Mace Security International Inc.

Moderator: Barrus, Mark

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02:00 PM ET

OPERATOR: This is Conference # 9593103

Operator: Good day. And thank you for standing by. My name is Lee and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Second Quarter Earnings Call for Mace Security International, Inc. 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 press the pound key. Thank you.

It is now my pleasure to turn today's conference over to Mr. Mark Barrus. Sir, you may begin.

Mark Barrus: Thank you, Lee, and good afternoon, everyone. With me this afternoon is Gary Medved, President and Chief Executive Officer of Mace. Please visit mace.com, Investor Relations/Transcripts and Presentations, where we have loaded materials for this call.

Before proceeding, I would like to point out that certain statements and information during this conference call will constitute Forward-Looking Statements and are based on management's expectation and information currently in the possession of management.

When used during 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' financial performance. It could cause Mace' actual results for the future periods to differ materially from any opinions or statements expressed during this call.

I will now turn the call over to Gary, to comment on the second quarter 2019 financial results.

Gary Medved: Thank you, Mark. First, Mace continued this process of transformation. In the second quarter, we made progress on rolling out our new brand identity our package redesign and we completed our website upgrade, while at the same time introducing our recent brand partnerships, Kuros! and USPS to our customer base. In the second quarter, we also made a difficult decision to discontinue the less lethal munitions business.

We made this decision in order to redeploy our resources in businesses that show a higher margins and more robust sales growth. We are continuing serving our less lethal customers in the LE and tactical communities through our Take Down Gel, Stream Spray, and [?] for our products.

This decision will free up approximately $20,000 per month of capital to redeploy. We have recognized the charge of 140,000 in the quarter for exit obligations, which are substantially completed this time. The quarter also contains an increase in the reserve for uncollectable accounts, of which two are now in litigation to pursue recovery.

I will turn the call back to Mark to discussed details behind the financial performance.

Mark Barrus: Thank you, Gary. As to the financial highlights themselves. Second quarter net sales were 2,967,000 compared to 2,843,000 last year, and increasing $124,000 or 4.4%. Six months sales increased to $5,679,000 from $5,207,000 in the six months ended June 30, 2018 an increase of 9.1%.

The increase in second quarter-over-quarter sales is due to strong performance in our custom, B2B and international channels, but was partially offset by softness in our brick-and-mortar and our e-commerce channels.

The second quarter of 2018 also had $150,000 in revenue from a television form a television shopping channel that we elected to participate into 2019. Gross profit from second quarter 2019 totaled $957,000 with a 32% gross margin compared to $1.216 million a 43% gross margin in the same period of 2018.

The 2019 period includes $140,000 charge from manufacturing cost attributed to exiting new the munitions business, which we booked in cost of sales during the period. This contributed to approximately five percentage point drop in the margin, remaining of the margin drop was due to an increase in manufacturing overhead and labor variances.

Several of these variances we did not expect to recur such as $50,000 rent catch up for a property tax case that was on appeal and the munitions exit cost of a $140,000 as discussed above. We also expect these variances to improve as we have devoted additional resources to manufacturing efficiency and supervision.

The actual direct margin for product sales before overhead was comparable period-over-period versus 2018. The six months ended June 30, 2019 gross profit declined to $2.027 million from $2.204 million in 2018 an 8% decline as influenced by the same manufacturing overhead variances occurring in the three-month period. Product margin before overhead was also comparable on the six months period in 2019 versus 2018.

Selling general and administrative expenses for the second quarter were $1.480 million compared to $1.085 million same period last year an increase of $323,000 or 29%. This increase was primarily due to higher cost receivable reserves as previously discussed and the detail of this increase is reconciled in our OTC report and the MD&A discussion.

The six months SG&A cost for 2019 were $3.213 million compared to $2.208 million in 2018 an increase of 39%. The second quarter investments in our packaging redesign and website enhancements of approximately $50,000 are part of the net $32,000 decrease in the other factors discussed in the MD&A.

As a result of the above we common reported net loss after tax of $606,000 for the second quarter compared to $41,000 profit in the same period 2018 a $647,000 decline. Six months net loss for 2019 was $1.462 million compared to a loss of $293,000 in the same period in 2018.

EBITDA for the second quarter was negative $481,000 compared to EBITDA of $140,000 positive in the second quarter of 2018 or $621,000 decline. Six months ended June 30, 2019 EBITDA was a loss per negative $1.217 million compared to $83,000 negative EBITDA in the same period of 2018.

Second quarter adjusted EBITDA showed a smaller decline of only $190,000 from a $185,000 in 2018 to a negative $5000 in 2019. Six months adjusted EBITDA declined to a negative $228,000 in 2019 versus a $1000 loss in 2018.

