Conference Title: Mace Security International, Inc. Q4 2022 Investor Call

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Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Mace Security International Fourth-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. You may join the queue at any time by pressing star one on your telephone keypad. Please be advised that today's call is being recorded. I would now like to hand the conference over to your first speaker for today, Rem Belzinskas. Thank you. Please go ahead, Mr. Belzinskas.

Rem Belzinskas: Thank you, Katie, 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 the OTCQX report for the fourth quarter end of December 31st, 2022, as well as our Q4 financial overview presentation. Before proceeding this morning, 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 in the possession of management.

When used during this 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 future periods to differ materially from any opinions or statements expressed during this call. I will now turn the call over to Sanjay for some comments about the quarter.

Sanjay Singh: Thanks, Rem. Good morning, everyone. The fourth quarter, which usually is a store quarter, revenue-wise, was very challenging. We started a quarter with a profitable EBITDA cost structure. As the quarter progressed, orders declined further by 15% in total when compared to Q3 of 2022. However, revenues were up when compared to Q2 2022. Overall, the company's revenues in Q4 2022 were lower by 17% when compared to the same quarter last year. Adding to the organic revenues slow down, a meaningful amount of our backlog did not ship because of delays from our vendors in Asia. The orders from our larger price-sensitive customers have continued to be slower for the entire year due to higher levels of inventory that they're carrying.

This decline was partially alleviated in Q4 2022 with a 70% in e-commerce platform sales, and a 382% increase in sales to international customers compared with Q4 of 2021. In October 2022, we announced the completion of our restructuring that was initiated in Q1 2022. This involved cost reductions, revenue expansion, in specific segments that are relatively less impacted by inflation, an increase in operating efficiencies to nullify cost increases, and a targeted production in working capital. Those actions resulted in a positive adjusted EBITDA Q3 2023. However, revenues in the retail sector declined further resulting in a loss in Q4 2022.

Overall, the adjusted EBITDA loss was $194,000 before the quarter ended December 31st, 2022. We lowered SG&A costs in Q4 2022 by 8% when compared to the prior year. From a proceeding quarter perspective, Mace achieved growth of 10% in sales on mace.com, 18% in e-commerce platform sales overall, and 271% in sales to international customers, versus the third quarter of 2022. 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 expect incremental revenues from the addition of dollar general new product expansion at two other existing retailers that were approved in Q4 2022 to materialize in 2023. Separately, we expect additional revenues in late Q2 2023 and onwards from a fee-based training new line of business across the USA. From a cost perspective, monthly cost reduction opportunities of $100,000 per month have been identified and actions will be taken to deliver the results. From a financing perspective, we're in due diligence with a commercial finance company to arrange a $2.5 million line of credit facility. This is a top priority. The company's focus continues to be operating to a positive adjusted EBITDA and land new business. I will now turn the call over to Rem to comment on the fourth quarter of 2022 financial results.

Rem Belzinskas: Thank you, Sanjay. Our fourth quarter net sales were $2.1 million, a 17% decrease from $2.6 million for our fourth quarter sales of 2021. Retail sales decreased by 50% with one customer accounting for the majority of the decrease due to high inventory levels. Our e-commerce sales increased 70% compared with the same period in 2021. Gross profit for the fourth quarter decreased 243%, or 26% from our fourth quarter 2021 results. Our margin rate in the fourth quarter of 2022 was 33%, down four points from a margin rate of 37% for the same quarter of 2021. Margins decreased in the fourth quarter, 2022 over fourth quarter 2021 due to lower sales volume, increasing component and freight costs, the effect of which was partially offset by lower manufacturing overhead and manufacturing efficiency improvements.

SG&A expenses for the fourth quarter decreased by $100,000 to $1.1 million, or 51% of net sales. The decrease in SG&A expenses is attributable to a $65,000 reduction in digital marketing expenditures, a $31,000 decrease in insurance expenses due to favorable insurance post-audit adjustments, and a $23,000 decrease in legal and professional expenses. Bad debt expense was $46,000 higher in the fourth quarter of 2022, compared with the fourth quarter of 2021, primarily due to the settlement of a disputed receivable. Our lower sales volume and higher manufacturing cost resulted in a net loss with a quarter of $468,000, which was down from a net loss of $313,000 in the fourth quarter of 2021. Fourth quarter adjusted EBITDA was a loss of $194,000, down $58,000 from a loss of $136,000 in the fourth quarter of 2021. The decline in the bottom line is attributable to lower revenues.

