LGLIR514
Greg Anderson
LGL Group, Inc.
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Operator: Good morning, everyone, and welcome to the LGL Group Q1 2013 earnings report. At this time, all participants are in a listen-only mode. Later you will have the opportunity to ask questions during the question and answer session. You may register to ask a question at any time by pressing the star and one on your touchtone phone. You may withdraw yourself from the queue by pressing the pound key. This call also has a visual PowerPoint component in addition to the conference call. To view the PowerPoint, please click on the "Join the meeting" link you received in your invitation and included in the press release announcing today's call. If you need assistance seeing the presentation, please press star/zero on your touchtone phone and an operator will assist you. I will be standing by if you should need any assistance. It is now my pleasure to turn the conference over to the company's Chief Financial Officer, Mr. LaDuane Clifton.

LaDuane Clifton: Good morning and thank you for joining the call today. With me is our President, CEO, Mr. Greg Anderson. We have prepared a slide presentation for your reference that may be viewed as part of today's web conference. The presentation materials are also available from our website at www.lglgroup.com. We ask that you locate these and use them as a reference for today's call. This call will be recorded and will be available for playback later today on our website. Other financial information and recent press releases are posted there as well. Please note that our comments are covered by the Safe Harbor statement. If at any time you need assistance during the call on web conference, please press star/zero for the operator. At this time, I will turn it over to Greg Anderson.

