Conference Title: Mace, Inc. Q3 2022 Earnings Call

Date: Tuesday, 2 November 2022

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Mace Security International Third Quarter 2022 Earnings Call. Currently, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. During this time, if you'd like to ask a question, please press star one on your telephone keypads. Please be advised that today's conference is being recorded. I'd now like to turn the conference over to your first speaker for today, Remi Belzinskas. Thank you, sir. Please go ahead.

Remigijus Belzinskas: Thank you, Marjorie. And good morning, everyone. Joining me on the call today is Sanjay Singh, the chairman, and chief executive officer of Mace. Please visit corp.mace.com under newsroom where you can find additional materials, including the financial statements and OTC QX report for the third quarter end of September 30th, 2022, as well as our Q3 financial overview presentation.

Before proceeding, I would like to point out that certain statements and information during this conference call may constitute forward-looking statements and are based on management's expectations and information currently in the possession of management. When used during our conference call, the words or phrases such as will likely result, are expected to, will continue, is anticipated, estimated, projected, and intended to or similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks known and unknown and uncertainties including but not limited to economic conditions, limit of capital resources, and disruptions in domestic and international supply chains. 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 turn the call over to Sanjay [inaudible] some comments about the [inaudible].

Sanjay Singh: Thank you, Rem. Good morning, everyone. Thank you for being here on this call. The third quarter continue to be very challenging as expected. While our top-line revenues continue to trend lower than prior year, the decreases are beginning to moderate at a lower trend. Our revenues for the quarter increased by 26% versus the second quarter of 2022, including an increase by 54% in online sales on mace.com and 69% in the sporting goods segments. The orders from a larger price-sensitive customers have continued to be slower for the entire year due to lowering of inventory and demand. But we are beginning to see an uptick in orders from other retailers compared to the previous two quarters this year.

In October, we announced the completion of a restructuring that began earlier this year, this involved cost reductions, revenue expansion, and specific segments that are relatively less impacted by inflation. Increase in operating efficiencies to nullify cost increases and are targeted working capital reduction. Those action plans were completed in the last quarter. This resulted in an adjusted EBITDA of 124,000 for the quarter ended September 30th, 2022. We lowered SG&A costs by 26% when compared to prior year and increased revenues on mace.com by 144% and by 16% in the Sporting Goods segment. We expect additional revenues of two to $3 million from the addition of new retailers, new products, and other initiatives in the coming quarters, including the partnership agreement with Legal Heat to offer fee-based training across the USA.

The risks of a national economic recession may alter those projections by a meaningful amount. Our sales to non-traditional customers in the hospitality and healthcare industries continue to be higher than last year, mitigating some of the decreases from the retail segment. We're also working on several co-branding opportunities and expect to formalize agreements in Q4 of this year and Q1 of next year.

The company's focus continues to be on the following operate to a positive adjusted EBITDA, conversion of new business including retailers, promoting both our new products to the base business while delivering on our operating efficiencies. I will now turn the call over to Rem to comment on the third quarter 2022 financial results.

Remigijus Belzinskas: Thank you, Sanjay. Our third quarter 2022 net sales were 2.5 million, a 34% decrease from 3.8 million for our third quarter sales of 2021. Retail sales decreased 32% and e-commerce sales decreased 36% compared with the same period in 2021. Sales were down across all sectors of our retail customers as point-of-sale traffic remains slow.

We knew that this year was going to be challenging given the inflationary headwinds, last year, we came into a third-quarter still with a significant order backlog coming out of 2020, resulting in sales in Q3 2021, which were higher than Q2 2021. We did not have the same level of backlog heading into the third quarter of 2022.

Gross profit for the third quarter decreased 558,000 or 37% from our third quarter 2021 results. Our margin rates in the third quarter of 2022 were 38.3%, down almost two points from the 39.8% rate we achieved in the same quarter of 2021. Margins decreased in the third quarter of 2022 over the third quarter of 2021 due to increase in component and freight costs, the effect of which was partially offset by lower manufacturing overhead and manufacturing efficiency improvements.

SG&A expenses for the third quarter decreased by 222,000 to 1.1 million or 43.5% of net sales. Professional services expense in the third quarter, 2022 decreased 89,000 compared with the third quarter of 2021, primarily attributable to a decrease in digital marketing expenditures in Q3 of 2022.