Our borrowings decreased during the fourth quarter of 2022, reducing the amount drawn against our line of credits from $715,000 on September 30th, 2022, to $515,000 at December 31st, 2022. As mentioned previously, with the supply chain delays experience 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. We have manufactured and assembled products for our typically high-volume movers and continue utilizing targeted promotions for our slower-moving and higher inventory positions.

In an unusual manner, the supply chain challenges leading to our higher inventory level have - has better positioned us for timely order fulfillment as the selling season ramps up. We have successfully scaled back future purchase orders, and during Q2 2022, have reduced our inventory by $253,000 since September 30th, 2022. I will now turn the call back to Sanjay for some additional comments before we take questions.

Sanjay Singh: Thank you, Rem. We have our work cut out in the coming quarters. Implementing cost reductions and landing new business, and securing a new lender are key areas of focus. 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 advisors 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. If we have additional time, we'll try to get you back into the queue. Katie, please open the line for questions.

Operator: Thank you. If you would like to ask a question, you may signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, star one for questions. We'll go first to Andrew Shapiro with Lawndale Capital Management.

Andrew Shapiro: Hi. Well, let's cut to the chase on a few of these items here, if we can. Your Q4 retailer revenues were down again, mostly, I think it was at one to two specific retailers. Is this market share lost or your relationship remains at the same levels, and it was just overall inventory adjustments, and have either retailer stabilized and reordered in Q1 or even now halfway through Q2?

Sanjay Singh: The majority of the increase, over 75%, was with one retailer that has consistently had very high levels of inventory going into 2020 and 2021. So this is, we don't believe this is a loss of market share, we - one of our other private labeled customers that sells to this retailer, their volume is down with us significantly for that same reason. In terms of the trends, going up in the first quarter, we are seeing - we saw that, but it was just a slight improvement.

Andrew Shapiro: So this particular retailer, the bulk of which was a sizeable revenue decline, who had the inventory issues, have they stabilized and done some reordering in Q1 or even now halfway through Q2 from you?

Sanjay Singh: They have the, the trends are moving in the right direction. They're nowhere close to where they were in Q4 of 2021.

Andrew Shapiro: Yeah, okay. Fair enough. Okay, and the other follow-up, a big kahuna here, is from reading your newly filed financial statements, I understand that a commercial lender who was going to replace Fifth Third, your current provider of your working capital line that's expiring soon, inexplicitly failed to close on that new loan on May 1st. And you have this new commercial lender you are progressing with. What is the status and timing of getting this new lender in place and what is the status and timing of having Fifth Third provide the necessary extension and time to accomplish this refinancing?

Sanjay Singh: So where we are with Fifth Third is they have given us a term sheet for an extension of up to 60 days, and we are - we owe them some information. And the new lender is expecting to close within the next four weeks, four to five weeks.

Andrew Shapiro: Okay. And you have a term sheet from the new lender?

Sanjay Singh: We have a term sheet from the new lender.

Andrew Shapiro: Okay. I have several other questions. I will go back out in the queue. Hopefully, you'll come back to me.

Sanjay Singh: Thank you.

Operator: Thank you. We'll take our next question from Vijay Mallya with Legal Point Capital.

Vijay Mallya: Sanjay, do you have any plans for - in terms of new marketing initiatives?

Sanjay Singh: We do. We'll have to line up our financing and all of that first, but we do - we have a couple of different initiatives that we are talking to an outside party to help us move some of our saleable finished goods inventory.

Vijay Mallya: And - okay, a follow-up question would be, is there anything that's going on differently on the international front?

Sanjay Singh: Yes, we are seeing a substantial increase in inquiries. This is all of - most of last year continuing through this year. Whether it's from Europe or South America, those strengths continue.

Vijay Mallya: Okay. Thank you.

Operator: Thank you. We'll go next to Andrew Shapiro with Lawndale Capital Management.

Andrew Shapiro: Hi. Thanks. Some follow-up questions, if I could. Also mentioned in your financials was the possible additional convertible known investment by members of Mace's board and other qualified investors. That's contingent on Mace getting the refinancing completed. If the refinancing working capital's completed, then what is this additional debt being undertaken for and what are the terms contemplated in such additional financing?