Greg Anderson: Thank you, LaDuane, and good morning. I'll give – to start with just a quick brief overview of LGL. We're publicly traded on the AMEX. We've been around a long time and we currently have one operating subsidiary that goes by the brand of MtronPTI. Our trailing 12 revenues are right at $30 million; it's a good mix between in and outside of the United States. Today's stock price is very near $5.00. Our market cap is just under 13 – just over $9 million in cash and we are a niche player in a very large market. Our investment highlights; this subsidiary MtronPTI, we're really a large B2B specialty electronics firm, and to speak clearly, we provide what are called "frequency control" solutions, primarily to the Internet communications technology market as well as the aerospace and defense markets. We have a balanced demand. Currently, we estimate that we are 65% aerospace and defense, and about 35% what we call ICT, that tends to be a bit of a dynamic situation depending on the puts and takes of order flows, but today that's what we estimate our market balance to be. We choose to, I'll say, focus where our strengths in IP provides us some differentiations, so oftentimes that ends up around what we call the "crystal" technology for very precise applications that help us create these very special signals in these communication systems. Along with that we tend to focus on where very low noise and very pure signals can provide some differentiation and add some value to our clients; and along with that, besides creating these signals, we have a very nice line of filter technology that really helps clean up these signals, if you will, for both radio and up into the microwave frequency ranges. We do have an enabling platform; it's global. We have multiple US sites. We've got international sales and support, and we have our own manufacturing facility in the low cost labor market in India. We have the ability also in that site to produce some – even these high performance products really in a very low-cost way and that is the differentiator for us as well. We tend to focus where we have a very custom nature to our – I'll call it the specific applications and that helps us to protect our margins; again, sort of this high performance, high value, high-rel kinds of applications where it actually protects us and really provides real value to our clients. When we do that, these product life cycles tend to have long revenue streams. It's not uncommon in our business to see these particular applications run for five and sometimes, even 10 years. We also have a very experienced supplier management team that can help drive cost in the business; so long time experts with long relationships, and know it well. Our growth opportunities, really, we focused on having deep relationship with our OEMs. We believe if we choose these large B2Bs and attach ourselves to sort of these industry leaders, that's our best chance to grow as they grow. We do have share gain opportunities, either with new product development, we invest continually in R&D, and then as this market matures and has over time been sort of a consistent consolidation to the OEM supply base, and we believe that we are in a position to take advantage of that as well. The first quarter results themselves, revenues were right at $7.4 million, that's up 3% as compared to a year ago, down just slightly as compared to the fourth quarter. Gross margins were strong, up over 10% as compared to a year ago and up sequentially almost 2%. Essentially, we operated well. We had some new product contracts and we had strong shipments in the first quarter that also contributed. Frankly, it was just a good quarter for us from a margin perspective and it just demonstrates that this business does have the ability to operate effectively. Our share loss was $0.03, that's compared to $0.20 a year ago – or $0.20 improvement and really again in sort of a favorable mix by the aero/defense market. Backlogs were down slightly at the end of the first quarter about 4% as compared to year-end 2012; and our new orders, they're just not where we want them to be for either one of our target markets. We have a high new product introduction percentage and it's just repeat orders on [unintelligible] previous designs as it continues to be sluggish. EBITDA for the first quarter was just under about -0.5%, really on par to what we had done in the fourth quarter. A year-ago, our EBITDA was -9%. The economic environment itself remains a challenge for us. Frankly speaking, we don't see any notable structural recovery in our target markets. We've got these compounding macro factors that have really started hitting us almost two years ago. We had the Japanese natural disaster and that really had a large disruption in the electronic supply chain, all the talk have laid again around US budgets and the uncertainty and sequestration and the euro crisis, and so we believe sort of those compounding factors are really having an impact on us. We still believe there is cautious infrastructure spending as well, and companies are just not spending at the rate and for all the reasons mentioned right before that. Newer technology is not coalescing as fast as we'd like, so things like 4G and LTE and Internet backhaul kinds of applications, again just the capital, we don't see it being spent and we believe that those delays are having a direct impact on us as well. Probably of note in a soft market, there's plenty of price pressure and it really is in both of our markets, probably more than we've seen in these past several years and so that's actually having an effect as well. If you were to look and read about our comps, you'd see that our key competitors, they've been impacted as well during this down cycle. If we take a look at a financial snapshot of these past 12 quarters, again the green line on the top is gross margin, the line graph towards the middle is our EBITDA percentage, the bars are revenue themselves. You can see where we ticked up again for a couple of quarters in a row on gross margin. We remain sort of breakeven on an EBITDA basis at these kinds of revenue levels right around that $7.5 million. A couple of notes down below just to the right of the table, we've got cash and cash equivalents of just around $3.60 a share. We've got a cash adjusted working capital number of $3.16 and a book value of $9.50. Why do we think we can grow? Well, we'd like to think that we're investing our capital wisely. We continue to make organic investments either to add additional resources to help service our clients. We most recently implemented a worldwide ERP system and frankly, we're beginning to see some of the efficiencies of that investment. We're soon to launch in the next weeks ahead a new website and really, that's again for client service kinds of things where our clients can really have ease of use and really access to the kinds of information and really some of our company experts as well. We continue to look where we can make capacity and capability investments and really all that's around either new products or frankly, efficiencies around the products that we have today. We spent some time looking at joint ventures or M&A; it's not a consuming amount of our time, but we do spend some. Our components are very sticky for the most part. Once we're on a platform, we tend to be on a platform, so when business returns, we do reap the benefits of that. We've talked to you a number of times about where we're making our R&D investments. We are targeting some filtering modules in the software defined radio market. We continue to make investments in really low noise signal quality, maybe for some radar applications, again places where we think we'll have some IP in a differentiated position. A number of our timing products go into what we call "harsh" environment timing or high rail, high performance, creates value both for our clients as well as ourselves. We do have a strong position in commercial avionics and that's been a good market for us in 2012 and we expect the same in 2013.

Below the bar chart is really our 12 quarter roll of our backlog and we can see we're down just a few percent, as I've mentioned earlier. This page is a GAAP to a non-GAAP reconciliation of our past quarters, a little comment; I'll let you take a look at that. So as we work towards growth, certainly the negatives are our major clients, they are just not reporting – I'll call it a strong market for these kind of capital equipment purchases and that's having a direct effect. Existing contracts, they're frankly – they're sluggish and they're under price pressure, so that's a tough one on us. This past quarter was a tough one for cash and that's requiring close management – our close supervision to management by ourselves as we look ahead in these lean times. We continue to have strong new product revenue stream, so that's a reassuring thing to us as we look forward to, frankly, the future when we've got strong new product percentages as a percent of total revenue; it says, at least, we're building a good revenue stream for the future. We still have a strong working capital position in our margins and our operating efficiencies, they remain favorable to growth. Our growth drivers I've talked about, organic growth, repeat orders. We think there is an opportunity to make some investments in India both operationally as well as in sales, and we continue to make strong IP investments in modules and subsystems as we look towards moving upstream in the technology ladder, so to speak. Joint ventures and M&A are also an option for us as well. Our considerations: strong capital positions, experienced management team, joint venture or M&A opportunities at the subsidiary level, many years of experience, a wonderful client list, diverse markets, a worldwide platform, sort of a high-rel, well-known trusted supplier, and really an industry leader for technology. So at this point, I would like to entertain any questions that our investors may have today.