Remigijus Belzinskas: We had a $54,000 reduction in outside sales commissions, which was directly correlated to the reduction in sales. Bad debt expense was 51,000 lower in the third quarter of 2022, compared with the third quarter of 2021.

Our lower sales volume and higher manufacturing costs resulted in a net loss for the quarter of 233,000, which was down from our net income of $142,000 in the third quarter of 2021. Third quarter adjusted EBITDA was income of 124,000, down $192,000 from $316,000 in the third quarter of 2021. The decline in the bottom line is attributable to lower revenues. We experienced a decrease in our borrowings position during the third quarter, reducing the amount drawn against our line of credit from 865,000 at June 30th, 2022 to 715000 at September 30th, 2022.

With the supply chain delays experienced in 2021 and early 2022, we had inventory orders that were in progress and could not be halted without a financial cost or implications on future inventory order fulfillment. As such, we currently have a lot of our cash tied up in convertible and saleable inventory. 45% of our inventory on September 30th, 2020 to its finished goods. We have manufactured and assembled products for our typically high-volume movers and continue utilizing targeted promotions for a slower moving and higher inventory positions. In an unusual manner, the supply chain challenges leading to our higher inventory level has better positioned us for timely order fulfillment as the selling season ramps up.

We have successfully scaled back future purchase orders and during Q3 2022 have reduced our inventory $591,000 since June 30th, 2022. I will now turn the call back to Sanjay for some additional comments before we take questions.

Sanjay Singh: Thank you, Rem. The entire team performed well to execute on the actions that resulted in landing new retail customers, increased operating efficiencies, and formalizing our co-branding partnerships. Our marching orders are to operate to a positive EBITDA land at least four new retailers annually, scale the processes needed to fulfill orders for our new retail customers, and further increase online revenues.

We're excited to mobilize revenues from a recent co-branding partnership with Legal Heat and are looking to finalize other deals in Q4 that will result in additional new products. The list of initiatives is quite long and we are allocating our energy and resources to those in a thoughtful fashion. We're excited to have Margaret Jordan join Mace's board of directors for advice on business development, strategy, and lead generation, especially in the new line of personal defense training, will be very helpful.

A quick reminder. We will not address or respond to any questions pertaining to our ongoing strategic alternatives project. The company has retained financial and legal advisers to assist with this process. At this time, I will stop and open the lines for questions. I would ask each caller to limit themselves to one question with one follow-up to allow everyone a chance to participate. We have additional time; we'll try to get you back into the queue. Marjorie, please open the line for questions.

Operator: Thank you, Mr. Sanjay. Ladies and gentlemen, as a reminder, that is star one on your telephone keypads if you'd like to ask a question, we'll pause for a moment to assemble that queue. Our first question comes from Vijay Marolia.

Vijay Marolia: Hello, this is Vijay. Can you guys hear me?

Remigijus Belzinskas: Yes, Vijay.

Vijay Marolia: You talked about inflation, which I know is a big problem for everybody. Could you give us a little more color on what kind of line items, areas where the inflation is more troublesome?

Sanjay Singh: Though we are seeing inflation impact in a couple of different areas. One is freight. Just over the last 12 to 18 months, we've seen increases in our raw materials as well that are coming in from Asia. And we've also seen increases from some of our other suppliers in even in terms of new when new product introductions, in terms of tooling costs. So, it's pretty much across the board.

Vijay Marolia: Okay. And just a quick follow up. I thought I heard something about the bad debt expense. So, could you repeat what you said about the bad debt expense and let us know if there's any trends that you see within the bad debt expense?

Remigijus Belzinskas: Let me let me take that, Sanjay. We had some one-off provisions made a year ago, those did not repeat. And so, we recognized a lower bad that expense this quarter.

Vijay Marolia: Okay. Thank you. I'll get back.

Operator: Our next question comes from Andrew Shapiro.

Andrew Shapiro: Yeah. Hi. I had a few questions here about the new customers that you've been announcing, in particular, regarding the two new retailers you mentioned on the August 2nd call from whom you thought might result in incremental annual revenues going forward of 1.8 to 2.3 million. Given that size and the cadence in which you announced them, I assumed one of those was the Napa auto parts, but was mid states or some other customer, the other one?

Sanjay Singh: It was mid states and Cornwall. Those were the three as of August that we had landed.

Andrew Shapiro: So, it wasn't two as you referred to in the call, it's going to be three that would generate that. And we're the initial orders you expected received, and do you still feel that there added annual revenue? I guess of those three. Was remains within the 1.8 to 2.3 million range. And your new kind of estimates of two to 3 million incremental sales, I guess would include Dollar General.

