace brand and make basically 100 percent margin on others revenues and other sales efforts. What are some of the near-term things you have in the hopper? You have a licensing firm over a year ago. You know, what are our near-term opportunities where we may see you lock in some license – high margin license revenues for us?

John McCann: Well, on the near-term there's several and unfortunately I can't really speak to them because they're not finalized but to the – to your point, we have not been as successful. It's been a little harder. Some of it, you find out post that EPA some past lives, you have to do more negotiating because they love the brand name but they don't like the history, right?

Andrew Shapiro: Yes.

John McCann: But there are several, I was on a call just last night on a very other lucrative opportunity but we 100 percent agree with you that now with some of the obstacles out of the way, it is an absolutely dynamic channel. And to your point, we do not position ourselves as being all things to all people. We position ourselves as what we can do and what we can't do, we can lend our name to that somebody else might have that expertise.

But if we look at the per segmentation, we have several conversations going on that we're excited about, first as emergent – personal emergency response systems that have a retail RMR and also direct to consumer play. We also have several other strict consumer products that have been slow for a variety of reasons to consummate and then, you know, we are at further negotiations with Secure Outcomes on some ideas that they have plus their – I have two guys on the road today that are taking meeting just on the subject matter.

So, yes, we agree that it's a dynamic channel. We're well-positioned to take advantage of it. We've cleared some of the obstacles to take advantage of it. Now we have to – now we have to see what we can get from these opportunities.

Andrew Shapiro: OK. And now, what about CS? OK.

CS was bought, it's a highly-fragmented industry. Moneys were raised in this rights offering, partially, to go make acquisitions that unfortunately weren't as near-term as anyone thought and deployment of capital in that area because you're so underutilized in your capacity should be high-margin acquisitions. If you can acquire a bunch or RMR accounts, that's probably 80 percent incremental margin on acquired revenues.

John McCann: And I agree. And I can be honest with you that…

Andrew Shapiro: So what's being done with that?

John McCann: Well, we are working very hard. We've done yet another slight organization change over there because I'm with you. I'm a little more impatient with the folks at the Central Station.

Backing it up, we have to remember that we potentially didn't have the right management team in place when I came on board. We've made some modifications in that management team. I've got a lot of confidence in Michael Joseph and his abilities. A gentleman that he brought in, we've already released of his duties as of this month because he just didn't get it, in my opinion, and so mutually decided that in everybody's best interest, we need to move on.

We're in negotiations and conversations with several potential dealers to swing them. We have – we put together this deal council in order to facilitate just that and not only that but integrate them buying Mace products through their central. You'll see over next couple weeks that our dealer portal will be more to our retail portal so you can find a dealer that's a Mace Monitor and Mace Central Station dealer and be able to buy Mace products through that dealer, both on their Web site and our Web site.

But to your point, it has been a bit of a challenge in order to acquire accounts. We've acquired small accounts. We've tried to keep the attrition rate down.

We've made some adjustments for accounts that we're not happy with the services in 2012 that we're feeling some of those effects in 2013 still and well for, you know, the time being but we are actively working not only with looking at acquisitions on the Central Station, the wholesale monitoring side to kind of become a national player.

And then also looking at the dealer network in order to expand it, we've expanded so we have a dealer quite honestly in Ohio now that we didn't have prior with which I think 70 accounts but we're not – we need – we have the capacity to do more. So, AKA, we have to do more.

Andrew Shapiro: OK. I have other questions. Let me back out in the queue and, you know, with Mr. Willis and myself, I don't want to took up all your time.

John McCann: Thanks.

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

Thurman Willis: Thank you for putting me back in the queue, I wanted to talk specifically, John, about enhancing shareholder value.

As Mr. Shapiro said, you know, as a currency, we have a stock trading at 41 cents because I don't think anybody that Mace is not on anybody's radar screen. Analysts, shareholders, et cetera, because I don't think they understand how the company has transitioned itself into a non-lethal transition company.