Operator: At this time, if you would like to ask a question, please press the star and one on your touchtone phone. You may withdraw your question at any time by pressing the pound key. Once again, to ask a question, please press the star and one on your touchtone phone. Our first question comes from Mark Spiegel with Stanphyl Capital. Please, go ahead. Your line is open.

Mark Spiegel: Hi! You're talking a lot about a really rough sort of macro environment out there and yet the economy has really been in what I would call a painfully slow growth mode for the last three years at least, not a contraction mode, maybe four years now almost, and a lot of other companies are – they're not doing great, but they're doing like okay. So what's unique about your problems and I guess as part of that, is it whatever these companies would be buying from you, they've been able to just put it off and put it off and put it off, and at what point can they no longer put off upgrading buying things from – infrastructure that requires your products?

Greg Anderson: Well, I'll give you my professional opinion. How is that one's…?

Mark Spiegel: Okay. [Laughter]

Greg Anderson: Yes, because that's – I mean it's a good question; we ask ourselves that a lot, frankly. So in some areas we are growing. So in our aero and defense business, we have grown and frankly, we've struggled with growth in our ICT business, and some of that is really just some severe pricing pressures. So maybe we're getting some top-line in one side of the business and maybe having to give it up in the other. I'm not going to quantify that because there's lots of puts and takes there as new contracts come on and old ones go by the wayside; so I think that would be some of the response. So we do see some of that growth what I would call in that single digit sort of slow that would be, I'll say, similar to what a lot of companies are reporting; and a flipside of it, if you look at some – I was reading about a small semi company this week and they were down 30% year-on-year. So I mean there are spots where it's just like us, where there's been some really difficult, frankly, kinds of down swings, and I think we generally feel that as well. So I view it as our problems are not in growth – I'm going to use those words. Our problems around growth are not related to our new product percentage, frankly, they're healthy. It tends to be these were sluggish on the repeat orders, and either those platforms aren't being bought, they're pushing off the spending, or maybe we're not as competitive, and I wish I knew the answer to all that. It's hard on a business like ours when you've got literally thousands of active part numbers in client systems. It's hard to give a simple answer, but that's my professional response to your questions – it's a thoughtful question.

Mark Spiegel: Okay. A couple of follow-ups, if I could.

Greg Anderson: Yes.

Mark Spiegel: Could you speak to the use of cash last quarter, because the GAAP loss appears to be a lot less than the cash that you used?

Greg Anderson: I'll let LaDuane answer that question.

LaDuane Clifton: Yes. Hi there, Mark. As we came at the yearend, we were closely managing and you'll see in our statements later, there was a significant change in accounts payable. Frankly, as we came into Q1, we had to kind of catch those things up, or whatever, you'd say. So it has a sense of being a one-time event in terms of the magnitude at this point, but we're carefully watching cash burn. Yes, so that's how I'd describe that.

Mark Spiegel: So are you saying it was a one-time event and otherwise, the cash burn would have looked a lot closer to the GAAP loss?

LaDuane Clifton: Yes, it would have been better. I think that we've been managing inventory, it's relatively flat. AR is relatively flat. The working capital items outside of that AP were sort of neutral. It's very much sort of around how AP was managed coming out of Q4 and into Q1. Some of that was related to our ERP conversion, frankly, and so those are all contributing factors.

Greg Anderson: Yes, if I could add, this management team, we consider today's business level sort of the new norm, so to speak, and we're challenging ourselves especially around cash. What can we do to find options and operate more effectively? We're not just going to wait for the next strong cycle. We obviously want to be there and participate for it, but frankly, we're going to continue to take this time to, I'll say, get our business position to where we're managing cash closely. I'll just leave it with that. We're not accepting today's cash rate, if you will, and so we're working on that.