Sanjay Singh: At the time that we announced that going from memory, we had not formalized anything with Dollar General that just happened a few weeks ago. So, Dollar General will be incremental to what I had stated earlier. The projections that we had provided before that were based on forecasts from our customers. Obviously, those things can always change whether they could go dramatically up or down. We can't really predict that, but we are certainly operating to their forecasts. But things can change and we're very cognizant of that.

Speaker: Right. Now, were the initial orders you expected received?

Sanjay Singh: Yeah, we've been receiving orders. Yes.

Andrew Shapiro: Okay. And the cadence for this, the sales and collection cycle, etc., about how long a turnaround is it for an order to be shipped and converted into your recorded sales and then accounts receivable and gross profit. And how long before those receivables get converted into cash?

Sanjay Singh: So just to offer a clarifying point to your last question, we have seen orders from mid-states and Cornwall. We haven't seen orders from Napa yet. They were just on boarded. The typical cycle from any of these retailers is a turnaround within a couple of weeks, unless there is a significant bulk buy that may stretch out to a following months or four weeks. Typical receivables are on an average of between 60 and 70 days and you see gross profits and all of that recorded within four weeks.

Andrew Shapiro: Okay. And so, the Q3 numbers that showed the sequential growth from Q2, none of Napa. If you have no orders from Napa yet, do you expect to get some of those within the fourth quarter to ship within the fourth quarter.

Sanjay Singh: Yes, we are working with Napa to - they have a lot of owner operated stores. We are working with them to roll out our products in a proper manner and the proper strategy. We have offered them training through our new training partnership pepper sprays, a brand-new product for them, with any of these retailers, there's always concerns, so we are navigating all of that at the moment. But we received a forecast from them and we are operating to that forecast. But we do have to navigate some of these issues until we start seeing orders from Napa.

Andrew Shapiro: Okay. And then when do you expect to see orders from Dollar General?

Sanjay Singh: The first quarter of next year, latest by the early part of the second quarter.

Andrew Shapiro: Okay. Is the long-time lag a function of getting the electronic interface that took you so long with Napa, or is it just the long-time lag tied to the fact that you're a new SKU for them with a seasonal reset that's usually spring?

Sanjay Singh: I would say it's a pretty typical timeline. It takes a couple of months to get our SKUs in the system, get the EDI kinks worked out as a very stringent sort of test to make sure that things work properly, information is going back and forth between our system and theirs. And then it starts off with an opening order that goes out to the majority of their stores. So, I would say it's a typical sort of pattern that we see with these retailers, especially the larger ones.

Andrew Shapiro: So, when you're opening order goes with them, you're going to go into all the regions or you're going to go into a particular geographic region first? Or I'm trying to get an example of how many doors that original order.

Sanjay Singh: 10,000 [inaudible].

Andrew Shapiro: 10,000 stores. Okay.

Sanjay Singh: We are starting out with 10,000 stores Andrew, and then gradually will be in most of their almost 19,000 stores.

Andrew Shapiro: Okay. So, about half their network initially and then rolling out and with Napa, how many doors do you expect you'll be shipping to at Napa?

Sanjay Singh: 5000.

Andrew Shapiro: 5000. Outstanding. I'll back out into the queue. I have plenty more questions.

Operator: For our next question. We'll go back to Vijay.

Vijay Marolia: Hey, guys. I thought I heard you mentioned regarding your sales initiative, something regarding hospitality, lodging. Did I mishear that? Or if I did hear that correctly, could you repeat what you said? Add a little bit more color.

Sanjay Singh: Yeah. So, we are seeing an uptick in demand for personal alarms from some of these B2B segments, like hospitals and hotels. And it's all-around personal safety, safety for their employees. So, they're buying hundreds and thousands of alarms.

Vijay Marolia: Well, we should talk more about that when we're not wasting other people's time. But I think that's a great initiative. I think it's something that we mentioned before. But we have a lot of connections in the hotel space and the franchise space. So whatever help we can be, we would like to be. So, we'll talk about that later. But congratulations. Thank you. I'll back out.

Sanjay Singh: Thank you, Vijay. We'll take you up on that.

Operator: And we'll next, go back to Andrew.

Andrew Shapiro: Hello.

Sanjay Singh: Yes, we can hear you, Andrew.