Sanjay Singh: The funds are to fund a future addition of retailers as well as a source of working capital, which will be provided by the new lender. So these additional raises, call it growth capital, there are - we have $21 million in our pipeline of retailers that we have identified, and we are pursuing aggressively. And the way the cash conversion with the retailer works is you procure your inventory and raw materials, and that takes about 60 days for the entire production opening orders to be satisfied, and then you collect in another 60 days. So the whole process takes about 120 days.

Andrew Shapiro: And wouldn't the working capital - the new lender's line of credit take care of that or cover that?

Sanjay Singh: Possibly, it could. It depends on what the actual line is and what the terms are. And when we look - when you look at, say, an asset-based lender, it's based on receivables and eligible receivables and inventory. And given our lower levels of revenues, those could be impacted. So it depends on the exact terms.

Andrew Shapiro: Okay. When is the amount to be raised in the terms of this supplemental financing expected to be determined? Will that be after the details of the new working capital lender and line are known so that there will not be an excessive amount of convertibles raised?

Sanjay Singh: It'll be after the - after this new line of credit is established.

Andrew Shapiro: Okay. What's the cause for the debt levels at the end of Q4 to have risen to currently reported levels in your financials?

Sanjay Singh: Rem, I'll let you answer the question you deem fit.

Rem Belzinskas: I think it's a combination of several factors. And I - it would be inventory that was acquired to fund some sales in Q1. And just in general to fund Q1's operations.

Andrew Shapiro: Okay. And did you not disclose that you've made your initial shipment to Dollar General? Wouldn't that have brought the inventory bill down? I guess it would be receivable at the end of Q1 but we're here in May, and I believe the language in your financials discussed how the debt levels were as of the date of the financial statements. Can you clarify what that, I guess, what that date means, or how much longer are you sitting on the receivables from Dollar General from that initial order?

Rem Belzinskas: We have not yet received Dollar General's payment. Is that your question?

Andrew Shapiro: Well, I guess I mean, that would explain part of why the debt level's not down even though you shipped out inventory.

Sanjay Singh: Yes. In addition to that, we have another -

Andrew Shapiro: Go on.

Sanjay Singh: In addition to that, Andrew, we have another program with Dollar General that is - that will affect our revenues positively in the second quarter for which inventory and components have to be purchased in order to satisfy their on-time delivery requirements. And those were purchased in Q1.

Andrew Shapiro: Okay. So your business with them is expanding. Let me do one more follow-up on Dollar General and I'll back out into the queue again. I do have a lot more questions. You announced that you shipped your first order at the end of March. You initially thought you would be servicing 10,000 stores and then expand to most of their almost 19,000 stores. Do you have an indication as to how many doors and stores this original order shipped out at the end of March was initially supplying? And have you experienced any reorders or indications that the number of doors and stores, has increased, or what's the progression you're seeing? It sounds already from what you just answered, is that there's additional product lines that you're developing for them, or building for them that, you have orders for.

Sanjay Singh: So the program that I just mentioned is the Back-to-School program that was already forecasted at the end of Q4. The answer to your question about the rollout to stores, that's - it rolled out to about 10,000 stores. It hasn't made its way to all the stores yet from the DCs. It takes about six to eight weeks and before we will see the POS data about how the products are doing. But locally in Cleveland, they seem to be doing well the - because we've gone out to some stores and looked at it. And in terms of replenishment orders, yes, we already started seeing replenishment orders.

Andrew Shapiro: Okay. I have more questions. I'll back out into the queue, but please come back to me.

Operator: Thank you. As a reminder, star one if you would like to ask a question. Once again, star one for questions. We'll go back to Andrew Shapiro with Lawndale Capital Management.

Andrew Shapiro: Okay. I'll ask a few more than just two this time to let the question queue fill up and/or get my stuff done, if you don't mind. Q4 mace.com revenues continued a sizable growth, to what do you attribute this to, and can - and how do you keep this momentum going?

Sanjay Singh: So that was because of some changes that were made to our website to allow for better interactions with our audience, as well as we targeted increasing our conversions. So it was just the overall look, the way we organized the information, the different categories, better graphics, better assets. We promoted quite a bit on Instagram as well. It's a combination of all those factors.

Andrew Shapiro: Okay. What is the status of the supplier delays that you highlighted contributed to the sales shortfall? And are you making any progress in local shoring your supply chain from Asian sourcing? And do you take over possession and it's not an inventory on your books from the moment it hits the boats in Asia so that you have this longer cycle is more of Mace's financing needs?

