PARTICIPANTS

Corporate Participants

Phil Carlson – Account Director
Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer
Michael I. Wellesley-Wesley – President & Chief Executive Officer

Other Participants

Christopher Ferris – Research Analyst, Noble Financial Capital Markets
Douglas Pies – Owner, Douglas H Pies Capital Management

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to Chyron's Earnings Conference Call, where management will review the company's financial results for its Second Quarter ended June 30, 2011. My name is Sean and I'm the operator for today's call. At this time, all participants have been placed in a listen-only mode. At the conclusion of management's formal remarks, the call will be opened for questions.

I'd now like to turn the floor over to the host for today's conference, Phil Carlson of KCSA Strategic Communications, the company's investor relations firm. Sir, you may proceed.

Phil Carlson, Account Director

Thank you, Sean. Good morning, again, my name is Phil Carlson and I'm with KCSA Strategic Communications, Investor Relations Counsel to Chyron. The company's second quarter 2011 earnings press release was released before market opened today. If you've not seen it, you may access it on our website www.kcsa.com, the company's Investor Relations section of its website at www.chyron.com or on the SEC's website at www.sec.gov.

Before management begins, I would like to remind you that from time-to-time, including on this conference call, management may make forward-looking statements relating to such matters as the company's anticipated financial performance, business prospects, technological developments, changes in the industry, new products, research and development activities, and similar matters that involve risks and uncertainties that may cause actual results to differ significantly from results discussed in the forward-looking statements. Factors that might cause such a difference include those set forth in the earnings press release and the company's filings with the Securities and Exchange Commission.

Please review the risks and uncertainties detailed in the company's Annual Report on Form 10-K for the year ended December 31, 2010, as well as any updates to those risks and uncertainties filed from time-to-time with the SEC.

I'd now like to turn the call over to Mr. Jerry Kieliszak, the company's Senior Vice President and Chief Financial Officer. Jerry?

Jerry Kieliszak, Chief Financial Officer, Secretary & Treasurer

Thank you, Phil, and good morning to everyone joining us today for our earnings conference call. I'm Jerry Kieliszak, Chyron's CFO.

As Phil stated, we issued our earnings press release before market opened this morning. And if you have not yet seen it, you may access it by going to kcsa.com, chyron.com, the Investors Section or sec.gov where we filed it with the Form 8-K this morning. Next Wednesday, we intend to file our Form 10-Q for the second quarter with the SEC and please refer to it for additional information on results of operations and our financial conditions.

Leading the discussion on our call today is Michael Wellesley-Wesley, Chyron's President and CEO. I'll now turn the call over to Michael for opening remarks. Michael?

Michael I. Wellesley-Wesley, President & Chief Executive Officer

Thank you, Jerry, and good morning, everyone. I'm Michael Wellesley-Wesley, CEO of Chyron, and I'd like to welcome you to our call today. Before I turn the call back to Jerry to present our financial results in detail, I'd first like to update you on the quarter.

Second quarter of 2011 was our best quarter since 2008 with our top line increasing 43% quarter-over-quarter and 36% over the prior year's second quarter. Product revenues increased from $5.04 million in Q1 to $7.43 million or 37.5% in Q2. Our service revenues which include our AXIS Graphics suite continued to grow as we were up 30% to $2 million compared to $1.54 million in second quarter of last year. These improved results mark the set -- start of the recovery in our business that we believe we can build on in the second half of the year and in 2012.

An important driver behind our success in Q2 was our increased effort with marketing, as well as the continued expansion of our international sales team. While overall revenues grew, the revenue contribution between U.S. domestic and international saw a slight rebalancing in this quarter. Percentage of total revenues in the U.S. decreased to 72% from 74%, and although Europe's contribution was down from 16% to 14%, our strategy of expanding international sales caused the percent of revenue we generated from the rest of the world to increase from 9% to 14%.

