MACE SECURITY INTERNATIONAL INC.

Moderator: John McCann
May 17, 2017
11:00 a.m. ET

Operator: This is conference # 23774538.

Good morning. My name is Michelle, and I will be your conference operator today. At this time, I would like to welcome everyone to the First Quarter 2017 Financial Results Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be 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. At Q&A time we ask that you limit your questions to one, and then push star one to re-enter the queue. Thank you.

I would now like to turn the call over to Mr. John McCann, President and CEO. Please go ahead.

John J. McCann: Thank you very much, Michelle. Thank you for joining the call today. Please visit corp.mace.com, investor relations transcripts & presentations as we uploaded PowerPoint presentation detailing the first quarter results for the period ending March 31, 2017.

Now I'd like to turn the call over to Carl Smith, our CFO, to read our forward-looking statement and go over the first quarter results.

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

Such statements are subjected to certain risks, known and unknown, and uncertainties including, but not limited to, economic conditions, limit of capital resources and the ability of management to effectively manage the business and integrate acquired businesses. Such factors could materially adversely affect Mace's financial performance. It could cause Mace's actual results for the future periods to differ materially from any opinions or statements expressed during this call.

I will now comment on our first quarter financial results. After I'm finished, I'll turn the call over to John McCann, our CEO, who will go over his presentation, which is available, like he said, on mace.com. We will then open the line for questions.

First quarter net sales were $1,710,000 compared to $2,079,000 last year, a decrease of $369,000 or 17.7 percent. The majority of the decrease in the quarter is attributed to a sales decline through our international channel. Sales through this channel totaled $123,000 compared to $369,000 last year, a decrease of $246,000 or 66.7 percent. This decline is attributed to an unusually strong quarter last year as demand for pepper spray products from our European customers was high due to consumer demand driven by incidences in Germany and other European countries.

Consumer and sporting channel net sales for the first quarter totaled $1,337,000 compared to $1,534,000 last year, a decrease of $197,000 or 12.9 percent. John McCann will expand on this later on his presentation.

Tactical channel net sales totaled $127,000 for the quarter compared to $102,000 last year, an increase of $25,000 or 24.5 percent.

Other channels, including web, totaled $70,000 compared to $74,000 last year, a decrease of $4,000 or 5.4 percent. Sales to customers newly acquired through our acquisition of Washington Labs totaled $53,000 as we began shipping to these customers late in March and had about a week's worth of shipping in the quarter.

Breaking the sales down by product category for the first quarter. Sales of personal protection aerosol products or pepper spray totaled $1,555,000 compared to $1,891,000, a decrease of $336,000 or 18 percent. And this decrease is directly tied to the decrease in international and sporting channel sales.

Personal protection non-aerosol, which includes Mace stun guns and Mace Alert 911, totaled $97,000 compared to $102,000 for the first quarter last year, a decrease of $5,000.

Sales of TG Guard systems and components totaled $57,000 for the quarter compared to $40,000 last year, a 42.5 percent increase.

Sales of law enforcement or TakeDown branded products were $48,000 for the quarter compared to $70,000 last year, and this decrease is also attributed to the decline in international quarter-on-quarter.

All other product categories, which includes door jammers, wireless home alarm systems, Nite Beams branded products totaled $41,000 for the first quarter compared to $66,000 in the first quarter last year.

Moving on to gross profit. Gross profit for the first quarter 2017 totaled $674,000 with a 39.4 percent gross margin compared to $817,000 and comparable margin of 39.3 percent, a decrease of $143,000 or 17.5 percent. The decrease in gross profit dollars is attributed to the $369,000 decrease in sales, and margins, like I said, are comparable quarter-to-quarter.

SG&A expenses for the first quarter ended March 31 were $964,000 or 56.4 percent of revenues compared to $972,000 or 46.8 percent of revenues in

2016, an $8,000 improvement for the quarter. Salaries and related employee benefit expenses increased $36,000 for the quarter compared to last year due to the hiring of additional sales personnel, and this increase was offset by a $31,000 decrease in legal and other professional service expenses. In addition, commission expense decreased $27,000 due to lower net sales.

Operating loss for the first quarter 2017 totaled $331,000 compared to a loss of $193,000 in the first quarter of 2016, a decrease of $138,000, is attributed to the decrease in the sales for the quarter.

Interest expense was $5,000 compared to $10,000 in the prior quarter. Interest income for the quarter was $29,000 compared to $37,000 last year and represents interest income on notes related to the sale of the surveillance business and security monitoring business. And the decrease is attributed to the payoff in July of 2016 of a $250,000 note, which we are no longer collecting interest on.

Loss on the sale of short-term investments totaled $12,000, and we had $5,000 in income from discontinued operations reported in the quarter last year. As a result, the company reported net loss of $319,000 for the quarter compared to $161,000 loss in 2016. EBITDA for the quarter was a negative $302,000 compared to negative EBITDA of $150,000 in 2016.

