

Transcript of Littlefield Corporation (LTFD) Fourth Quarter 2009 Earnings Conference Call March 12, 2010

Participants

Jeffrey L. Minch, President and Chief Executive Officer

Presentation

Operator

Greetings and welcome to the Littlefield Corporation Fourth Quarter 2009 Earnings Conference Call. At this time all participants are in a listen only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press *0 on your telephone keypad. As a reminder this conference is being recorded. It is now my pleasure to introduce your host, President and Chief Executive Officer, Jeffrey L. Minch, for Littlefield Corporation. Thank you Mr. Minch, you may now begin.

Jeffrey Minch – Littlefield – President & CEO

Thank you. Good morning, this is Jeff Minch, I'm calling you and speaking from Austin, Texas. It's a beautiful sunny day here, not a cloud in the sky. I direct your attention to our press release of the 10th of March 2010 and what we're going to discuss today is what is contained in that press release. In general it was a very, very good quarter for the company and it concluded what was a very good year for the company also. I would describe it as a transformative year as the company went from having lost money to having broken even in the fiscal year 2009. I would like to remind you that we disposed of Premier Tents and Events in April 2009 so our press release when we talked about continuing operations is those operations excluding the performance of Premier Tents and Events. As an aside, Premier Tents and Events was disposed of at a profit, so in fact the impact of owning and disposing of Premier Tents and Events was favorable to the income statement.

As a general overview I would like to offer the following highlights:

Gross revenue for the quarter was up 4%, that's a continuing trend that has been exhibited for the entire year and a trend that we anticipate will continue in the first quarter 2010.

For the year gross revenue was up over \$1 million and that's a 12% improvement. Gross profit for the quarter was up 148%, and again that's a continuing trend for the year and a trend that we expect to continue in the first quarter of 2010. For the fiscal year gross profit was up approximately \$1.4 million, which was a 92% improvement.



In particular, driving gross profit was excellent performance in Texas and in particular South Carolina, which had a combined improvement of over \$0.5 million for the quarter and over \$1.5 million for the year. This is a very significant improvement and I would like to point your attention to it. As far as gross profit margin is concerned margins continued to improve and we have a targeted margin of 40% and we were able from 13% in 2008 to 31% in 2009. At the same time the cost of corporate overhead was down 3% for the quarter and 6% for the year and legal expenses were down 17% for the year. I suspect there is a little bit more room for improvement as relates to legal expenses.

Net income in general improved by \$3,138,380.00 and on an earnings per share basis we broke even while having 2 million additional shares as compared to a loss of 28 cents per share in the fiscal year of 2008. We continue to realign the business with the realities of the marketplace, every time I have reported to you in a conference call I have noted that we've eliminated a number of operations but we sold off, word of mouth, we sold off Premier Tents and Events, we laid off a few folks, we closed down four Texas bingo halls, we closed down two South Carolina bingo halls and we converted some of our concessions in bingo halls to vending operations. We consolidated some bingo halls in particular submarkets in Texas and two submarkets. We have one more such consolidation that's just taking place now. We reduced a great number of operating expenses including some of these consolidations. They obviously contributed to the reduction of operating expenses.

We've had a company-wide effort to deploy less expensive electronic card minders and that continues to be a very successful effort and in addition we are deploying our own ATM machines. Capital expenditures have been controlled and the capital we have spent has been very targeted in order to ensure that it's leverage to create additional operating profits. We cancelled one Texas bingo hall start-up. We enhanced revenue through acquisition and going back a little bit more than a year we had acquired six bingo halls in South Carolina and in a second acquisition we acquired two more, we had a third acquisition where we acquired one more and we have another acquisition that's in the pipeline. All acquisitions obviously are subject to some risks that our due diligence will not allow them to go forward, so in that last one where I said we have one more in the pipeline we anticipated acquiring perhaps three but it looks like in fact we'll only acquire one. We acquired a bingo hall in Florida in the same time period. I see us acquiring more bingo halls as we build up our pipeline of acquisitions both in the existing markets we're in and in other states that we're currently not operating in. I had mentioned to you already that we're deploying less expensive, very high quality electronic card minders. We have most of that roll out done in South Carolina and we're now moving to some other state and we're deploying our own ATMs. Our overall objective in this is to enhance revenues by \$2 million on an annualized basis and so of course when you look at the improvement in revenue for the fiscal year of 2009 we're well more than half way there. As related to acquisitions we continue to be interested in making good acquisitions and there seems to be some good acquisitions to be made. We're very deliberate and cautious about the acquisitions to ensure that we purchase them based upon economics that are real in the market place. Now the downturn in the economy has been felt broadly enough that when looking at numbers that are only twelve months old, they seem to have the entire impact of the downturn contained within the numbers, so we're very