This quarter, we concentrated on adding experienced people to our team and placing them into key positions with a view to having them hit the ground running in the second half but most especially in 2012. We've recently added a new vice president of Asia-Pacific sales and have also expanded our London office to include two new executives whose primary focus will be to establish new customer relationship throughout Europe as well as Russia and the Nordic countries. Domestically, we've added a new Vice President to Strategic Product Architecture whose proven track record and expertise will help us further execute on our growth strategy. We've also been joined by Sim Kolliner who's heading our Professional Services group.

We are expecting some contribution from our additional sales people in terms of incremental revenue generation in the latter half of this year, but mostly we will see a major change in 2012. While it is satisfying to have experienced growth in our business in the second quarter, more importantly we positioned ourselves for significant growth in 2012 and beyond.

In May, we announced Raycom Media's purchase and implementation of our BlueNet graphics workflow across all 31 of Raycom's news producing stations. Raycom Media one of the largest broadcasters in the U.S. will upgrade each of its stations over the next year and a half with Chyron's best of breed graphics solutions that include two dual-channel LEX3 on-air graphics systems, a CAMIO server and the iSQ remote monitoring and play-out application. Raycom plans to install an AXIS layer in the second stage of its BlueNet implementation in 2012.

Recently, we announced our HyperX3 on-air graphics systems we used during the live coverage of the Barclays Scottish Open. Throughout the tournament, MOOV Limited, a data-driven graphics provider for live sports broadcasts, used two HyperX3 systems to provide presentation graphics for the BBC's domestic feed.

Also, MST SYSTEMS, a specialist in graphics and scoring for golf tournaments, used another five HyperX3 systems for live scoring and play out of custom graphics packages for the world feed and Sky Sports. Sticking with the BBC for a moment, their coverage of the Wimbledon championships would also enhanced through the use of our HyperX3 systems. MOOV Limited's deployment of our service enabled the play out of dynamic 3D-intensive graphics and enhanced headline sequences in real time.

Seven HyperX3 systems were also used by MOOV and MST SYSTEMS to support BBC's live coverage of the Open Championship in England. Looking ahead, these partners, MOOV and MST SYSTEMS will leverage their graphics workflows coupled with our system to produce enhanced graphics solutions for high-profile events, most notably at the upcoming 2012 Olympic games in London.

To support our global sales strategy, we've taken part in a series of smaller events leading up to what we consider our major event in Q3, which is the international launch of AXIS at the IBC Tradeshow in Amsterdam in September. IBC is the leading international tradeshow for professionals engaged in the creation management and delivery of broadcasting media and entertainment. And we believe our participation in the event will help expand our presence globally.

We actually already have an AXIS customer in the U.K. which is Sky Sports News and we haven't even launched AXIS officially internationally yet. We're now beginning to see a return on the investments we have made in our new product in 2009 and 2010. We expect to sustain recovery and anticipate seeing continued growth in our international business over the next few quarters. Moving forward, management will continue to execute on a growth strategy that is based on expanding our market share globally.

So with that, I'd like now to turn the call over to Jerry before we take questions.

Jerry Kieliszak, Chief Financial Officer, Secretary & Treasurer

Thank you, Michael. As Michael had mentioned earlier, revenues for the quarter ended June 30 were 9.4 million which represented an increase of 2.5 million or 36% from the 6.9 million that we reported in the quarter ended June 30, 2010. Revenues from U.S. customers were 6.6 million in the quarter and 4.5 million in the prior year quarter which is a 46% increase. Revenues derived from international customers were 2.8 million in the quarter as compared to 2.4 million in the year ago quarter, a 17% increase.

For the six months, revenues for the six months ended June 30, 2011 were $16 million, an increase of 2.2 million or 16% from the 13.8 million reported in the prior years for six months. Revenues derived from U.S. customers were 11.6 million in the first six months of this year as compared to 10.4 million for the first six months of last year, a 12% increase. Revenues derived from international customers were $4.4 million in the first six months of this year as compared to $3.4 million in the prior year's first half, a 29% increase.