Sanjay Singh: So the one set of products that have caused us issues from overseas are stun guns. And we did find a US supplier that I met with at the Shot Show. Most of these manufacturers or distributors in the US all also source their products from China. So we placed an order with a domestic provider. We got an immediate shipment, but it was for a small quantity to fulfill some of our smaller base business orders. But the larger, quantities are still being sourced from our overseas supplier and this is an issue we need to resolve this quarter. Our new domestic supplier also did not follow through on their commitments because of issues that were beyond their control. Their products got held up in Chinese customs.

Andrew Shapiro: Now, do you take over custody and it's on your books and our financing of inventory when it hit - when it leaves Asia and thus if you were local sourcing, yes, there still may be a supply chain issue but this is an issue for your supplier's balance sheet and not Mace's?

Sanjay Singh: Well, so the shorter lead time from a domestic supplier would definitely help our financing needs. However, we - because, number one, we have to pay an advance to our overseas vendors.

But number two, we only take ownership on our balance sheet when we receive the products in-house. Rem, you can confirm that.

Rem Belzinskas: That is correct. And our -

Andrew Shapiro: So it's -

Rem Belzinskas: Payment's prior to the goods being shipped.

Andrew Shapiro: Right. So it's just the advanced payment. It doesn't - so it's going to be a prepaid and not on your inventory, it sounds like, until it hits the shore. So - but either way, it's still a cash need in a cash use, correct?

Rem Belzinskas: That's correct.

Andrew Shapiro: Okay. Your co-branding, these are activities, in a sense, that shouldn't require as much cash from Mace and could or alternatively, otherwise provide high margin revenue streams in a sense, because you're leveraging off the Mace brand. Let's talk about legal heat and then F3 here. On the last call, you explained the rollout strategy was twofold. One being a high-margin license royalty revenue generated on legal heat-created sales, and the other being direct revenues netted against the cost of generating those revenues. As this product offering is closer to rollout, can you provide an update and elaboration of how you see this new co-branded product being marketed and the timing of generating revenues and cash flows to this company? And do you still feel this is a $10 million incremental revenue to Mace's addressable market, and why?

Sanjay Singh: So the launch is delayed, and our partners have mentioned that the courses are complete, but when they were doing some tests, they were running into instructor errors. So this is the last update that we received last week. We feel that this is a very, very good opportunity for Mace, both in terms of product sales by these instructors of Mace products, as well as the actual training in stores and through Webinars. I don't have a definitive launch. I mean, the launch was supposed to be in the first quarter, the latest by March 31st, which did not happen.

Andrew Shapiro: Right. Well, I mean, that's the benefit I guess, of getting high margin loyalty is - I mean, that's the cost of high margin loyalty is you don't have as much control. On F3, when you announced the new co-branded product on the same day as last quarter's November call, you had hoped the product would be released and start to generate some orders before the end of that Q4. And I'm not sure whether that was for commercial vehicle defense-like trucks or for passenger vehicles, but did the introduction occur, and for which commercial or passenger vehicle offerings?

Sanjay Singh: The introduction, it was not formally in play at the end of Q4, but it was in Q1. We have several orders in-house in Q1 and the sales team is continuing to work on going after larger platforms.

Andrew Shapiro: And the orders that you've been taking here in Q1, what's the turnaround time to deliver and book the revenue? And were these in both commercial or in the passenger vehicle product offering?

Sanjay Singh: They were both, mostly in the passenger vehicle. But there was an issue with one of the components that, nationwide, was on a backlog for several weeks. We have now resolved it with a replacement component and as of today, the products can all be shipped.

Andrew Shapiro: Okay. So no revenues in Q1 then from this, but you had orders?

Sanjay Singh: No, because of that - the issue with that one component and we have to do all -

Andrew Shapiro: So nothing in Q1 -

Sanjay Singh: On testing.

Andrew Shapiro: Right. So nothing in Q1 but Q2 is going to have revenues from this. And you said you'd be offering the vehicle perimeter defense product to your many automotive segment retailers. Did any of them take actions on those offerings as of yet? Or what's your visibility on the prospects of ramping up that channel?

Sanjay Singh: So we have partnered with a very large automotive parts distributor that will be carrying our F3 line. And that has already been secured and they have placed their first order. As these units to other locations, the value - the revenue values will go up.

Andrew Shapiro: Okay. Now, as I - I see this as a natural benefit of this new product is that have you gained any penetration into the truck stop vertical market with this product offering as well as Entree for your broad line of other pepper spray offerings, which I don't think are regularly seen on the hooks at the truck stops?