From a liquidity perspective we saw net decrease in cash and cash equivalents of $47,000 from December 31, 2018 to the end of the second quarter a line of credit availability with $650,000 as of June 30, 2019.

We still anticipate CapEx spending for the year to approximate $100,000. Finally, our tax and operating loss carry over was approximately 60 million available for the second quarter of 2019, which is unchanged from Q1, as we have not yet finalized our 2018 tax filings.

I will now turn the call back to Garry who will discuss outlook and priority for 2019.

Gary Medved: Thanks, Mark. Turning to operational issues, we continue to vigorously dialog our customers about our refresh packaging, our brand new partnership. Some of our large brick-and-mortar customers have cautioned us about an overall category weakness and personal safety and we have not been immune to that.

At the same time we are investing time and fund into improving our e-commerce capabilities, improving our search results, website user friendliness, product and category awareness and improve social media awareness. We believe these efforts will help us earn greater share of the e-commerce channel going forward.

At this time, I will stop and open the line for question. I would ask each caller to limit themselves to one question with one follow on to allow everyone a chance to participate and if we have additional time, we will try to get back into the queue. Operator please open the line for questions.

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

And your first question is from Andrew Shapiro. Your line is now open.

Andrew Shapiro: Hi thank you. My question initially here are about the new partnerships that you announced at the annual meeting in Investor Day and the recently in a separate release regarding more detail about curious Kuros! and I'm assuming down the road you will have more details about the U.S. Postal Service partnership.

Regarding the Kuros! partnerships can you elaborate a little bit more on the partnership that you recently announced and what is expected from I guess basically both parties and the opportunities you see the Company having in front of it to take advantage of?

Gary Medved: I think first and foremost is the mission behind Kuros! and providing women in undeveloped nations pepper spray that allows them to defend themselves and enhance their personal safety as well as their mobility once they have these products in their hands.

And we are proud to be a partner of an effort such as that and what it does for us over in the United States, it is a strong opening to brick-and-mortar retail in all the presentations we made and continue to make that is our lead in explain the program, the mission behind program and its been extremely well received.

What we have done differently we have redesigned the packaging and we have added two additional SKUs to the product line instead of just a pepper spray we now have the alarm, then we offered the alarm in pepper spray in two piece kit.

We are looking at promotional PDQ display developing those also being very well received by the brick-and-mortar retail. So I think to wrap it all up with a strong mission, with a powerful mission, we are proud to be partners with Kuros!.

And we felt that there is a better opportunity to expand the product line and clean up the packaging design and make it just a lot more appealing to the consumer. So that is where we are with the program.

Andrew Shapiro: So for a little bit more clarification, is the initial placement or much of the placement where historically Kuros! brand product was already offered in the retail. And now it will be a Mace Kuros! product and if that is the case what was it historical Kuros! revenues in their product line and the channels that Mace will now either produce or completely take over responsibility for?

Gary Medved: Well, those that are familiar with the program probably know that the previous partner Kuros! has switched off its product. I would say switch off the product data. They are very similar looking product, they overtime have introduced to brick-and-mortar retail where the Kuros! product was.

So as it stands, SKU of that hook space is being occupied and we have to go in B2B brick-and-mortar retailers and explain in detail about the new partnerships and they are looking at holistically the Kuros! program, as well as the Mace program combined.

So their decisions have not been made yet on all fronts and where they will be launching the product, where will be placing the product, it would be really beautiful if there was just a one switch that would shut one off and turn the other one on because if it is they have a competing product out there right now that we have to deal with.

So that is where we are with the program, but it is getting in front of all brick-and-mortar retail, all the buyers have seen it, that we talk to and continue to talk to. So it is a program that has been basically been reintroduced to them all over again.

Andrew Shapiro: Okay. And is there already some takeaway about the fact that Kuros! and Mace in this joint partnership have a call it a socially conscious brand and you are the ones who are providing pepper to women at risk in these developing countries. And the former partner or supplier for Kuros! is not doing that. Is that giving you headway and feet in the door?

Gary Medved: Yes, it does. But at the same time, they get it, they understand it, where they did not have a program they embrace it, okay, But we are still waiting on our decisions and where they did have the program as I said there is a competing product in there, not Kuros! branded, but Kuros! look-alike and we have to contend with getting them displaced before we get ours in there. As you know, Andrew, in retail, once something is in, something has got to come out.

Mark Barrus: I guess something to add to that. the product is available in our e-commerce channel at the present time. So you can see it, purchased it on Amazon and on Mace.com among others. So there has been - that is for sure has occurred all right.

