MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
August 28, 2013
2:00 p.m. ET

Operator: Good afternoon, my name is (Rachel) and I will be your conference operator today. At this time, I would like to welcome everyone to the second quarter and six-month ended fiscal 2013 results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during that 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.

John McCann, CEO, you may begin your conference, sir.

John McCann: (Rachel), thank you very much and all of you thank you for taking the time to listen and participate on this conference call. Before I begin I want to direct to our Web site for a PowerPoint presentation that we will go through.

If you could please refer to corp.mace.com investor relations transcripts and presentations 2013 second quarter investor call presentation you can see our presentation, I'll go through after Carl goes through the numbers but first let me turn it back over to Carl and he'll read the forward-looking statement.

Carl Smith: Certain statements and information during this conference call will constitute forward-looking statements and are based on management expectations and information currently in the possession of management. When used during our conference call, the words or phrases will likely result, are expected to, will continue, is anticipated, estimate, projected and intended to or similar expressions are intended to identify forward-looking statements.

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

Such factors could materially adverse, affect Mace's financial performance. It could cause Mace's actual results for the future period to defer materially from any opinions or statements expressed during this call.

Now I will turn the call back to John McCann, our President and CEO.

John McCann: Thanks, Carl. So as all of you know, we've been working very hard to remake the confidence to the number one brand and safety and security. We're getting close to our goal but we're not there yet. Although, the set quarter results where not were they like them to be. We like to spend some time going through them and explain to you where we're at and where we feel we need to be. I do want to highlight a couple of items prior to Carl's presentations and numbers. Referring back to our Web site, we completely remade it. Now there's many testimonials on the Web site. One of which I'll highlight later in the PowerPoint presentation.

We shift the record number of pepper spray products throughout the first half of this year versus prior years and especially last year. We've had great increases in our consumer and our sporting goods channels, and we've also made changes from a year ago to the reshaping of the company as today.

And finally, we are still working through some minor issues with the EPA, but majority of the EPA issues are behind us. We did have a little bit of a hiccup in the quarter basically based on the government's inability to act quickly once that we've made a deal with them but we've been able to resolve those.

At the conclusions of Carl I will go to the PowerPoint. So, we will double check with everybody and make sure they were able to download that appropriately. Lastly I do want to talk about – we feel we're on the final steps of the turnaround and where we need to be, we think we're about the halfway point of everything that we want to do but the biggest step is the next step which is moving our antiquated factory into a state of our facility.

This facility will allow us to do the following. Bring instability especially to our core product lines, create efficiencies that we never had before. Create speed to market that we didn't have before, and also put us in a growth mode – growth potential with our products that we can deliver quicker, faster, and also innovate much more effectively.

And lastly, and very important to me is the cost effectiveness. We feel we will be able to review our standard cost of goods and reduce them subsequently because of the process that we'll be able to manufacture from in the new facility versus the old facility.

So for now, I will turn it back over to Carl, but I'll please remind you that the PowerPoint presentation which hopefully will answer a lot of questions that we have is on our Web site, and if you have any problems getting in, please let us know right away and we'll take care of that. So with that I'll turn it back over to Carl.

Carl Smith: I'll now discuss our second quarter in year to date 2013 financial results. After I'm finished, I'll turn the call back over to John for some highlights and commentary on the outlook of Mace. And then we will open the lines for questions.

Consolidated second quarter revenues were $2,828,000 compared to $2,960,000 for the second quarter of last year. A decrease of a $132,000 or 4.5 percent. This decline was mainly attributed to a $133,000 or 24.2 percent decrease in revenues from our electronic surveillance product. Electronic surveillance revenues totaled ($416.5000) compared to prior year revenues with ($549.6000). Revenues from personal defense and law enforcement Aerosol products where $1,359,000 compared to $1,320,000 last year for an increase of ($39.4000) or 3 percent over last year.

Breaking this down further, Aerosol or defense sprays were $1,110,000 compared to $1,042,000 for Q2 2012 up $68,000 or 6.6 percent. Non Aerosol which includes Big Jammer, and other non spray products were $133,000 for both second quarter 2013 and 2012. Other which includes TG Guard, Private Label or OEM and law enforcement products totaled ($116.4000) compared to ($145.7000) in the second quarter 2012. A decrease of ($29.3000) or 20.1 percent. All sale security in monitoring revenues where $1,052,000 compared to $1,090,000 down ($38.2000) or 3.5 percent from Q2 2012.

Gross profit, consolidated gross profits for the second quarter totaled $1,053,000 compared to $1,061,000 a decrease of $8,000. Gross profit dollars were relatively flat on $132,000 in lower sales due to overall gross profit margins of 37.2 percent in the second quarter of 2013 compared to 35.8 percent in 2012. Gross profit on personal defense in Aerosol products were up $116,000 or 26.3 percent. This margin increase can be attributed to the ($39.4000) net sales increase in gross profit margin of 41 percent compared to 33.4 percent gross margin for the second quarter of 2012. The increase in gross profit margins is mainly attributed to lower manufacturing overhead incurred quarter to quarter.

Offsetting these increases, were gross profit decreases from electronic surveillance equipment in Mace's Central Station. Gross profit in surveillance equipment decrease at ($63.9 000) which is attributed to the $133,000 decrease in net sales on 47 percent margins for both quarters. Mace Central Station, our wholesale monitoring operation experienced a ($59.4000) decrease in gross profit. This decline is attributed to a $38,000 decline in revenues in a declining gross profit margins. The margins for the quarter were 28.5 percent compared to 32.9 percent for the second quarter in 2012. The lower margin is due to higher direct labor, medical benefit cost increases, and offset by lower telephone and radio alarm transport costs.

Now on to selling (general) and administrative expenses for the second quarter end of June 30th 2013 where $1.73 million compared to $1.63 million in the prior year for an increase of $100,000 or 6.1 percent. The increase can be explained by increase public relation spending, expenses associated with the issuance of stock options, higher medical benefit cost increased SG&A expenses incurred by our wholesale security monitoring business.

Overall, corporate G&A expenses for the quarter declined approximately $100,000 after adjusting for unusual items which included approximately $70,000 in a non cash expense associated with the issue and so stock options to key employees. The savings were attributed to – the savings were attributed to lower salary rent and facility cost and lower audit tax in public company cost associated with the annual shareholders meeting.

Offsetting the savings of the corporate level where increase as an SG&A expenses in our two operating companies makes personal defense in Security Inc. and PDSI. Our personal defense pepper spray and electronic surveillance products operation in Mace our Central Station, this is our wholesale monitoring operation.

SG&A expenses at MPDSI were approximately $740,000 compared to $679,000 for an increase of $61,000 or 9 percent over last year. This increase is due to advertising of $43,000 and professional expenses of approximately $72,000 which included PR expenses incurred for the quarter. Offsetting these increases were a reduction in salaries, rent and facility cost. SG&A expenses at the central station for the second quarter where $382,000 compared to $309,000 last year, an increase of $73,000 or approximately 23.5 percent. This increase is attributed to an increase in several expense items including salaries, licenses and fees, and an accounting adjustment to the accounts receivable allowance.

As a result of the above, net loss from continuing operations on a consolidated basis for the second quarter was $823,000 compared to a net loss of $727,000, an increase loss of $96,000. Consolidated evened off for the second quarter was $671,000 compared to $569,000 last year, a decrease of $102,000. After adjusting for the non cash expense for stock options of approximately $76,000, adjusted EBITDA is the negative $595,000 or $26,000 below last year.