For the second quarter, products revenues were $7.43 million as compared to $5.4 million in the year-ago quarter, a 38% increase. And services revenues were $2 million in the second quarter as compared to $1.5 million for the year-ago quarter, a 30% increase. For the first six months, product revenues were $12.5 million compared to $10.8 million the first half of last year, a 16% increase.

And services revenues were $3.5 million as compared to $3 million for the prior year's first half, also a 16% increase.

In the U.S., many TV networks and station groups realized increases in political and automotive advertising revenues, enabling them to procure products that resulted in additional demand for a product and service offerings in 2011. In addition, there was an increase in sales in our international markets as a result of a major installation at a public broadcaster in Europe.

Our service revenues and increased in terms of total dollars due to the growing demand for all of our services: axis, maintenance agreements, training, and creative services, each of it, which experienced revenue growth for the second quarter and first half of this year as compared to the comparable prior-year periods. Gross margins for the quarter ended June 30 and the six months ended June 30 and for the two similar periods in the prior year were 70%. Overall, we've been able to obtain reasonable pricing for our materials and had favorably managed our overhead cost to achieve a consistent cost structure.

Total operating expenses were $6.3 million for the second quarter as compared to $5.5 million for the second quarter of last year. Total operating expenses for the first half of this year were $11.8 million as compared to $10.8 million for the first six months of last year. As I will explain, the increases were primarily the sales and marketing areas.

Selling, general, and administrative or SG&A expenses were $4.7 million in the quarter ended June 30 as compared to $3.8 million in the prior year's second quarter, a 24% increase. This increase in spending is primarily due to about $600,000 in additional compensation and related direct costs of additional sales and marketing personnel, hired about $200,000 in costs for other marketing efforts, about $100,000 in increased sales commissions associated with higher revenues, and about $200,000 in legal costs relating to the lawsuit that was filed against us about a year-and-a-half ago. Offsetting these increases in SG&A was a reduction of approximately $200,000 in accrued incentive compensation expense.

SG&A expenses were $8.6 million and $7.5 million in the six-month period ended June 30, 2011 and 2010 respectively representing a 15% increase. The increase in spending is primarily due to $1 million in additional compensation related direct costs and the additional sales and marketing personnel hired, about $200,000 costs for other marketing efforts and an increase in legal costs of approximately $200,000. Offsetting these increases with a reduction of approximately $300,000 in accrued incentive plan compensation expense.

Research and development expenses approximated $1.6 million in both the quarters ended June 30, '11 and '10. R&D expenses were about $3.3 million also in each of the six-month periods ended June 30, '11 and '10.

We've substantially transitioned our development efforts for online services from outsourced to in-house development which has resulted in a consistent level of spending. However, we anticipate that our R&D expenses may increase in the latter part of 2011 as particular enhancements and improvements are scheduled.

Operating profit for the second quarter was $240,000 as compared to an operating loss of $680,000 in last year's second quarter, representing a $900,000 improvement. For the first half of this year, we had an operating loss of $650,000 as compared to an operating loss of $1.14 million in the prior year's first half which represents about $0.5 million improvement in operating.

Net income for the second quarter was $84,000 that was nearly an $800,000 improvement as compared to last quarter's net loss – last year's second quarter net loss of approximately $0.7 million and this year's second quarter net income actually represents the first positive net income quarter in the past 10 quarters. For the first six months of this year, we had a net loss of $350,000 which is about a $1 million better than the net loss of $1.35 million recorded in the first half of last year.

Basic and diluted earnings per share were $0.01 and $0.00 respectively for the second quarter of this year as compared to basic and diluted loss of $0.04 per share for the second quarter of last year. Basic and diluted loss per share was $0.02 for the first six months of this year as compared to basic and diluted loss of $0.09 for last year's first half. At June 30, our cash balance is $4.2 million and that was down about $1.37 million where we started the year. However, accounts receivable at June 30 read 5.78 million, up about 1.64 million from where we started the year. Our current ratio at June 30 was 2.16, which is where we started the year.