Andrew Shapiro: Okay and can you share with the minimum level of commitment or take Mace's obligated on as part of this agreement by when must that level be satisfied?

Mark Barrus: It is not really like that like a take or pay, it is a 12-months number that was negotiated frankly based on what the products had already been doing with the negotiated ramp up period in it. So again it is not a take or pay, there is no minimum commitment, but we set a level together with our partner that was felt by both parties to be pretty comfortable and it ramps up overtime to get to a larger number after the first 12-months so we -…

Andrew Shapiro: It is a number you are comfortable with it sounds like.

Mark Barrus: Yes it is.

Andrew Shapiro: Okay and can you expand this last question on the Kuros! thing and I will back out, can you expand on the various I guess channels this partnership then it is expected to generate revenues for Mace and what products are kind of whole retail revenue versus wholesale steel revenues any and the timing of this revenue generation as you said to move this question forward.

You have already said you are offering it on Mace.com Amazon.com and maybe other e-commerce partners and is it already offered and available in some retail or when does that start to occur in the revenues from that and other margins from this net of the royalty comparable to the retail or they more of a wholesale margins.

Gary Medved: Well there are a number of questions in there, yes first and foremost on the retail side there is your mass retail, your sporting goods retail, your hardware channels they have all seen it but as I alluded at our Investor Day meetings, most of those if not all of them in their category resets until early next year.

So from a meaningful revenue standpoint, we expect to start experiencing that first quarter next year in the second quarter when all these placements take place. And it is already available as Mark has mentioned on the e-commerce channel, with Mace.com and Amazon.com.

And if anybody adds the product quicker okay then all the better. These major retailers they all have a calendar that they go buy when they do their category reviews, when they do their category resets. And so all we can do is control the stuff that we can control.

Mark Barrus: And to the margin point Andrew I think as you probably know the e-commerce channels are a lot closer to full retail margins were recaptured most of that ourselves and obviously when we saw brick-and-mortar were selling at a wholesale price.

And I think as I mentioned maybe on the last call the royalty number is it will contribute a bit to the margin decline but it is still in the neighborhood of all-in what we would see overall for similar products. So it is not a burdensome margin by any means, it is something we are very comfortable with.

Andrew Shapiro: The other channel is international is that product channel that we Mace Kuros! joint branded is offered into, or we just look to announce.

Gary Medved: No. Internationally it is an opportunity and actually if Kuros! does his traveling around the world, he is meeting with our distribution partner. Even I think he is currently in asset right now and he never thought distributor over there, they are welcoming the program and he was in the Philippines a month ago and took the program to them and they are going to have it.

And then just speaking of international, often I want to have one personal that handles international it is all our distributors and I'm close to getting efforts and when we do the Kuros! part kind of part of their offering. So again more attention than it has up to this point.

Andrew Shapiro: Got it. Thank you for letting me have all those question on Kuros! I will back out into the queue, but please come back to me I have many more.

Mark Barrus: Thanks Andrew.

Gary Medved: Thanks Andrew.

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

Thurman Willis: Let me thank you for taking my question. For those that were not at the annual meeting at the investor day, it was well presented, we did good job was glad to see the one thing that came from was inside reporting of that and one of your or several of your directors and or owners bought over a million cheers. So appreciate you doing but it was an excellent program. I have asked this question before and I didn't really get satisfactory answer from product managements I'm going to ask it again and if you could be specific in what you are going to do.

One of the directors they commented that it was your goal to have Mace in every home in America and I was most impressed if I might compared it was sporting and you have a good board and you have good owners, you have good coaches or managers in your situation, you have a good team or good product, you have a solid game plan or the future growth earnings in revenues.

But you have no fans in the stands, people just absolutely do not know about Mace and if you could please comment on what you plan to do differently in the way of maybe having weekly calls with wealth managers non-deal road shows and at what point you plan get pans in the stands. As this could bridge the gap between the revenue increase that you are expecting to have our stock trade at fair price.

Mark Barrus: Thanks Thurman this is Mark I will tackle a couple of those on the IR front. So there is not a tremendous amount of things we can do completely differently but we do believe that there are some things that we can do period.

So we gotten, made some progress in our external sources and our communications with news wire and our trying to be more visible in that space with regard to releases that are important about the company we have, we don't want to flood the news wires every other day with, not important information. But things like the Kuros! partnership and things like the significant purchases by directors are important people will follow the company.

So that is one thing we are doing. Another plan that we have, now that we have been in places and management for almost six months now. We are going to begin to be more visible with somebody external investment community in the way of smaller, very targeted participation in investor conferences that speak to the microcap market. It does no good to be in front of groups or institutions that are not interested in microcap stocks that are traded over the counter.