Mark Spiegel: Okay, two more quick questions. What are the restrictions around the restricted cash, because you're including that as your cash balance, so how restricted is that?

LaDuane Clifton: Well, so we use that – essentially, our line of credit with Chase Bank is a 100% collateralized with our restricted cash and so net-net, I mean, it basically offsets that long-term debt or that note payable. So, on a net cash basis, I mean we would simply use it to pay off the debt, if we had to, right away. So it's like almost non-existent if – it's a wash is all I'm saying.

Mark Spiegel: Okay, understood, and last question, and I've been kind of following the company for probably two years now; in fact, I met LaDuane at a conference here in New York and I just – kind of had just been watching it right along and you've probably been at this before, but I don't think I've been on one of your calls before. The company is extremely cheap on an enterprise value to revenue basis. So at what point do you just sell the company? I mean I would imagine that somebody would come along and say, "Hey, I can pick up $30 million of revenue here," and it would be a very nice premium to the current stock price, and yet with the SG&A eliminations, it would be probably instantly accretive for them.

LaDuane Clifton: Well, I think it would be fair to say that right now, take – pick a metric, we're trading it – the operating business is probably trading at $1.50 after liquidation value, $1.80, whatever you want to calculate that as. I agree that there's a lot of value in this business that's now priced in. As far as what you suggest, I would just say that if people bring those things forward, we would take a look at those things, share them in our Board and discuss them as appropriate. No, but I think you're right; the value of this company is not adequately reflected in many ways in our current market price.

Mark Spiegel: Yes, I mean it's kind of a call option at this point. [Laughter]

LaDuane Clifton: [Laughter] Yes, we have cash of $3.59 per share by itself, and then liquidation value, yes.

Mark Spiegel: [I understand. Yes.]

Greg Anderson: [I have something…]

LaDuane Clifton: Yes, go ahead.

Greg Anderson: One other comment there, the industry has gone through a lot of change, many companies are sort of faced with the changes, certain elements of the business become more competitive than others, and it's just sort of like how quickly can we get our company aligned to what I call the new norm, if you will, and so that's a bit of a challenge and many companies in this industry face that. I think we'd get there; that certainly adds some intrinsic value, certainly, as compared to others.

Mark Spiegel: Okay. Thank you very much for taking my questions. I really appreciate it.

Operator: We'll take our next question from Hendi Susanto with Gabelli & Company. Please, go ahead. Your line is open.

Hendi Susanto: Good morning, Greg. Good morning, LaDuane.

Greg Anderson: Good morning, Hendi.

Hendi Susanto: First question for LaDuane. How sustainable is the current gross margin?

LaDuane Clifton: Well, so gross margin, it went up. We went to 32.7% on revenues that were slightly down compared sequentially to Q4. So that reflects two things; first of all, Greg mentioned our continuing work to operate more efficiently and so that's reflected there, but to be honest, we had a favorable product mix, particularly in aero and defense products that were being shipped during Q1 that contributed to that improvement. So I still think sort of around the 30% range is a number that you should model; 32.7%, we might keep some of that, but 30% is more likely what we'd expect in the next few quarters.

Hendi Susanto: Okay. Yes, and then in terms of understanding your product mix, Greg sounded pretty upbeat about new product revenue stream. May I know how you define new product and what the split of new versus old products, and what kind of transitions you have in terms of portion of new product versus like old products for the last several quarters?

Greg Anderson: Okay. All right. I'll try and speak to that, Hendi. So we define new product revenues as – and it's a bit arbitrary, but in our definition, we define that as a 36-month rolling from the time that we ship in a prototype to one of our clients. It takes them the time to get them qualified, and then usually their system has to get to market, and then they turn around and place usually smaller orders to us, and eventually it reaches production level orders. So internally, we've defined that time period as 36 months. Frankly, I think it's probably reasonable across really both of our markets. In the past couple of quarters, we've had very strong percentages there and I'll use numbers like more than 20%. I think my experience in 25 years in tech, when you're running that kind of a new product percentage, that definitely means you've got a healthy company, at least, that's getting some return on your new engineering investments. That's not across all of our lines of business, but frankly, it's across most of them. So we're – with our new ERP system, we're actually able to really keep some – I'll call it some better metrics like that and we're starting to get a good feel about some of the returns on our engineering investments, and frankly, right now, we're pleased with that.