This ends my prepared remarks. I'll turn you back over to Michael.

Michael I. Wellesley-Wesley, President & Chief Executive Officer

Thank you, Jerry. Jerry and I will now be pleased to answer your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] I have a question from Christopher Ferris with Noble Financial. Please go ahead with your question.

<Q – Christopher Ferris – Noble Financial Capital Markets>: Hi, Michael. Nice quarter out of you guys. Was wondering if you talk a little bit about the top line and it's a very good quarter on the top line. And I was wondering if you could talk about what your revenue expectations are for the second half particularly given that you have some pretty favorable comps here. And then secondly, can you talk just a little bit more generally about what you see as the business prospects for the remainder of the year and going into 2012? Have you guys sort of reached an inflection point here with your business? Thank you.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Thanks, Chris. Good morning.

<Q – Christopher Ferris – Noble Financial Capital Markets>: Morning.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: We're very well aware that one recovery quarter doesn't really constitute a recovery. It just constitutes the beginning of a recovery. And we anticipate that we'll continue to build on the progress made in Q2, in Q3 and Q4.

We don't currently have a lot of visibility into pipeline and order backlog for 2012, but we believe that it should be a strong year for us given that it's an election year and also a quadrennial Olympic year which is normally cyclically strong for our kind of business, especially coming off of a period when many of our customers around the world have spent the last two years not investing in capital expenditure or new graphics infrastructure.

So we see no reason why we shouldn't be able to sustain the kind of recovery in the top-line numbers that you saw here in Q2 through the balance of this year and certainly to build upon them in 2012. So we're obviously concerned about the general economy and specifically about the media economy. But as I said in my prepared remarks, we believe that we can grow by gaining market share regardless of the economic situation. So hopefully this is just the first of a number of good quarters from our point of view.

<Q – Christopher Ferris – Noble Financial Capital Markets>: Great. And can you also talk about what – just drill down a little bit on what really drove the revenue growth this quarter? Was it all Raycom or were there some other things in there that really contributed?

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Well, there were certainly some other things in there besides Raycom, but Raycom was $2 million I think of the $9.4 million total. So it was the major order. The interesting thing looking forward is that we'll be able to – we believe we're going to be able to sustain similar kinds of revenue numbers without any really significant major orders and yet at the same time, we see in our pipeline some substantial business which I'd define as over $1 million worth of contract that are also out there. So, the trouble with these larger contracts is the precise timing of when they land and when the revenues can be recognized. But certainly the strength in the quarter, Raycom was a major contributor though we had some substantial other business. I think we did nearly $1 million worth of business in Canada last quarter for instance.

Going forward to produce some really exceptional revenue growth, we're going to need steady state to close these larger contracts on a regular basis, and I'm happy to say that I believe we're capable of doing that.

<Q – Christopher Ferris – Noble Financial Capital Markets>: Thank you very much.

Operator: [Operator Instructions] Our next question comes from Douglas Pies with Douglas Pies Capital. Please go ahead with your question. Hi, Douglas, your line is open. Could you try pressing your mute button?

<Q – Doug Pies – Douglas H Pies Capital Management>: Yes. I got a few questions. Hi, Michael; hi, Jerry.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Good morning, Doug.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Good morning, Doug.

<Q – Doug Pies – Douglas H Pies Capital Management>: Jerry, maybe to start, you could give us a little number of let's say options that are not yet on the money, how many roughly that would be and how much potential cash could come in from the exercise of those options.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Yes. At June 30, Doug, we had about 3.2 million stock options outstanding.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Of that 3.2 million, about 2.4 million were exercisable.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: And of the 2.4, about 1.4 million were in the money. The range of those options in the money – they are in the money based on about $2.20 a share which is about I think they are actually close to $2.19, so it was relatively indicative. The expiration range on those is anywhere from November of this year through May of 2021. The exercise price on those options ranges anywhere from $0.60 a share to $5.90 a share roughly, so it's all over.