I now turn my commentary to year to date figures. Revenues for the six months ending, June 30th 2013 were $6,072,000 compared to $6,393,000 last year, a decrease of $321,000 or 5 percent. This decline was mainly attributed to a $453,000 or 36.5 percent decrease in revenues from our electronic surveillance products. Electronic surveillance revenues totaled ($788.5000) compared to prior year revenues of $1.2 million.

Revenues from personal defense and law enforcement Aerosol products were $3,179,000 compared to $3,006,000 last year, an increase of $172,400 or 5.7 percent over last year. Breaking this down a little further, Aerosol our defense sprays were $2,617,000 compared to $2,381,000 last year up $236,000 or 9.9 percent. Non-aerosol which includes Big Jammer and other non-spray products were $350,000 compared to $274,000 up $76,000 or 28 percent. Other which includes TG Guard, Private Label and Law Enforcement products totaled $212,000 compared to ($351.9000) last year, a decrease of a ($139.5000) or 39.6 percent.

This is mainly attributed to a decline of $70,000 in Private Label or OEM sales and an $82,000 decline in Law Enforcement products for the year. Wholesale security and monitoring revenues were $2,105,000 compared to $2,146,000 down $41,000 or 2 percent from last year.

Gross profit for year to date. Year to date consolidated gross profits totaled $2,318,000 compared to $2,049,000. Decrease of $91,000 or 3.8 percent. Year to date margins increased from 37.7 percent to 38.2 percent.

Gross profit on personal defense in Aerosol products were up to ($257.5000) or 23.6 percent. The margin increase can be attributed to the $172,000 net sales increase and gross profit margins of 42.4 percent compared to 36.3 last year. The increase in gross margins is mainly attributed to a $115,000 in year to date overhead reductions as a result of consolidating the surveillance operations with the personal defense in pepper spray operations in Vermont.

Offsetting, this increases where gross profit decreases from electronic surveillance equipment in Mace's Central Station Gross profit on surveillance equipment decreased $206,000 which is mainly attributed to the $452,000 decrease in net sales. Mace Central Station experienced the $142,000 decrease in gross profit. This decline is attributed to a $41,000 decline in revenues and a decline in gross profit margins. Year to date gross profit margins were 27.8 percent compared to 33.8 percent last year. The lower margin is due to higher direct labor in medical benefit cost offset by lower telephone and radio alarm transport costs.

Now, moving on to the selling general administrative expenses for the year to date six months ending June 30th 2013 where $3,545,000 compared to $3,322,000 in the prior year, an increase of $223,000 or 6.7 percent. And let me explain this further. In the first half of 2013, we had an overall increase of $271,000 in expenditures for advertising trade shows, public relations, and retail channel consulting. We had an increase in non cash expense in the amount of $78,000 related to the issuance of stock options to key employees.

Medical benefit increases mainly attribute to a migration of employees selecting coverage accounted for an increase of $50,000. And we had SG&A increases at the Central Stations of approximately $40,000 related to licenses and fees to register an additional state and administrative salaries. Prior year, SG&A included $100,000 gain which was related to the sale of IVS or former – our former high end digital camera operation that we sold. Offsetting, this increases was an overall decrease in corporate general and administrative expenses of approximately $340,000 after adjusting for the $78,009 non cash charge for the issuance of stock options.

At the corporate level, salaries and benefits decreased approximately a $130,000. Professional fees related to tax legal consulting decreased $55,000 with the majority of the savings coming from reduced audit fees in the elimination of consulting by Mike Smith, our former CEO. Corporate facility cost reductions totaled approximately $77,000. These reductions were attributed to moving the (Horsham) office to Cleveland and the elimination of an H.R. office in California.

Public company related cost were also down $18,000 due to savings incurred for being non-reporting. These savings is mainly attributed to a decrease in the number of required SCC filings. As a result, net loss from continuing operations for the six month ended June 30th, 2013 was $1,529,000 compared to a net loss of $1,241,000 last year, an increase loss of $288,000 or 23.2 percent. Consolidated EBITDA for the six months ended June 30th, 2013 was negative $1,221,000 compared to a negative $911,000 last year, a decrease of

$302,000. After adjusting for the $78,000 in non-cash expenses for stock options in 2013 and accounting for the $100,000 gain on sale of IBS in 2012, adjusted EBITDA is negative $1,143,000 and $1,011,000 in 2012, a decrease in EBITDA of $132,000.

At this time, I'll make a few comments on our balance sheet and cash flow items. The company's net book value is $12.2 million at June 30th, 2013 compared to a net book value of $13.5 million at December 31st, 2012. It means that $14.6 million in total assets including $4.1 million of cash in short-term investments at June 30th, 2013 compared to $4.9 million at year end. We have positive working capital of approximately $7.9 million and current ratio of 7.5 compared to $8.5 million at December 31st, 2012 and a current ratio of 5.6. Total debt at June 30th, 2013 remained at approximately $1 million, consisting mainly of our debenture note with Merlin Partners with the maturity date of March 30th, 2016.

From a cash flow perspective for the six months ending June 30th, 2013, we used approximately $1.4 million of cash in operating activities. For the second quarter ending June 30th, 2013, we used $696,000 of cash in operating activities compared to $748,000 for the first quarter.

At this point, I like to thank you for joining us this afternoon. And now I will turn the call over to our president and CEO, John McCann, where he will go through a presentation.

John McCann: Thanks, Carl. So I'll give everybody a minute. I just wanted to make sure you were able to get to the corporate Web site and in the investor relations portal.

So let me begin. So, on page one, but we can skip page one. If everybody can take a look at page two which is just that forward looking statements that Carl had already read previously, just be aware of it. Page three is what we have been doing and what we've been talking about as a mission statement with our retailers. And I think it's come across that – to understand that we want to be more than just pepper spray, more than just surveillance products that we can bring safety and security to everything we're doing. Especially, given that, we're end to end security with – from our monitoring center to our products that we sell at retail.

And so, now, I'll just skip forward to page five if you would. And I just want to highlight a couple of things and I'll show a couple of graphics later in the presentation that are positive and I also have a couple of things that we can talk about that were not so positive.

But with regard to a couple of our channels, our core business of pepper spray, our sporting goods channel is going to show an increase year to date, our consumer division has shown an increase year to date, and our Web site which we'd spent some money and time on to refurbish has shown a very nice increase of 44 percent. There is also has been a profit increase, and I'll show a slide later in this presentation that highlights that.

On the downside, our monitoring business has been negatively affected by healthcare cost, salaries, and licenses that we need to maintain in different states. And so at the appropriate time, we'll put together a matrix and make it available on our Web site of all the different licenses that we need to hold in the different states in order to stay a UL and ETL, as well as a five-star monitoring center.

The healthcare cost, as Carl alluded to earlier, a combination because of the Affordable Health Care Act, we had a higher migration to our plan that we had anticipated, therefore, those costs are up but it is something that we're going to review because that renewal will be coming off within a couple of months. And so it's something that we think we can contain, but I do want to caution that it's something that, right now, is, in the United States, has become a big issue for almost every company. And so we are constantly looking at it and we will have to react to the market as the market reacts. But it is a disappointment that it is – it's negatively affected this first half of the year.

Other highlights, I want to make sure that we go through are corporate expenses that Carl had mentioned. Our down year to date, our final consolidation plan, and it's – I'll loosely call it consolidation plan. It's more really a growth plan because it is going to allow us to be much more diverse in our abilities to shift, to process, to really do a lot of things we want to do, given the opportunity that we have with the product lines that we do (itself) and manufacture.