Hendi Susanto: Okay, and then if I want to touch a little bit on operating expenses – operating expenses are at the higher level in Q1 compared to the last, let's say, four years. I would think that part of the reason is the higher R&D and investment you are making. So how should we see operating expenses for the rest of 2013?

LaDuane Clifton: So you're exactly right, Hendi. We've been investing in both our customer service and sales support staff as well as in engineering, where we're making these investments. The Q1 level, typically, is a little bit higher as we have audit and sort of yearend type of expenses. So some sort of moderation of the Q1 might reflect a new level. We're going to be very cautious on spending as we go forward through this year, as Greg has mentioned, but I hope that helps to drive it a little bit. I think that level does reflect several of the investments we made – some of the engineering we brought in during Q4, and then actually a full rate in Q1 is reflected there.

Hendi Susanto: Okay.

Greg Anderson: Probably the only thing I'd add there is, we have some strong potential R&D programs, and if they were to, I'll say, maybe catch a little fire with our clients, I would not be afraid of increasing that as well, Hendi. We're probably not going to do that until we see some traction there, but that's actually a possibility; probably wouldn't see that until maybe the fourth quarter.

Hendi Susanto: Okay. Greg, and then you highlighted investment opportunity in sales out of India. Could you elaborate on that further and then when do you think that will take place, whether it's like in 2013 or whether is it more reasonable to assume that it's beyond 2013?

Greg Anderson: Well, we actually do business today with the Government of India. We actually just landed, I'll call it a filtering prototype, just in the last few weeks, and I won't be specific there. Then the other way we do business is indirectly through our large OEMs. So if there's aircraft being sold, those kinds of things from either our – the Boeings and those kinds of folks, it's ends up frankly with the Government of India and so that's we have both direct and indirect sales opportunities. The outlook for that, what I can say is it's probably late this year if we see some notable expansion. We are looking at offsets in the kind of structure to really, I'll say, enable our clients to participate more effectively from a business perspective with the Indian government, and as we think that there's potential in that, we are already positioned for it and we're really pressing to execute. So I believe it would be more likely later this year and next year, but it's certainly an active part of management's efforts at present.

Hendi Susanto: Okay. Greg, you highlighted [three area] for new products' growth opportunity: software defined radio, 4G LTE, and avionics? Could you talk one by one in terms of where they are in their product development cycle and when do you think you will see meaningful revenue streams?

Greg Anderson: Okay.

Hendi Susanto: I would also think that being like new products, it may take time between product development qualification and volume sales. So I'm wondering whether you have any confidence whether you may see that in the second half of the year, whether – you list it as like 2013 growth opportunity, so I would like to dig further on that.

Greg Anderson: Okay. All right. Well, in the software defined radio market, we participate in it today. We have content in software defined radios, mostly in defense applications, and we have launched a new filtering module that actually, to be specific, it helps clean up signals when there are multiple antennas in a given local area. We've provided samples to one of our major clients. We're actually, within the next few days, shipping some prototypes that they will then fully test within their systems. That particular program has a chance for bookings and revenue in the back half of this year, and it could be notable. At this point, I'd rather not comment on it, but these are the kinds of devices that would have sale prices in volume, probably $500.00 a unit, and in low volume maybe even into the thousands. So we're pretty excited about that program; that particular one could generate bookings and revenues in 2013. We have other clients now that are receptive to working with us on that kind of technology. When I talk about [low noise] radar applications, we've got some specialty materials that we believe provide a benefit to performance in sort of these dynamic radar applications. So we've actually shipped some prototypes throughout this year. We've recently attended a conference by one of our large OEMs and we actually presented the technology to their technical staff, and it was well received. So that one, I would say that the bookings and the revenue potential for this year is small and more likely more into next year, but we do believe that it's a growth platform and worth investing in. The last one is in the sort of harsh environment and an awful lot of that is avionics. So we are developing products. We've got some good offering there, but we believe that there's ways that we can extend that and provide more value to our clients, maybe even getting in a bit into the guidance systems that could even end up being on missile systems. So we've got some potential in that area as well, and it's a market we participate well in today, but we think we have more we can do there; and that technology we would be launching – some of it we're bringing into market right now and actually shipping prototypes, and we would have small bookings and revenue this year and actually more next year. In each of these three – they would have near-term revenue potential that could be $1 million to $3 million and how quickly we can materialize, that's our challenge.