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cautious to make sure that we're buying real numbers as opposed to something that is so old that it in fact reflects better times. We had signed a contract to acquire three bingo halls and we anticipate that we'll actually only get one out of that. So that's the deal that's in the pipeline. As a general observation, all of the acquisitions that I have noted thus far in this report are all accretive to the company's earnings.

From a regulatory vantage point in Texas we're seeing the first rules coming out of the implementation of House Bill 1474. On the basis of certain provisions in that House Bill and the Bill is in general good for the market, but like any other bill, there are some things that are good, there are some that are bad, and many of them depend upon what specific market and what specific bingo hall you're talking about. So a rule in effect may be good for the entire industry but it's not so good for a specific bingo hall or a specific market. So we're seeing the first rules coming out of Texas and that's a major regulatory undertaking and we're spending a lot of time and effort to make sure that those rules are reflective of what was in the bill but also that they are written correctly to ensure that they don't do any undue damage. In South Carolina we have nothing in particular from a regulatory vantage point going on nor do we in Alabama or Florida.

On legal matters we still are waiting a decision on the motion for summary judgment made by the other side in the Furtney matter or pinpoint a trial date, so as of right now I would anticipate that if we are successful in the motion for summary judgment that there will be a trial sometime in the second or third quarter of 2010. We have a moderately important legal matter in South Carolina in Columbia that continues. We've got an arbitration matter that's underway and then we have a small matter in Abilene that we're dealing with and that's the general overview of legal matters and that's the reason why our legal fees in general have come down. Now let me also tell you that obviously we have spent legal fees associated with acquisitions and as the pace of acquisitions continues or accelerates then you will see a few more legal fees but I don't think you'll see anything meaningful and the downward trend 17% reduction in 2009 versus 2008 ought to continue. Legislatively there's no particular legislation. The Texas Legislature is out of session and South Carolina has one little change we'd like to have made and in Alabama and in Florida we have nothing going on.

I've got a number of questions, I've got a large number of questions so let me hit those questions real quickly and then I'll be glad to answer your questions.

Would you please give me an overview of your sense of the quarter in the year?
Well, it was a very, very good quarter, it continues to reinforce a trend that we've seen in the entire fiscal year and I think it's going to continue into the future. Now all that's gone on relates to the continuing upheaval in the United States and frankly the national legislation overview is related to healthcare. It was a transformer year by which I mean the company turned a corner going from being unprofitable to being profitable even though we just broke even and that's a very important landmark and I expect in 2010 that we'll be profitable. I expect the first quarter for 2010 to continue the trend of improvement in a meaningful manner, now you know each quarter is relative, so what's a meaningful manner in the first quarter may not be the same thing in another quarter but I think that it will continue to improve.

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Please speak about how your gross profit margin is increasing and what is causing this at this time? At what gross margin and operating expenses can you generate income from continuing operations? The first thing is that gross profit is really determined by the simple arithmetic associated with your gross revenue and expenses. So we really can't manage it as much as we can reduce expenses and reduce revenue and the result of that obviously is an improvement margin. In comparison of fiscal year 2009 to 2008 gross margin improved from 18% to 31% and our target is 40% overall and we're slowly but surely working in that direction.

Can the cost savings from your restructuring efforts and improving economy translate into profitable operations for 2010? The answer to that question is yes. We had forecasted that in 2009 that we'd break even and we are forecasting that we'll be profitable in 2010. The first quarter of 2010 looks very promising and already supports that forecast. Now, I would caution you simply to say that my observation that the overall economy is very fragile and the political environment is probably a little bit more pertinent to operations today than it has been in the past and I would have to say that it feels a little toxic to me.