I will highlight it, I talked about last time our tactical division. I want to get into a little bit of detail about that because we're excited to get the debarment past us. What I had mentioned in my opening statement is, is that, unfortunately, there's many layers to the debarment that we experience. We were at customs, immigration, and the EPA. And it took us longer than expected to get those cleared off of every one of those portals, Web sites, channels, get the memos out to all the field offices that we were opt the suspended list. They took a little bit of capital, I believe – not a lot, but close to $20,000, and writing letters and getting things done. So, I just wanted to highlight that because it's an uphill battle, but we are now, I think, positioned well to fight that battle, and we will.

Just – this is – and on page seven, I won't read it, but you can take your time to read it. This is our mission statement with our tactical team. The next slide which is – Doug has – is running our tactical team. He got on board late June. And now we're expecting to really be able to take back some of the space that we've given away in that segmentation. I do have to note, though, prior management had sold the name Mace in this division on a lease to a third party. We are using the name takedown and several other names, and we are starting to use our name Mace again in the segmentation. But for a long time, this was abandoned, so we are rebuilding our efforts here and we feel confident that we will be able to do a lot of good things in the segmentation, to bring products that are very much needed into what we call tactical law enforcement, government schools, and other entities.

This is just – on page nine, is just how we're viewing the company our go-forward basis. We will have a board meeting in September, and instead of the old Mace where it was seven or eight divisions, we are consolidating down into what we would call Mace Consumer Products which will be our surveillance products and our non-surveillance products, along with our monitoring business which will remain in California. One note that Carl has to deal with and myself, there are at least 12 operating companies within the organization that we do have to file. We are and we have been closing those and removing them from the books, but we are also trying to protect our NOLs and protect any interest that may lie within those companies prior to abandoning them or closing them out properly with the government.

Page 10, as I've mentioned in our opening remarks, we have created a space in our Web site where we have some testimonials, as we call them, within that space. And what we are now doing is trying to highlight those, use social media to make sure we get those messages out because for every message we get, we feel there's 10 to 20 other messages that we could get out there in today's modern society and people do like their 10 minutes of fame on a Web site.

Just notable expenses that we had talked about, I'll get into a little bit. We did use a lobbyist that we had talked about prior. They did a good job, but the return on investment wasn't as high as we – it wasn't there. So, we've decided to go a different track. We are now interviewing PR agencies and working on our next steps within that realm. Healthcare increases, we mentioned – Carl mentioned the stock option, the EPA resolution. There was a little bit of cash used in the quarter to resolve that.

Severance and duplication of employees was another factor in expense this current quarter. And I just note, royalties because on our pepper gun, we're making some changes to the gun as we move forward, but there was an increase in sales, so there you go, there was an increase in the royalties on the gun to the original designer.

On page 12, it's just a recap, you know, kind of a simple chart to show you, you know, what Carl had highlighted in the financials. The only positive highlight really is the gross margin percentage. As a percentage, it's up versus prior years, some of the spending. If you looked at some of the efforts from the prior page, if you normalize those, we would have had less expenses and more on line with last year's ratio.

On page 13, I just want to highlight, this is just looking at it graphically. What Carl had mentioned, the six months ending financial numbers.

Page 14 is just looking at the second quarter.

And then what I tried to do is break it down on page 15 by segmentation. So you can see where some of the pluses and where some of the minuses were. Obviously, I've a lot of work to do – organization (land) or surveillance products.

We've had – we still have some old inventory. We're working on trying to move into our new inventory. We've had some successes where some dealers have started to pull some inventory which is good, but it has been slow and some of the major accounts that were lost prior to my – prior to the new management's arrival have been a hurt. For example, in quarter to quarter, there were significant sales to (U Haul) which was a major customer for the company that are no longer there and no longer a possibility.

Then just looking at defense sprays for the six months ending on page 16 and what we call the non-aerosol products, which is really the Big Jammer and some of the other products, that come out of our defense division.

Looking also, then, still on page 17, with the gross profit analysis, you can see our non-surveillance which we'd call our pepper products has seen a very nice increase in the profit where on much decrease sales, our profits have been slightly diminished but not as the same ratio as their sale. So we've been able to maintain some profit margin in those product lines.

Then I just broke down on page 18 our traditional channels as we look at them, our sporting goods channel, you can see it's up 4 percent. It's a more mature channel for us and I'll be very excited in the third quarter because some of our retailers went through some management changes, but we've had some positive meetings quite honestly just yesterday that we're hoping will turn into – in the (backup) of the year, some real opportunities for the organization. And then as you can see, we have a nice 30 percent increase in our consumer product lines which would be our hardware stores, our – your general merchandise stores, your drug accounts, and your grocery accounts.

Then, as I highlighted earlier, on page 19, our Web sales are up 44 percent which is good because this offers the company the highest margin possible and it is also very consistent with what we're doing with our retailers.

Then just to give you an analysis like on the gross profit side, so this is really a gross margin comparison analysis that we're showing positive movement on our defense spray products, we're showing some positive movement on security products, but then negative on our monitoring business, and really the monitoring business is – it's labor and then it's also the healthcare segmentation that I talked about prior.

Then just to talk a little bit about the monitoring center, this is just an analysis of year to date service revenues – second quarter service revenues along with what that equates up to an RMR which is our monthly recurring business.

Now, in the quarter because this is the quarter, it's slightly more positive trend than the year to date number which is next on page 22. The year to date number shows a 1.2 negative variance where in the quarter it was less than 1, which really just equates to that we're able to do a couple of things differently. We're able to pick us some small accounts, nothing major, but then we're also be able, on a product side, to sell a little bit of products where we hadn't been in the past.

Then just as an analysis because I like to do it, if we look at the number of employees on page 23 and, you know, kind of on as a revenue per employee, we're still tracking well above a year ago with less employees, so each employee, then obviously it's creating more revenue for the organization.

The next couple of slides and I'll go through it quickly which is slide 24 is just really talking about some of the things we've done with the brand and where we're going. One of the problems is, as you guys as investors know that our problem like Hoover, like Kleenex, like several other brands, Mace is considered the product and a brand. And so we've taken a concerted effort to differentiate Mace brand versus Mace product. And we are working with our legal team and outside because if you, today, Google the Mace, our competitors are trying to use our name and several other entities trying to get into the security business user our name and we're working strategically on what we can and can't do about that to avoid that in the future.

And then just on page 22, some of the social reinforcement and e-mail campaigns that have helped us grow our direct sales business. On page 26, this is the "USA Today" ad that we were able to buy some remnant media, pretty price effectively this is the Midwest region which goes from Chicago through Philly so it hits some core markets for us and we'll be able to run this a couple more times in conjunction with some shows or in conjunction with some expo's that are going on in the different markets and cities. This is an expo that we're participating in as part of Gannett which owns several television stations and several newspapers including the "USA Today" and this is some of the advertising we're making sure that people understand that Mace brand is more than just pepper spray. It's the live interview we're able secure that that broadcast locally in the Northeast Ohio area and through to Pittsburgh markets. For some of the promotional cards around page 29, that we've been able to pass out at different events really connecting people to our Twitter account or Facebook account our webpage.

On page 30, this is some back to school specials that we put on to our webpage in order to procure some more sales. Page 31, we just talked a little bit about the Mace trainer, we've been able to successfully link the Mace trainer with some of our products in order to get people to feel comfortable, we call it kind of riding the bike series that if you – if you try it you use it, you feel comfortable with it then when you really have to use it you're going – you're going to have that experience again. This is – this is the up sale that we do, it comes with the target you can buy one or two training kits and one or two targets in order to practice and then feel comfortable when you really need to use it which is page 32.