So we are going to participate in several targeted conferences with the goal of getting our story out there a little bit more. And then very importantly, the follow on to that, because conferences are nice. But if you get a bunch of business cards and sort of walk away and never make anything further on it. You probably haven't capitalized on your time.

So we do also have plans to engage in discussions with a number of IR third parties that, while I don't envision that will have any significant spend in any type of outsourcing IR or any type of very significant, call it, formal program with a third party.

I think there are best practices that we can probably adopt as an OTC stock that will help with Investor Relations. So that could result in non-deal road shows. We do get a relatively steady, but modest inbound flow of inquiries from potential investors. And I personally return all those calls, and speak to those we have had several meetings, here in place for potential investors, and that dialogue continues periodically with them after the initial meeting. So rest assured, as we get inquiries, we do make every effort to provide them all the information we can.

I guess, lastly, our social media and we will kind of wrap it into content marketing and social media, which both talks about our products, and with degree our company. We feel like, we have continued to push along the social media awareness side. We aren't where we want to be, we are engaging in adding some additional resources or more realistically different resources.

For our social media and our brand awareness that will bring it both, again, our products as well as our company. So we are going to have to do things a little bit differently. I think than we have been over the last six months in terms of social media.

Thurman Willis: If I could do the follow-up on social media, and some tremendous missed opportunities, not by existing management, past management. But there is been 256 mass shootings that killed three or more people. Maybe I don't understand, but I get the same question from everyone that Mace products are the only deterrent to possibly reduce these horrific situations and save lives with the non-lethal product. I’m fully aware is not the only deterrent.

But it is everyone and all households that Mace products hopefully these nightmares could be reduced, so I might be a little more specific the El Paso let’s say there were 500 people in the store and probably one out of

500 had a Mace product. If 250 had then I think there would have been much better chance to have curtailed that particularly situation.

If is the public had knowledge of the Mace products then revenues which skyrocket. I have sent - and last year on the Today show there was an interview with felon that was behind bars that it committed 100s of tax and he stated that what he looked for it was very thorough interview by Today show, he said screaming, spitting, throwing rocks, cameras and none of that ever scared him, but it is all person that had Mace that deterred him and he would not attack them.

I wondered if you guys had seen this and into social media why in the world would we not have that throughout Fox news, whole shopping network in various places that people could become a layer the golden schools and churches I believe eight states they are going to allow teachers to carry guns.

I can assure you most teachers don't have a clue about how to shoot gun but they could have a Mace product or a gel gun and this is a non-lethal way. So tell me what I'm missing and why we are not executing on that because I know it is a bleak that we get the revenues up, the stock is up, etcetera, etcetera well it is going to take months to get the revenue up.

But this way if we got the word in social media that this was an idea that is the best idea I know of, I have heard commentator just comments they will it would be nice that Wal-Mart had had cameras. Well I'm sure that Wal-Mart had plenty of cameras. So I'm just not understanding why we miss not you specifically, but why we miss these opportunities with these mass shootings to let people know we have the product that will work. So tell me see what I'm missing here?

Gary Medved: Well there is a lot of chemical here Thurman. You are talking about very early on selling cycle of awareness and education. And that is what Mark was alluding to the social media site it. Even on social media it is there is only so much we can do because of the nature of the products we cannot advertise it. Okay so your left to organically grow your audience, but you can't pay the advertise on Facebook or whatever because of the type of product it is.

So there are limitations there. I have long intended that when retail stops working at this product and you heard at Investor Day, as a purse impulse buying and hiding it on one or two books and various department and various stores and actually put that out front and center as a designation category all the personal safety that is when the needle is going to start moving in terms of the public being aware of the product.

At some estimate put it as high as 3000 people in that wall mart store down El Paso, I think 1000 to 3000 they weren't sure how many, but lot of people were in that store, we sell these product right there in Wal-Mart. So it is a harder sell then one would imagine in the school system, there are completely different.

They all going to stop it, that how they go about it, they don't have a handle on it and just to go and then offer Mace product to them they just looking at the check book and then you are talking about the schools by school by school across the country and that takes the tremendous amount of resource to do that.

So our contention is we get a program out there in major retail where it gets a lot of attention, it is not hidden back in the automotive section back at the store or hidden in this section of the store at the other corner that you get it out there were people can actually see it and will do it what we can on social media to get the message out, but there are even limits to that.

It is a challenge I'm not going to lie you, but I think our best gut is we get in every brick-and-mortar retail place where we can get front in center and get a type of display where a lot of people see it every year.