Andrew Shapiro: Okay. I didn't hear her announce that I was next up in the queue. If you're experiencing continued growth in your costs here, presumably your competitors are as well, can another round of price increases get put through that would be accepted by your retailers?

Sanjay Singh: Yes, we have plans to do that. So, we're planning on rolling it out.

Andrew Shapiro: Okay. And let's talk about this new line of business and your thoughts on where this was. First off, in your Q2 call in August, you referred to a new line of business in the line of completing our end consumers sort of buying journey. Was this the new Legal Heat joint venture that you were anonymously referring to?

Sanjay Singh: That is correct.

Andrew Shapiro: Okay. And with respect to Legal Heat, what do you feel is the realistic addressable market size for this new line of business? And what's your role? Some of the terms that you could share the capital or expense contribution requirements that Mace has to put up as a partner here and the various revenue streams to Mace in this new line of business you foresee.

Sanjay Singh: Okay, I'll take that point by point. So, our new strategy with any new initiative is to bring on partners with a licensing deal and a co-branding deal where there is no additional capital that is incurred by Mace. The idea is to partner with like-minded folks who are interested in solving problems in terms of innovation or services in the case of Legal Heat that align with our mission of empowerment of the individual family and the community and sharing a fee with them, a licensing fee or royalty fee with them for allowing our brand name to be associated with these partners.

In terms of the addressable market with Legal Heat based, on our projections then it's merely a projection, but it's based on extensive research and having talked to several people who have provided these kinds of services is we could hit $10 million, but it will require obviously a significant amount of execution and other tactical details that need to be flushed out. When we decided to partner with Legal Heat, they have a substantial presence, and most importantly, they have a learning system that they use for their firearms training, we're just going to use their systems and we will not be creating our own. And that is part of the reason why we decided to partner with them.

We are building the curriculums. Those are being built at Mace. Both the parties will market the services. So, it remains to be seen. We're paying very close attention to rolling these classes and these lessons out. We are looking at partnering with existing retailers as well as offering it to new retailers in terms of training. And there is one particular retailer that is our customer is their customer as well, and they are already in talks to offer this type of non-lethal training to this one particular retailer.

Andrew Shapiro: So, this sounds like what I've been asking for years, and I just want to clarify. So, the 10 million I know it takes time to build that, is that 10 million in revenue to Mace or 10 million in total revenue for which we get a portion of it?

Sanjay Singh: That's the total revenue that Mace would show on their financial statements. All of the entire model is based on delivering a very specific level of EBITDA, so the way the arrangement works is whether the billing goes through them or us, we have a piece of the action. And so, if 10 million is the billable by - is recorded by Mace, then a certain amount of costs that we incur in this partnership will also be shown, or it'll be shown just as the incremental top line, which is the difference between the costs and the revenues. It depends on who captures these customers. So, we elected to keep it really simple, to keep it very straightforward and uncomplicated.

Andrew Shapiro: Right. So, in other words. Depending on the source under Gap, you may have a 100% revenue line that drops to the bottom line as such as a royalty or licensing revenue. Or alternatively, there's a cost of goods sold component that is going to be separate revenue. Is that right?

Sanjay Singh: That is correct. So just this is purely a hypothetical example. So, say we bill $10 million in terms of these lessons and training across the US, there will be a cost of goods sold and it's purely a theoretical number, and say that is 7.5 million than 2.5 would be recorded as the EBITDA in that scenario or 2.5 would be recorded on the revenue line with no cost, depending on who builds the [inaudible]. Yeah.

Andrew Shapiro: Okay. So, it's a question then of who sources it because one's high margin, one's enormous margin, and the other is lower margin than your gross profit line, but higher margin than your EBITDA line. Right? Are you going to break this out so we'll know this kind of stuff? I think when we start this out.

Sanjay Singh: Yes, we'll break it out if the data presents itself. I'll leave it up to Rem to answer that question about how he's breaking out or different types of reporting. But again, we're trying to keep this really simple. Our end goal is to help people be prepared and have peace of mind and be anyone who's interested in personal safety.

Andrew Shapiro: Well, I understand the whole training concept, but arguably, from the shareholder point of view, our end goal is bottom line, cash flow, and pre-tax income to utilize. That's what brand licensing and brand royalty is about, so that we can create pre-tax income to utilize the company's over $50 million of tax NOLs.

Sanjay Singh: Yeah. This is a profit-making venture, no question. That's how we've structured the model.