I'll now turn my comments to some balance sheet items. The company's net book value was $8.9 million compared to $8.8 million at December 31, 2016. Mace had $10.7 million in total assets compared to $9.6 million at December 31, 2016. Cash and short-term investments decreased $1.7 million as the company funded the purchase of Washington Labs using approximately a little bit over $2 million in the acquisition. Inventories at March 31, 2017, totaled $1,961,000 compared to $1,568,000, with the increase coming mostly from the acquisition of Washington Labs, which contributed about $300,000 in inventory.

The company recorded $2,654,000 in goodwill related to the acquisition of Washington Labs. This amount will be adjusted in the future as we await the completion of an intangible asset valuation that we have going on currently.

Total liabilities at March 31, 2017, were $1,719,000 compared to $776,000 at year-end, and the increase is mainly attributed to the $1 million note we used to acquire Washington Labs.

We have positive working capital of approximately $4.4 million and a current ratio of 5.9. Net operating losses at March 31 were approximately $60 million, with $1.1 million expiring in 2018; we have $4.5 million expiring in 2019 and $3.2 million expiring in 2020; and the last NOL, expiring in the year 2036.

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

John J. McCann: Thanks, Carl. So I advise everybody, again, that we have a PowerPoint presentation on the mace.com website under Investor Relations and presentations. I won't go through the presentation but it's available to show the progress of the company in the quarter and the year.

So a disappointing quarter and year so far. We attribute, as Carl had mentioned, to the gradual drop-off of international sales in Western Europe due to the uncertainty of legislation in Germany. The German government vacillated on legislation on the restriction of the sales of OC and the importation of OC into the German market, which resulted in oversupply of products and confusion amongst key distributors, retailers in the German market, which spilled over into most of Western Europe.

2016 was a high watermark for sales in Western Europe, and now the market has flattened out quite a bit, but we're continuing to see progress in other markets. During the second half of the year, we anticipate being in a position to announce some exciting international opportunities for the company. We have seen orders increase from our partners in Asia, Poland, Italy and South America so we will continue to push the Mace brand worldwide. We are -- we have, in the first quarter, shipped some products to Germany but not in the scale that we did a year ago due to the immigration crisis.

Additionally, the acquisition of Washington Labs to the Mace family will add to our international reach as we will gain a foothold in Canada with bear spray and several other exciting products and opportunities.

The second major disappointment in the quarter revenue numbers is the sporting goods channel. Due to a very soft fourth quarter, many regional and national chains filed for bankruptcy in the first quarter of 2017. The good news for Mace is that we did not take any financial hits due to these bankruptcies, but we did see less orders and needs as many regional accounts went out of business or ceased to exist. Our major partners, we actually grew in terms of sales, so this is a very positive sign for the balance of the year.

Our consumer division was down slightly, mostly due to timing of orders as many retailers were being cautious due to soft sales and low foot traffic during the Christmas period that spilled over into the first quarter. We have seen an uptick in April, and we expect to see growth overall in this channel for the year.

Our web channel, as Carl had mentioned earlier, was slightly down, but our traffic on the site continues to be strong. We are very conscious to balance sales and education as it's important for us to educate our consumers not to compete against our retail partners. So on the Mace website, we typically do not discount. We offer bundled packs, we offer special promotions, but we try not to discount to make sure that our price is above that of our retail partners.

On a high note, our Tactical Division grew as we partnered with more departments and agencies to provide products, especially on the defense spray side. We anticipate continuing this product trend for the balance of the year. We are successfully launching new products in the category, which is in the presentation, batons, handcuffs and a couple of other items in the category, which have been received very favorably from our partners.

Additionally, in the quarter, we've added 50 new accounts, and we laid them out by channel in the PowerPoint presentation. This includes Washington Labs. So the split is about 50 percent organic growth and 50 percent through acquisition. As I stated above, the acquisition comes with benefit of these accounts, plus the international expansion with EPA-approved animal repellent product registrations, both for the U.S. and Canada. We anticipate more good news on this front in the near term.

Additionally, on Tactical, we're still at a stalemate with the production and distribution of munitions as we are experiencing delays, so we're working on alternatives and other partners. We will release more information as soon as possible. But right now, we do not anticipate launching munitions in 2017.

A little comment on Washington Labs, as we announced and discussed prior, we successfully acquired and integrated Washington Labs into Mace. All production, sales, marketing and distribution is being handled out of our 4400 Carnegie location. The acquisition should be a tremendous benefit to the company long term, and here's just a couple of reasons why: New customers, as I stated above, both domestic and international. We have a foothold now in Canada through the acquisition; EPA registrations for animal repellents, which we didn't have prior; filling equipment, which will help us with capacity and efficiencies in production; new formulas. We have jointly developed some new formulations and products which we will launch in 2017. And additionally, the Guard Alaska brand, which is a well-respected brand of bear spray in the marketplace, that we will own the Guard Alaska brand now in the market.

As Carl mentioned in his analysis, we did successfully ship $50,000 in the first quarter. We closed on 3/22, so we did a great job of closing and also fulfilling orders and shipping to our customers as we integrated our operations.

Additionally, with the Washington Labs business, we hired 4 new employees to help us with the growth: 2 of the employees were Washington Labs employees; 1 of them is the son of the former owner of Washington Labs, and they have integrated themselves very well into Mace and are a welcome addition to our teams.