Thurman Willis: If I could make one follow up for that. Three years ago after previous management to the largest lopping company and Washington introduced them to the firm, they thought it was an absolute great detour to mass shooting. They kept the contract with lobbying firm which was going to introduce it to senators and introduce it to the House of Representatives and after two months they dropped it.

And so while it may be difficult I don't think it is difficult and as we might think to let people know on social media and on certain programs. We just in the past have failed miserably on being known as a deterrent to mass shootings. I can assure if you can ask the thousand people maybe one would even know about the Mace gel gun.

And while I understand your limitations in advertising etcetera, I don't understand why Senators Congressman etcetera and we can’t get this on some social media, we have the interview with the Today show where the felon stated the story I'm trying to preach.

And I just hope this management team does not ignore the obvious answer to the products that you have and the need to get it into social media. And it would make retail box store sales compared e-commerce, a absolute non-event. And I thank you for taking my questions. I will get back in the queue.

Gary Medved: Okay. Thank you Thurman.

Operator: Your next question is from William Rankin. your line is now open.

William Rankin: Shareholder I've been an investor for in fact a little 3 years, and the specifications is a very low trading volume. And I really appreciate your comments, really addressing the needs attract more investors. It seems like to get on the calls, it is usually the same few people nobody knew is already coming into this. The calls are, I don't think many people are reading press releases or hearing about the positive changes or keeping place in the company. And there are low cost ways to get some a story out. And just as I give you an example, could you share with me how many people are on the call today?

Gary Medved: No, I prefer not to do that. But there is a similar number over the last several quarters. So it is just the steady volume.

William Rankin: Alright. Well just from my seat, I think they are mixing public company and spent, been in your shoes, and small companies, there are some ways that you can get the story out to people that aren't expenses and may find more people on the call and could just within potential of the company and become investors. And that is what all of those as investors you want to see is exceed perform and seen appreciation in the value to company in the stock price. So thank you for your efforts.

Gary Medved: Alright. Thank you.

Mark Barrus: Thank you.

Operator: We have a follow up question from Andrew Shapiro. Your line is now open.

Andrew Shapiro: I have some questions here about the postal service partnership. And I appreciate you may have to be circumspect about some details as of yet. But others hopefully, since you have unveiled at the annual meeting, and you have a signed agreement that big picture things you can shed some light on. So can you elaborate a little bit more on that partnership that you discussed during the annual meeting with where and how you will be, the current agreement has you placing this as the product.

For example, the postal service 30,000 managed retail post offices or outlets, that is a huge amount. And 800 million retail customer visits in a given year to those outlets. It is obviously a well-known brand. I think you said, you are going offered on your website and things like that. Just can you can you explain what you got going on at present and what your agreement calls for down the road. And if you are competitively or comfortable what your hopes are that this relationship evolves to?

Mark Barrus: I think the program in general Andrew is geared towards a specific channel that we are looking at. I don't want to get into that level of detail right now. That is being presented, we made a couple of a presentation is favorably received. And we have a couple more presentations that will be beginning over the next month or two.

And see it is a limited product line there are three skews to it and it is really geared towards a specific channel that I just don't want to get into at this point want to place probably we will see where it is going. The brand is well recognized and we are able to sell postal service that channel is also - that is an effort in itself get pumping you into the post office.

So it is on our radar and it will be we will present to them that we are going out there are certain channel right now which will step up quicker than the post office will. So that by far as I can go with this. the increase is being presented and just like everybody else when categories are reset that is on calendar and all we can do is once more control the controllables and we can be ready but we have to wait for their calendar to come along and tell us when. So we will have further detail on that and I'm sure in next quarter.

Andrew Shapiro: Okay and with respect to the agreement that is already been signed with semi-governmental entity. Can you describe at all what is expected in the obligations minimums etcetera are between from each party and the timing and obligations in the party and also can you describe the duration of the agreement you signed so far?

Mark Barrus: I will give it a shot so it is a no - there is a very low fixed fee amount for the uses of the license call it a minimum royalty along with the modest royalty charge. This is a very, very manageable number for us in terms of the fixed minimum.

The contract duration actually I do not have it in front of me, I want to say it is three years I'm not 100% sure of that but believe it is three year arrangement and it is exclusive to us so there is no specific volume target or whatever that we have to we have to hit during that period.

It is the royalty number I would say I don’t want to disclose but it is also a very comfortable number for us so we do feel like more specific this that when you take into account it really is a completely different looking field and market if you will that Gary referred to these particular channel that we are going into. It is something that very-very modest cause to do that so, it should be a win-win all around.

Andrew Shapiro: Right yes it seems like this is a natural for the retail channels of the office product type of retailers or things like that. you mentioned in the last call that you might be able to provide a narrow date range from the program we are allowed in the revenue generations timing would be starting to kick in. Have we reached that point and are you able to narrow the date range and window out when this will be formally rolled out with more disclose and press releases as well as products I guess would be available on the Mace.com website?