And I might draw an analogy and then ask one question and I use this frequently in certain stocks, but, you know, with the transition, you have a great owner, you have a great coach, you have a good game plan but you don't have any fans. And using that sporting analogy, if we had more potential investors that understood what was going on, you know, we have to get out there and sort of tell our story.

So I wish you to address three points. One is I read an article from a prison warden that stated that his guard would have not been killed by an inmate if he had been able to have Mace. Now that the EPA's been cleared, we can go into prisons which to me – to offer potential fantastic growth and potential sales.

And then in the school side with the situation in Connecticut, you know, had the principle had, you know, our Mace gun that shoots 34 feet, maybe we could have eliminated some of those death, you know, that particular gun being able to spray either 3 foot within the party who is committing the crime and being able to put him down for 30 minutes versus law enforcement dogs, guns, et cetera, et cetera, which are just entirely too specific.

So I know you're doing five school projects right now but it just appears to me that, you know, with prisons, with schools, and again, with the government, if people knew what our potential was plus the NOLs and all these various things in the Mace brand name that we have that the stock could be trading much higher and it could offer us a currency, as Mr. Shapiro said, for being able to go out and acquire some of our smaller competitors, et cetera.

So if you would speak briefly to the prisons and the schools and even the bus driver where the gentleman was – young man was taken off the bus, if that gentleman had a Mace gun or a Mace spray, you know, probably he could have prevented that situation, you know, from occurring.

So there's just so many potentials and, you know, with Taser you’ve got to hit the person and they have numerous liability suits against them because people have died whereas with the Mace, no one has ever died from pepper spray. So I'd like for you to talk about schools and prisons just to man it and potential there.

And then I strongly encourage you to get into various conferences in front of analysts because I think a stock moves in anticipation of profitability and anticipation of a growing market and then you sort of, you know, sell on the news and, you know, by in the forefront of that news.

So it just appears to me that we're perfectly positioned to really tell our story to analyst and get in to various conferences that we could get into now. So could you speak to how we're going to get fans and I know that there's a thought where we got to get the profitability before we can really tell our story.

I just totally disagree with that. I think you would – I could tell you – name many other companies that's not the situation that people looks at the potential market and the stock goes up prior to. And again, that could offer us great currency along with those NOLs, et cetera.

So could you speak to that briefly?

John McCann: Sure. Three folds.

On the prison side, we have our TG Guard product with the tactical division. We are working with federal corrections officers have made an appeal across the board to be armed with pepper spray. If you're not a guard but you work in a prison, you're not allowed to have any way of defending of yourself.

And so we're working with the prisons especially with a sister company which is called Videofied in trying to have a wholistic approach on the prisons because we can bring personal security, we can bring TG Guard, we're going to drop tear gas or a combination of pepper and tear gas from the ceiling, and then also, it has a return on investment for the prisons because it reduces their cost. And now the government is using outside resources in order to build prisons. We're working with those outside resources especially now, post debarment, to grow that.

We're also building on our line, our Take Down line, our Mace line, our TG Guard and then our association with, you know, Secure Outcomes and a couple other companies to attack the prison side of it because we do see a huge potential, not only domestically but internationally and that segmentation on market.

On the school side, we are working – we have a safe secure schools program. We have started advertising that, casting associates in Washington DC. I have meetings up on the Hill next week and meeting with folks to make sure some of the money that has been set aside by the President that is yet to be voted on by Congress can be for safety and security because we do have numbers.

One out of three campus public safety officers would like to have more training, would like to have products. We have associations in place with several former military or secret service or police that will do Mace training. I'm meeting again with the group on Friday just for that same point of emphasis.

Eighty-eight percent of universities and 81 percent of K through 12 respondents said sworn officer should carry pepper sprays. So we know from our statistical analysis that people relate this to safety and as a deterrent. And then, you know, 63 percent above the university respondents that we've talked to think that non-sworn officer should be carrying a pepper spray as a backup versus a lethal.

So to Thurman’s point, there's a huge opportunity in that market segmentation and both on the prison side and school side, we have and we've put our press releases where if you take the Trayvon Martin situation, take some other tragic situations, nobody's every died from being pepper sprayed. There's been incidents where people have experienced more pain if they have asthma or heart condition and, et cetera, but the use, the proper use of pepper spray does not result in a death. They result in a deterrence.

