**LGLIR515**
**Greg Anderson**
**The LGL Group, Inc.**
**05/15/12**
**10:00 am ET**

**Operator:** Good morning everyone and welcome to the LGL Group Q1 2012 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 * and 1 on your touchtone phone. You may withdraw yourself from the queue by pressing the # key. This call 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 *0 on your touchtone phone and an operator will assist you. I’ll be standing by if you should need any assistance. It’s now my pleasure to turn the conference over to the company’s Chief Accounting Officer, Mr. LaDuane Clifton. Please go ahead.

**LaDuane Clifton:** Good morning and thank you for joining us for the call. With me today is our President and CEO, Mr. Greg Anderson. We prepared a slide presentation for your reference that may be viewed as part of today’s conference. The presentation materials are also available from our website at Lglgroup.com. Please locate these and use them as a reference for today’s call. Please note that the call will be recorded and also will be available for playback later today on our website. Other financial information and recent press releases are also posted there, and note that today’s comments are covered by the Safe Harbor statement. If any time you need assistance during the call or the web conference, please press *0 for the operator. At this time, I’ll turn it over to Greg Anderson.

**Greg Anderson:** Thank you, LaDuane, and good morning and welcome to our call. I trust that we had the opportunity to read our press release that went out after market closed yesterday. Management was obviously disappointed with the quarter and as we go through the slide deck this morning and take your questions, we'll have a chance to provide some backdrop and detail to that performance. Before I get started, the third slide in the deck today is for the new listeners or maybe just a recap for all like a corporate snapshot of LGL. Again, we've been around for a while. We go to market under the brand of MtronPTI, are trailing 12 months revenue with $34 million. We're about 50% split between U.S. and OUS in revenues. Today's stock price is approximately $7.50. We got a market cap of just under $20 million, a strong balance sheet with cash position of $13.4 million, and a niche player in a very large market, over $2 billion worldwide. So we take a look at the first quarter results. Obviously, management and - I'll call it - all the employees of the company, it was a difficult quarter for us. We're disappointed. Revenues were down. I don't think that's a surprise to us or to our markets. We could follow our backlog that we publicly report, and so we were anticipating a down quarter from a revenue perspective. It ends up being 20% as we compare that to the first quarter of last year. Somewhat of a change for us was a pretty large impact of gross margins. Again, they came in at 22.3%, approximately 10% less than first quarter of the year ago as well, and so that's a pretty notable change for us. It drove a loss of $0.23 per share and frankly, our major markets of telecom in what we call MISA are really soft and sluggish and, from a new orders perspective, putting a lot of pressure on our core business.

The positives, we did have a slight increase in quarter-ending backlogs and so they're now at $8.9 million as of March 31. We've held all of our major clients and actually I believe we've increased our position at some, notably a couple of those. We did have some positive cash from operations. Engineering backlog is strong in the first half of this year, so that leads towards some optimism as those designs come to market then generate revenues for us.

Just a commentary. We frequently get our customer scorecards come back from our – I'll call it our "big [gator]" or our big 10 OEMs. In a notable point, we provide a lot of engineering service on a worldwide platform but frankly, we provide what we believe as some excellent customer service, and we constantly get that kind of feedback from really all of those major OEMs, and I just wanted to share that with our investors as well. The business cycle factors obviously went over a week. Macroeconomic climate, I'm not the first one to talk to you folks about that. Cisco reported on Monday – it was one of our bigger customers – and they're espousing the same. Basically, global technology spending and IT is a concern. North America is a bit stronger but the overall global economics are causing some conservatism. We take a look at newer technologies being deployed. Well, they're obviously not coming out as fast as all would expect or at least has been openly discussed. We think our key competitors are impacted as well, so we're not standing alone in this kind of a swing. We believe we've held shares. I've commented earlier and we believe we've made a couple of notable gains in a couple of customers. We have some commentary down the right-hand corner and there are a number of analysts that talk about the semiconductor recovery in the second half and expected to do – we'll call it single to mid-digit, single digit kind of growth in 2012. It's difficult for us to yet predict our second half but there are some points of optimism out there. Well, there are probably an equal number of points of conservativeness as well.

Slide 6 is a market and engineering look for us internally. We talked about this six weeks ago in our last call and I just think it's a worthy and notable chart to share with our investors and listeners because it really talks about the top one is really our drivers for our market. An awful lot of our engineering today is going into telecom applications, primarily 4G LTE kinds of frontends as well as backhaul for those new investments, and I think we all know the reasons why. The stacked line chart, if you will, on the right-hand side, is a snapshot of an analyst research report that talks about those kinds of spending really in the U.S. market by those various carriers. That's a picture of where we expect some of the growth and why we are investing our engineering resources specifically in that direction. The pie chart in the lower right-hand corner, again, is – we'll call it a first-half snapshot of projected revenues. This is on a percentage basis so it's in dollars, but it just tells you where we are making our investments from an engineering perspective. We're pretty excited about what we have going on there and optimistic that that will generate the kind of revenues in the future that needs to base our recovery when the market does cycle back.