Page 33, is a dedicated Web site called carrymace.com which actually we have many how to videos, we showed the product in action, we try and answer some questions, we have some TV commercials that run on this and we're trying to direct traffic, these flows in to our secure Web site so it covers everything that we need to do with our product line. This is the trainer that we've been successfully selling, it's a new product that we launched and it basically has a DVD on self-defense, it has a water and inert unit, a real unit, it comes with the jogging band, it also comes with the target, that we're – on our DR spots where we're on the Web in some light television, we're showing actually how it's used, why you would use it and answer a lot of the educational questions that we get along with, with our product line.

Then the last couple of slides just slide 36 at this point are just some of the other collateral material that we've been able to do through the former PR Agency and also the lobbyist group that we – that we had worked with. We just didn't get enough bank for our dollar in order for us to continue. So, that's why we looked at that as a one time expansion of quarter because it was higher than I would have stand at a normalized basis but we feel education and awareness on the products will help our sell through as we need to.

Then on page 39, this is our new brochure and I just – we're really just really pushing the completeness of the Mace brand if you will. So, what does that mean? That we are linking our dealers and we've had linked several dealers as I've mentioned on our prior call it's been well received, we're working on some new products and the new initiatives with our dealers and they're trending has been positive with our dealers but it's a long lead cycle because a lot of the dealers and security space have been successful and yet they know their success and they don't always or not always want to change. So, with that we are working strategically with them and this is one of I think a very good start on where we can be with our dealers in order to get some things done.

The last couple slides is 40, is the new building. I just want to make sure everybody will aware of it, if from a perspective point of view currently the manufacturing of our pepper spray is done in a wool and mill building that was built in the 1800s and then that I think it was updated in the early hundreds. So, consequently you can – we'll see a radical difference that will help us both in the efficiency and also with our shipping and growth opportunities because we'll be able to respond to, we'll be able to keep more inventory, more finished goods inventory and then we're also be able to move this inventory out quicker and more effective way.

And then lastly, as I end all our presentations with our customers we give them our mission statement, our core values, which is the slide 41. There's couple other highlights that aren't on this that I just like to talk about. As you see through some of the new products we have spent the money and marketing on RND, these are just some of the new products, we have some other concepts that will be coming out in the back half of the year, we are looking at as I'd mentioned before some of the new products and we're now moved to the tooling bay of that segmentation to make sure that that we can advertise the tooling and we can make the best effective use of that money.

With regard to the Mace Central Station as we talked about we're integrating them. So, several of our dealers have bought pepper spray, have bought some other products, they've integrated some of our thoughts and ideas especially with school safety and we're slowly moving in the direction that we want to with the dealers with more of a partnership relationship than prior. We do have as you saw some of the decrease in the service revenue from the Central Station is really as I called it inherited problems that I wanted it to deal with upfront to not to loose a dealer and today I can say we're still at the 72,000 monitored accounts which is about flat with the year ago, but if you take on some of the higher cost of running the Central and then along with some of the discounts we gave because of issues that we had in the past, you see some of that loss in revenue that we need to gain back by new dealers and also selling our dealers more products.

And with that outside, of what we're doing with the development we are working strategically with several first company as they come, first emerging response and video verification products, one example is video (fight), we're working with video (fight) as we all received in the security space with some unique offerings that we can do through our Central Station which once we had put the dealer conference together as I have mentioned in past conference calls was very well receive both with our dealers and with our staff.

With regard to Central Station, again I did mentioned on prior conference call we have reorganized, we've restructured our sales department, our dealer carriers we call it is now more of an outward looking sales department, we are working with several folks within the organization on our sales team to make sure that it's a completely integrated selling process. So, if you're selling a local store you're also calling on that dealer to make sure he knows everything that's available and that's why slide 39 indicates we can give you the top 10 reasons why you want to monitor with us versus the sum of our other folks.

And lastly, I'll note one of my biggest disappointments the data is that I'm a firm believer in the Mace brand name can be used in other products, it can be franchised and licensed and we have not been successful in that field as I would like, we have several initiatives underway, we have a secure outcomes relationship with the Xprint that has not produced as well as I would like it to, but we've made some changes with our sales force, Doug who has just joined us is now taking on that role to act between their organization, our organization, we've had many leads, we have not turn them into sales which is a disappointment but then as I've mentioned on the (purse) the person learns to responses, we have several opportunities that we're looking at the back half to hopefully close and be able to make some announcements.

So, I think those are really the highlights. Once again I'd stress that I think we've done a lot, it's complicated but we're very excited about where we're going, we're very excited about the future, we don't like the loses, and we are looking forward especially as we do our last merger of facilities that we will be able to (sum) those in the early part of 2014.

With that, I'll turn it back over to (Rachel) so we can look at any questions anybody might have and I thank you again for your time.

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

Your first question comes from the line of Thurman Willis, a private investor. Your line is open.

Thurman Willis: John, I have two questions. I appreciate your honesty about the (disappointment) of the quarter because I think all investors up in sales standpoint, it was a disappointing quarter.

But I want you to discuss a little bit about your excitement. I read an article that your PR firm could add about safe and secure schools. And I know that we've recently advertised when people think of Mace and only think of the hand spray that I think you come in it, shoots about 10 feet. When you talk about safe and secure school, what's your product are – that you're excited about and why'd you refer to it as the non-lethal solution to schools and could you specifically speak about your gun that supposedly in that article said, It's a 25 feet in range.

John McCann: Sure Thurman. Thank you very much for the question.

There's a couple fold there. We have aggressively now with the department behind this been on several school systems. One example that I give is Kings County School district in Southern Ohio. They originally had selected another vendor and they came back to us to ask to help them with some things because what Thurman mentioned our gel product which shoot 35 feet and we're working on some other products that can shoot in excess of that footage along with the TG Guard products that can drop it from the ceiling.

Now we're making a concentrated effort with the tech school division to really push that as a solution at schools and any other facilities and I think it could be – it is very exciting because the other part of it we have is that we have schools that are just buying it for the teachers even though it's not within the budget of what the school board had recommended. And so, those we find out later during in the private transactions, like for example in the local area of Hudson High School just bought some products for their teachers they bought 30 units.

So you say, well that's not a lot of sales, but what it is it's a mindset change that people view this product as a deterrent and feel that they're going to be able to use this versus some of the other devices out there, and that (Thurman's) point – our best user usually owned the gun, but then not everybody can shoot a gun, everybody can shoot Mace, because you don't have to shoot, it's a spray. You don't have spray it straight. You just have to get in their crosshairs and it will bring them down and it's a tremendous deterrent. And that's why we remain excited.

Same side on our animals sprays. Our bears spray that we just put out a press release on bear – bear attacks throughout – across the United States. And it's not just been rural areas it's in suburban areas and this week we're going to do a talk just on bear spray to a local audience, getting out that no matter where you are you should have Mace bear spray with you, because once again it's another product that shoots over 35 feet.

Thurman Willis: John, and again referred tell me what the non-lethal aspect of it is…

John McCann: Well, nobody's ever died from being maced, right?