And what we're trying to stress in all these situations that if you took the school situation, we make a product, Pepper Gel, shoots 35 feet, makes the floor slippery, it sticks to the assailant and it slows them down. We might not be able to eliminate these situations form happening, but boy, can we make it less messy and hopefully – and the tragic events quicker.

You know, if you look in a situation with especially if we have private officers patrolling an area, a gun, we know the outcome of a gunshot. Pepper spray, both parties are going to wake up with a headache, and then, you know, our judicial system and our police officers who do a great job can figure out what happen and then let the court decide for them.

So we really can't stress enough and that's the messaging that we get – we have to get out there. To Andrew's point earlier, we're investing in the education and the transformation of the product, that to Thurman's point, will bring the profitability. But you're right, Thurman, getting the message out now because we have several quarters as a good traction. We need to continue that but it is a great story.

Thurman Willis: Would you – would you speak – but I understand in Israel, I read an article that all the government buildings there has a fire extinguisher in the ceiling that you have the pepper spray installed in the ceiling and you also have behind the fire extinguisher, you have a Mace extinguisher that a person could pull.

So in other words, you've got a gun that sprays 34 feet that a person could have, you got a fire extinguisher basically and then you've got the potential in the ceiling. Am I missing any of that?

John McCann: No, you're 100 percent. Our TG Guard is a product that we can drop it remotely from the ceiling and Attica and Albany prisons have installations today. We are looking at modifying and updating that. But that technology is there. It works tremendously.

And that business, now with the EPA behind us, can grow and expand. We are working. I just want to comment on we're in negotiations with several countries on the licensing or franchising segmentation for them to produce Mace product in their country under a license arrangement from corporate, from us, that would just be a straight royalty. We wouldn't pay any production cost. We wouldn't pay anything.

They would get a style guide and a brand book and we would have a license agreement with them with yearly minimums in it that they would need to achieve. Because to Thurman's point, you look at the Middle East, you look at the Far East, you look at other segmentations where weapons are not as widely, you know, most people don't live under the banner of the United States flag, you know, we're blessed to be under the banner of the United States flag.

But in those other markets, less lethal or non-lethal products have a great standing and there's several countries that we agreements that we're floating back and forth that aren't finalized but that we would have satellite manufacturing form a third party that would pay us a license but then be able to market sell and distribute our brand in those markets.

And I – and that's a – once we get the first one done and we can announce it, it will be a huge benefit to Mr. (Shapiro's) point, to Mr. (Willis') point earlier of extending that brand and also bringing in 100 percent revenues to the company.

Thurman Willis: And was the article I read correct in India where all the rapes were occurring that your – that they had ran out – that they run out of pepper spray and that you were sort of overwhelmed in ordering pepper spray to be sent to India because of all the rapes the ladies were going through there?

John McCann: We, we have done well in that segmentation of the market. We are continuing to look at how do we define that market in specific terms of how to take care of their needs on a future basis working with officials, working with intermediaries but we view India as a great opportunity for Mace that needs to be massaged in order to take advantage of.

Because it's unfortunate as the mentality and the climate, women need to be treated better but they also need to have means to protect themselves.

Thurman Willis: John, I'll finish up with this and this is not a question. I know that it may appear to some of the people on the conference call that I am promoting Mace and I am just saying that I was not educated on Mace till I started reading and now that the company has transitioned itself, I strongly urge you and I know you as CEO can't do everything but I urge you to get in conferences, analyst meetings, et cetera, and tell your story because in marketing your company, you know, you're not touting it, you're just telling the story of the potential.

And I think Mr. Barone with his association to chairman that his Ancora Group owns 40 percent whether it be CNBC, whether it be Cassidy in Washington getting the word out, the only way we're going to develop potential shareholders and get this into a wider footprint of various shareholders and move our stock price is for people to understand, you know, what the company does and there are 7,000 stocks out there that Wall Street analyst are trying to understand and they're trying to promote themselves and market their idea.