The number of options with respect to those that are exercisable, the number that expire by year approximate about 100,000 this year if not exercised, 100,000 next year and about 100,000 the year after that, and then we jump up to closer to 400,000 in the following year, two to 300,000 for several years. And the biggest bulk goes out into 2019 and '20 when roughly about 600,000 and 900,000 respectively, would expire if not exercised.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: The greatest difference, if you look at the history of our stock price, obviously it's been up and down consistently but years ago when these options expire in 2011 and '12 were issued, they were at incredibly low levels post-reverse split. So those we would expect to be exercised this year and next year. In terms of cash coming in because they are ay relatively low prices, we would expect the cash contribution to be relatively small this year. If all 100,000 or so options were exercised we probably be looking at on average probably about $120,000 coming in, and next year probably similar.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay, okay. Further out, in theory we could be thinking $1 million or $2 million potentially in those out years.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Cash coming in?

<Q – Doug Pies – Douglas H Pies Capital Management>: Yes.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Yes, clearly. There's nothing that says that people will wait till those out years to exercise that they're in the money; you never know.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: They were talking expiration dates. So, like I said, there's about 1.4 million options that are in the money at a price of $2.20. When people choose to exercise, that remains to be seen.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay. Well, that's good. That helps. Every dollar helps, right?

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Yes.

<Q – Doug Pies – Douglas H Pies Capital Management>: Another question relating to – basically, our break-even level looks like it could be around $34 million, assuming we get a little further increase in gross margins. Does that sound roughly correct with that $6.3 million in operating expenses?

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: I think you may be – well...

<Q – Doug Pies – Douglas H Pies Capital Management>: You could be theoretically...

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Let's talk – are we talking quarterly or are we talking annually?

<Q – Doug Pies – Douglas H Pies Capital Management>: Annually. Yes, $8.5 million to $1 million roughly. It seems to me if we get gross margins into the 72%, 73% level, then we're talking $24 million of operating income – gross income operating and then operating expenses around $24 million which is kind of – be roughly we're breakeven roughly around those numbers. Doesn't have to be obviously...

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Doug, I'll share with you some analysis we've done internally recently. But we looked at it from the second half only perspective..

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: You can add this year-to-date results. If our gross margins, which remain at 70% for the rest of the year...

<Q – Doug Pies – Douglas H Pies Capital Management>: Right.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Which we would hope they would be higher than that, but it will obviously depend upon the mix of revenues...

<Q – Doug Pies – Douglas H Pies Capital Management>: Right.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: ...because certain elements bring higher than 70 and certain elements bring lower. But assume 70. And our OpEx averaged what it did for the first half of the year or maybe slightly higher. We'd probably need to achieve high eights per quarter in terms of revenues...

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: ...in order to achieve breakeven GAAP basis, pre-tax income.

<Q – Doug Pies – Douglas H Pies Capital Management>: Right.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Don't get me on the subject of the tax provision. It's too convoluted for pre-tax, and then probably 8 million to breakeven on a non-GAAP cash flow basis...

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: ...which is actually the basis that we described in the last table of our press release each quarter.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay. Can I – let's say, this number I use internally here. Every million over and above that breakeven number, every million of revenues which is $0.03 to $0.035 per share, again, using a few more shares outstanding fully diluted because of stock hopefully – price would be higher to bringing more shares into the equation. But does that sound roughly in the ballpark?

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: You must have a quicker calculator than me.

<Q – Doug Pies – Douglas H Pies Capital Management>: I was thinking 1 million and 70%; 700,000; 100,000 roughly for added compensation sales. Bring it down to 600,000 630,000 divided by...

