



# **Transcript of LITTLEFIELD CORP Second Quarter 2009 Earnings Conference Call July 31, 2009**

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## **Participants**

Jeffery L. Minch - President, CEO

## **Presentation**

### **Operator**

Greetings ladies and gentlemen and welcome to the Littlefield Corporation's Second Quarter 2009 Earnings Conference Call. At this time all participants are in a listen-only mode. A question and answer session will follow the formal presentation. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Jeffery L. Minch; President and Chief Executive Officer for Littlefield Corporation. Thank you, Mr. Minch, you may begin.

### **Jeffery L. Minch - Littlefield Corp. - President, CEO**

Thank you, good morning. My name is Jeff Minch; I'm the President and Chief Executive Officer of Littlefield Corporation. I'm calling you from Austin, Texas. Our subject today is to discuss the Second Quarter Earnings Report for Littlefield Corporation.

Except for historical information contained herein, certain matters set forth in the conference call are or may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to substantial risks and uncertainties, including government regulations, taxation, competition, market risks, customer attendance and also customer spending patterns, general economic conditions and other risks detailed in the company's Securities & Exchange Commission's filings or reports. Actual results may be materially different from those expressed or implied by these forward-looking statements.

I direct your attention to our press release of the 29<sup>th</sup> of July, in which we made a detailed release as it relates to earnings, and that's the subject of our conversation today. As a general observation, I would say to you that the second quarter is typically a fairly weak quarter in the seasonality of our business and this quarter was a particularly good quarter, in which almost every operating parameter improved when compared to 2008.

I would say to you that my observation is that this is an indication of perhaps a general improvement, though a modest improvement in the economy, in addition to a lot of hard work from folks in Littlefield.



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For the quarter, gross revenue was up 14%, and that's on the heels of an improvement of 25% in the first quarter. Gross profit was up 53%, in the first quarter we were up 65%. Gross profit margin increased from 17% to 24%. So in Q2 2008, gross profit margin was 17%, in Q2 2009, profit margin was 24%. And again I think that is an indication of a bit of recovery in the marketplace.

Corporate overhead was up 2%, for the year we are down 7% for corporate overhead. Legal expenses were down 24%, for the year we're down 26% and in the first quarter we were down 35%.

Net income improved by 34% and net income from continuing operations, you'll recall when we sold off the last of the hospitality companies last quarter, net income from continuing operations, but not including hospitality, was up 83%.

Earnings per share broke even, so typically in the second quarter we expect to lose some money and in fact we had a breakeven quarter and we had 775,000 additional shares.

You will recall, also, in the second quarter we sold Premiere Tents & Events. We showed a gain of approximately \$400,000 and we took a valuation allowance of approximately \$90,000. So sometime in the future as that note gets paid we will recognize that incremental \$90,000.

On a state-by-state basis Texas revenue was up 3%, Texas gross profit was up 436%. South Carolina gross revenue was up 78%, gross profit was up 44%. In Alabama and in Florida gross revenue was down 9% and gross profit was down \$40,000. I only mention that dollar amount because it's a fairly de minimis amount, so the percentage sounds like a large percentage.

On a year-to-date basis, gross revenue in Texas is up 4% and gross profit is up 106%. In South Carolina gross revenue is up 85%, remember we made some acquisitions there in South Carolina, and gross profit is up 80%. In Alabama and Florida gross revenue is down one percent and gross profit is up 9%.

So that's the fundamental numbers. I have not given you the actual individual number, because it so tedious, but I do recommend that you take a look at the report and that you read that very carefully. But in the general flavor of things, I would have to say to you that even though the second quarter is typically a very weak quarter, we made tremendous strides across the entire portfolio, as I relates to improvements in gross revenue and in gross profit.

We continue to work to realign our business with the reality of the marketplace. And so though I think that there is some indication of some optimism, that may stretch to the entire economy, our view in general is that things are pretty dicey out there, and so we continue to take a very careful look at how we operate our business.

You'll recall that we sold off the two hospitality businesses, we laid off some folks, we delayed opening some new bingo halls, we closed a couple of bingo halls, we consolidated a couple of bingo halls. We've reduce operating expenses and one thing

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in particular is that we recently have begun a companywide campaign to evaluate the electronic dabbers that we use throughout the company. We spend millions of dollars per year and we have a potential savings there of maybe as much as a million dollars on an annualized basis.