Hendi Susanto: Okay. Greg, you also have talked about exploration of potential JV and M&A for a long time. Do you have updates on that? You list joint venture, M&A as a growth driver for 2013. Are you hopeful that we may finally see that happening this year?

Greg Anderson: [Laughter] Hopeful, that's a strong word. The answer is we continue to look, Hendi, and we've gotten close, and at times we've chosen not to. We are going to be very cash conservative in this kind of a market and in our situation, and that's the only comments that I'll leave. So there are – we've primarily looked – at least where I've spent a lot of my time is really on smaller players with niche pieces of technology that we don't have, that would be enabling to us or additive to us, and we do have a couple of those that we continue to talk with, and at this time, I can't share publicly whether those will be done and brought forward or not, but it is active. At present, we're really not – at least, I'm not spending a lot of time on larger ones and it's just really around the whole cash position. We're really being cash conservative. It's not cheap to buy companies. It's not cheap to integrate them. Frankly, we've got some pretty good investments, we think, on the inside right now and we're trying to keep our balance sheets intact as we build the business back.

Hendi Susanto: Okay. Thank you, Greg. Thank you, LaDuane.

Greg Anderson: Thank you, Hendi.

Operator: We'll take our next question from Timothy [Stables], investor. Please, go ahead. Your line is open.

Timothy: Good morning. We own about 2% of the company. Thanks for taking my call. There's a bit of a disconnect that I'm getting here, and I want to make sure I understand where management is coming from. We've got a lot of cash. We talked about investments on the inside. We talked about conserving our cash. My question is – the disconnect is that you said that today's business levels are the new norm. So I guess what I'm wondering is, well, frankly, do we have a business model problem? We have revenues are down from 2009.

Greg Anderson: Yes, that's a true statement. So the answer to that is, I would agree; I think we do have a business problem. I can't go into the specifics of what segment and what structure, but I think we're taking a hard look at that. So that's a fair statement, and I hope I am giving a fair response.

Timothy: Oh, it is a fair response. I appreciate that.

Greg Anderson: Yes.

Timothy: Let me follow up with – and this kind of follows up on I think the first questioner of the call. Has management seriously looked at whether we should still be independent?

LaDuane Clifton: Well, Tim, I think over time, as things have arisen or different folks, we've acknowledged those things. Do we take a serious look at that? Sure. Another option, an element is should we remain as a public company? That's a question we receive from time to time. I last addressed that at the annual meeting. We're always looking at those kinds of elements to see if it makes sense.

Greg Anderson: Yes, so it's a good time to think about doing strategic things. The independent question is a hard one; it really depends on how we would not be independent, right?

Male: Right.

Greg Anderson: We have parts of our business that are very healthy, and we have parts that aren't. I mean, obviously, that's the mix that we're in. Companies evolve over time, markets change, and that's happened to us as well as a number of our competitors. I've mentioned earlier sort of like can we adapt and make change to what I would call a new norm, and part of that could be certainly a strategic consideration.

Timothy: Does the board listen to these conference calls, generally?

Greg Anderson: Generally, there is one, two, or three. So I can tell you we have board meetings and these kinds of discussions take place there as well.

Timothy: If it's about building shareholder value, can't we accrete the most value by seeing the thing that's right in front of our faces – in my view, of course – which is buying back stock in a Dutch tender or something? I mean we seem, to me, over capitalized. The book value is $9.50; I haven't done a thorough analysis of the underlying asset values, but you guys said in the call yourself that there's a lot of value that's not priced in. Don't we need to show that we have faith in the value of the assets or the value of the business by buying back stock? It's almost like there's – the fear I have is that there's an attitude perception that management may be fearful, if we have to keep all this cash on the balance sheet when there's this bargain of our own stock out there?