Sanjay Singh: The truck stop folks are on our list? There are ongoing conversations.

Andrew Shapiro: Okay. Again, I'll back out in the queue. I have other questions for you. Please come back to me.

Operator: Thank you. We'll take our next question from Mark Greenberg, a private investor.

Mark Greenberg: Thank you. Sanjay, could you give us an update on the sustainability of Mace on the OTC exchange? And if it's going to be removed, what are the implications of that?

Sanjay Singh: Rem, can you take that question?

Rem Belzinskas: In terms of what we're currently on, we did file a notification of late filing for our Q1 2023 financial statements. Once we file those, we will be returned to OTC QX.

Mark Greenberg: And, Rem, can you elaborate on the implications of being dropped?

Rem Belzinskas: From OTC to pink?

Mark Greenberg: Yeah. Is that in jeopardy?

Rem Belzinskas: It's only in jeopardy If we don't file our Q1 financial statements. We'll continue to sit on pink.

Mark Greenberg: Okay.

Rem Belzinskas: But we have no intentions of doing that and we're diligently working towards completing the Q1 filing.

Mark Greenberg: Okay. And you've indicated that you anticipate that to happen within the next couple of weeks?

Rem Belzinskas: Yes.

Mark Greenberg: Thank you.

Rem Belzinskas: The time range was dated May 20th or June 5th, possibly sooner.

Mark Greenberg: Thank you.

Operator: Thank you. We'll take our next question from Andrew Shapiro with Lawndale Capital Management.

Andrew Shapiro: Hi. Thanks. On the November call, you said you started to get orders from the new partnership with Mid-State Distributing and its very large network of farm retailers. Did mid-state orders and reorders continue through Q4 and your recently completed Q1?

Sanjay Singh: Yes.

Andrew Shapiro: Okay. Similarly, on that November call, you said you started to get orders from Cornwall, did these orders and reorders continue through Q4 in your recently completed Q1?

Sanjay Singh: That is - yes.

Andrew Shapiro: Okay. And then, lastly, I would like a little more elaboration rather than yes, no, because these results were not as anticipated. Is - your slide presentation for this quarter said that your program with Napa's on hold for the moment. Can you elaborate and explain why or how you use the word hold rather than gone, as to your expectations on what's going on, so we have a little better clarity?

Sanjay Singh: Yes. so Napa basically, they onboarded us in terms of we were in their system, they gave us a forecast, then they had an internal rollout. Out of all the stores that they own, I think the Napa corporate owns maybe 20% of the entire - in all the stores. And the roll - during the rollout, there were a lot of questions from other store operators. And then they came back to us to help us provide them some support. And we did, in a variety of ways. And they came back, and they said that they were not ready to do the rollout yet. So we were asked to just be patient and wait until the Napa, as a company, was ready to roll out these - the pepper spray products.

Now, we were also told that the - this often happens with the franchisers with other products, and they have to just get - the owners get their buy-in, and that takes time. So at the moment, it's on hold. If they tell us that this is a never-never thing, then we would appropriately communicate that. And what's interesting in this case is there are other automotive manufacturers, retailers that carry pepper spray, and we walk them through any of the concerns that other retailers have expressed in the past and how we got past it. So - but the culture at Napa is different and they're cautious and they want to make sure that their stores function well. And that's our impression. So that's where we are at Napa.

Andrew Shapiro: Okay. So when you shipped, you did ship and make some revenues but only to the company-owned stores or that didn't happen either? And what was the factors that caused them some concerns? Can you share?

Sanjay Singh: Yeah, it was the idea of people who are underage being able to buy pepper spray at their stores, how do they monitor that? It's your typical issues that retailers run into. And not being corporate-owned, that there's a certain amount of independence that the franchiser has in terms of carrying these types of products. Yeah.

Andrew Shapiro: Okay. And, okay, you mentioned, if you're experiencing continued growth in cost, presumably your competitors are as well. Can another round of price increases get put through that would be accepted by your retailers and not further hurt your unit sales?

Sanjay Singh: So there are - the cost increases have begun to slow down in some areas. And there are others where we are now working with alternative suppliers to get much better pricing from our vendors. And we've made some progress there. But in terms of another price increase, I don't believe so. I don't think those will be welcome with any of the line reviews that I've been directly involved in. They're - the retailers are asking for more cost reductions.

Andrew Shapiro: Okay. Now –

Sanjay Singh: More price reductions.