Slide 7 is our quarterly income trend. Revenue is way to the right. It's a 12-quarter rolling look. The borrowers are the revenues. The revenues came in at 7.2 million. Margins, as we discussed, were 22.3 and that was disappointing for us and obviously drove us pretty hard negative on the EBITDA line with that kind of performance. So management, as well as all the company staff, is aware of that performance and initiating a number of programs and accepting the challenge to turn that around for future quarters. I did mention previous that our backlogs showed a modest increase. I think if you only take a look at this slide and see that they're up 3% quarter on quarter, does that mean we've hit the bottom of the cycle? Well, I'm not sure but I can confidently say that we are seeing a modest increase. Others in our sector, they'll report some of the same so I think I would put us in a similar category. Our month-to-month sales are still pretty bouncy. We can have a strong month followed by a weak month and, frankly, I'm showing you the quarterly totals so I'm not ready to say that we're in full recovery by any stance so we're going to remain conservative on that, but we did see a modest increase. Our capital position as of the end of March, working capital $17.2 million, cash equivalent of $13.4 million, a small amount of debt as we exercise our line of credit with Chase. Frankly, we don't like the poor performance but we do like the fact that we're not going to go away tomorrow. We've got a strong balance sheet. We believe we are well-positioned to weather this cycle. We've got the flexibility that we're not feeling frankly the same kinds of pains and pressures that we felt a few years ago. On a positive note, we did generate some cash in the first quarter, even with the kind of EBITDA performance that we shared.

GAAP to non-GAAP, I won't spend a lot of time reconciling that. That's really for your information. I'll be happy to answer questions. As we look to close our discussion this morning and we are working diligently to get through this cycle, certainly our major clients are reporting market softness as well - most recently, Cisco as in yesterday. Our biggest end challenge has really been repeat orders from what we call existing contracts and it has just been sluggish. Customers are just not buying those same part numbers that are designed into their systems, and frankly we don't believe it's because of large share losses. It's just frankly they're not selling their gear and that means we're not selling them components.

A few positives. Obviously, I mentioned the semiconductor is predicting some second half growth in single digits for the year. I continue to hear some of that as well as that there are some factory loadings going up around the world. Again, we got to remain conservative on that. Our working capital position is quite strong. Our design backlog for engineering, I spoke to those various applications that we think are the growth drivers and shared those with you. Again, we did see some modest improvement in backlog. At this time, Operator, that concludes the presentation for this morning's call. Please accept any questions that our callers or listeners may have.

**Operator:** Certainly. At this time, if you would like to ask a question, please press the * and 1 on your touchtone telephone. You may withdraw your question at any time by pressing the # key. Once again, to ask a question please press the * and 1 on your touchtone phone. We will take a moment to allow questions to queue. We'll take our first question from Hendi Susanto with Gabelli & Company. Your line is open.

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

**Greg Anderson:** Good morning, Hendi.

**LaDuane Clifton:** Good morning.

**Hendi Susanto:** Greg, what do you see in terms of your customers and distributors' inventory at this point?

**Greg Anderson:** I'll have to think about that one, Hendi. I honestly can't say that I can see a big change in inventory as I look across the supply chain or demand. The only thing that I can speak to is some of our supply factories are showing signs of increased utilization. We've got some of our company representatives traveling in Asia actually as this phone call takes place, and so I'm getting real-line, real-time kinds of reports. Obviously, that's a leading indicator. Those factories service both the infrastructure market as well as some consumer applications, but certainly a leading indicator as well similar to what I would call the semiconductor kinds of leading indicator statements. So I'm not sure, Hendi, that I can speak to overall inventories in the supply chain. I can say that some of the contract factory utilizations are showing some improvement.

**Hendi Susanto:** Okay. Then could you elaborate more on what you refer to recent challenges in factory costs? I'm wondering whether there are some like unforeseen challenges and extraordinary items in your factory costs.

**Greg Anderson:** Well, the answer to that very simply is yes, but I'll try to elaborate them. I anticipated that question. We showed about a 6.5% differential between the fourth quarter and the first quarter in margins, and frankly we'd like to put that into three pieces to try to explain that to our listeners. About a third of that 6.5 points is a volume impact just a little bit less revenue, and so that contribution margin goes right or doesn't go right to the bottom line, so to speak. About a third of it is also a couple of points but it's what we call variable costs, and those are costs that are frankly oftentimes show up in materials and labor and those ongoing recurring costs of producing products. We believe there, we've had some issues that have been impacting us. We had some pricing changes in our commercial products line, and I'm not going to elaborate on that, but that is putting pressure on what we call the variable cost aspect of gross margins. We are pursuing – we'll call it our own cost savings efforts to get our margins back in line. We have also had some mixed dynamics, not between segments so much as within a segment, and so at times our customers buy products from us that frankly are less profitable than others. So we've got that dynamic taking place as well. Another couple of points of that margin is directly attributed to I think what we believe are one-time events. Again, I probably won't go through the detail of that on this call, but they certainly impact the income statement and margins and they fall really under the variable cost which is a big component of the gross margin line. So I hope that answers your question, Hendi.