You recently made an acquisition in South Carolina. Can you please share the specifics of that position as well as the performance to date? Has it failed to meet, met or exceeded your expectations? When will this acquisition be accretive, please be specific. Let me subdivide that just a little bit. We made an acquisition of a bingo hall which we closed on the 25th January in Sumter, South Carolina. Our all in cost is about \$425,000. It is performing in a manner that exceeds our expectations; it is performing better than we thought it would. It will be accretive in the second quarter. So we bought it in the first quarter, and when you buy something like that of course you have a lot of expenses. We spent all the travel expenses, the legal fees, there are certain elements of the renovation that we have spent and in prudence of course we capitalized over the life of the lease. In this particular instance we purchased the real estate in addition to purchasing the going concern, the operating business of the bingo hall. So all that has fallen into place just the way that we hoped that it would do, and we anticipate making a very handsome return and we anticipate exceeding our expectations and we expect it to be accretive in the second quarter.

Can you discuss the industry landscape in South Carolina in general? South Carolina has eighteen bingo halls that all seem to be operating well with the exception of one. The one that is not operating well appears to have what I would describe as fundamental real estate problems. It is a very small bingo hall. It was next to a large discount store; that discount store went out of business. Our signage is inferior, the traffic for the shopping center is inferior and that particular city appears to have a little bit of an upsurge in violent crime and so I expect that we'll probably close or relocate that bingo hall. But in general, otherwise, all of our South Carolina bingo halls are contributing a profit. The regulatory environment, I would have to describe as being peaceful, peaceful in the context that we have no particular troublesome or contentious dialogue with the regulators. They continue to regulate the industry, so I would be misleading you to say that we don't see them. We see them there but there doesn't appear to be any particular short-term issues that would give either them or us any cause. I would say that the market in South Carolina is modestly sensitive to the economy. South Carolina is a little bit more, a little higher rate of unemployment than

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the rest of the country, however, in some ways our customers are insulated from that because in many instances they are retirees with fixed incomes and their fixed incomes come from reliable sources. So they may be retired from the state or the federal government or from industry and so they're not really held hostage as a current wage earner might be, who would have to depend upon the current fortunes of the company. So I think, in general, while the market is sensitive to the economy our customers are not nearly as sensitive as the general South Carolinians. So in general we very much like South Carolina and we think that there's some room for growth and improvement. And remember, our South Carolina operations were up considerably so obviously the market has been very encouraging to us.

How has the stock buyback program been progressing? First is to remember our stock buyback program. We have uses for these shares. We have bought 209,385 shares in an average cost of approximately 72 cents a share.

Please comment on legal expenses. Are you approaching stability? What do you think is a normal level of legal expenses? How much improvement is there possible on this front? Well first, legal expenses comparing year to year were down 17% and that 's in a year in which we had some significant lobbying expenses. The legal expenses were down by \$90,000.00 so the direct comparison between 2009 and 2008 was a \$90,000 improvement. So we're clearly going in the right direction. There is some level of legal expenses associated with just normal regulatory chatter that were always going to occur and then there are some legal expenses associated with acquisitions that we embraced. We want to incur those expenses because it means we're acquiring other bingo halls. So I think a normal level of legal expenses is going to be about \$200-250,000 a year, so I think we've got about another \$200,000 per year we can trim.

When does the Furtney matter go to trial? When is it likely to be concluded? Remember on the Furtney matter there is a motion for summary judgment made by the other side and there was also the requirement from a prior judge for an evidentiary hearing on certain matters. Those two things taken together, the motion for summary judgment and the hearing on evidentiary matters are basically the same undertaking so there was an oral presentation made by both sides, both sides sent in written briefs to the judge. We got to respond to their brief and all that paperwork and those arguments are not in the hands of the judge and the judge will make a decision and the judge's decision will be to grant the summary motion, in which case the case is ended or to deny the motion for summary judgment, in which case then there would be a trial. Obviously we champion we champion the cause of there being a trial, and so that's where it stands. I would say that it's a fairly difficult question to answer as relates to timing because right this second the Florida courts are quite clogged up with a lot of real estate foreclosure matters and therefore we are competing for time and space in those courts. Because it's such an old matter, literally going back to the 1990s when it finally does come up for trial it will go to the front of the line because they take things specifically in order of the oldest first.