Andrew Shapiro: Even after a sizable amount of tax loss carry-forwards expire in this coming period here, you still have around $50 million of tax NOLs to shield future income, but that obviously needs pre-tax income to monetize and use this asset. Okay. You - I think you're trying to create high-margin royalty streams from your valuable brand name. But what's the focus? On the November call, you discussed three other co-branding opportunities. The first one you had already formalized, you said, but had delays in the supply chain on the product. So you hadn't announced it but had hoped to introduce it in Q4. Of course, here we are in the middle of Q2. This is the product you described as a product to protect or aid people who ride bikes, motorcycle riders, people going on walks, people who take their children to the playground outside of the home.

Now, I don't recall seeing any announcement, not only for Q4 but even in Q1, on that product. And I have a few other questions on the other second and third co-branded ones that you said hadn't then been formalized. But on this one that had already been formalized, what happened? Can you tell us more about the product and its timing, et cetera?

Sanjay Singh: Yeah. So with that particular product that has the - an order has been placed with our vendor, we don't have the products in-house yet. There is a 13-week lead time on the product, and there is a variation of that product that is being worked on. So there are two versions of this product, and we don't have the product in-house yet. In terms of other co-branding opportunities, yes, those conversations are continuing but this whole revenue decline and restructuring our costs, again, and, I mean, we had to change our focus quite a bit. That's a lot just given the size of our team.

Andrew Shapiro: And then the second and third ones that you had described in the November call that hadn't formalized, the first of these two was described as a product launched by a woman who was very big in personal safety space, especially in the active outdoor segment. And the other one that not - was not yet formalized was described as a product that would appeal to people who, again, go on daily walks or hikes. What's the status of these two opportunities? Have they gone by the wayside, have they progressed?

Sanjay Singh: No, no, we are still in conversations. Some opportunities take some time, Andrew, there's a lot of back and forth. Yeah. There's also the idea of capital allocation.

Andrew Shapiro: Okay. And not counting these co-branded opportunities that I've asked updates on; can you provide insight on any other initiatives that are in the works to leverage on this well-known Mace brand name or our purportedly strong distribution channel?

Sanjay Singh: Yeah, there are two others that we reviewed in Q1, and we are continuing our discussions in the second quarter. They probably won't materialize. Maybe one might materialize in the fourth - by the end of the year, because that particular one is - we're helping the designers, the inventors come up with the whole supply chain strategy because they want us to provide all the manufacturing. And then they're trying to raise some capital and to come up with a prototype. So that's where we are with the opportunity.

Andrew Shapiro: It's early stage.

Sanjay Singh: Yeah. The second one, we have a prototype but there is a substantial R&D expense, or the inventor is looking for a reimbursement, which is significant. And at this time, the company really can't get into those types of ventures without showing any immediate sales or EBITDA. So we have to try and figure out a different type of arrangement, and that's ongoing.

Andrew Shapiro: Okay. And regarding the new products, you had a new product this last year. Well, two of them. The one we haven't heard much mentioned, and not sure how well it's done, is the chameleon product. But you've had more quarters under your belt. And have you had and delivered any meaningful custom orders of the product yet that take advantage of the unique inserts? And are you making sales of replacement canisters yet, or do you think it will end up being - this is a product that ends up being disposed of and not generating replacement cartridge sales?

Sanjay Singh: We are selling - both of these products are selling online, that's where it's primarily selling. The Pocket Personal has done okay, and the Chameleon has done okay, but they're - neither of the products are anywhere close to our original projections.

Andrew Shapiro: Okay. And the Pocket Hero, you discussed on the November call you were working the -

Sanjay Singh: Pocket Hero is the one which we, yeah, we call it the Pocket Personal. Those are selling online. It's very attractive to the younger female category, and that's who we are promoting it to. But in terms of ongoing sales, they're ongoing sales, both are selling actively. Yeah.

Andrew Shapiro: Okay. And - but you said on the call you're working on a newer version of the Pocket Hero, or your now Pocket Personal, with a much-improved design from the first generation, and that was slated for introduction late Q4. Did that occur, and is that what you're marketing now? Or when will it occur? And if it's been introduced, how's this reception been? You initially had this product at, not just on mace.com, but in AutoZone. Has interest inside of AutoZone paired off or is it still doing well there?

Sanjay Singh: It's - the interest has gone down; it's not doing well there. The redesign was done because the changing of the cartridges was the problem. It was - consumers found it hard to change the cartridges, so we changed the design, and it now just has pepper. And those are selling. But again, it's mostly a direct-to-consumer program at the moment.