And here, with again, with Boston, Connecticut, India, and all these various things, I mean, sadly to say, this is exactly what we do and it has nothing to do with the market itself and it's almost insurance against the potential of a terrorist attack, et cetera.

So let me just say pass to the board and pass to Richard Barone that somebody needs to get to these conferences and I would encourage you to at least attend one a month and, you know, the outstanding shares, 56 million, with 50 percent tied up, there's only about $26 million flowed in it, 41 cents, that's no money to buy the whole company.

My biggest fear is somebody's going to come in and take you out at a dollar before we, as shareholders, like (Mr. Shapiro) and myself that had been in the stock for quite a while will take this company out a dollar when I see that, you know, in two to three years or maybe 12 to 24 months, we could be a $3 to $6 stock. So I encourage you to do that.

John McCann: Well, I think you're – you know, obviously, you have a lot of experience and well-respected in the industry and I will make sure I make a point with Mr. Barone to bring that up. Because in the past, he's talked about the right time to do such tell.

Thurman Willis: Well, thank you for taking my question again and I'll drop out. Thank you for your time and your hard work.

John McCann: Thank you, sir.

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

Andrew Shapiro: A few followups if I could. You're going to have some redundancies in your move from Vermont to Cleveland, I'm assuming, how long – when are you moving into Cleveland? When do we basically start redundant expenses and when does the Vermont expenses kind of drop off in terms of your time table here this year?

John McCann: I can let Carl answer that one, but basically in the third quarter, but I think he can get into some specifics.

Carl Smith: I mean, Andrew, the redundancies, we would anticipate starting (inaudible) and then (inaudible) for the month of August.

Andrew Shapiro: I'm sorry, you cut out. You said all during Q3 July and August?

Carl Smith: No, mid-July, the redundancies we anticipate beginning and then all of August.

Andrew Shapiro: OK. So it's all going to be within Q3.

Carl Smith: Yes.

Andrew Shapiro: And the 2012 audited financials, you guys kindly put up on the Internet and I read through them, it's said you signed a 10-year lease but it didn't mention any options to extend. Is this just solely a 10-year deal which seems to me to be short for a manufacturing, a new manufacturing operation?

Carl Smith: No. It's just a 10-year deal. After that, there's clauses within the agreement to extend it at set intervals with different…

John McCann: There's three term – right, there's three terms, Andrew, on top of it of five years each pre-negotiated at…

Andrew Shapiro: OK. So you've got 25 each. You got a 10-year obligation and you got three five-year option, Carl, you got five-year options after that?

Carl Smith: Exactly.

Andrew Shapiro: OK. Your footnote didn't have that so it only appeared that you had a 10-year deal which didn't make sense.

OK. You have a good will assessment on annually and it was done at the end of April right now, in the middle of the quarter. Do you anticipate any adjustments to the company's remaining goodwill which I think relates primarily to the CS…

Carl Smith: Central Station. Yes. You're correct.

Andrew Shapiro: (Inaudible).

Carl Smith: No, we don't anticipate any adjustments. That April 30, 2012 analysis was completed in August. We initiated the, you know, the analysis now for the April 20, 2013. There was – last go around, there was a $2 million cushion with regards to the, you know, the valuation that was completed so we don't anticipate any adjustments to good will.

Andrew Shapiro: OK. As of last year end there was the additional impairment charge on that Arlington Texas Carwash. You thought you had it sold. This thing fell through.

I'm a little surprised that what fell through is something with the municipality that would not have been already overcome or an issue in prior sales arrangements. So…

Carl Smith: Yes, that was our – that was our expectations and belief as well because we definitely told the person that was interested in the property that that's, you know, that's not an issue. The sign's been there for years. You know, there was an existing sign so we can either had it grandfathered in, you know, worked with the city to get, you know, the sign issue removed. I just think there was other reasons that this interested buyer got cold feet.

Andrew Shapiro: OK. And so what does this partial right now mark down on the books?

Carl Smith: We wrote it down at 230,000.

Andrew Shapiro: OK. So our biggest risk, if you had it to give it away is 230,000?