Gary Medved: The USPS one, we would probably won't make the billboard on our website in the areas Amazon. As far as the roll out to retail channel it is probably going to be once more we have to fall with their colander so the presentations were being made if somebody accept the program and they have a calendar category reset in November. We will ship in November, more than likely it is going to be in early first two quarters of 2020 where learning everybody has their resets taken place.

And just to elaborate on that I know that it seems like a long time between the announcement and expectation revenue and if you think of curious as well, which obviously was a little bit more ready to go because it already had placements but there is a lot of behind the scenes work that asked to go and do delivering these products and having them ready and having them completely ready to go so that when retailer does place an order and big orders that is a very seamless thing.

So you have to do everything from design the package to design the colors to producing working models to work with all that in addition to of course getting the introduction at the various channels that we are looking to.

This is not excuse making a statement but is a statement that from the time signing an agreement and getting the go ahead from say the Postal Service that they agree with your design to actually working out and collecting revenue from it, is something in the neighborhood of six months pretty decent cadence to think about. So Kuros obviously we are little bit were fairly further long just because the fact that was already product it was out there in the market.

Andrew Shapiro: So when you say retail or reset in Q1, does that mean we ship book revenues in Q4 or it is in the very same quarter of the reset.

Gary Medved: It means that the reset they will choose new products and put those new products in the store effective Q1. So there is just as Garry explained before are well ahead of that. So these meetings are having now, they are actively making decisions in these major retailers right now and they will be notifying us at your end or your out or your expanded or your contracted. And so that will then point us to the product shipments occurs immediately when the store is ready in that say first quarter.

Andrew Shapiro: So when you have that much advance notice and they say you are either in or we are not going to add you. Is that kind of binding thing for which you would deem it to be an announceable event once you are green lighted for a retail channel or the retailer doesn't want you to be announcing anything until it is actually shelves and available in Q1.

Gary Medved: Well as a company we wouldn't announce that until we have on the shelf or the store, and then even then we probably won't go announce the detail level of saying available retailer in terms of our press release. People buying it online where to buy, it will tell them which retailer. We have a feature on our website that lets people access the stores that it is available into the retail level.

We are obviously not our stores. But there is no reason we couldn't revisit that, or if we got into a chain that a retail for brick-and-mortar chain, it was absolutely somebody who's never done before. Very exciting with information that retailer I'm sure they would be happy to ride along with our explanation of those partnerships. It is just something normally is not done day in, day out, but there is no reason we couldn't look at it.

Andrew Shapiro: Right. I mean, you wouldn't want to upset or other retailers in the competitive retailers, because you rather place all your product in every sporting goods store rather than a single one. But to the extent, when you balance that against the promotion you may be giving to the new. And they may like that promotion, you guys have to figure out and guess what you are going to do? I have additional questions or background in the queue. But please come back to me. I definitely want to talk about and understand these non-cash right off stuff.

Gary Medved: Yes, Operator? Are there other callers in the queue?

Operator: Yes, sir. A question came up. A follow-up question from Thurman Willis. Your line is now open.

Thurman Willis: Going back to the annual meeting, just briefly, I want to applaud your efforts to set my 10-point strategy. I'm 70 years old and I have used this with dozens of companies and taking management to New York, Chicago, Boston, Miami, etcetera. And it is a 10-point strategy to enhance shareholder value. And I've heard you talk about four of them today. And

I want to thank you that you are going to be getting out more press releases. I want to thank you that some directors and insiders and thoughts start. And my question is, do we think we will see other insiders fast stock, because I think all board members also stock and a board of which they serve. So, can you comment briefly on that please. But again, for the 10 items, you have addressed today?

Gary Medved: I think we will see, we had indications from several insiders that following the opening of our next window period for transactions that they will be supporting the company I think also as you know both management as well as board had a significant portion of their compensation, that is offered in the form of equity. So, both parties are, the board is heavily paid in equity and management as well. So both parties are on the same plane as the shareholders are and the investors.

Thurman Willis: So we think, we might see them by the open market?

Gary Medved: I believe that we might, we don't have any control over that, but we have heard some indications of people that are inquiring how to go about that and would not be a surprise to me if they did that.

Thurman Willis: And one quick. The window opens two days today or three days from today?

Gary Medved: Our policy is two days after the earnings release. So it will be Monday.

Thurman Willis: But again thank you for paying attention to the 10 points strategy and adopting some of those measures.

Gary Medved: No we appreciate you sharing that with us. Operator, are there other - we have about five minutes to go here.