So, the beauty of it is that the product line, especially in our product line, take it for example our triple action product line, right? That we're selling now to police divisions and to local citizen has tear gas OC which is the active ingredient in pepper spray, and also all of our products have UV dye in them so we can mark a person which, the beauty of that is that if, you know, our Web site again there was another testimonial where a drugged out person run at a couple, she sprayed the gentleman with mace pepper gel, later the police were able to find him, because they were able to use a black light on him to arrest the gentleman. They felt better that gentleman wasn't hurt but the same time they were unhurt and then the subsequent person was arrested.

So, I meant non-lethal side it offers tremendous amount of opportunity and then to that point now with the department behind is, the long lead cycle and like I'm not promising anything but we are trying to work with the Pentagon and with the government because as we move into territories of the world that are less friendly sometimes a non-lethal solution versus a lethal solution is the correct answer, because we don't want to kill somebody and make ten enemies. We just want to be able to extract our boys out or quell the situation without further intensifying it.

Thurman Willis: OK, so that how you distinguish yourself from other types of like taser or et cetera that has caused death in certain situations?

John McCann: Correct.

Thurman Willis: The last question I have was is – you stated that we're going to have some extra expenses in Q3. I think you stated we're going to consolidate the office in September that we have 12 different units. And I'm taking it that – would you tell us most of your expenses relative to the completion of the consolidation going to be behind just in Q3 and maybe we can look the Q4 as, you know, as a quarter that we can, maybe say we've, you know, turned the corner especially with the new products.

John McCann: I would pray that this way, in Q3 with the move we expect to have some one time expenses associated with the move with severance packages and with duplication and services. As we enter into the fourth quarter on a normalized basis we should be a real company. You know, I use that loosely but what I mean by that is that a manufacturing facility that Henry Ford would be proud of, with integrated systems and solutions a.k.a. phone system that are universal throughout our platforms and other mechanisms which should allow us and to become the profitable company that we envision.

I can't stress enough the amount of time and labor that goes into (pithily) affairs within the organization just whittling them down. When a year ago this time I believe we had in excess of 20 operating companies. Now we're down to 12. We were able to eliminate eight or nine of those with board approval at the end of the year the beginning of this year, because they had no assets and they had nothing that we have to look at with this additional remaining 12, and I believe it's 12, right Carl?

Carl Smith: There are about, yes.

John McCann: Yes that – there's just a lot of gyrations that you have to go through, so eliminating that. Then also, like – if you close your eyes and you picture the company August of year ago, you had facilities in Florida, Texas, car washes, you also had headquarters in Florida, you have – I'm sorry in Pennsylvania you had HR functions and a headquarters in California and you had Bennington, Vermont for your manufacturing.

If you fast forward to call it October 1st of 2013, you will have a small sales office in Florida, small sales office in the Vermont area. You will have corporate headquarters along with your manufacturing sales and distribution facilities in Ohio and you'll have your Mace monitoring center in California.

I will put now though next year we'll be a pivotal year with the Central Station because our leas is up and then unfortunately in today's environment are landlord is bankrupt, and so (there go) we've signed an extension at a reduced rate. We went basically from triple net to a modified gross that the same number which means we're not paying the camp expenses. That's the only expenses anticipated being extraordinary. Next year, if we have to move to Central Station unless we can cut a deal with new proprietaries of the space that to remain.

So by the end to that it's a long way to question. Long winded answer to your question Thurman but yes, we would anticipate with the exception of the minor severance payments that the fourth quarter should be the beginning of the new era.

Thurman Willis: OK. And I'll get back in the queue, but I do have one final, very quick question. I notice that the four insiders including yourself and your attorney and your CFO purchase stock and we as investors assumed from that with the excitement that you're expressing the one forward that we possibly could see additional inside a purchaser?

John McCann: I would agree with that statement. We believe this company really has huge potential. It can cast dispersions on past managements, because I can't walk in those shoes at this time but I can tell you, the decisions we are making, the money we are spending, are geared towards building the brand out into a consumers mind that we are safety and security.

We feel that it's a huge platform and it's going to take a lot of work and not all the cycle times for sales are quick. But seeding the field as we've done with the branding, with the advertising, with the repackaging and the new products will benefit the company and that's why, you know, we bought when we did and I'd anticipate more actions like that in the future.

Thurman Willis: Thank you for taking the questions and we look forward to increase sale.

John McCann: Thank you, sir.

Operator: And once again, ladies and gentlemen, if you'd like to ask a question, that's star one on your telephone keypad.

And your next question comes from the line of Andrew Shapiro from Lawndale Capital Markets. Your line is open.

Andrew Shapiro: Well, hi. I got few questions here, John. Last quarter, you discussed that a slate of new products where to be soft launched in Q4 with a hard launch at the (SAT Show) in about five months from now in late January 2014. Is that still on track and are you in a position to discuss any of these products that are targeting sizable markets rather than, you know, all of the different little ones?

John McCann: So, we're slightly the high schedule because of the final engineering design that needed to be tweaked a little bit. The quotes are out of their (toolers) as we speak. So, we're looking at our current (tooler) and then we're looking Asian and we're also looking other domestic sources. With that in mind, so our goal still is the…

Andrew Shapiro: (Inaudible) (SAT Show) still?

John McCann: Our goal still the (SAT Show) and it might be off a little bit that the soft launch might be the (SAT Show) with the hard launch right after that, depending on – quotes come in, in the time and what make sense.

And then to your point, we are targeting, regarding the ability – let me put it this way. Regarding the ability to have multichannel products which will then allow us to multichannel our products and what I mean by that is today, we don't really compete downstream. We compete upstream but with the right products, we'll be able to compete in the higher price point ranges and also in the more tactical price ranges.

Andrew Shapiro: So, can you – are you in a position that give it a description of one or two of these types of products you're talking about or it's premature?

John McCann: Yes, I'd rather not, just because they're in design phase and then one (inaudible) leg up.

Andrew Shapiro: OK. No, now, I saw over the past few months as was discussed in last quarter's call that you have successfully installed crossover on the Mace Web site between the Mace products and Mace Central Station pages regarding dealer pages and dealer recruitment. But do you have any tangible statistics whether this integration and other efforts has yet resulted in growth in your dealer base or growth in your crossover product into our alarm monitoring service sales?

John McCann: We – because it was just really launched at the end of last quarter, June of this quarter, we will have by the next conference call some metrics. We are looking at some things and they're positive but it's still too small of a sample and also the messages just getting out there but we will update that as best we can as successes come in. But we are tracking it but we're not at to the point where we can say it's this or that.

Andrew Shapiro: OK, the last quarter, you said a dealer you did a lot of business with, landed a school system. Were you successful or what is the status in integrating some cameras and other technologies and you're monitoring with that particular situation or did they end up going with another vendor?

John McCann: What we're doing, we're – he's in the process of implementing as we speak because it came in a little bit late and so it's actually not timed directly with the start of the school to see then but he – we are the monitoring standard force and we're going to have a little piece – we're not going to have all of that the surveillance piece of it but one we're going to have a little piece of that but we will be to monitoring a portion of them which is good news.

Andrew Shapiro: OK. Well, this actually gets a follow up on this, gets me that – eventually into that – we'll call it a troubled sub-segment. What was it that that made it that we're only a small piece of that surveillance and the cameras. Why – what does – what do other have? Is it lower price? Is it other features? What do they have? Why did this dealer has done a lot of business with us not load up the proposal in the project with Mace cameras?

John McCann: Well, let me start it, it's three fold. So, the company always within silos before and so some of the concepts are relatively new, you got to realize like I've been on, you know, 16 months or whatever it is and this is still something that we're ingraining in our dealers that they can turn to us for all solutions. They didn't do that in the past and so when they start out, they start out with other products other than ours.