**Hendi Susanto:** Okay. Then you also addressed that management is going to work on addressing the variable cost pressures.

**Greg Anderson:** Right.

**Hendi Susanto:** Then can you qualitatively indicate how much potential saving or margin improvement you can address both in the short-term and long-term?

**Greg Anderson:** I believe long-term, we can get all of that back. I can confidently say that. As the business changes, meaning mix and pricing and all those kinds of pieces that get put together into a niche company like ours, oftentimes it – and frankly, it changes very rapidly for us so we didn't have this kind of discussion in the fourth quarter. Here we are, three months later, having that kind of discussion. So we have the – I'll just say the tools and the analysis to know where to frankly go work on cost, so we're are really well underway from an actioning perspective of deploying improvements in those areas. I believe that – and I can't speak the exact timeframe, but I believe that those cost savings, if you will, are recoverable. Given the right amount of time, we will get those back. Obviously, if we get any favorable market dynamics changing - maybe mixed changes to more of a favorable mix from a profitability perspective – it can happen real quickly. I will commit to our listeners that management and the staff are very focused on that as well. I would say today, we have two challenges obviously – sales and factory cost. We recognize the challenges in each of those. Those aren't new for our company or for our management team and so with confidence, we know how to go about to work on those.

**Hendi Susanto:** Okay. Then short-term between now and then when growth recovery starts, are there any like low-hanging fruits in terms of cost savings?

**Greg Anderson:** Sure, there is. We can frankly pressure our supply chains in some cases where we're doing enough volume to really leverage that. So I can comfortably tell you that from a purchasing perspective, it's really not a yield kind of a thing out of any of our factories. We have some levers from a purchasing perspective that we have in play that can provide savings frankly very quickly. So it's not something we have to wait nine months for, and those levers are being – I'll guess I'll say enacted and pressured today.

**Hendi Susanto:** Okay. Could you refresh our memory on which products have more reparable margin and which products have like less favorable margins?

**Greg Anderson:** Oh, Hendi, that's a complicated question. We have hundreds, maybe even thousands of part numbers. I will say in the first quarter, our revenue mix between our two major market segments was fairly balanced and fairly typical as what it has been in the past. So there really wasn't a big shift and say that, "Wow, the military stuff is way down this quarter and that drove the company's margins the other way." That's not the case. So we had some – I'll just say – cost issues really on what we'll say both of our major markets. The real issue was inside the mix and then how well we perform within the segments. I can't honestly one segment is a lot more profitable than the other one. I know a lot of our listeners believe there's a large difference but frankly, when we're really doing well on the telecom side, it's a good segment for us. As we go in and gain some share, which we have done, well, pricing does become a bit more aggressive and so right now, we're probably feeling some margin pressures on the telecom side that maybe we didn't have a couple of quarters ago, and I don't mind sharing that with listeners. On the other hand, I think we know we have ways to recover those costs so we're actively working on that.

**Hendi Susanto:** Then last question, how should we think of management view on share repurchase?

**Greg Anderson:** Share repurchase? I'm going to actually let LaDuane answer that question, Hendi.

**LaDuane Clifton:** Yes. Thanks, Hendi. We do have an authorization outstanding for us by the board to go out and repurchase at the time we see fit. We are trading below book value so it could make sense. I'll just leave it at that. We do have a standing authorization. We did not have activity during first quarter but I'll leave it at that.

**Hendi Susanto:** Okay. Thank you.

**Greg Anderson:** Thanks, Hendi.

**Operator:** Once again, to ask a question, it's * and 1. We'll take a moment to allow any further questions to queue. It appears we have no further questions in queue at this time.

**Greg Anderson:** Okay. Well, in closing, I'd like to thank our listeners and our callers for joining this morning. Obviously, I think you can hear my voice that we're disappointed with our first quarter results. We are very focused and working our way through this business cycle, both from a sales and now a cost perspective as well. We do have a lot of positives in the company. Our balance sheet is here; our customers are here. Frankly, we've got some good products and some good technology, and so we have what it takes to weather this cycle. Management, as well as the Board of Directors, is focused and staying with the platform for the long haul because we believe we can build the shareholder value that we've done in the past. Once again, thank you for attending our call today.

**Operator:** This ends the LGL Group's Q1 2012 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. This does conclude today's teleconference. You may now disconnect and enjoy the rest of your day.

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