We are about halfway through installation of new electronics in all of our South Carolina bingo halls. And thus far I would have to say that the reports coming back from an operational perspective are almost perfect. We've really had almost no glitches with the installation of that new equipment.

You will recall, also, that we have acquired six bingo halls in South Carolina, we acquired another two bingo halls in South Carolina. About a year ago we acquired one in Florida. And then the other thing that we're doing to reduce expenses — and those are all what I would describe as revenue enhancements — and also to reduce expenses, we just completed the installation of ATM machines that we own and we get the revenue from in all of our South Carolina bingo halls and we're getting ready to do that portfolio-wide.

We think all of these things taken together, all of these restructuring and realignment and enhancement revenue efforts will add as much as \$2 million to the bottom line and we're already seeing evidence of that, particularly the expense reductions and that's what's showing up in the numbers. So in the report that I'm giving you, the proof positive that these things are working is the improvement in the numbers. And some of the things that adjust on, as relates to the electronics and the ATMs, those things will begin to show up very quickly here, as those numbers hit the bottom line.

As far as regulatory matters, we have nothing of consequence from a regulatory perspective going on in Texas or South Carolina or Alabama. In Florida we have minor regulatory matter that we may end having to litigate there, it has to do with a game we'd like to play and the local regulators have not allowed us to play that game. We had previously played it, they asked to stop playing it, we had a very nice conversation with them about it, but they really haven't come around to their original position to allow us to play it and we may have to go to court to discuss that.

From a legal vantage point, the meaningful legal issue that we have out there today is the Fertney trial. We had an evidentiary hearing down in Florida a short time ago. And this was really a hearing on a motion to dismiss the case. Obviously that motion was made by the defendant and a motion for some re-judgment on various grounds, including res judicata and collateral estoppel. We had the hearing; the judge accepted and reviewed the evidence. She has asked for post hearing briefs. Our lawyer is preparing his post hearing briefs and then the judge will decide that some time thereafter.

If the decision is against our interest at the end of the Fertney adventure in Florida, if it is decided in our favor and I am mildly optimistic that it will be decided in our favor, then we'll have a trail.

From a legislative vantage point, all of the legislatures that we normally deal with, Texas, South Carolina, Alabama and Florida are obviously out of session. Texas

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meets every two year, so there's no mischief to be had there in Texas for two year. There was a bingo bill that was proposed; we had something to do with its draftsmanship. We were not the guiding hand, but we certainly had a fair amount of input. We were in favor of it, we lobbied in favor of it, we supported it and it passed and signed by the governor.

And so there are some improvements in that bill that will have a favorable impact on our business, in particular, the number of temporary sessions that a charity can now play in Texas on an annual basis was increased from 12 to 24. So in our best bingo halls, where these sessions be absorbed and they can conducted in a profitable basis and that would be a source of enhanced revenue. There really wasn't any other mischief in that bill.

In South Carolina, we had bill that we proposed that never got any place. We are continuing to work on that bill. We will have it re-proposed and hopefully next year we'll be able to get something done. Remember Texas meets every other year, South Carolina meets every year, in Alabama there was no meaningful activity report and in Florida we had a very tiny little amendment that we wanted to have made to the bingo enabling legislation. We were not successful in getting it done. Florida's focus was almost entirely on the Seminole Indians and their gambling compact with the State of Florida, and so there really wasn't much movement on anything there in Florida.

So we have no particular concerns as it relates to anything legislative. Other than South Carolina, we hope to seize the initiative and dramatically improve the profitability of that marketplace by some legislative changes.

So that's my report to you. I had a fair amount of questions that came in and let me go through those and then I'll answer your questions.

[PRE-SUBMITTED QUESTIONS]

<Q>: "This appears to have been a very, very good quarter, given that it is traditionally a weak quarter. Do you agree with that assessment?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

Yes, I mean in some ways when you breakeven, it is difficult to turn lose the marching bands. But the truth of the matter is in the second quarter we typically expect to lose money. So breaking even is a mighty good performance.