Carl Smith: Correct.

John McCann: Correct.

Andrew Shapiro: OK. And I'm assuming have some value and it won't have to be given away but you could still move it out quickly to someone else? There's too much of a pregnant pause there.

John McCann: Well, we haven't gone down the auction road, to your point, Andrew, but that we could go down that road and recognize that and it's been told to us. The other part of it is that having two independent real estate people saying no, that's, you know, the offer that we received have been above that and unfortunately, for a variety of reasons, they haven't come to fruition.

But both real estate guys keep on saying, "No, no, we're going to be able to move this thing above your book value." Carl and I are looking at it, say, by August, if we haven't, we can go the (inaudible) which we…

Andrew Shapiro: Negotiate against yourself and commit on a public call either way because…

John McCann: Exactly.

Andrew Shapiro: I wanted you to get the best price you can but – and everyone wants it moved out including yourselves so that's fine.

John McCann: Right. So there are vehicles that we can do that way.

Andrew Shapiro: Are there any incremental cost in our current Q2 – this is the quarter end at June, associated with clearing up the EPA matter?

John McCann: There will be additional on some legal but on a (inaudible) scale and then the other part of it is there's a consultant that we're using for our state EPA regulations that will be in Q2 and then there's some maintenance associated with the proposed debarment and suspension that was lifted.

So we're working on some monitoring and some other things that there won't be as significant as they were in the past but there'll be some.

Andrew Shapiro: There's basically compliance cost in your new facility?

John McCann: Correct. Correct.

Andrew Shapiro: OK. Well, that…

John McCann: Compliance in the current facility and in the new facility plus the registration. Each state has an EPA registration and we're making sure where letter of the law – our disposal policy to the letter of the law so…

Andrew Shapiro: Right.

John McCann: …just incremental.

Andrew Shapiro: OK. And when you – can you update us basically or give us a color on the conclusion of this matter basically. What areas were you barred from previously that you are already reigniting? And in a sense, what specific steps are you implementing to get the government sales ramped up again?

You mentioned already that you're participating, I guess it may be in some RFPs and usually that's got to be three to six months if not longer in terms of a process, but are you already out in some public RFPs?

John McCann: Yes. We – so to answer your question, on a wholistic level, we've created a tactical division. So our tactical division will be focused on this segmentation.

Second level above that which is a variable cost, we will have people representatives, grant-writing folks, that have experienced that when we get a contract, we'll pay that much commission or we'll pay that much – you know, a fee associated with that and we've engaged with.

Third level of that there's distributors that bid or take on an entire RFP. We're working with those distributors to be some of the fulfillment part. We have bid on several, you know, unfortunately, we lost on a school system. They wanted to do us but somebody came in at a lower price point and they were forced.

But we're actively pursuing that but it's expressed multilevel and then at the same time, we're modifying change in some of our products in order to make sure that we hit the market needs of today versus the past. So there are several levels, but yes, we're trying to take advantage of this opportunity.

Andrew Shapiro: Right. Now, beware in terms of some of these, you know, districts or other entities, they're obligated, regardless of quality, of taking the lowest price bid but if things all become public and so if you lowball something, what will end up happening is that it's going to be your next ceiling for all the other bids. So at some point…

John McCann: Absolutely.

Andrew Shapiro: At some point I'm assuming your moving to Cleveland based on what you’ve described at lowering your cost is going to start giving you some more pricing flexibility while maintaining margins.

John McCann: A hundred percent. It's two-fold, Andrew.

Andrew Shapiro: OK.

John McCann: If they should see it on that side, new product development so now you can cheer your products and you conserve different channel.

Andrew Shapiro: All right.

John McCann: So, you know, for us, that's a big key because now if, you know, the brand fulfillment, we'll be able to be price conscious, price sensitive, and also feature benefit wise that, you know, I will spend more because that has what I want.

Andrew Shapiro: OK. You meant – last quarter was the first quarter and, of course, this quarter we're experiencing as well, I'm trying to understand when an anniversary is. In order to maintain some sizeable customer business within CS, you guys had to make some agreements that basically lowered your margin for a period of time. When does that anniversary and what are the other avenues or areas you see for cash flow and revenue growth within the CS side?