We also have hired John McVay to run the Washington Labs operations. John has an extensive experience in operations, production sales, marketing and procurement. John has already made a very positive impact on the company and has taken over the leadership of this division very nicely and integrated himself into the Mace family.

Additionally, not related to the acquisition, we hired Kimberly Moss to our sales team to solidify our e-commerce strategy and help increase our sales and support consumer channels. Kim worked formerly for InterDesign, which is a leading manufacturer in the consumer products industry. Kimberly has already opened Zulily and many other accounts and put together a comprehensive e-com strategy in order for us to continue to benefit from the growth from Amazon and other e-retailers as they pop up.

And as our press release indicated, due to the size -- due to the success of acquiring and integrating Washington Labs, we have retained Carleton McKenna to help the company explore any and all opportunities which may present itself to the company.

Carleton McKenna assisted Mace by providing an independent review of our due diligence of Washington Labs. They also provided the analysis and the short-term and long-term benefits of the acquisition. With insight -- with this insight and knowledge, it made sense for Mace to retain Carleton McKenna & Company to make sure we are maximizing our value to our shareholders and our customers.

Also on the same note, we have a commitment letter from Chemical Bank for a working capital line of credit. It is important to note, the terms of the note are very competitive, we actually had several banks willing to bid and work with Mace. So it's a nice position for the company to be in versus prior situations that the company had found itself in.

Lastly, a couple of notes and comments. The company attended the Planet Hollywood MicroCap Investor Conference. The company was very well-received. The room was full when I made my presentation. And I had many productive one-on-one meetings that I hope will bear fruit in the near-term future.

The company is scheduled to present at the B. Riley Investor Conference in Santa Monica on May 25. We will present May 25 at 9:30 a.m., and I already have a significant amount of one-on-one conferences lined up.

We've also beefed up our social media awareness to help drive the message of Mace brand as empowerment and the best solution for personal offense and security. In the PowerPoint presentation, there are several slides, both Twitter, Instagram, Facebook and SnapChat, making sure that we get the imagery and the feel of the brand out to consumers as a way of communication, as communication in general changes from traditional media to more social and e-com media strategies.

We have placed Mace 911 at several retail outlets, but, thus far, the POS sales, the sell-through at retail has been soft. But we're continuing to work with our retail product partners on messaging and position within the account. A lot of the accounts, we have the product placed in a pharmacy set because they have high traffic and they also have a late period so it gives us a chance to educate the consumer on the features and benefits of the product versus some of the other products on the marketplace.

We are adjusting our product lineup of LED products, as Carl mentioned, in our Nite Beams line of products, and we're in a position to announce this in the back half of the year. We're excited about the direction we're going and some of the placement we anticipate getting. So there'll be more news to come on that in the future.

As we stated in the fourth quarter, we did launch our personal alarms in Q1. We have them placed in several retailers. The POS sales on these products seem to be very strong. We have Vigilant as an online partner promoting the

Mace brand of personal alarms on his website and many other websites. And we're continuing to see an uptick in the movement in the sales of these products. And we do know we have some good news we can announce later in the year with regard to placement of these products at significant retail accounts.

Commenting on a couple of our partnerships. Our partnership with Select Security, the Mace Home Security Solution has not yet launched, but in speaking with our partners, they are closer to the right products and manager to launch this opportunity successfully. More news to come as they finalize the program and they finalize the amount of products and capital that they'll be spending in order to initiate this great opportunity.

Our partnership with SecureCheck has been slow to materialize, but again, we anticipate the long-term benefit to the company as SecureCheck expands their distribution and assortments beyond the customers that they bought from us.

We are working at several other partnerships. And as we close these opportunities, we will make sure all shareholders are aware of the relationships in the programs.

Just a comment on future, looking a little bit. April results are much better than a year ago. We anticipate having a great year based on what we're seeing in April and May. The first quarter in our minds was somewhat of an anomaly with the consolidation of the sporting goods industry faster than anybody had anticipated, and also, the backup due to some legislation oversight in Europe that led to some of the slowdown in OC sales, especially through Germany to some of the other Western European countries.

We did use cash to fund the acquisition and took a minor amount of debt, so know we have the potential of working capital line as it benefits the company, insure we can fund future growth and opportunities.

So once again, I want to thank everyone for their time and participation. The management team is very bullish about Mace in 2017. We believe the first quarter's an anomaly due to the slowdown in international sales and also the quicker anticipation -- anticipated consolidation of the sporting goods channel. Our acquisition and also our organic work should benefit the company in the short term and long term.

We've partnered with Carleton McKenna to facilitate those future opportunities for the company, and with Chemical Bank, to ensure we can fund our growth and development.

Thanks, again. And with the remaining time, we can take questions. As we only have 1 hour allotted for the conference call, so we -- so I'll turn it back over to Michelle so she can take the first person in the queue in order to start the question-and-answer period.

Operator: OK, at this time I would like to remind anyone who would like to ask a question to please press star one on your telephone keypad. That is star one on your telephone keypad. Again, we will remind everyone to just ask one question, and then get back in the queue. Your first question comes from Andrew Shapiro from Lawndale, your line is open.