In addition, across the board everything that we were doing appears to be working and there is wholesale improvement. And I must say to you that that improvement is in the face of what can only be considered a headwind with the economy and that I constantly hold my breath for the next that's going to be on the front page of the newspaper that's going to have some impact on the economy.

So second quarter performance was very, very, very gratifying and I'm very pleased with that performance. It is particularly gratifying because the first quarter was so strong that you thought to yourself, well maybe that's a compensating balance for what may be a weaker subsequent performance and in fact that trend has continued.

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<Q>: "What was the gross profit margin for the entire company, for each of the states?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

The gross profit margin for entire company was 24%, that's up from 17% in the second quarter of 2008. Texas gross profit margin was 17%, up from 3%. South Carolina was 32% and Alabama and Florida were 24%.

<Q>: "What should you gross profit margin be or what is your targeted gross profit objective?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

We certainly have the ability; the ability, the gross potential, to have a gross profit margin of 40% over the course of a year. That would require a few of the startup situations that we're dealing with, which are currently consuming cash and which revenue is slowly building to become what I would describe as stable.

<Q>: "Can you make an assessment of the approximate percentage of gross potential revenue the portfolio is currently generating?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

This is a very astute question and the person who asked this question obviously knows quite a bit about how we look at our business. We look at our business from the vantage point of what is the gross potential that we can derive from each bingo hall. In certain regulatory environments, there are limitations to how much rent you can charge charities, in order to be able to conduct a session of bingo. So we consider that maximum rent, multiplied by the number of sessions, to be the gross potential. So in my view we are operating at about 65% of gross potential.

<Q>: "What was the revenue contribution of the seven acquired bingo halls?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

Well the answer to that is approximately \$240,000 in the second quarter. Remember that is not a linear projection. So the first quarter is much, much, much better than the second quarter, so it's right on target about where it ought to have been. You operating margins have improved nicely. So with further room on the upside, you attempt to actually manage the margins.

So the first thing is there is further room on the upside. As I just said to you, I think we're at about 55% of gross potential. I want to get to 40%. I think 40% is very clearly an objective that we ought to be striving for.

<Q>: "Do you attempt to actually manage the margins?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

By managing the business, by managing the revenue and trying to reduce the expenses, you in effect arithmetically derive the margins. So there is nothing in particular we do to manage those margins, it really is more like a thermometer, the

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margin is the temperature, it's the things that are going in the room to determine the temperature. And so we're managing the revenues and the marketing, in order to increase revenue. We're trying to control expenses and from that you derive the gross profit margin.

<Q>: "What was the mix of revenue among Texas, South Carolina, Alabama and Florida?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

Texas contributed 40%, South Carolina 38%, and Alabama and Florida 22%. I point out to you that South Carolina contributing 38% of gross revenue is a very important development and shows you why that acquisition in South Carolina was so important.

It also tells you why, if we can get these legislative changes made, why that would have such a great impact on our business. I would bet that if we got those legislative changes made, South Carolina would be our leading market as it relates to gross revenue.

<Q>: "On an annualized basis, what do you anticipate your cost savings to be on your restructuring efforts?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

This is a two-part question, because on one hand we're doing some restructuring to reduce costs and on the other hand, we're doing some things to enhance revenue and control expenses. So on the restructuring side we think we will ultimately have a run rate, an annual run rate of a million dollar improvement.

On the enhancement or the cost reduction side, we'll have another million dollars. So taken together that entire program, on an annualized basis, when completed and when we say to you that obviously the numbers for the last two quarters are an indication that that stuff is working and on an annualized basis, those two together would generate an improvement of about \$2 million a year.

<Q>: "What is the impact of the sale of Premiere on the first quarter, what kind of profit or loss did you make on the deal?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

It was an approximate \$400,000 gain, with a \$90,000 valuation allowance. So at some point in time that \$90,000, if the note is paid in a timely manner, comes back to us.

<Q>: "In the last conference call I was left with the impression that all regulatory matters for the State of South Carolina had been resolved."

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

That is correct.

<Q>: "Is that correct? Do you have any material regulatory matters pending in South Carolina?"

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**Jeffery L. Minch - Littlefield Corp. - President, CEO**

No, we do not.