John McCann: OK. So those are ongoing. Unfortunately, for the next several quarters, on that side, there's three different strategies we're pursuing with the Central Station.

Organic growth with our current dealers which mean, you know, we make and sell and service six different video products. We don’t have our fair share of distribution is what I'm working with the Central Station. I-View Now, SureView, Videofied just to mention three, we've been doing ongoing seminars, webinars, and dealer council meetings to up sell.

And we think that there's a huge opportunity for us to sell more to our current dealers to overcome some of the credit that we had to do. And we've met with the dealers and that they’re very, very responsive on not only that but then also selling and making some money on Mace products to whether it'd be pepper spray or Mace surveillance products or Mace monitoring products in situations where it might be a smaller complex and we can offer solution through the dealer on that side.

But on the other side obviously…

Andrew Shapiro: I've heard this from you – I'm sorry to interrupt – but I just want to – before we move on to the other points, I've heard this from you predecessors. What are you doing differently?

John McCann: Well, A, I'd say – according to the dealers that I met with and we met with – you know, unfortunately, he's one of the guys that couldn't be there but we call it our top five, they’ve never been to a dealer conference. B, we are in the process of linking Web sites that it's never done before. C, we educated them on some of the products that we're selling and I'm bringing in outside resources.

So company, I think, has done a great job in this field of Videofied. We are an original Videofied supplier and partner. A lot of our dealers have never even seen the products. So I can't speak to what the guy before me did but I can tell you, I'm 24/7.

I flew on a red eye out there to go to the dealer conference. I followed up three times since that and they will be linked on our Web site and have the opportunity to sell product.

Andrew Shapiro: OK.

John McCann: I can't answer why he didn't do it but I know it takes a lot of hard work and a lot of followup because it's herding cats in that world to get things done.

Andrew Shapiro: OK. So…

John McCann: And the third one is we're – yes. No problem.

Andrew Shapiro: I don't see the point of…

John McCann: And then the third one is really new dealers. We've gone in more trade shows. We're at ESX at Nashville which is a great trade shows today.

We've marketing materials that are geared to show, really demonstrate what we do, not just talk about it, but really being able to demonstrate it and we're being aggressive to make sure people know what they're getting for their money that we are a great value all-in, both in the monitoring side and all the other service that we sell.

Because even Videofied, for example, we are only one of three I believe central stations that fulfill product needs, too. So we stocked Videofied product, you can buy directly from us. They're not at the best margins in the world but what it is, we're a wholistic service.

And I think, to your point on franchises or licenses to great opportunity that we're pursuing with them to kind of come up with some specific or safe profile products that fit our needs, that they can produce that would be great for both entity.

Andrew Shapiro: OK. Now one of the areas that has been a headwind that has kind of clouded or mitigated, the outstanding growth has been achieved in the defense spray side is your surveillance equipments stuff. And one of the question is, you know, is this just another carwash segment that's been hemorrhaging us or bleeding us down here? When does this surveillance equipment segment which has already shrunk down to only a few hundred thousand dollars? When does it become a profitable and growing remaining component?

John McCann: Great and it's an excellent question and it's something that we spend a lot of time on now that we feel comfortable with our defense spray and some of the alliances there. This, I can't talk to everything we're doing on it, but we do – we have a phase strategy where we think this can be very relevant.

If you look in the world today, direct to consumer with products with the right value proposition are strong. Word of mouth and viral media, especially in this segmentation, is also very strong and so we put together with George Martinez who really launched this division, has a lot of experience, that we feel now the right products, the right pricing. And now, you know, we're pulling together the go to market strategy that I think really could get us back to best levels of the past but in a profitable – at a profitable class.

And over the next couple of quarters, we're going to bet this out but I don't think it's another carwash today. I think that the Boston situation taught us anything is that the right cameras in the right location can help find the deterrence side which then, again, close into the base, you know, strategy of being, you know, a great deterrent.