LaDuane Clifton: No, I think that you make a great point and actually, there is an outstanding authorization from the board to repurchase shares. So we did not repurchase any during Q1, but that is something we continue to look at, and I expect that we will operate under that authorization as we go. We're actually looking at other ways we could return value. Another example we've discussed internally is a warrant dividend to return value back to shareholders and demonstrate our faith in the growth prospects of this business.

Timothy: What is a warrant dividend?

LaDuane Clifton: Well, a warrant dividend, essentially, is – it kind of operates like a stock option where you give shareholders the ability to – first of all, they're tradable in their own right. We would apply with the AMEX if we were to do that, so that they could be traded independent of the underlying common, but they have an exercised price and then you can buy-in at a preferable price as the business grows.

Timothy: Okay. Would you be surprised if we were sitting on the same amount of cash with the same amount of revenues or 10% higher revenues, or whatever, three or four years from now? Would that be disappointing and not the intention of management?

LaDuane Clifton: I think that's a fair statement. We're investing to grow and we expect to create that.

Greg Anderson: Yes, I would expect this – if we have that amount of cash, I would expect that we would be better leveraged.

Timothy: Got you. Just a couple of those really quick here, if I can; insiders were buying common stock back in mid 2011 as high as $10.00 to $11.00 per share, twice the current price; I guess they're underwater on those purchases. What's changed? I guess there was just a spurt of business that prior year, right?

Greg Anderson: Well, we ran – the last market cycle lasted eight quarters for us, okay? This current one is now at…

LaDuane Clifton: About six.

Greg Anderson: …about six in the downturn and really, we had a sharp turn in the third quarter of 2011; so not everything has to be engineered from the ground up, so to speak. When market dynamics do improve – and they will; this is a cyclical business – we're going to get some high water movement, if you will, during that time. So I'm just articulating the most recent trend, but the last cycle was eight strong quarters and we're now in, frankly, six, I'll say, quarters that are softer than we like.

Timothy: So frankly, I mean now may not be the time to sell the company. I mean, frankly, is that, I mean, wait…?

Greg Anderson: I would say…

LaDuane Clifton: Well, this is a low watermark in terms…

Greg Anderson: Extracting shareholder value by selling in the low is at a – we would say that [would] not be returning shareholder value.

Timothy: That's helpful, thank you. Then finally, when does the window typically for insider open market buying open up? Is it 48 hours after the earnings release or something, or…?

LaDuane Clifton: Yes, we have a typical policy that's similar to other companies [in] that regard. [Yes], so – right, we have a blackout – our typical trading blackout, several weeks prior to earnings being available, and then for a couple of full trading days after, yes.

Timothy: You could have insiders buying and the company buying back stock. I mean the insiders get to do what they want privately and – is that the way that works or what?

LaDuane Clifton: Well, we have full policy around that. Your trades have to be approved internally. We encourage insiders or other company even, to utilize 10b5-1 trading plans to sort of protect ourselves and stay under those rules as appropriate.

Timothy: Okay. Thank you for your open responses to my questions and I know we haven't met yet. I look forward to talking to you offline at some point here as well. So thank you very much.

Greg Anderson: Okay.

LaDuane Clifton: Yes, we'll welcome your call. Thank you.

Operator: We have no further questions at this time.

Greg Anderson: Okay. Well, in closing, just to remind our target markets do remain a challenge for us. We continue to operate effectively. We continue to have strong new product percentages by our – coming from our new R&D investments. Our cash position is strong and I think as we talked a lot during this call, management intends to be frugal on cash and understanding that this may be the new norm and what kind of business structure changes options do we have as we look forward to, I'll say, the balance of this year. So I do appreciate you attending our call this morning. We'll look forward to our next quarterly call. Thank you.

Operator: This ends the LGL Group's Q1 2013 earnings report call. If you have any further questions, please send an email to Greg Anderson at ganderson@lglgroup.com or to LaDuane Clifton at lclifton@lglgroup.com. Thank you and you may disconnect at this time.

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