Andrew Shapiro: Okay. And then your slideshow talks about some new products. Is it new products that are like new-new or are these just expanded SKUs?

Sanjay Singh: They're just product line extensions.

Andrew Shapiro: Okay. And when are you expecting those to be rolled out?

Sanjay Singh: Those are going to be rolled out in the coming quarter, so by the end of Q2.

Andrew Shapiro: Okay. I'll back out. I might have one or two more questions if you can come back to me, if there's time.

Operator: Thank you. We'll take our next question from Howard Rosencrans with Value Advisory.

Howard Rosencrans: Hi guys. Thank you. I tuned in quite late. Just wondering about the financial resources or your access to money. I see you went $500,000 into a line, how much further is there on the line? What sort of - do you have to hit some sort of EBITDA or something to - that's the gist of it. Thank you.

Sanjay Singh: Howard, we have a $3 million line of credit. So we are $500,000 into it as of Q4. We do have an EBITDA covenant which we missed in Q4.

Howard Rosencrans: Oh, so you said you missed the covenant. Okay. What is the covenant? How much?

Sanjay Singh: It was a cumulative EBITDA of $100,000 a quarter starting in Q2.

Howard Rosencrans: I'm sorry, starting in Q2 of 2023 or Q2 of 2022. I'm confused.

Sanjay Singh: Sorry, Q3. Rem, do you have the specifics?

Rem Belzinskas: Q3 of 22.

Howard Rosencrans: So starting in the Q2 of 2022, you had to be EBITDA positive every quarter by $100,000? Yes or no, please.

Rem Belzinskas: Starting in Q3, I believe, is the starting point.

Howard Rosencrans: Okay. Q3

Rem Belzinskas: And we failed it in the fourth -

Howard Rosencrans: Excuse me.

Rem Belzinskas: And we failed it in the fourth quarter, as Sanjay said.

Howard Rosencrans: Okay. So does that mean you are not allowed to go deeper into the line?

Sanjay Singh: No, no. We still have access to the line.

Howard Rosencrans: Okay. I'm not that smart, so please tell me how that works. I don't understand that.

Sanjay Singh:

Sanjay Singh: Well, that agreement is expiring at the end of May, so we are trying to find another lender. And we are [inaudible] and a due -

Howard Rosencrans: Okay. So it's May 15th. If you don't find another lender in 16 days, do we call it quits? I'm trying to understand the ramifications of that.

Sanjay Singh: Yeah, we explained it a bit earlier, but I'm happy to do that again. We have -

Howard Rosencrans: Okay. My apologies. I didn't tune in on time. My bad.

Sanjay Singh: We are in conversations with our current lender to extend our term by 60 days.

Howard Rosencrans: So to extend, okay. I'm not exactly - so, I'm sorry. I don't, I don't deal with companies that are this financially challenged. So let's try to get into the nuances, if everybody else understood it, which I sincerely doubt, that's fine. But why don't you entertain me and simplify it for me?

Sanjay Singh: Sure. So your point is valid. We have 16 days to come up with another lender, so we need time. And so we are working with Fifth Third to get us an extension for 60 days until we can get a new lender.

Howard Rosencrans: And so just - so that I understand -

Sanjay Singh: If I can just finish, Howard, that might be helpful. That'd be helpful if I can just finish my thought here. And obviously, the extension will come with its own requirements which may be - which may include a reduction in our access to the line. So that's where we are. Go ahead.

Howard Rosencrans: Okay. Apologize for cutting you off. My bad. So, okay, so that may come with a - Okay. So in the next 16 days, you have to negotiate an extension and there will or will not be new covenants or new - or access to additional money beyond how much you are into them now. We are now May 15, so every other reporting company has already reported the first quarter and we're halfway done with the second quarter. So again, apologies for not tuning in earlier. Did you guys give us any insight into how it's going this year or are we still doing like $2 million in business on a quarterly basis?

Sanjay Singh: We didn't give any specific forward guidance, but the trend is the same as Q4.

Howard Rosencrans: Okay. Okay. Alrighty. So we're just in search of a new line or other financial alternatives. Okay, I get it. Thank you for the call. I really appreciate it.

Sanjay Singh: Thank you.

Operator: We'll go next to Andrew Shapiro with Lawndale Capital Management.