Secondly, is the camera or the surveillance product is commodity driven segmentation. It is definitively a price and especially as you can imagine with schools, they do drive towards the lowest price products and we're not always the lowest price product on the market. And then third, the range of products that we have today is somewhat up to date but not as up to date as some other prices. (Aergo), you can go on to a COSCO Web site today and any cheap camera you can imagine is out there.

And so, it's those three factors, really. Our future as I look towards it is that being able to fulfill that because people understand the value with the brand versus the pricing, so, you know, people buy different cars because they are stress factors and that's the same thing we have to do. But in the camera world today, you know, if you walked in to a mall, or you walked in to somewhere, sometimes have a name on a cameras in a big deal. Our goal is to be more comprehensive in that that when we look at a dealer that we can crossover now with signage and with some other factors to say, "Hey, here's why you want us, you know, I can offer you a Mace premium package versus, you know, just the generic cameras."

We have a dealer quite honestly Andrew that shocked when we did the dealer conference. He said, "Well, if it's a small job like that, I just tell them to go to (Sams) and buy the stuff." And I said, "Why wouldn't you recommend us? Why wouldn't you work with us? We'll be price aggressive to you so you can be price aggressive to them." So, it surely a mindset change and that's why we made a lot of changes at the Central Station and we're seeing some success but not to the level we want. So, I hope that answers the question.

Andrew Shapiro: It helps. Now, if we look at your slideshow and we look it like slide 15, which you illustrated the decline in sales, in surveillance.

John McCann: Yes.

Andrew Shapiro: And we look at slide 18, which is showing the substantial rise in various segments and sub channels in the pepper spray side, OK?

John McCann: Yes.

Andrew Shapiro: And if you consider that's just second quarter. I think your first quarter would have been somewhat similar because I think even fourth quarter, and the point I'm getting is, that this is a trend and when does the surveillance decline end. When does the inflection for the company occur, that the growth in the non-surveillance area is well in excess of the surveillance's decline that this company on a consolidated basis is growing the gross profit and growing the revenue substantially that you start chewing out of this hole of your high-fixed overhead cost.

John McCann: It's an excellent – that it really parlays into what I saying in excess is that 100 percent our goal Andrew is that so now, now we're going to reduce our overhead, you know, rate, right? Out of Vermont into Ohio, step one.

Step two which is concurrent with step one is every presentation, right? So, we had a major presentation, two major presentations this past week, comprehensive, safety, security solution to the retailer. Not just our non-surveillance price but included across the board. So, our vision for the company and why we're excited about it and – trust me, I'm deeply disappointed that we're not further along because I'm not – you can ask my wife, I'm not a patient person typically is that you would have a 4 foot section encompassing both surveillance, personal defense, monitoring, home security within it.

We have several small, large retail presentation now till the end of September just trusting the same point of view. We're working not only with retailers but envisioning new concepts to sell this concept of Mace means safety and security. So, if you picture the store where you would have pepper spray (personal defense), (muzzle), animal, you know, products that are EPA approved, humane for animals if you would, right? Geared towards the animal, then also home security solutions whether it'd be simple motion detectors, window door monitor, or video solutions that our customer can purchase.

That's – you hit the nail on the head. Now, that time point, when's the intersection of those aligns, right? When can we stop the bleeding on our surveillance product. I think, think it's right around the corner. My hope would be by the fourth quarter of this year, we either flat to a year or go sales or on a slight rise on our surveillance product. Next year, the concept of integrated solution of Mace equal in safety and security, will, direct to consumer through retail. And then we have our Central Stations, our dealer network selling it would really start to take hold because it is a little bit – if we can get one retailer to do it, then we can get two or three other retailers to follow it and then we can get that message out and that's why our branding as I went through it like in the back of that presentation, screams that and it shows products other than just our defense products.

Andrew Shapiro: OK.

John McCann: But it's an excellent point because you're right because now, you know, Phase I obviously, the surveillance products were burdened with the Texas warehouse. They really couldn't afford and with other, you know, overhead absorption cost they couldn't afford. Now, if you take those out of it, you say, “OK, can you maintain your margins and grow your sales?” And that would be our goal.

Andrew Shapiro: Yes, but of all we've been doing it seem the sale keep on falling off the cliff, we're arguably, you know, at some point, you can't go lower than zero in sales.

John McCann: Correct, but that's what I meant, I think we're hitting that point where we'll see the change.

Andrew Shapiro: OK. And you can take that overlay and now you take it to in slide 6, you talk about how corporate expenses are down 20 percent year to date. Well, I don't understand this that I don't see that in less in – I guess, it depends on how you define corporate because you're SG&A is up, it's not down year to date relative to prior year, it's up. So, what do you define in as corporate and what expenses that are, you know, our first six months of the year that are in SG&A are more non-recurring and we won't be seen going forward.

Carl Smith: Well, Andrew, this is Carl. I can, you know, refer to the commentary I made on SG&A for the six month ending versus prior year. So, you know, last year, we had $100,000 gain in SG&A for IBF so you can back that out, you know, this year we had, and most recently this quarter, the $77,000 in non cash expenses associated with issue of stock options.

Now, I also highlighted about a $160 – $170,000 of additional year to date expenditures that, you know, I want to wrap around some advertising…

John McCann: Research development.

Carl Smith: … research development. Now I don't necessarily back those out to normalize an EBIDTA because, you know, some of those cost are going to be part of your strategy going forward to continue to build the brand and the business, however, you know, for the six – first six months of this year, I would say those are probably higher then normal spend rate on go forward basis.

John McCann: And then the other thing, is the EPA…

Andrew Shapiro: Right.

John McCann: … legal expense in the six months period. But the company before Andrew kind of operated as corporate car washes, MSP, MPD, Central Station. And so, when we look at it and we say, "OK, staff, corporate staff, accounting, myself and what not," that's down significantly where we've reinvested to your point where you don't see it is that we've reinvested in brand development research product development and advertising.

And as Carl mentioned, some of those, you wouldn't spend at the rate we're spending that. So, if you normalize those out, you would see it.

Andrew Shapiro: Because, you know, you guys got to stop the cash burn.

John McCann: Yes.

Andrew Shapiro: You can't even – we can even consider a right's offering in a manner to preserve the NOLs. You can't consider rights offering, until August of next year. So you're going to risk …

John McCann: Yes.

Andrew Shapiro: … you're going to risk the NOLs in a money race so then you might as well, and then, you know, there's no reason to deal with the 12 entities. You're going to risk your NOL on a money race, you don't get this – if you don't get the cash burned way down and way down soon.

John McCann: Agreed.

Andrew Shapiro: OK. Now, I have other questions but let me back out in the queue in case there was someone else. Come back to me though.

Operator: There are no – there are no further questions. But once again, that's star one if you'd like to ask a question.

And your next question comes on the line of Andrew Shapiro from Lawndale Capital Management. Your line is open.

Andrew Shapiro: Thanks. A few more follow ups. I think you already acknowledged that you were disappointed at the pace of licensing the Mace brand but I wanted to get a handle about, without sharing efforts like, you know, you're having this meeting or that meeting, what is the status and real tangible progress you've made in the area of licensing. Is it just secure outcomes or do have any and what is known as the Mace XPrint, you know, fingerprint device. Is there anything else that you guys have done on our marketing or someone else's marketing using our brand?

John McCann: There's nothing else on the market today. We have conversations with several companies and have had for a period of time.