Looking forward to events of 2009 what do you see on the horizon, what thoughts will guide your performance? I think the person who sent this probably meant 2010. Well, I would say that we've almost got the first quarter of 2010 in the can, so there

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are only another couple of weeks left and the first quarter of 2010 looks pretty good and it continues to mirror the continuing improvement in the company's operations. So I don't see anything that would be negative about the first quarter. Now, like every quarter we have certain expenses, whether they are legal fees or something else that become very important in the course of that quarter but in general there is a continuing trend of improvement and with as much as I can see with clarity in the first quarter, I have answered that question specifically, things look pretty good. As far as the balance of the year is concerned, I think we'll see the normal season healthy. I think some of the problems that we have solved as relates to some of the Texas bingo halls and all, those get solved one time. Once they are solved they are not going to be revisited and so the positive impact of those is going to continue in the future.

Do you expect to be able to continue to reduce expenses for the fiscal year 2010 versus 2009? If so, how; if not, why not? Many a thing that we made savings on in the 2009 timeframe was one time savings. You know it's like hitting the reset button. So if you close a bingo hall there is not a continuing trend of closing that bingo hall more than one time. So we got the benefit of it, it shows up as reduced expenses on the income statement, it's not going to be taken away but there's not a second act with a lot of those things. We have one or two large remaining issues in the company as relates to the improvement of operations and some of those are fairly meaningful and I expect that we'll get lucky and those will fall into place. And then we have a number of consolidations where we can save the odd \$100,000 here and there and over the course of the year that's going to improve. And as I said when we started this we were looking for about \$2 million in savings and the program continues and I do expect that we'll realize that full amount.

How is your cash position at the end of fiscal year 2009? Please discuss your prospects for raising additional cash. Do you need additional cash?

We at the end of the quarter we had as much cash on hand as we had at the beginning of the quarter, we didn't really burn up any cash in the fourth quarter. Our cash position is about \$3.7 million. We anticipate that there's a couple of little loans that we have been working on, one is an acquisition loan and the other one was kind of a general loan and we think that those will add to our cash position. Now in some measure with interest rates as low as they are right now I like the idea of adding a little bit of cash because it's not particularly costly and so we'll be finished with that. On the other side I would also tell you that we've had one or two things that were long-term series of payments, one of them being the Collins lawsuit settlement that will burn off here shortly. That one item alone will add about \$300,000 to the company's cash flow and that will be paid off probably by the end of this quarter or next quarter and so then we'll enjoy that benefit of an improvement of \$300,000 a year for the rest of time.

What acquisitions do you have?

And let me go on to say we don't have any pressure on us right this second as relates to cash, but I do like very much to pursue acquisitions from a position of strength and have the cash to be able to do it ourselves and in effect bridge it and then go out and seek or raise or put in place bank debt as the cast may be.

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What acquisitions do you have in the pipeline?

Well we have the previously announced acquisition we thought would be three bingo halls and I think that will probably end up being one bingo hall and then we have a number of other ones that we're working on.

Did the Alabama computer controversy have any impact on the company's operations there and if so what was the impact?

This was primarily a matter that was unrelated to the company, there was a considerable amount of controversy about computer driven, what I would describe as gambling devices and we had none of those and so we've had no great impact. It was primarily in markets in which we did not have bingo halls and therefore we have also not had any positive result as a result of it. But Alabama in general appears to have a bit more competition and our operations there are suffering just a bit from that additional competition.

What is your accounting policy as pertains to leasehold improvements? I think there may be a little bit of confusion, I'm not sure exactly why, I may have contributed to it with something I have said, but as a general proposition we always follow and generally accept that accounting principles until we capitalize all of our tenant improvements in accordance with the term of the lease. And so we don't do anything special about tenant improvement other than follow GAAP accounting. I think where the confusion may have come from is that I have mentioned in the course of acquisitions we spent legal fees and we spent travel and we spent everything related to the acquisition and sometimes in the course of renovating some of those things we do in fact incur some expenses, things that under GAAP cannot be or should not be capitalized. For the general proposition for tenant improvements we follow all the rules of generally accepted accounting principles.