Andrew Evan Shapiro: I have a few questions here related to the Washington Labs acquisition, to get things clarified. So has the entire Washington Labs purchase price been accounted for within the March financials? And then can you clarify the fact that there is some earnout or contingencies on the purchase to know if it is a clawback that would reduce the stated purchase price or it would be incremental to what we see on the March financial statement?

Carl Smith: OK. So yes. So the answer to your first part of your question, the entire purchase price is reflected in the first quarter. The notes in the financial statements indicate total purchase price of $3.4 million. Like I mentioned in my analysis, the goodwill is $2,654,000, and we have a firm doing some valuation of trademark EPA licenses, customer relationships, which would be an adjustment to the goodwill. There is a working capital adjustment that we will compute. We have 120 days after close to do that. And basically, if you take a look at the working capital that was in place upon the valuation of the business and then 120 days post that, look to make sure that the receivables were good receivables and based on our due diligence and valuation on the front end, we see very little working capital adjustment coming out of there. And then the inventory was the bigger piece of which we're still under evaluation. So at this point in time, I don't anticipate any material adjustments to the purchase price.

John McCann: Right. And the only other comment on that, Andrew, there's a clawback in case the sales don't hit the specified areas. So we have a table to monitor that. It's a -- we budgeted everything off of the 2016 results of Washington Labs. And there's a potential that if we don't hit the numbers that we put together, that up to, I would say, less than 10 percent, we could claw back.

Operator: And your next question comes from [Thurman Willis], private investor.

Thurman Willis: There was a letter that was written by the Chairman about 90 days ago, that expressed tremendous opportunities in all aspects of growth in revenue. And then, John, thoroughly reviewed your presentation, and I see that you're projecting a nice increase in sales and profit. My question is can you be more specific about how you and the board feel relative to this growth and the projections for the year?

John J. McCann: OK. Thanks, [Thurman]. So in our budgeting process, given everything that we knew, we knew that the first quarter was going to be one of the toughest quarters we were going to experience because we weren't in a position to close Washington Labs for several reasons, until late in March. Two, we knew international sales and the sporting goods channel were going to go through some gyrations that we were going to have to work through. But on the growth side, we feel very strongly with the product assortments that we have today and the product assortments we're working on, and the full integration of Washington Labs, that this will be a banner year for Mace in 2017. So in my investor conferences, we have another deck and that's available on our website also. And you can see that we've put together a full year projection based on what everything we know and based on the integration of Washington Labs. So thank you, Thurman .

Operator: Your next question comes from Ken Fell from Fell Capital Management.

Kenneth Fell: Appreciate the call. A lot of great information here. I guess my question -- one of my questions is with the strategic opportunities with the partner which -- the investment banking firm that you partnered with, John, you emphasized any and all as possibilities? Does that also include maybe the sale of Mace, a part of it or all of it?

John J. McCann: Right. I'd be speaking out of turn because basically, with Carleton McKenna, what we're looking at is the strategic long-term for the company to look at it. The real basis for us is this dynamic integration that we're able to do, both -- once we close the deal, we integrate the company simultaneously as the shipping customer. So because of the trust we've built with the former owner of Washington Labs, he actually moved his equipment up before we closed the deal. And then with having that outside counsel to speed us through the process of closing, making sure that we accounted for everything, we felt that it was important to retain them to look at all the opportunities. And what all the opportunities are, I think that would be up to the board. But I think on a strategic side, they're a great partner to have for us because we have limited resources here. We all do multiple jobs. And then being able to respond to the market, I think is critical. But thank you very much for the question.

Operator: Your next question comes from Don McDonald from Consilium Global.

Donald Thomas McDonald: My question is going forward, what would you say is the major driver for the top line growth going forward? And also, if you can talk about margin expansion.

John J. McCann: Sure. There's 2 things on the margin expansion. We're going to see more efficiencies from our operations, especially with the integration of Washington Labs, and some of the things that we had done prior. There's some fall-off of costs, if you would, amortization costs that we'll see on our cost of goods side. So we're pretty excited about that. Plus, as I mentioned, the integration will allow us to be more dynamic on some of our pricing matrices that we do with retailers. The second part of it is twofold. The growth, we think will really come from our consumer channels and also, from our law enforcement channels. I think we're well-positioned, both promotionally and in line with some key, key retailers in the near term to do some dynamic things. So we're very excited. And the last thing I would add is that, not to undersell this animal repellent line. There's a huge opportunity for growth, and we're very well-positioned, both for the back half of 2017 and really 2018 to become a player in the bear spray and the animal repellent sectors, which have a high growth. If you read The Washington Journal, I think last week or the other day, South Carolina, bear issues; Arizona, there's coyote issues. Bear issues constantly are in the minds of all of our Canadian partners. And so now with the Washington Labs integration, we have 2 great partners in Canada that will allow us both to deliver products to Western and Eastern Canada, effectively and efficiently.

Operator: Your next question comes, again, from Andrew Shapiro from Lawndale Capital.