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Yes.

<Q – Doug Pies – Douglas H Pies Capital Management>: ...whatever, 18 million.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Yes, it's about – yes. I mean, you can crunch the numbers but once you get beyond these minimum breakeven levels, assuming you're breaking in 700,000 of gross profit on each incremental million dollars of revenues.

<Q – Doug Pies – Douglas H Pies Capital Management>: Right.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: A small portion of that remaining 700,000 gross profit gets consumed by commission, sales volumes and so on. But if you take what's left, let's say, for argument's sake, it's 6.50 and divide by the 16.5 million shares outstanding. I think you enter the range of about $0.04 a share.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay. Largely, it's in 3 to 3.5 to be conservative. That will be great if we can get to that level. Now then, the whole goal there would be to get our revenues into the 40s and the 50s.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Right.

<Q – Doug Pies – Douglas H Pies Capital Management>: But, Michael, the total market for non-axis for us is it still roughly 150 million out there as a total addressable market, maybe higher or lower? And could that -- Is that stable, you think, or could that grow the non-axis start of our business?

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: I would say that's a pretty good number. I think that's in a real recovery year. It might go up to 200 million and in a recession period down to 100 million and 120 million, so 150 million is a good...

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: ...number. I think a traditional broadcast graphics.

<Q – Doug Pies – Douglas H Pies Capital Management>: One-third potentially U.S.; two-thirds, rest of the world, roughly?

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Yes.

<Q – Doug Pies – Douglas H Pies Capital Management>: Is that right?

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Yes.

<Q – Doug Pies – Douglas H Pies Capital Management>: – That sounds okay?

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: I would say so.

<Q – Doug Pies – Douglas H Pies Capital Management>: So now then adding on to that, the axis potential which I think we still think is huge, can you give us a little more color on maybe trying to get to a point where we could – have some idea where we could be in 2013 in revenues? Further added to that would be where do we stand on high-definition, has that fully been developed yet in the broadcast industry or are we still not there yet?

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Well, let me start with the last piece first. The main, if I can remember it. The HD transition as we think has still got a long way to go even domestically, we think it's barely 40% down and internationally probably barely half that so, the HD upgrade of control rooms and studios is still a major driver for change within the broadcast industry around the world and as people transition and move to the HD production, it's normally a stimulus to upgrade graphics infrastructure. So I think we'll be benefiting from the HD transition for a while longer.

In terms of our goals, we don't give forward guidance but, we certainly are looking to grow very substantially over the next two or three years. We have some very aggressive targets as to where we want to be in 2012, '13, and '14. And they would be sort of in terms of percentage increase of the kind of orders of magnitude on an annual basis that you've been looking at for this quarter over last year, so.

<Q – Doug Pies – Douglas H Pies Capital Management>: Well, that's close enough, Michael. That helps a lot. Jerry, on the – assuming we weren't able to get to, let's say, 50 million somewhere in the next two or three years, does 18% operating margin sound attainable? High teens, low twenties perhaps or high teens?

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Doug, I'll be honest with you Doug that's hard for me to answer because I haven't done the math.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay, okay, I kind of get it, using the 3.5 to 4, 3 to 3.5; seems like we would be close to that, based on those numbers we talked about earlier. But I understand, you haven't done that, but.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: I would want to be little bit more conservative than that.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay, okay.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: I think, we – you have to assume that as we grow the business very aggressively over the next few years, we also want to grow some lines in our operating expense in terms of R&D, vital that we continue to invest aggressively in new products to sustain the growth that we want to do.