<Q>: "In Texas?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

No.

<Q>: "In Alabama?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

No.

<Q>: "In Florida?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

No. In Florida we do have one minor regulatory issue that we're working on.

<Q>: "How has the stock buyback program been progressing?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

We are doing this through an agent. We the authority to spend up \$500,000, I believe it is through year end and to pay as much as a dollar. And so we bought back about 20,000 shares. Nobody at the company makes any of those individual decisions about buying things. We retained an agent to do that, and they have a written instruction and they simply follow that instruction.

<Q>: "At what level do you anticipate legal expenses to be during the final two quarters of 2009?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

For the year-to-date, legal expenses are down 26% and in that period of time we had very significant lobbying expenses, which we group with our legal expenses. It is difficult to say what is going to happen for the balance of the year, other than the fact that I do expect that that 26% improvement will also accrue for the entire year.

The wild card in all of this is whatever happens with the Fertney trial. If we are unsuccessful in this evidentiary hearing we just had, then our expenses, other than perhaps an appeal, our expenses in Florida will stop.

If we are successful, then we will to trial and obviously we will have trial expenses. I would anticipate if we are successful at trial, and I would be optimistic we would be, then we would have the cost of an appeal at some time thereafter. So those are big things.

If you look back historically, we spent an awful lot of money in South Carolina; that has stopped. In fact we no particular regulatory issues going on and that's good. We have a few litigation matters, one of which I would say is minor and one of which I

would say is major. And we'll just see where that goes. But I do expect the year to be down in order of magnitude 25%.

<Q>: "Looking forward to the balance of 2009, what do you see on the horizon and what thoughts will guide your performance?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

Well I think we have a plan. And our plan obviously is, restructure and reduce expenses, enhance revenue, look at acquisitions on a favorable basis and manage our business. And so with the sale of the hospitality companies, we obviously have more management man hours to focus on the entertainment business.

Our overhead has been very well controlled. We are basically operating at the same level of corporate overhead today, as we did almost three years ago. And so that has been a very gratifying thing. We have fulltime employment equivalent of approximately 19 people, and so that is down a bit.

<Q>: "How was your cash position at the end of Q2 2009 and what are your prospects for raising additional cash? Do you need additional cash?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

We have approximately \$4 million cash on hand. We can probably raise another \$2 million from a loan, based upon some conversations we've been having. Right now, we don't have any particular pressure on us for cash. I expect our operations to slowly but surely begin to generate more and more cash. And I would expect a year from today that our cash production would exceed even our capital expenditures, with the exception of any acquisitions.

<Q>: "Can you give us an overall assessment of how you see the business today as opposed to this time last year?"

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

Well this time last year we were in the middle of a presidential campaign and there was a lot of rhetoric flying and it was about this time, not the second quarter, but about this month, in July or beginning of August, that things really seemed to go to hell. So I would say that we weathered a storm there. It has been as much fear based upon the unknown, and our business seems to be modestly stable.

Now our business always is dependent upon people walking in the front door. If you have thunderstorms in the Carolina's, our attendance goes down. If you have an hour of rain at 5 o'clock and it is bright and sunny the balance of the day, people do not come and play bingo, because they don't like driving in the rain to go and play bingo. So even those normal kinds of seasonality's and negative impacts, I would say that I think we're in a pretty good position. We certainly are in a position that incremental units that we add, and revenue that is enhanced, almost all drops to the bottom line. And so if we were to add ten more bingo halls, which I would certainly like to do, we would have to add, perhaps some supervision in the field and perhaps some additional accounting staff, but we're really in a position that our growth would be quite

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positive and that a dollar's worth of revenue would have a greater margin dropping to the bottom line, because of the control that we have of our overhead.

So that's my report to you and those are the questions I've received. Monitor, would you please poll for additional questions?

**Operator**

[OPERATOR INSTRUCTIONS] Our first question is coming from Howard Halpern with Taglich Brothers. Please state your question.

<Q>: Congratulations on the quarter, guys. The ten bingo halls that you would like to acquire, is that for the balance of this year or through next fiscal year, too?