Andrew Shapiro: I had the moderator cut me off. I had not finished my examination on the Washington Labs when you said that there is a clawback feature should certain sales figures not be achieved. Where does that clawback come? Would that be a reduction of the note, the seller note? Or is it in some other form or fashion in terms of the consideration that was provided?

Carl Smith: In the seller note, Andrew. It would come out as a reduction in the principle of the note.

Andrew Evan Shapiro: OK. Now you talked about the significant overhead and manufacturing costs of Washington Labs that you have or will eliminate. Can you quantify that in some way? And what I mean by that is, is in your financial statements, you have a footnote that shows what the estimates for net income would have been, had the acquisition been completed a year earlier. And I believe all that does is consolidate the financials as of the time. And thus, the costs and expenses that were in Washington Labs would be built into that pro forma financial number. So I'm trying to understand as if the acquisition had been consummated last year what indeed are the overhead, the manufacturing costs taken out so I could get a feel for what we think the bottom line positive impact of this acquisition could be?

Carl Smith: Well, because we integrated it into the 4400 Carnegie, so all fixed costs that Washington Labs has basically gets eliminated. With rent of excess of $60,000 a year being the biggest component there, the variable workforce that they had over there, we'll bring that in and man the operation with equivalent FTEs. But the fixed costs that they had in that facility will get eliminated with the rent being the biggest piece. And then what that does for us is basically, we're almost, not doubling, but increasing our capacity in absorbing our fixed overhead with Washington Labs' production, therefore, improving the margins on our products as well.

Operator: Your next question comes from [Thurman Willis], private investor.

Thurman Willis: This question has to do with marketing and education. I wonder specifically, again, John, what we plan to do to increase marketability that ties to naturally sales revenues, profits, so that we can see some liquidity in the stock and that we can see a true market value of the stock. So again, specifically, what are your plans to take action on what has been very poor marketability?

John J. McCann: So a couple of things, [Thurman] and I hope this answers your question. Obviously, we did the Planet Hollywood MicroCap event. We're planning the B. Riley event. Then we're looking at a couple of more events later in the year, depending on the results of the B. Riley event. Then also working with Carleton McKenna on ideas and strategies, we hope that, that in itself will help raise some of the company's awareness. And then as we go through the year with some of the plans and launches that we have set up with our retail and law-enforcement customers, that we will see an uptick from that side, too.

Operator: Your next question comes from Ken Fell from Fell Capital Management.

Kenneth Fell: Question relating to Washington Labs purchase. In your financials, you state the total purchase price is $3,418,000. I was wondering what would be the quantity, what's the number for legal, accounting, maybe commission expense as part of that? What -- how much is included in there?

John McCann: Well, there's no commission expense. So on the legal and accounting side, we did all the accounting internally and the legal side is very little.

Operator: Your next question comes again from Andrew Shapiro from Lawndale Capital.

Carl R Smith: Moderator, if you could allow Andrew to finish his follow-up around the question, that'd be great.

Operator: OK.

Andrew Evan Shapiro: Yes, I'm trying just get to this Washington Labs and then I'll back out and we can move to a different topic, but this is ridiculous. So now, when will these -- so we've been eliminating -- you guys said, you're eliminating the costs of when we brought it all in. So am I clear to understand that the financial results for the quarter ended June, the one we're in now, from at least an overhead costs and not from a revenue growth aspect yet, but from an overhead costs, the absorption of Washington Labs and the bottom line impact of Washington Labs will be fully seen in the quarter ended June? Or is it going to end up being September or a later quarter? Not counting the revenue growth.

Carl R. Smith: So right now, they're fully integrated within our organization. We've incurred, if you will, any building improvements and revisions that we need to do within the organization in the first and second quarters. So there's a little bit of expense on some of its capital in the second quarter. At this point in time, I don't see any costs or expenses affiliated with the integration going beyond the second quarter.

John J. McCann: There might be some additional capital expenses beyond the second quarter depending on some opportunities if we're able to take advantage of them, further automation and et cetera. But to Carl's point, you would say, 85 percent to 95 percent fully integrated by the end of the second quarter period. And depending on opportunities, we might do a couple of other things which would benefit the entire company, not just specifically the Washington Labs business.

Andrew Evan Shapiro: Right. And key-ing on that, has this acquisition shifted your focus at all when looking at new acquisitions in terms of size, scope, markets? Can you elaborate further on what Mace is looking for in terms of new acquisitions that -- similar to what you did in your Planet Hollywood slideshow? And I'm not sure it was in the slide presentation for this conference call.