Andrew Shapiro: Yes, well, I mean, if you have a deal and they haven't ruled it out, that's one thing but if you don't have a deal yet, the conversations stuff, you know, I'd rather have you under promise and over deliver. So, I'd rather wait until you get a deal.

John McCann: Correct.

Andrew Shapiro: The last quarter, you know, there was a lot of talk frankly since December about your partnership with secured outcomes and the roll out of the Mace XPrint and you have mentioned that this has not resulted in sales and revenue generation like you had anticipated, in fact, you had a distribution arrangement with them that has some sales targets which I'm assuming right now, you're not hitting or going to hit.

And so, what I'm trying to get a handle on, you've mentioned you've made some changes. And, you know, is this still a product that you're going to – you're going to ride with, you feel you're going to be making some sales. What are the tangible steps that you've taken to change this and you mentioned there's a delay in the government department going away but, is it a way now and is it or – is there still some hassle with Mace marketing this product into the governmental units?

John McCann: Andrew, we'll answer the second part first, as far as I am aware, it has been cleared up.

Andrew Shapiro: OK.

John McCann: The problem was is that we went to bid, stop signs came up on different entities because I don't know if it's a flip of a switch Andrew or if it's a Web site that didn't link to, you know, the suspension page to get us off (Sam), as they call it.

Now those, as far as I know have been cleared because we're actively hitting not just XPrint but on all government opportunities for sale of products whether it be our surveillance type or et cetera. With secure outcome, it's a work in progress. I'm just disappointed because the gentlemen that we had working with it, we had as he would tell me a lot of leads, I look for leads to turn into sales and it did not happen, we have worked on joint marketing with the product with the Mace brand with secure outcomes and it has not happen.

And consequently, (Air Crawford) is the BPS sales in the division has brought on Doug and Doug is now met with Jack Harper and Secure Outcomes to further solidify how do we go – what are we doing wrong? What do we have to change to go to market and then some of that, I think is a work in progress as we speak.

Andrew Shapiro: OK. And, but there's no extension of the exclusivity part or the sales threshold deadlines, you know, is there?

John McCann: No, no. Jack and I probably – Jack and I need to sit down and discuss like the next step in what's been good, what's been bad. Jack has been here with, as you know, Mr. (Berone) and we have met and discussed and (inaudible)…

Andrew Shapiro: OK, we can talk with you offline and creative ideas to try, you know, get that going. All right. And then in light of, you know, your move, this quarter, this is Q3, this is the move, you guys have said in the past that this is going to be the quarter where you have redundancies, that you're not yet out of Vermont but you'd be up and running at some point here in Cleveland and they would all take place in Q3 and by the end of the Q3 that the only one facility and one set of overhead running.

Are you still on schedule for all of that to be in place as of the end of September?

John McCann: Yes, totally, our goal is that we're – the machines are here the week at September 28th, they're up and running and we're producing and there might be a little bit of redundancies through the beginning part of October but this facility will be the facility.

Andrew Shapiro: OK. And…

John McCann: (Inaudible).

Andrew Shapiro: And do you have any kind of – you must've had an internal estimate for the proposal. It's not just like, you know, throwing something up on the wall and saying, "We know it's going to – and then we know it's going to save money but we don't have a real handle on how much. I know you guys have some handle on how much.

You're going to be spending a bunch of money in this current quarter, in redundancies, that won't be spent next quarter. Can you give us a little quantification or a range as to what kind of costs in our current quarter we're going to be able to assume won't be there in Q4?

John McCann: Well, just – the easiest example and it's on the conservative side, if you look at (rent), for example, right? So, (rent), on an annualized basis, we are looking for $150,000 to $200,000 pickup year on year.

Because, once again, if you go backwards in time, Florida, Vermont, (Horsham), plus outside storage facilities that have been – have merged in to where storage facilities were not paying for, corporate headquarters that were not paying for it today will merge that all down into one facility at a – how's the easiest way to say it – at a gross rate, significantly reduced all versus all of our other rates, right?

So, we're at least 75 to a $1 below the rate that we're paying per square foot everywhere else. So, you've reduced your amount of buildings and then you made your one building more efficient.

Andrew Shapiro: OK…

John McCann: And that's just on that side. The other estimates that – are too early to share but we have – you know, we look at the efficiency of manufacturing and processing of manufacturing and then actually the people cost with manufacturing, can we do it more effectively and efficiently, because in our current facility, we use elevators to move products between floors and we manufacture on several floors.

So, to my point earlier, Henry Ford would've had a heart attack.

Andrew Shapiro: Right. So, is there any thought that if you said under our current unit volume rate, we think this is going to be $60,000 or $20,000 a month kind of savings in cost of goods, you have any deal under the current…

John McCann: Not at this time but (inaudible) we have some estimates and are head on a percentage side. And that percentage side, it could be easily from 10 to 25 percent…

Andrew Shapiro: OK.

John McCann: … savings.

Andrew Shapiro: On the cost – on the variable cost, whatever.

John McCann: Yes.

Andrew Shapiro: All right. And then what's the status on Arlington in getting rid of that parcel?

John McCann: Well, that's the last thing. We are – we have a plan that as soon as we have some success with it, we'll announce it. We're working on aggressively to move the parcel.

Andrew Shapiro: Right. I don't now if it's much…

John McCann: But I think it's going to be a different type of attack we need to take.

Andrew Shapiro: OK. And then with respect to acquisition, acquire of accounts, and or other monitoring situations, you mentioned, I think, that the account numbers are the same still, and that they hadn't fallen off but they also haven't grown, and also the dealer size on the monitoring side. It's just been…

John McCann: Correct.

Andrew Shapiro: …flattish?

John McCann: Right. So, we're still about, you know, a little under 500 dealers. We're still in about 72,000 monitored accounts. Unfortunately, like I had mentioned before, health care cost and then maintaining a CSA – sorry, a five star, U.L., ETL station, some of our employee cost are up.

We are, you know, in the quarter, versus the first quarter, there's some positive trends in some of the thing we're doing but the biggest disappointment, especially in that segmentation, is the health care cost, they are out of line.

Andrew Shapiro: Right. So – but this is a heavily fragmented business, a lot of it is Mom and Pop. And a lot of Mom and Pops are just sitting there, relying on the cash flows, it's nice RMR, and that's one reason it was said that you guys couldn't go easily acquire others.

If we're experiencing these situations that you're describing, they're not unique to us. That's got to be impacting, you know, (Joe) monitoring and (Mom) monitoring themselves. So, are they seeing it? And as a result of them seeing it, are you seeing increased acquisition opportunities to synergize and bring accounts into our underutilized capacity facility?

John McCann: That's an excellent point. And yes, we're in conversations, you know, as your point earlier, yes, I'd rather, under promise and over deliver but we're in conversations with similar types of situations that could fit strategically.

The other thing I can tell you, we're thinking of different attack on the sale side, more of a direct. We're reaching out as we see opportunities, for example, Monitronics had just made, you know, an acquisition of another monitoring center.

Well, before all those guys flip over, we put together a direct piece and we've taken some of our dealer carrier folks and made them inside sales people, calling some of these known alarm dealers and saying, "Hey, you know, look at us before you have to sign that paperwork saying that you're going from X, Y, Z, monitor and come to the X, Y, Z company because you might like what we have to offer."

And as that last piece in the – my slideshow. And I can send that out as a PDF separate because I think the guys did a really nice job of why Mace Monitoring versus some of the competition and…

Andrew Shapiro: I think you can put that on your Web site.