But I do agree. There was a lot of noise in the background of what we're doing in the past then our little more focus and I really like the strategies that were starting to implement today that could have a return on investment. We build together a business plan that we're just not ready to launch publicly yet, but I think it has unique twist and then that would be a real benefit.

Andrew Shapiro: Now in the surveillance – yes?

Carl Smith: And if I can just further on John's comment in response to your question there, Andrew, and it's that the surveillance equipment today, the business segment is not what it was, you know, a year ago.

We basically moved the whole operation under the umbrella of the Mace personal defense so there's no warehouse, separate distribution, it's all being done. So the roughly 40 percent gross profit margin on the surveillance is contributing to the overall overheads that are being incurred in Vermont.

Andrew Shapiro: OK. And with respect to Boston and other things where the value surveillance is being proven, do we already have the right products and have we been in the past barred because of the EPA issue for our surveillance products to be part of larger contract RFPs into government – broader-based government installation of video surveillance?

John McCann: In the debarment, MSP and MPD which is the security products in that personal offense were both debarred.

Andrew Shapiro: OK.

John McCann: The Central Station was one of the first things that EPA agreed with me that they'll release them from the debarment but when I came on board, the entire company was debarred, whether it's Central Station, car washes were debarred. So we slowly filled that hole in and said this doesn’t make sense. Now, you know, fast forward to today, we're all open. So to your point, today we're good. Prior, no.

And then to the other point is that we have some other right products, you know, our HD line and our SQ line, Mace View and Mace Watch fit in perfectly. And then we have some unique technologies that we're working on, joined with some manufacturing expertise to get a whole range of products that can be right.

But today, yes, we do. We definitely – all the functionalities that PRI, the Vandal Resistant, the zoom, all the capacities that you saw with the Boston camera, we sell under at Mace brand name for that.

Andrew Shapiro: OK. Last question for me is you had a flurry and I appreciate you put them up on the Web sites of activities where you were putting the company out there in a public relations and the social media which, you know, has all kinds of marketing benefits for sale of product and brand. You also did some investor radio show and a few other investor's things and you put those up.

Do you have, on your current calendar, already other scheduled activities or events on the investor side or major events on the public relation side that you can share with us?

John McCann: We're still holding a lot of those. We have a couple that we have to clarify but we are working both – on both sides because we do see the value benefit especially on the PR. We're really working – we feel it would be an honor that we need to improve our IR dramatically from where we were.

Carl and I are looking at that, you know, how to be better in that field. And as we all know, we've – you know, we've worked with one PR company, we're working on with a different PR company. We're still not happy with 100 percent of the results. Ergo, we don't have a lockdown schedule. We have several things that we are anticipating but nothing like down that we could say yet.

Andrew Shapiro: OK. Well, I'll back out into the queue. Thank you.

John McCann: Thank you.

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

Thurman Willis: One final question. I want to make sure that, you know, that there's no funds other than the Ancora group and of course, the Shapiro Group that owns any of the stock which is good because if we were to get any fund buying, I'm sure those funds would have to pay up for the stock and so that is, you know, that is a positive.

But I want to make sure that the 40-cent level, I take it that our cash position to cover our burn and various research and, et cetera, will not cause us to have to raise money and/or sell stock in the near future because to do that at this level will just be detrimental to the existing shareholder. So can you speak to that?

John McCann: Sure and there's no plan – there's no need for that today.

Thurman Willis: Good.

John McCann: Or there's no plan and it hasn't been discussed. You know, we're focused on revenue growth, eliminating the cash burn, and driving the company to profitability along with use that telling the good news of what we are doing because doing it from the outside, you think while it's nothing but when you dig in to the details, you'd say we've done a lot in a short period of time but we have a huge upside.

Thurman Willis: All right.

John McCann: So, you know, it's kind of like Babe Ruth playing in the minors. We should – you know, we should be playing for the New York Yankees and hit the ball out of the park every day.