John J. McCann: So it's a very good point. Thanks, Andrew. It's a couple of things, I would say. So first, with small dynamic staff, we were able to integrate this. Now mind you, it did take a long time to get to the close. So we worked on a close -- we worked on closing this for probably 22 to 24 months, some of it due to unforeseen circumstances, illness, sickness, surgeries and et cetera. But once we got to the finish line, we were able to close very dynamically. So what it did do? It opened our eyes to say that the infrastructure we've built, the staff that we have, we can integrate companies within the personal safety, personal defense, personal security world very dynamically. Looking at it deeper, you say what -- with this Washington Labs brand, it's just not a consumer business that they bring to us. It brings us a law enforcement business. It's brings us an international business, a consumer business. And then it also -- it gives us an opportunity to have some brand names, dual brand strategies, triple brand strategies at different accounts. So when we look at acquisitions, now we look at potentials, we look at anything in the $3 million to $5 million range that fits within this world, either consumer products, law-enforcement products, then also fits in within the world of safety, security, personal defense. So really, for me, it was a big catch for the company because we acquired a company that was doing 25 percent to 30 percent of our current sales. We integrated it. We are working with these new customers like they're old customers. And at the same time, we haven't missed a beat with any of the current Mace customers. We've been able to add more value to the process. So acquisitions for us now could be anything within that same safety and security. Like God forbid, we ever get into carwashes or some other noncore businesses, but this really gave us the opportunity to look at things differently, to your point, that we can do this. We do it quickly. And we know how to do it. We have a very good process to do it. And along with this independent view that the board really want us to see is not only what we said, but what somebody, a third-party would say, and I think that worked very well that both the board asked the right questions, the independent review asked the right questions and it made sure that we process 1 and 1, and made sure that it equaled 2.

Andrew Evan Shapiro: And have you or Carleton McKenna and the bankers identified any additional acquisition targets for consideration during this coming year?

John J. McCann: I think we're still on the strategy phase of looking and looking at all these opportunities as they come forward. For us, integrating this and making sure we closed it correctly was key. And then, I think as we look down the road, yes, there'll be targets and opportunities that we will go after in the near term. So I think that one, we'll kind of wait, make sure we keep on doing what we need to do, make sure the April-May results turn into the June-July results, and we can get over this first quarter that was an anomaly.

Andrew Evan Shapiro: Are there any lock-ups on the shares that were issued in this acquisition?

John J. McCann: Lock-up on the shares. We'll get back to you on that, just to make sure. But there's nothing that comes to mind. But we'll put it as a footnote to make sure we review again and get back to you, Andrew.

Andrew Evan Shapiro: OK. I'll back out into the queue. Thank you for letting me complete this, the topic of questions. I'll come back.

John J. McCann: No, it's an important topic. And we'd like to make sure you fully understand what the goal was and what the go-forward goal is and how well we thought it went.

Andrew Evan Shapiro: OK. Come back to me when there's a chance.

John J. McCann: Sure.

Operator: Your next question comes from [Thurman Willis], private investor.

Unidentified Participant: Following up on the gentleman's question about any and all relative to the investment banker, you have depleted your cash substantially with this acquisition. And I hate to see us give stock at these levels for another acquisition. So my question is when you say "any and all," I take it that you would not rule out the fact that if a Smith & Wesson or somebody like that came along, where gun sales are slow now and they're looking to increase their business, or a stock repurchase program, should we have the money, that really everything is in play. Is that correct?

John J. McCann: I wouldn't say that, [Thurman]. What I would say is that we -- the integration of this went extremely well. When I got to the company 5 years ago, we had no cash, right. So I was worried about payroll. We reformed the company, focused it on safety and security, benefited by the grace of God in selling off things at a profitable analysis for the company, acquired Washington Labs, and now we have a bank line of credit that if we need it that we can go out and acquire a business because the line of credit from Chemical Bank, the commitment letter is a very competitive rate, like it makes a lot of sense. And so it didn't risk anything really for the company. For us, looking at the future, I think it's great to have guys with experience that can look at everything available to the company and say, "Hey, here's what's best for the shareholders, right." And as my father always said, "You never say never. You never say always." So with that, it's like we said in our release that the company is in a great position. Now we need to perform. The first quarter was not what we wanted to see, but we feel confident that we're going to be able to perform. And with that, we want to look at every opportunity we can to continue to grow the Mace brand and the Mace product line, both domestically and internationally.

Operator: Your next question comes from Andrew Shapiro from Lawndale Capital.

Andrew Evan Shapiro: So when you guys say that the consumer channel declines were short-term timing, can you expand a bit why you feel that way? Is it just because you've already seen in April and May the consumer channels have rebounded? And if so, have they recouped the shortfall from Q1?

John J. McCann: Well, it's a couple fold. So most retailers, consumer retailers, work on a calendar year that ends January -- or fiscal year, I apologize, fiscal year that ends January 31. So this particular year, we've seen a -- we saw a cleanup period for them that dribbled into February. Typically, what happens is the open to buy, closes. Buyer can't do anything until his open to buy opens again from his DMM, his divisional merchandise manager. What we're seeing is an uptick in that, but what we really see is back half of this year, some planned events that were bigger than a year ago and more dynamic than a year ago. So what we're taking as the longer view, not just the quarter view, but the longer view to say that we feel this channel has real opportunities for growth, plus we put together some dynamic programs for a couple of our key retailers that we're very confident. Some of them have already committed, which, as they happen, we'll make sure that everybody knows. And some of them are close to committing. So overall, we'll see an uptick from the Q1 period. But then, we'll really see it in the back of the year as they continue to grow.