John McCann: Pardon me?

Andrew Shapiro: You put up in your Web site, no?

John McCann: Yes.

Andrew Shapiro: Yes. OK.

John McCann: But it's a little hard to read in a PowerPoint. But there's a nice piece (inaudible) gone direct, you know, either via e-mail or direct mail to many dealers and centers.

Andrew Shapiro: OK. I think that's it for my questions for, you know, this quarter. Obviously, you know, you're running out of time to get from your current burn rate to cash flow positive and you're going to have to get I guess, the (tactile) division in one of these bigger contracts in motion, and they take several months or quarters.

John McCann: We're very aware of the burn rate and we are working hard on what you had said.

Andrew Shapiro: Yes, great. Thank you.

John McCann: OK. Thank you.

Operator: And your next question comes from the line of Thurman Willis, a private investor. Your line is open.

Thurman Willis: John, give me a take on – there's two ways to approach the NOLs. We can try to cut our sales – cut calls in the profitability and while I fully agree that we got to, you know, stop the burn rate or have the potential NOL issue in this environment that we're in today.

With the things that are occurring in our society, it appears to me that there are greater opportunities coming in from another door with your increasing sales. And I know that there are several retailers that, you know, where they're prime supplier of, you know, of security equipment, and surely, you got to have, again, in this environment, the potential to dramatically increase sales which would protect the NOLs, and, you know, we can grow profits or increase sales or we can cut – but we can just cut so far.

And I think you've said you're going to be able to cut most of it out by the end of third quarter. But are we having conversations with and are there situations that could say increase sales 20, 30, 40 percent, you know, very quickly with some large retailers now that you're through the EPA, the government, (prevalent), et cetera, et cetera, et cetera?

John McCann: So, you make two points and the first one is we are working hard on some major activity on the sale side because I do believe what we need is revenue generation. On the second point, we do have to be strategic in our spending as well as efficiencies. We have to build up efficiencies to eliminate the cash burn.

What I can say without saying directly, we have had very good meetings that could lead to, as what Andrew said, into significant sales revenue growth. And we're bullish on the fact that we can do that but at the same time we are very cognizant of the fact that we do have to protect our cash and we have to be strategic.

So, to your point, you can't cut yourself to grow, Thurman, and I get that. But you can be strategic with the use of capital.

Thurman Willis: Well, I agree with that. My main point is, you guys to me are in a perfect environment to increase those sales now that the EPA is no longer – and – while I know that it may take a month or so or whatever, if EPA is now cleared, you know, we can always, probably, the company, go in and, you know, undercut supplies, et cetera.

And if – I would take it that you're talking to potential governmental entities or whatever. We're basically the $12 million (runway) that we could see that increase 20, 30, 40, 50 percent if certain things happen. I'm not saying you're promising that but we have the potential for that in this environment.

John McCann: Yes. We have a – the company has tremendous upside, right? There's just tremendous upside and we're well – we're not positioned exactly the way we need to be but within a couple of months we will be positioned in the fashion we need to be. And (Aergo), we can and will take advantage of all opportunities.

And I look at all opportunities, not just on the military, the government side, Thurman, but on the retail side. There's still a lot of virgin ground that can be covered with integrated security solutions at traditional retailers.

Thurman Willis: Thank you. I just think the opportunity for sales growth for this company – I mean I can understand why it can't double almost overnight once you get your sales consolidated into a better company to deliver product, et cetera, with all the opportunities out there, especially now with the new products, like your gun, it's shoots 25 and you talk about one that shoots 35 feet.

Because again, when people think of Mace, they think of a lady carrying a little pink squirt gun that squirts 2 or 3 feet. And we have products now that are much more exciting that I don't think the public knows about that I think could generate price appreciation on our stock. And if our stock price appreciates, Mr. Shapiro's point, you know, we can use that currency as a consolidation and, you know, take over some of our competitors.

And so – anyway, I would encourage you on the education side also.

John McCann: No, absolutely. And we're continuing the education side of it. I just want to point out one misnomer, Thurman, that our pink unit, although it might look pretty, is bad ass. Our pink unit shoots over 12 feet.

(Inaudible). The O.C. in that pink unit is as long as any other units.

Thurman Willis: No, I'm (inaudible).

John McCann: Yes, but like – you make a great point. I'm not arguing. What I'm saying is that's part of the education process. I can take a police officer with a pit bull and give him the pink unit and he can take down a would-be assailant as easy as he can with our gel product.

So, that's on that, that we stress even with retailers. Just because it looks cute, it doesn't mean it doesn't work.

Thurman Willis: I'm with you.

John McCann: All right. Well, thank you (inaudible).

Operator: And your…

John McCann: All right, (Rachel), I think we're set.

Operator: You have another question from Andrew Shapiro. Your line is open.

Andrew Shapiro: Hi. I'm sorry, I had a follow up based on the conversation – the question Thurman had and all because I didn't want to disavow any, you know, any perception that all we want is see cost cuts. We want to see the burn rate come down. We think the only way – the main way you're going to do it is you got to have sales execution in that's an all three segments, and you have two segments that are really, aren't doing it for you and the consumers doing it, but it's still from a small base.

But in terms of bulk sales to a vendor, and more importantly, the idea that you've talked about a drop in Mace down on bad guys, there was discussion under prior management then you guys were approached by a vendor who is building the system to drop Mace down on pirates who would be attempting to – (force entry) on the ships.

And I was just wondering if that initiative in that discussion, if the ball got dropped at all or what happened on that because I would think the piracy issue is still there and because you're now thinking of dropping Mace down from the roots of – in a security integrated systems, not Mace doing it, but selling it to integrators who are doing that that the concept of dropping Mace down in bulk on those who are trying to, you know, gain forcible entry into buildings or ships is still a viable market, and one for bulk sales.

Do you know what happened with that initiative, John, or if that's died or the ball has been dropped and we need to find a way of reconnecting?

John McCann: Yes. So, it's an excellent point, ship – ship board defense system, this gentleman by the name of (Don West). We are in constant communication with (Don). He did have some ideas that were not implementable, but I'm actually watching a video that he just sent of another application that we think could have some viability.

So, it is – it's an ongoing, the Shipboard Defense on the marine side was maybe a bit of a stretch. But taking that product and possibly repurposing it, and I think last communications were (8/13), you know, so July 23rd (8/13) we've had communication. So it is ongoing.

Andrew Shapiro: Is the implementation thing, the issue is that you're on a boat, you're out of sea, and as you're trying to dispense Mace from above, it blows away and you can't have a vertical enough stream to keep these guys off the ship?

John McCann: Well, it's twofold. It can blow away or it can blow back on you.

Andrew Shapiro: Yes. OK. So it was the idea that it blows, all right.

John McCann: Yes, the idea that it blows and (inaudible) the water could dissipate it quite a bit. And like if you look at gel, you look at some other things, you look at some strategic implementations, idea, you know, the sound idea but then you really needed to do some other things to make it work.

Andrew Shapiro: OK. But at least – and, you know, it wasn't a ball dropped and it's in progress or being refined, one way or the other. That's it. Thanks.

John McCann: OK. Thanks. All right, (Rachel), thank you very much.

Operator: You're welcome. And there are no further questions at this time.

John McCann: OK. Well, thank you, everybody. And I think we discussed a lot and we know at the management there's a lot of work to do. But as Mr. Willis and Mr. Shapiro said, there is a lot of good things that has to happen and that sales execution and implementation is number one. And that's well received.

Thanks.

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

END