Thurman Willis: I agree. Well, I think that boils down to three things, education, execution, and marketing. And I'm sure that your team will execute and if you can go out and mark it and educate and I think with Cassidy in Washington and that PR firm and get you in – if you can come anywhere near telling your story as people know the Mace name and they put the story and the anticipation of the potential upside with the Mace name, you know, the risk versus reward and the potential upside to me is, you know, is just – I don't know, five or six fold.

And, of course, I know you didn't mention anything about your bear spray, but I take it that it's continuing to group up because it's about what 15 percent of your pepper spray sales?

John McCann: Yes. It has a little bit of seasonality to it and, you know, now is the season that's bears are waking up and they're a little more active. Last year, you know, because there was a mild winter, they didn't really hibernate so they woke up a little bit early.

But it definitely is growing and we're continuing to work with outdoor retailers, online retailers and direct consumers on it. We're actually looking at an expanding that other line of products that includes our canine products and also our bear sprays into other types of products that in that field that can do well.

Number two, fear for most Americans is animal attack. And so we're trying to address that not only on the bear and the canine side but coyotes and several other animals that are products that are very good deterrents again and safe for the animals. So, you know, we want to stress that these are EPA-regulated safe products so the animals do not suffer, you know, but they do backup dramatically.

Thurman Willis: Well, my last comment is that if you educate the public on the potential you have instead of having five or 10 people on the conference call, you'll have 50 to 100 and your stock won't be trading to 41 cents, it will be trading it $2 or $3 because they see that the market has expanded three, four, five folds with the EPA disbarment, the potential for franchise fees, the potential that you have these four large retailer signed up.

And then naturally all of us know the number one retailer and hopefully you can get them signed up and the number two retailer and, you know, it just – it seems to be a bright, bright future if we can just execute.

John McCann: We agree. Execution, education, and product development, marketing are critical. You know, we constantly – and that's why we're aligning ourselves to several law enforcement agencies now past the debarment to educate people on it's a great – it's a great first device or second device. In some states, if you have a carry-on concealed, you have to have a back-up device. Mace is a perfect back-up device and that if you're uncomfortable carrying a gun and everybody has the right to carry a gun, you should carry a Mace, right?

And you should carry it in your vehicle, on your person, in your purse, in your backpack because there – you'll just never know. And it's not only a human attack and animal attack or just an unsafe environment where you, you know, we can empower you to feel safe and do what you want to do. And that's a lot of the feedback we got back from our analysis in our research.

Thurman Willis: Well, that – you know, that all sounds good and I, lastly, would say that with the higher stock price, we can go in and accretively buy competitors because a higher stock price makes our goals much, much easier to achieve and so higher stock price in some cases is just – or if more important, is landing that big deal because if you want to go buy some of your competitors, you surely don't want to do it with a 41-cent stock, you want to do it with a dollar and a quarter stock or higher.

So as to keep the delusion under control and be accretive for the existing shareholders and I'm sure you guys agree with that.

John McCann: Absolutely.

Thurman Willis: Thank you again.

John McCann: Thank you.

I don't know and I apologize on timing. I am going to have to hop off in just a couple of minutes. So I think if we – if there's a couple final questions, we're more than happy and then we're more than happy to follow up at any point, too.

So, I guess, (Nicole)…

Operator: There are no further questions.

John McCann: Pardon me?

Operator: There are no further questions.

John McCann: OK.

Operator: There are no further questions.

Thurman Willis: Yes…

John McCann: OK. Well, we – go ahead.

Thurman Willis: Conference calls with the Q&A on their Web site and I think as people, you know, we've been here about an hour and 40 minutes and a lot of people get bored in that period of time but they will read through the Web site with the conference call and the Q&A and I think if they closely read through that, it's just a thought, just a suggestion, that it might be a way to, again, educate some of the people that have heard of Mace but really don't follow it and really doesn't know what it does now.

John McCann: Exactly. And everything will be posted on the Web site. I'll let Carl wrap up but I just want to thank everybody for their time today. Realize that we are focused on building this brand and also focused on building this brand profitably and also dynamically that we've become the number one brand in safety and security in the world.

So I figure that's it. (Nicole), we can wrap up.

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

John McCann: Thank you very much.

Carl Smith: Thank you.

END