Andrew Evan Shapiro: And ex Washington Labs sales, are you projecting organic growth from last year's 2016 for the full year so we get a feel for your -- kind of your estimate for 2017 that you put out there? Is that just Washington Labs? Or what kind of organic growth are you expecting?

John J. McCann: So organic growth, we're looking at -- it's like 9 percent to 10 percent, just on the Mace branded of business. And then adding on to the Washington Labs, the Washington Labs had the same anomaly that we had. They had a drop-off, if you look at the pro forma and some of our footnotes in our financials, year-to-year in the first quarter. But once again, we feel very positive that we have some huge opportunities that we're taking advantage of in a marketplace, especially in the back half. And I really think the biggest impact for Washington Labs will be 2018 because we will be able to expand our animal repellents and we will be -- become a major, major player in that very important segment of animal repellents, bear sprays, dog sprays and working on some other concepts within that field.

Andrew Evan Shapiro: And you -- the company benefited from a media -- free media boost when the Mace product and pepper spray, in general, but the Mace branded product by name was highlighted by a fellon being interviewed about what deterred him from particular crime victims? Did you see in the channels -- when I -- I don't mean TV channels, but did you see in your distribution channels a bump up? And has that -- either that momentum continued? And are you making any other penetration in the media world for additional, call it, somewhat free promotion?

John J. McCann: We saw a slight bump-up, not as big as we'd like to see. We definitely got it out to all of our key customers, our reps and our distributors. Secondly, we are working on a couple, what I'd call free media opportunities. And we're hoping to knock down 1 or 2 of them that we hope will have the same bump and same appeal, but even bigger than the NBC TODAY Show segment that we experienced. And for the investors that don't know, we can send out a link or link it again to our website. NBC today interviewed a known felon who had committed over, I think it's 80 or 100 muggings in New York City. And basically, in the middle of the segment, for about 30 to 40 seconds, he said if he sees Mace branded pepper spray, he takes to flight, which means that he would not attack that victim. It is something that we try and educate both on our law-enforcement side and our consumer side as we do trainings and we do personal offense trainings, especially with females and males, that if a would-be criminal sees Mace on your keychain or in your hand, he doesn't attack. So that a statistic that doesn't happen. So it's a non-recorded event, which means it's a nonevent, typically in the news because they only want to hear about if it bleeds it leads. They don't want to hear about the person that got away. And this gentleman said that he mugged men, women, older people, anybody because he was living as he called it, "the life."

Andrew Evan Shapiro: John, with Alert 911, we clearly know there's a market for the product as judged by the success of products like Life Alert and others. And so are you able now to dedicate the time and resources necessary to make this product a success? And has there been sell-through from the initial revenue level you guys posted in Q4 to front-end load the distribution?

John J. McCann: So to answer your question, yes, we are focused on a plan to further enhance the marketing and the distribution of the product. The sell-through that we've experienced has been OK, not setting the world on fire. So obviously, what -- the attention that it needs is a consumer-driven marketing plan that we're working on dynamically of A, how to fund it; B, making sure that we have the right partners at the retail side to have the sell-through. But we believe, as we did before, that it's a great product. It's a great license agreement that we have with our partners on the technology and funding it and doing the right amount of advertising on it will be the next critical element in order to promote the product effectively.

Andrew Evan Shapiro: What -- and the timing of that?

John J. McCann: Timing is TBA because I don't want to tell you something I don't know today. But as soon as we can and we feel that we have the right program, we will initiate it.

Andrew Evan Shapiro: All right. I have more questions. I'll back out into the queue.

John J. McCann: So we have about 6 minutes, Michelle.

Operator: Our next question will be from [Thurman Willis], a private investor.

Unidentified Participant: I think this is my last, John, and I thank you for taking my questions. Did we comment on the line of credit that we received the amount? And what will be the collateral securing that line of credit?

Carl R. Smith: Well, it's a working capital commitment letter from Chemical Bank, it's $1,500,000 working capital line of credit. And it's secured by the assets of the company.

Operator: Again, we have Andrew Shapiro from Lawndale Capital.

Andrew Evan Shapiro: Can you -- you said you added a bunch of exclusive accounts. Are you able to identify any of the exclusive accounts added.

John J. McCann: Andrew, just a correction. Sorry, we didn't say exclusive. We added 50 new accounts from a single door to a multiple door to distributors. In the PowerPoint presentation, we broke it down by channel of trade. There's 12 in sporting goods, 13 in consumer, 10 in tactical, 4 international and 11 in what we call the other category, which included an online retailer. A good example to highlight there is Zulily. Zulily as an account that Kimberly Moss, our new sales agent worked very hard on because it caters to women. Their first event, we sold over 500 units in a 24-hour period. Not a lot of units, but great success because it's marketing, branding and education. So a consumer that might have been looking for a dress saw a Mace brand and pepper spray product or a Mace branded alarm and actually responded to it. So it's across the board. But majority of them, I would deem them as nonexclusive.

Andrew Evan Shapiro: OK. And it sounds a little bit, you're selling through the initial inventory and there's reorders?