Can you provide some guidance on Q1-2010 seeing that the quarter is almost complete? As a general proposition we do not provide forecasts or guidance however given we have only two weeks left in the quarter I can say with some authority that I expect Q1-2010 to continue the improving trend and I expect it to be better than Q1-2009 and that shouldn't be a huge mystery as much as that has been the trend for the last four or five quarters and we expect that to continue for some period of time.

Can you please give us an overall assessment of how you see the business today as opposed to this time last year? Well, a couple of things. First is obviously everybody has withstood the economy and so whatever high levels of fear were generated by the economy I think have begun to calm down just a little bit. Second is that we have in fact reduced expenses. Third is we have increased revenue and this has been a trend as opposed to a one time action and we expect that trend to continue. Q1-2010 supports that proposition and in fact it will continue. I look for the year likely to be substantially better than 2009 and that would simply be the continuation of the trends we have previously mentioned. As far as the business is concerned, I don't see any particular regulatory challenges, knock on wood, and I think we'll continue to add units as we find good acquisition opportunities so I'm quite bullish on our future in 2010 and beyond.

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Those are the questions that I had. Moderator would you poll for any other questions.

Moderator

Thank you ladies and gentlemen. At this time we will be conducting a question and answer session. If you would like to ask a question please press *1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press *2 if you would like to remove your question from the queue. For participants using speaker equipment it may be necessary to pick up your handset before pressing the * keys. One moment please while we poll for questions.

Thank you. Our first question coming from Howard Halpern of Taglish Brothers.

<Q>: Congratulations. My question relates to something you said I think in the beginning. You talked about acquisitions and possibly moving into a new state or two. I don't know if you want to disclose the state but can you discuss the characteristics of the state, you know that you would be looking at and maybe what region of the country it's in?

Jeffrey Minch – Littlefield – President & CEO

Yeah, good question. Thanks, Howard, I appreciate the comment on the quarter. Here's a couple of things I would say to you. First off we kind of like a southeastern strategy so you shouldn't be surprised to see us in North Carolina or Maryland or West Virginia or anyplace where there is legislation that supports the kind of bingos that we do. I would say to you that I'm very, very lukewarm and cautious about Florida. The Florida economy seems to be getting hammered pretty good and there seems to be just rampant range gambling by which I mean amusement with prize and other kinds of gambling and the enforcement of Florida's gambling laws appears to be very inconsistent throughout the state and so there really are different regions of Florida and therefore I had had high hopes for Florida, I thought it would have a market in which we would be able to have 20 or 25 bingo halls and right now I'd say I'm a little bit negative. As a general proposition you should expect us to be looking at states that border Texas where there is charitable gambling, any place in the southeast, really from Texas all the way over to North Carolina and maybe to Maryland and so we want to try and stay in that region. Having said that, we have seen some favorable legislation up in Illinois that looks like we ought to be taking a hard look at that. So now that we've got our shipment order here I think we're going to add man hours to our acquisition effort and we're going to look at a lot of other market places. One of the things that we've become quite confident about is our ability to go to a new market, understand the rules, purchase some units and operate effectively. And so that was something that before some of our growth you might have questioned our ability to do. The other thing is that our corporate overhead is very firm and so if we were to add some number of units, six to eight units, we think that had a bookkeeper or an accountant and so our growth is going to be very, very linear in the marginal returns and those incremental revenue dollars are going to be very high because we'll not have much in the way of corporate overheads to add to be able to account for that. In the field we would add people in a very similar basis, probably six or seven bingo halls in the market place requires the addition of one