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

Well let me answer that question in a couple of ways. First off, remember that the acquisition of bingo halls is not a trader business, like the real estate business. In the real estate business you might buy a property and if you could sell it at a profit two days later, you would sell it. Bingo halls have a tendency to trade when there is a significant emotional event in the life of the person who owns the bingo hall. So they typically trade based upon disease, dead, disability, divorce, all very unpleasant things, but things that inject some stress into somebody's life and then evaluate what they're doing and they say, "Gee, maybe I ought to see my bingo hall."

So the first thing is, we have a fulltime acquisitions person who is very good at what he does and we're out there turning over lots of rocks and we probably today know 50% or 75% of all the people we need to know, in order to grow our portfolio in a meaningful way, and we're in constant contact with them.

When one of those significant events occurs in their life, they call us up and we find ourselves in a situation that a possibility becomes a reality. That's kind of the way the business goes.

That fellow today is out in the field today talking to some people about the potential acquisitions. We'd like to make acquisitions initially in the markets that we're in. So I couldn't have told you, looking over our shoulder, that we would have acquired nine bingo halls in the last year, which is about what we've done. But I would like to say yes I'd love to acquire ten or fifteen bingo halls, maybe startup one or two.

I think we're getting to the point that one or two of the ones that we've shelved may be right now, because the bingo season comes back in about September/October. September/October through the first quarter is the strongest period of time for bingo from a seasonality vantage point.

So we're constantly out there looking, but we don't really control the number of bingo halls. If we could acquire ten bingo halls, I can tell you that we have the management talent to be able to acquire them and absorb them. And we've really gotten quite good at our due diligence related to the bingo halls, when we acquire a bingo hall.

And the good news is if you are a shareholder or if you're listening to this call as a perspective investor, I think our acquisition process is very scientific, you have about

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seven, eight, nine page checklist, you know we check, double-check and recheck everything. That's the good news. The bad news is sometimes we scare seller to death when they see the magnitude of due diligence that we do as it relates to proposed acquisitions. So I really cannot put a finger on that, other than to say we're in the market.

Now I would also say to you that we're cautious. And so when we look at a deal today, that deal would have to be a notch or two better than a deal that we might have looked at a couple of years ago. Not necessarily that it's going to be better from a gross vantage point, as much as the numbers have got to reflect the impact of what has happened in the last year or so.

So typically we would like to look at a long period of numbers to spot the trends. But today the only meaningful numbers, really, are what has happened in the last 12 months. Sometimes we look at those last 12 months and they are not particularly good, but we know that we can dramatically enhance them. So I would like to think that we can buy them based upon the reality of what's there now and then enhance them, and us get the upside.

That's a good theory, but I hadn't always been the case. We looked a deal in Florida, it was kind of a marginal deal and we decided to pass on it. And so that's probably an indication of a higher level of caution that we have today than we might have had before.

Now I would also say to you that we are not seeing any competition out there, so it's not as if we're competing with somebody else in these acquisitions. And so from that vantage point I think we're probably a little bit more cautious.

So it wasn't a very good answer to your question, but that's the truth of the matter.

**Operator**

I am not showing any further questions. Mr. Minch, do have any closing comments?

**Jeffery L. Minch - Littlefield Corp. - President, CEO**

Yes, thank you very much. First, I appreciate everybody's interest in Littlefield Corporation and it's been a pleasure to speak with you this morning.

I would conclude simply by saying that I think that the second quarter was a very good quarter, given its normal seasonality. Normally the second quarter is a quarter that you lose money, and so we broke even and I feel good about that. I am a little more optimistic about the future than I was at the last conference call. And that is primarily because of what I see in the pipeline, the trends, how this quarter and the last quarter taken together can be viewed from the vantage point of a year-to-date performance. And so I'm a bit more optimistic here about the near-term future.

I'm cautious about the front page of the newspaper, who knows what might happen. And so we've weathered a very difficult time and in all the markets that we're in, there is something that I can put my finger on that makes me very optimistic about the continued performance at this level.

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So having said all that, I appreciate it. If anybody ever has a question, please feel free to call me. My phone number is 512-476-5141. My e-mail is [jminch@littlefield.com](mailto:jminch@littlefield.com). I look forward to answering your questions or visiting with you at your convenience. Thank you very much.

**Operator**

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time, and we thank you for your participation.

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