Andrew Shapiro: Yes. Okay, I'll back out. I have more questions. Thank you.

Operator: And our next question comes from Mark Greenberg.

Mark Greenberg: Hi. Thanks for the review. I understood, Sanjay to say in the beginning that there wouldn't be any commenting on the dynamics of the strategic alternative review. But in your last call, you did say that the time frame for that analysis would be completed by the end of this calendar year. So, I'm wondering if you can confirm that. And also related to that, as you're completing this strategic alternative review process, are you going to be reinitiating investor conferences? And if so, what kind of schedule for that do you have planned? Thank you.

Sanjay Singh: Thank you, Mark. Yes, the comments that were made at the last earnings call is consistent with our plans that the timeline is around the end of the year. And now that we have some momentum, we will start participating in investor conferences. We have one on the schedule right now. That's on December 6th. I do not have a financial leader at the moment, so I'll have to figure out how we attend other conferences in the future.

Mark Greenberg: Thank you.

Operator: Thank you. And we'll go back to Andrew.

Andrew Shapiro: Hi. You know, it just crossed the wire, by the way, the timing of which I find kind of questionable since we're all on this call to do this. But it looks like you guys just issued a press release announcing a co-branding partnership with F3 Defense to provide mobile pepper spray deployment systems for the I guess we'll call it perimeter defense of commercial and civilian vehicles. Can you provide some additional color and insight onto this as to the timing, the addressable market kind of the term. Some of the similar questions I ask about from the Legal Heat training deal that goes along with what you guys just announced. Maybe give a little more color since those on the call here probably don't have the benefit of seeing this press release that you just issued.

Sanjay Singh: So, this is a brand-new venture. It was launched by a gentleman in Maine, Mike Mercer, and I know you're familiar with him, Andrew. And this particular venture really would be looking at the trucking market, the automotive market. The timeline for this is we're hoping to record revenues this quarter. That's our expectation. We just signed the agreement and we just started getting this program going. But leading up to the signing of this agreement, our sales folks have been coming up with a targeted marketing approach, working with Mike Mercer. So, all that is going to get played out in this quarter. My sense is that the revenues this quarter will probably not be a very significant number given that we're already almost one month into the quarter.

Andrew Shapiro: Right. But when do you expect then these products will be marketed more broadly? Does F3 bear all of the marketing expense or will there be some marketing dollars for Mace? And what's your role in this joint venture? And I guess the SKU unit size that's being sold? It seems like this is a very interesting way of first off, enhancing the Mace brand into a kind of a different use case, but also selling some large containers of pepper for every unit sold to these commercial semi-trucks or to individuals passenger car, we'll call it carjacking defense system.

Sanjay Singh: Yes. So, the marketing and sales will be done by us. We are relying on Mike's design and concept. We are the provider of the spray and the marketing and selling activities are going to be done by us. And the timing of that is this quarter. That's the expectation.

Andrew Shapiro: Now, is this something that your customers like AutoZone and maybe Napa auto parts and [inaudible] this nice segment that you've been building in the, we'll call it automotive sector, is this something that they have kind of seen from you already and have an interest in potentially retailing? Or is this going to be just a direct sale on mace.com?

Sanjay Singh: Oh, no, we are going to go out to automotive retailers and any other customers in the trucking segment, trucking associations. And we will be offering this product not only online but to our existing automotive retailers as well.

Andrew Shapiro: And have they seen it already and expressed some interest?

Sanjay Singh: They have not seen it. No.

Andrew Shapiro: Okay. All right. Excellent. You discussed in your last call some co-branding opportunities you expected to formalize. Obviously, this was one of them. Do you have others that are in the hopper and what's the expected timing of those?

Sanjay Singh: Yes, there's one that we have already signed and the product is being repackaged to Mace's design and branding guidelines. We have not issued a press release on their product because the product is not available at the moment. So that has already been done. And we are expecting to release that in the fourth quarter as well. And then we are looking at two other opportunities. One is within the female segment, specifically in the female segment that might spill over to the male segment, but it's a company launched by a young woman who's very big in the personal safety space, especially in the active outdoor segment. And the other one is also a product that will appeal to people who go on daily walks or hikes.

Andrew Shapiro: Okay. And the one that you've already signed that you expect to come out this quarter, can you give a little color on that one?