John J. McCann: We're selling through the initial inventory, and there's reorders. And then the biggest thing for us is not only reorders but creating events, whether it's a law-enforcement distributor or law-enforcement creating event, whether it's a training event with law-enforcement, so they stock up on product, or it's an end-cap, or an online event with a retailer. So they create the awareness. It creates the drive. It creates the POS.

Andrew Evan Shapiro: OK. And you touched on the prepared comments that Mace Tacticals had that is nice growth and yet it sounds as if it has nice growth, not even counting TG Guard, which is always really nice. But I wanted to get a better feel for -- if you're not going to offer an expanded line of munitions yet, and this has been an initiative that has fallen on its face a few times, we still have a variety of branded products for the Tactical with our existing pepper and teargas and other products. My query is, is -- what evidence do you have, and can you give us some insight as to the efforts being done and the progress being made towards bidding on more and more RFPs and winning more and more RFPs to get some momentum into this segment that has such a large market potential discussed in prior calls?

John J. McCann: Thanks, Andrew. And so to your point, we are bidding on GSA contracts. We're bidding on almost any bid from a department worldwide, right. Not just in the United States, but worldwide. Then second part of that is to facilitate or kind of buffet the loss of the munitions that we're still re-tinkering with, unfortunately, we have added handcuffs, tactical knives and batons. With that, rounding up the assortment, if you would, on more of a commodity style play, we're seeing some large distributors that service a lot of the smaller markets, that service a lot of online or service a lot of the safety forces out there. We will see in the back half of the year some significant promotions that we've lined up with these accounts based on the sales process. And in the tactical side, you do a lot of T&E, which is training and evaluation samples to get to the level of, OK, now you can bid, to get to the level of, OK, here's what your pricing needs to be. And yes, you get a plus-1 for the brand. Sometimes in law-enforcement because it's in hidden in the holster, the brand is less significant, but the performance of the product is very significant. Then for us, the acquisition, because of a portion of Washington Labs businesses was in law-enforcement, we should see an uptick from that. So to your point, we're bidding on every GSA or bid that we can through any department. We're working on major promotions in the second half with a couple of large law-enforcement distributors. And then the third thing is doing a multi-brand strategy along with our new products into several different departments through the acquisition of Washington Labs, should see us -- see some benefit in the tactical range. And I know that the sales force in the tactical range are hitting every and any department, from a 5-man department to a 5,000-man department.

Andrew Evan Shapiro: Last question, unless your answer -- unless it's a follow-up. We have this huge NOL. I mean, over $60 million. Some of it is expiring next year. The company has this well-known brand. Your slideshow talks about all the various aspects of the brand. I think we all recognize there's a brand. We've taken on some strategic partners. In particular, the Kourt Security people are supposed to have this dealer network, et cetera. And we're hoping for royalty generation here, which is enormous or 100 percent margin type of payments that should be coming in and helping us monetize the brand. What is going on? And how much is going to get backing, going into this -- the Kourt Security partnership amongst others? But also, is the investment banking firm that you have, are they involved with and can they assist in the monetization of the brand?

John J. McCann: Two excellent questions, Andrew, and thanks. So especially with Select and Kourt Security, we are putting more pressure on them because we had anticipated seeing some royalties. There is a minimum royalty due this year that we will get either way. But they have been late to the party launching it. A lot of it, from what they've told me, is that they hired somebody, it wasn't the right guy. They released him. Then they took their time reevaluating, and also, then bringing to market the right products. Because in that world, it's a very dynamic home automation, this thing, that thing, changing within the home security world that they felt that they wanted to go with their best leg forward. We are going to push them in the next couple of months to make sure that we see a monetization from that or we need to look at different directions because, I agree with you, that there's an opportunity to find money, if you would. The sale of the surveillance division, I think it's just been a little slow starting, but they seem to be picking up some nice momentum now. We're in contact with them on a regularized basis, sending over leads, potentially even looking at some key retailers to say, "Hey, we can do an all-in Mace from surveillance to personal defense products," that we would experience the royalty side from SecureCheck, and then we would get these, the benefits of the sale from the other products. Then the third part, as you had asked, yes, Carleton McKenna is looking at everything, right. If there's an opportunity to work with the brand dynamically, with xyz company, they're evaluating any and all opportunities to make sure that we do everything we can to push the brand forward and push the company forward.

Andrew Evan Shapiro: OK. And I guess while it's a guaranteed royalty, I'm hopeful that the Board of Directors won't just throw that guaranteed royalty somewhere in the note that constantly gets its principal obligations and other things adjusted so that the partner doesn't have financial issues.

John J. McCann: Well, this is separate from -- so this -- this is separate from the Security Partners. So we don't inter-mix them, and we're not going to allow them to intermix them.

John J. McCann: OK. Well, thank you very much. So Michelle, thank you. I think that's all the questions. We want to thank everybody for their participation. Once again, I want to mention that I will be at the B. Riley conference on May 25. Our presentation is at 9:30 a.m. And we look forward to talking to everybody in the future. So thanks, again, for your time and your patience.

Operator: Thank you, everyone. This will conclude today's conference call. You may now disconnect.

END