Operator: We have another follow up question from Mr. Andrew Shapiro, your line is now open.

Andrew Shapiro: Well five minutes I don’t know if you could extend it but otherwise let me just schedule offline call try to pile through bunch of these things. On last quarter I asked about the spike in receivables that you mentioned the prime cause was a one-time issue expected to success we result eventually. Was this receivable the one that got reserved again here in the second quarter? And is that part - is that amount of parties a full receivable amount?

Gary Medved: Yes the growth is what it is right for ageing was a one-time transaction from 2018 that is a channel that we are no longer participating in. The receivable unfortunately as of last quarter was not even set first quarter I'm referring to was not even due when it came due in second quarter we became where the party was evolved in around mitigation and would not be paying us on a timely basis. So we investigated it and thought like a reserve was appropriate in the second quarter which is when receivable became pass to and we gained information that they were not intending to pay us currently.

Then this one that we referred to in the part of the increase in the reserve has been is in litigation right now and we are very comfortable that there is not a heck a lot of reasons why this shouldn't be a straight forward breach of contract situation so we are pretty comfortable that we will prevail in it then the question is can we collect anything so but it is I will say it is the field we are in the early processes of seeing whether that going to contest this or if they do what timeline that will lead us down towards.

Andrew Shapiro: Okay and where the income statement again this is AR-reserve write off impact?

Gary Medved: So it sits in SG&A and it mechanically just we keep it the way we do it and we do keep the reserve, we keep receivable on the books gross and put a reserve against it, so you will see that receivable balance hasn't gone down by the amount it is just the reserve has got off. And…

Andrew Shapiro: And that receivables gone down?

Gary Medved: Exactly and when we just outlay it so subtle one way or the other.

Andrew Shapiro: You mentioned two receivables in litigation this is one, can you quantify the amount of these two what this amount mean to we kind of know what is the other amount to litigation?

Mark Barrus: The other amount a little bit larger amount it is less than 500,000 but not a lot less than that and it is from the sale of company it is really from the sale of our surveillance business several years ago there has been the payment fees and the reserve occurred in the first quarter but the litigation commenced in the second quarter we are further along in that process in fact we have already received a judgment in Texas in our favor, which is where there company is located and we are in the process of asset discovery with them.

I'm not as optimistic frankly on recovery of the full principal amount on this but our hope would certainly be that we can get what we can get and we can certainly get our name of this business that has gone very south on us. We don't want our brand damage by any further by this and minimum we will accomplish that we believe.

Andrew Shapiro: And with respect to Q4 is not receivables written down I think this was one of them, the Texas one, but what is the status and efforts of the company that recover the other old money which I think are more recoverable from the call alarm buyer.

Mark Barrus: Correct, that one the appropriate basis to write it off or accounting purposes were little more optimistic in that ultimate recovery because of that businesses is overall these much healthier than these other two that we sold we have received. We feel like that is a second half of 2019 even where we will have a lot better feel for whether this gets resolved.

We were this is a significant payment we received monthly that we haven't received since almost a year now going. So it is growing to be a very large number that we have been patient enough to now because we are secondly holders but the second half of this year's is where that has to be resolved one way or the other.

Andrew Shapiro: Now the manufacturing overhead variance as you discussed really quickly in your script, can you summarize that against slowly and what is been and what will be done to return back to optimize margin or we ready in Q3 here now running back at optimize margins.

Mark Barrus: I will let Gary jump in on this as well. There are couple of unusual items that I think we talked about, we don't need to go back to those I guess somebody wants to but they don't get this all the way back to the period-over-period 44% is what we are looking at last year at this time. And obviously, even with the adjustments we were probably in the neighborhood of 7% or 8% seven percentage points [?] event.

So there is a couple of factors one factor is that when your volume tends not to be using as much that you don't absorb as much of your overhead and your labor and that catches you in the form of variance which has happened to a bit to us this quarter.

The other thing is that if you think that the overall journey that we are on with the company in terms of resetting things we feel like the top line has got a lot of attention, we think that the SG&A cost while they are not where we want to be are under control in the sense of - they are running about the same year-over-year when you strip out some of these crazy items.

So the base there is coming along its very piece that really resources are being identified and added to and the manufacturing for that really is the last of our homework. I think that we have to do to get those numbers back. Gary, you might want to elaborate on that similar stuffs.

Gary Medved: And you thought some of the stuff that you will hear from Investor Day. Moving to cellular manufacturing around the floor and automated packing machines and so forth. So the hierarchy here is like lean manufacturing continuous improvement and I was just meeting with Carl this morning going over a number of initiatives that are taking place on the floor. And when we got here with our private label business and order size, there is a lot of small orders so just happened to flush through during the second quarter.