Sanjay Singh: We expect to come out with the product this quarter, we are encountering supply chain delays. As a matter of fact, based on our project plan, we are running about 30 days behind and we're seeing some of these supply chain issues. So, until we can reassure this product, we won't have a really good handle on the timing. But we are pushing for it to be introduced in the fourth quarter. We're pushing pretty hard on this.

Andrew Shapiro: Oh, no, I meant a little more color not on its timing, but more on the kind of the product. You talked about, two more in the hopper, one that involves kind of daily walk issues. The other one was this active outdoor segment, the one that you already have signed, that you hope will go here in Q4. What segment or what use case is it intended to address?

Sanjay Singh: It's in the same segment. So, people who ride bikes, motorcycle riders, people who go on walks, people who take their children to the playground. It's outside of the home.

Andrew Shapiro: Okay. On the August call, you referred to a new product other than Pocket Hero that moved from Q2 to Q3 that solved a significant problem, which you couldn't mention at the time. Are one of these products that or is there some other new product that's more internal that you have lined up to be releasing?

Sanjay Singh: That was one of these.

Andrew Shapiro: That's the one. Okay. And regarding Pocket Hero, can you update us on your initial experiences with Q3's introduction of the Pocket Hero and its novel form factor online? And I guess by now you probably have some indications of its sell-through at AutoZone, and has AutoZone placed second round of orders yet?

Sanjay Singh: Yes. AutoZone has placed a second round of orders, and it's selling very well, both online as well as in retail. The diagnosis on why it's doing well, and actually one of the items of feedback was from one of our shareholders who actually paid a visit to the Mace headquarters and had the pocket hero with him. But what we found out is it's selling because of the design and our consumers find it innovative, easy to carry, we're already working on a next-gen version. So far so good very happy to see how well it's doing.

Andrew Shapiro: Are you able to offer the product to Mace's other retailers? And how has your experience been with Pocket Hero if you have? And are you making sales of replacement canisters yet, which was part of its design?

Sanjay Singh: Not yet. We saw a pretty significant demand. So, we've been managing the demand. There is a plan to come up with a newer version of much-improved design from the first generation, and that is also slated for this quarter.

Andrew Shapiro: Okay. Awesome. I have more questions. I'll back out in the queue.

Operator: Thank you. We'll next go to Howard Rosenkranz. Howard, your line is open. Okay. We'll move next to Vijay.

Vijay Marolia: Hello, this is Vijay again. You mentioned the marketing initiatives and one of the things that I would consider to be low-hanging fruit because Mace does have a very undervalued brand. I think everybody on the call can at least admit to that. But how do you leverage it? Well, one, as we know that our sales are coming from consumers and we have the distribution base that's going to be set up, we need some sort of a catalyst to action. And so, what science seems to have shown us is that it's going to be either related to story, which creates emotion. Emotion creates action, right? Or music. And so are there any for example, here's the low-hanging fruit. We have probably one of the best founders' stories of any globally known brand. It's a story of good over evil. It's a story of a husband trying to help his wife or in the memory of his wife or something similar. And I'm ashamed that I don't know it, but we should all be ashamed because that should be something that we lead with. So, can you tell me more about how do we tell the story of the brand with YouTube, with podcasts?

Sanjay Singh: Great point Vijay. So, yes, this Mace was founded by Allan Litchman in Pittsburgh when his wife was attacked. That's the story about 50-old years ago. We have hired a branding and a creative asset agency to help us shape these stories and our Instagram feeds. We were a bit constrained for the last few months because we did not have the financial wherewithal to spend the kind of dollars we wanted to. But we hired them this quarter, this past quarter to help us with that, to not only do that but to revamp the buying experience on our website and amongst other things. So, all that is being worked on. So, you'll probably see more and more of that. And as we continue to grow, we will allocate more ad and branding dollars to share the story.

Vijay Marolia: Thank you.

Operator: Well, next, go back to Howard. Howard, your line is open. Apparently, Howard's line is not working. We'll go back to Andrew.

Andrew Shapiro: Hi. Regarding the SG&A you call out in adjusting EBITDA for the quarter certain costs and I understand and support the strategic alternatives process, however, can you expand on what the non-ordinary EPA compliance costs are about and whether these costs were Q3 only or will continue and for how long? And additionally, when and what pace will the transition payroll and temporary labor costs that are carved out run down and off?