Andrew Shapiro: Okay. Since there was back and forth in interruptions, and I asked this question earlier, and I got teased out of you, at least some additional information that, Sanjay, you didn't share again with Howard, which I can understand why he's in limbo on this. Did you not answer my question that it's not just that you're getting a 60-day extension from Fifth Third with its own particular terms, but that you already have in hand a term sheet from a replacement lender that you thought would be resolved and done in the next 30 days? Is that what - isn't that what you just told me at the beginning of the call when I - we have addressed this?

Sanjay Singh: Yes. We have a term sheet, and yeah, and the - we are in diligence, as I explained to Howard, and that would - that didn't -

Andrew Shapiro: You didn’t explain it to Howard, which is really - Sanjay, you didn't explain it to Howard, which is really frustrating and does not lend to anyone's comfort when, I mean, I understood Howard's question. I understood Howard's concern. I understand why he asked the question since he was late to the call and didn't hear the detailed answers, I pulled out of you. But I just am frustrated. I'm frustrated by the fact that you didn't provide the complete picture and left Howard and others in the lurch by not saying that you have a replacement lender and you have a term sheet from them. Unless it's not a real term sheet and you are hesitant to say it again.

But I'm just - I don't know why you wouldn't be more clear about that in the first place to bring it full circle. I mean, but yes, you say you have a term sheet and in the next four weeks, this issue should be kind of resolved. Does the timing of that play into the timing of when you guys are likely to report your Q1 because you'll have perhaps the debt refinancing picture clearer at the time you make your filing?

Sanjay Singh: We should –

Rem Belzinskas: Sanjay.

Sanjay Singh: Excuse me.

Rem Belzinskas: No, I was going to say, I think we're viewing the two separate events.

Andrew Shapiro: Right. But they're not - they're - so, but you can - you don't have to wait for any audit anymore. So you guys can turn around Q1 and get that out of the hopper pretty soon, right?

Rem Belzinskas: Yes.

Andrew Shapiro: Okay. I mean, I'm just - I'm, I guess I'm frustrated by some of these little nuances, and it almost seems like you are - everything is - you are going to hell in a hand-basket to facilitate some kind of like management cheap LBO buyout here. And I'm not liking it. So I just think that when the questions are asked that you should more fulsomely answer them, Sanjay, than leaving things in the lurch. Because Howard's question was pretty damn clear.

Sanjay Singh: All right. Thanks, Andrew.

Andrew Shapiro: I mean, I, it's a - All right.

Sanjay Singh: I tried to answer the best I could, but no, I understand that he was asking -

Andrew Shapiro: Lastly -

Sanjay Singh: I understand. I don't want to get into a debate on this call. I understand. Noted.

Andrew Shapiro: Okay. Lastly, on the - what success have you been making, if any, in further addressing the new vertical markets that were brought up last - in the last quarter call? That's like in the hospitality industry, the real estate agents, security guards, healthcare. Is it just the personal alarms or are you making headway with other - a broader line of personal defense products now?

Sanjay Singh: At the moment it's personal alarms but we expect to see an interest with our training - safety training as well in the future.

Andrew Shapiro: Okay. All right. And with respect to the convertible financing that you're talking about, to provide supplemental growth capital for all these revenue-generating opportunities you say that need funding, that may be beyond the new working capital line of credit lender. How is the governance set up to ensure that the terms of the new financing that would go on and be funded by Mace board members and other qualified investors are, in fact, arm's length and satisfy director's duty of loyalty towards all the shareholders who might not be able to participate in this private financing?

Sanjay Singh: Well, we're being advised by our public securities lawyer on how to go about this capital raise. And we are following his direction on it. And in the future, we will likely be working with an investment banker to help us do that as well.

Andrew Shapiro: Okay. Great. All right. Well, thank you, much. I know we - the strategic alternatives process is something that we can't talk about, but I would hope that you get your refinancing done to get the strategic alternatives process moving again. Because until the refinancing's done, the new working capital lender dealing with Fifth Third, so that's done, I think the alternatives thing's on hold, or should be on hold, so that you are dealing with and negotiating from a position of stability rather than your backs against the wall.

Sanjay Singh: Right.

Andrew Shapiro: Thank you.

Sanjay Singh: Okay. Thank you, Andrew. Okay, Katie, I think we are at 12:02.

Operator: Please proceed. There are no additional questions. Thank you.

Sanjay Singh: All right. Thank you very much.

Operator: That will conclude today's call. We appreciate your participation.