And there was some bode well from the efficiency standpoint, because for the way we make products would rather just set up and run 50,000 of the same thing not small, much smaller micro lot sizes. And then labor markets are getting tighter and tighter as everybody can test to. And so we are not immune to those, the labor shortage out there. And so with the labor shortage comes with, well, let's get this order done and jump out of to that orders. So it doesn't leave the question to build inventory and in a more efficient manner.

So I think those two items contributed heavily in the second quarter. And we are taking a look at the smaller life size and outages and to do more with those on a manufacturing cell base and the label, at least right now, we got it under controls where we are starting to build inventory levels back up. So should see improvement in the third quarter.

Andrew Shapiro: Okay. And would you guys discuss on what has changed and what has not changed with respect to your offering into the tactical and law enforcement market? And elaborate on your rationale supporting your shift resource allocations and perhaps a breakdown. Just the bigger items that comprise those excess cost? Is it a lease or what are the costs of getting out of the less recently munitions business line?

Mark Barrus: That is a good question. I will handle the cost side of that. And Gary may talk more about the strategy. But on the cost side, we are booked about 140 and we have a little bit more to accrue in the third quarter - point but most of us in 140.

Largest portion at about 110 was the cost of inventory that we had in Florida, that we were not able to basically, it is difficult inventory to dispose of, because it is regulated as an issue. So we entered into an arrangement with a supplier that was able to take that inventory and remove it from our warehouse. And also, at the same time cancel our three year fixed lease that we had in Florida, which we ended up paying another 10 grand on that.

So most of the 140 was in the cost of the inventory that we need more relieved and the lease termination payment, which was very, very, that is cost together or less than the cost of the lease would have been. So it really was done at a pretty reasonable amount. The rest of the 140,000 which is deposits and some samples and things of that nature more material.

Andrew Shapiro: And when you say a little bit more this quarter what is a little bit below 50,000, below 10,000?

Gary Medved: Yes well below 50 yes.

Mark Barrus: Well below 50. Yes.

Andrew Shapiro: And then they just elaborate on your strategy and rationale supporting the shift. I know you explained it to me a little bit at the annual meeting but for the benefit of our listeners.

Mark Barrus: Yes we have two product lines we have been selling for a number of years and that is the take downline gel, stream, - foam as well as another product line which is the PG Guard product line for prisons and jail sales and things like that.

So those two product lines have been here for a while and then the company entered into the munitions business in 2018. I guess is our full go add it and getting the bunker and everything the supplier lines off and bringing on the training company that could go around and do training on the munitions and when we speak of munitions we are strictly talking about stuff that go to boom for the most part, flash bangs and ear-piercing grenades and the like.

So there has a blast strips [inaudible] doorknobs off of build in when they want to enter a building and the type of stuff you see in Hollywood movies that is the munitions line. And heavily regulated by the APS there is a lot of talk to come with that you can't outsource that you have to every company employee at that bunker with that products they control it.

So that is just on our side of it and then when you go out and try to sell this stuff and this is why when I came in earlier this year I wanted to give a 90 to a 180 days review and see if the needle could start moving if we got behind it and so we put all these resources in place, reps training catalogs, the whole nine yards and quite honestly I think what everybody overestimated or underestimated was the amount of time and how long it is going to cycle it. It is extremely long.

And in my opening comments I mentioned $20,000 of month end savings and I can tell you Andrew its much higher than 20,000 per month and so I was left with the decision that keeps pumping that type of money and every month-after-month-after-month with selling cycle that might be as long as a year or two. And then even then when it does get it is going to the dollar volume.

And the other part of it make the decision little bit easier was the fact that we did not - unlike the take down line of product which we manufacture right here Cleveland we do not manufacture those munitions. So there is an extra step in the cost side of it and what happens is when you are competing with companies that are actually manufacturing their own munitions that you have to purchase them from outside stores your margins get pinched really-really quickly.

So I thought that they are now [inaudible] scenario in terms of sales and the cost over the next year or two we would then incur get into that level of sales and with the margins that I would expect that point of time know that there was the price increase coming in a couple of months this year and I looked at the whole place and it just didn't spell mother lode it just had bigger run and I'm going to touch base and run at this point we are going to close it down and redeploy the assets more powerful project ahead of shorter time line in a much quicker payback. So that was the detail in a nutshell of the thinking.

Male Speaker: Thanks Andrew and Operator I think we gone a bit over. So if you could, I think we would like to wrap the call at this point.

Operator: This concludes today's conference call. Thank you everyone for participating. You may now disconnect.

Gary Medved: Thank you.

Mark Barrus: Thank you.