Sanjay Singh: So, the transitional costs are related to the consulting costs from Rem, who's on the call, he's our former corporate controller who kindly agreed to support us during this transition and has been. We also had an interim controller for a short while who was supporting us, but our costs were prohibitive. So, we're taking a different approach in that regard. With regards to the EPA costs, we defined what our adjusted EBITDA was going to look like for our lenders six or seven months ago and that's what we are reporting against. And we knew that there were some licensing and registrations and other efforts that we needed to do that we had become aware of that was not part of our normal running the business. And so that's what we are calling those adjustments. Those will continue for a little while, few months, certainly from what we know based on the different projects and in terms of the finance costs as soon as we find a corporate controller that will change things also.

Andrew Shapiro: Okay. I guess we'll just make it then permanent in EBITDA. During Q3, it looks like 700,000 options were granted under the 2012 stock plan that the company sought and received our shareholder extension vote on at the annual meeting. To whom were the bulk of these new option grants paid to?

Sanjay Singh: Rem, can you take that?

Remigijus Belzinskas: Yes. These options were issued to our directors.

Andrew Shapiro: So, all of that was in lieu of - because I know they're not taking cash count, they're taking stock, but for the quarter with 700,000 options.

Remigijus Belzinskas: It's an annual grant, and the size and scope of it is consistent with the past.

Andrew Shapiro: Yes. Okay. Fair enough. And on the August call for Q2, you spoke of maybe 100,000 of international orders which where they have to pay in advance that we're sitting on the dock, so to speak. Yet only 46,000 of international sales were recorded and reported here for Q3. What happened and what are the status of your international orders and sales efforts?

Sanjay Singh: They're still sitting on the dock. We have quite a bit. It's both an external and an internal opportunity to improve. The external is, yeah, they pay us. We rely on freight forwarders to pick up the shipments and there is just a significant delay across the board. And so, we need to figure out a solution to the problem. It was very disappointing to our entire internal team because the inventory is sitting on our floor. It's taking up a lot of space. And then internally we are looking at ways of decreasing our TAC time or processing time to get the orders out quicker. Yes.

Andrew Shapiro: Your Q3 mace.com revenues, you called out because certainly, they've continued sizable growth. To what do you attribute this to and can and how do you keep the momentum going?

Sanjay Singh: So, there are a few factors. I think at a macro level there is just this idea of personal safety is becoming a day-to-day affair for a lot of people. We saw a spike in sessions after that attack on the jogger in Memphis. I mean, it was a sizable increase in sessions for a few weeks. But generally speaking, the work that is being done by our agency based on feedback that is provided to them on what we see on the Amazon platform, is quickly becoming a proxy for our actions on mace.com. So, when we see certain glance words that are getting a lot of traction on Amazon, we pivot and strategize on actions. Similar actions on mace.com and our agency has been very good at providing that expertise and really shaping actions to complement all of that. So, it's both external and internal factors that drew that. But generally speaking, it's mostly demand. Demand is up. inquiry of personal products is up.

Andrew Shapiro: Now, what amount of success do you feel Mace has made in addressing new vertical markets, such as hospitality, the real estate agents, the security guard market, health care? And what new initiatives are you doing to promulgate Mace Brand in the back-to-school sector, either K through 12 or, in particular, the college opportunity since on-campus sales seem to have always been an issue?

Sanjay Singh: Yes. So, the progress, relatively speaking, has been slow. We have two outside sales resources. One is more recent who is our retail expert and the other is an employee who's been with us for a couple of years who understands our business as we've been formulating all these co-branding agreements. But I think relatively speaking, it's been slow. But I think now that some of these things are closing out, all those opportunities, whether it's with F3, whether it's with Legal Heat or by certifying security guards, looking at hospitals, hotels, all that is sort of ongoing and I think it's a matter of how fast we can scale up. So that's currently one of my top priorities, is to reshape that. It may require an additional resource or a slightly different resource allocation.

Andrew Shapiro: Okay. All right. I'll back out in the queue. Thank you.

Operator: Thank you. And we'll once again go over to Howard Rosenkranz.

Howard Rosenkranz: Hi, it's Howard Rosenkranz. Can you hear me?

Sanjay Singh: Yes, Howard.