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more person. So we expect to be focused on the southeast, we expect to be focusing on states that border states already in, we expect to be focusing on states that border Texas and we're looking for the states that have the best possible regulatory environment. There's a big conference down in Biloxi, I think it's here in a month or two and we're going to have a booth there and we're going to hang our shingles saying we're interested in buying some bingo halls and that's a little bit of an exploratory effort on our part, we've not done that before and we're going to use that as an opportunity to see if we can't drum up some business and then we're going to do a little bit of direct mail to existing owners of bingo halls and just make sure that they know that we're in the market to buy some bingo halls. In most instances people that have bingo halls to sell in the areas we are interested in find us and in most instances they trade with a little bit of emotion. There's some emotional change in that person's life that has motivated him to sell the bingo hall. So we're casting our net a little bit further afield and we're looking a bit harder and obviously we have got the resources in place to be able to to multiple acquisitions at the same time.

<Q>:And I guess also in terms of acquisitions too, the last one you just did in South Carolina, are you going to be purchasing the real estate itself too if you can?

Jeffrey Minch – Littlefield – President & CEO

Well that's a good question. Here's kind of the issue that relates to the real estate. In many instances the possibility of buying the real estate is not offered. So the person's bingo hall that we're buying doesn't own the real estate. In this particular instance they did own the real estate and it made a lot of sense to buy the real estate with the bingo hall. I suspect as we go forward we will have more and more interest in controlling our own fate as relates to real estate. And the reason is that as the economy recovers real estate expenses, the cost of real estate, leasehold estates, rents are all going to go up and so we may have a very profitable bingo hall and by the rents going up in effect it's eroding our margins. So I think we're going to find ourselves more and more interested in purchasing the real estate or acquiring the real estate or maybe even relocating a bingo hall to a piece of real estate that we might build in order to control those margins or to control those costs. Let me say to you that bingo hall in South Carolina was such a good acquisition that we expect to pay off the real estate completely with two years work at its operating income and so it was a very good acquisition and if you can do that and reduce your operating, you're cost of real estate to zero then that 's the best of all worlds because you have no long-term exposure to increase in rental rates.

<Q>: Well, again, congratulations and keep up the good work.

Jeffrey Minch – Littlefield – President & CEO

Thank you.

Moderator

Thank you as a reminder ladies and gentlemen if you would like to ask a question please press *1 on your telephone keypad at this time. Thank you; there are no further questions at this time. I would like to hand the floor over to management for any closing comments.

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Jeffrey Minch – Littlefield – President & CEO

Yes, well thank you very much. I appreciate everybody listening to the conference call. First this was a very good quarter. It was a very good year. It was a transformative year and we really turned a corner in the company and I'm looking forward to 2010 being a good year. This has been a trend that is reinforcing itself. So things are continuing to get better across the board whether it's increases in revenue, increases in margins, reduction of expenses, control in corporate overhead, lowering legal fees, everything right this second is moving in the right direction. It's not always going to move in the right direction but this quarter in this year that's in the case and in 2010 we think it will continue to be the case and in the first quarter of 2010 which we can see with a certain amount of visibility given the time of the quarter that we're in, we think that will also continue. Acquisitions are going to continue to be very important for the company, we've got a few deals in the pipeline and we're adding some man hours there and we've positioned ourselves on the balance sheet to have the cash to be able to do those things and we've slowly but surely begun to educate the lending community in such a manner that we're going to be able to reduce bank debt. The returns that we make on acquisitions are so high and the comparative cost today of debt are so low that these are very very favorable on leverage transactions but as leverage transactions are very good. So we're hoping for a continuing trend, we're going to be doing everything we can to make that possible. I'd like to thank everybody from the company who has been involved in this effort. There's been a lot of hard work and there's still a lot of hard work left to go but that's really the reason why things have improved because the hard work of people. Let me read you the Safe Harbor pronouncement: expect for historical information contained herein today certain matters set forth in this conference hall were, are or may be forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 substantial risks and uncertainties including government regulation, taxation, competition, market risks, customer attendance, volatile customer spending patterns, general economic conditions and other risks detailed in the company's security and exchange commission filings and reports. Actual results may be maturely different from those expressed or implied by these forward looking statements.

Thank you very much for your attention. If you want to ask me a question please feel free to email me at jminch@littlefield.com or call me at 512 4765141.

Thank you very much.

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