Howard: Okay. All right. Finally. Thank you very much. As opposed to getting lost in the weeds or as to what you may or may not do in the future, I mean, the track record speaks for itself. The global brand value speaks for itself. In essence track record is hard. There is no evidence that there is any global brand value whatsoever. We're talking about a business that got started 30 years ago and today does a whopping $10 million run rate. So instead of dedicating resources to trying to figure out a hundred different things or going to your next conference to present the story where you don't even have somebody who can present the story, why don't we actually put together a few decent quarters and have some confidence in what the future is going to look like because a year from now, you'll come back and you'll say, "Well, there was social unrest. So that's why we had a decent quarter a year ago. And now it's a tough comparison." Why don't we get into a situation where you can actually make a conference call and not have to have three people do your favors to provide some financial commentary on the call?

So, while I love to get enthusiastic and find out the different things you're doing and where the future may go, I mean, none of it is warranted based on the track record at all. So, let's pull in the horns. Let's not go to conferences. Let's not waste our time. Let's not waste our money. Just get blocking and tackling right, and I think you should put a lot more disclosure into the press releases on these various items that Andrew and others brought up as to sort of the progress you're making in that regard. And that can be the lift-off point. And then hopefully by mid-year 23, you'll be positioned to move more along the curve. That's my comment and/or question I would welcome your comment regarding my comment. Thank you.

Sanjay Singh: Howard, thank you very much. I mean, that's a great point. And frankly, that's the reason why I mentioned that, when I look at the deliverables that are in front of me, do I go spend a lot of time delivering on that and making sure that all of us our team members included versus speaking about it, we do get a lot of inquiries from shareholders that want us in conferences. So, it's certainly a dilemma that we have to figure out.

Howard Rosenkranz: I mean, your market cap today is a whopping nine $10 Million. Essentially, you're trading for one-time sales, which I think is perfectly adequate and where you should be trading today. You have to prove out, I mean, now you have 65 million shares outstanding. So, you'll have to be in a position where you can generate 12 or $0.15 in earnings before you can justify a higher share price. Nobody's going to pay a premium to sales when profitability has ostensibly eluded you for all this time. So, you don't know where these conversations with these third parties are going or I think that's where we stood at the last time, but I just think there's a tremendous amount to clean up and prove out in the short term and that should be the central focus.

Sanjay Singh: I agree with your views, Howard.

Howard Rosenkranz: Okay. Thank you.

Operator: We'll next go back to Vijay.

Sanjay Singh: One last question, Marjorie. We're up on time.

Vijay Marolia: Okay. I'll try to keep this very quick. I did notice, of course, cash balance. We could use more inventories. We have too much. I was at a fintech workshop. This is a public call, so my lawyers have a lot to talk about this and give your ideas. So, there are ways to turn those inventories, those receivables into marketing dollars before Christmas, and should you agree then let's add that to our agenda after the call because I think we're all hopefully on the same team here.

Sanjay Singh: I would love to do that Vijay. We'll arrange a call with you.

Vijay Marolia: Sounds good. Just last question and this is probably easy. Regarding the inventories, regarding sales, are there any ways to track differences geographically? For example, all the data that I'm seeing on our other funds, southeast is growing at multiples versus the rest of the country, and this is of course, just in the US. So, for example, is there a way, or have you seen trends that are specific to Florida, Texas, Carolinas, so on and so forth?

Sanjay Singh: No, it is certainly, there's a lot of activity in the larger cities, I would say. So, pick the top 25, 30 cities.

Vijay Marolia: Is there any demographic data? I didn't mean to cut you off. I apologize. But for example, what we've seen is that population growth or the opposite of population growth is a leading indicator of that regional economy, and so is population growth or the lack thereof taken into account when we're looking at regional initiatives if we have any?

Sanjay Singh: What we have seen is, it is not related to population growth entirely. It is more personal safety concerns. And again, there are various factors at play if you compare, say, a Chicago to, say, a city like Pittsburgh. But those are the kinds of trends we are seeing. We see some of the data online, and we also can see the data from some of our retailers where there's an uptick in activities. There's a lot of...

Vijay Marolia: I just wanted to - I think I mentioned - I missed out a key specific point. So, whereas you're talking about your current sales and historic sales, what I'm talking about is data of the category that we are playing in. So, I'm talking about the people that buy what we are trying to sell. This data does have a very highly correlated - it's very highly correlated to population and demographic trends. I'll back out. Thank you.

Sanjay Singh: Yes, Vijay. Most of our online marketing strategy is driven by those demographic profiles. So, when we roll out campaigns, it is based on those factors. Well, I think we're up on time, Marjorie. So, thank you, everyone, for being on the call. Thank you, Rem.

Operator: Thank you, everyone. And that does conclude today's conference. We appreciate your participation and have a wonderful day.