And I think also in the sales area, because as you pointed out earlier AXIS opened a number of doors for us into other media verticals where we don't necessarily have historical expertise. And so we may well want to bring in teams on sales side or on partnerships that can address those other vertical opportunities.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: So you should assume some growth as we go forward in OpEx, but nothing like the pace of the top-line growth. So, if I had to pick a sort of single number for the operating profit margin in the out years, I'd say mid teens rather than high teens.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay. That again, with higher revenues that would still be fine. I think that pretty – Michael, what do you think, let's say, two year – this is a subjective type of question but intrinsic value in your own mind or thinking without knowing what the number was two or three years ago, do you think at this point we have a higher number price per share type number now than we had a couple of years ago? And two years from now, you would think I would think based on what we're talking that we could be substantially higher than that than we are now. Does that sound like in your mind? This is kind of one of those subjective type questions.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Well, I have no idea where the stock price is going to be in two years time and we're focused on running the business as well as we can and executing on a growth plan. Now, the underlying assumption is that if we can do that, that the stock price will reflect the increase in value over the next two or three years that it's created. But I'll leave the stock price up to you guys. I really have no idea...

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay. Okay.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: ...what the sort of valuation metrics will be. But I would suspect that if we can produce superior growth then we will earn a superior multiple and but the key now for us is to replicate the growth in the second quarter in the remaining part of the year and in 2012. And at that point, I think we'll begin to have a more predictable trajectory rather than just sort of a one-shot wonder.

<Q – Doug Pies – Douglas H Pies Capital Management>: I understand. I guess my last question and I'll get off, the accounts receivable, do some of that come in from the Raycom deal? And if that could be converted to cash, I would assume, in the next year to the point where our cash on hand should grow significantly?

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: I'll pass that over to Jerry.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Yes. We certainly, based on our current expectations, Doug, we expect to end the year with certainly more cash than we began the year with...

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: ...our current expectation.

<Q – Doug Pies – Douglas H Pies Capital Management>: More cash than we have currently or just...

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Both. More than we have currently and more than we started the year with.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: That's where our expectations are at this point in time based on I think reasonable projections of the second-half performance.

<Q >
Okay. If no one else has any questions, I'll get off but I got two more if probably people are waiting. Michael?

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Yes, Doug. I don't know whether anybody -

<Q – Doug Pies – Douglas H Pies Capital Management>: I ask my -- just the pension – pension costs -- are they -- do we have any unfunded liabilities there at this point, significant? And also the legal cost, do you think those could be getting over with by the end of this year? Those are my last two questions.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Jerry's the expert on pension costs.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: It's all right. You would just divert it.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: I think – I think the question, Jerry, was whether or not we had any unfunded pension liabilities and whether the costs -- what the costs were and whether they would be over by the end of the year.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: We like probably every other pension plan in the United States, Doug, to have an unfunded -- underfunded pension plan. That is no surprise, I think. The pension plan was approximately 80% funded by the IRS definition of funding at the beginning of 2011.

We are staying pace with trying to keep it at least 80% funded. As a result, the company puts approximately $400,000 a year into the plan. In order to do a catch-up adjustment, the company put in additional $300,000 and in the first quarter of this year and that was to get the plan to the minimum 80% funding level under the new guidelines for determining funding level.

For the previous two years, the company did not put as much cash into the plan in part because, again, this funding formula changed and obviously the market changed. But we had actually an overfunding situation a couple of years ago which created a credit which we were able to use to move up cash in part for the past couple of years. We fully utilized that credit by the end of 2010 and now we're into normal funding, and normal funding at this point is about 400,000 a year, cash.

<Q – Doug Pies – Douglas H Pies Capital Management>: That's sound good. And the legal costs, those should wind down in theory?

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: Yes. We have spent the past couple of weeks, our attorneys and us and the plaintiff's attorneys and plaintiff in discussions and negotiations and have reached an agreement in principle which both parties have signed off to.

We are sorting out one last detail in order to finalize that, once that detail is wrapped up, which we hope to be this week or early next week, we expect that both attorneys – both parties' attorneys will file the appropriate documents with the court in order to close the matter and close the suit.

<Q – Doug Pies – Douglas H Pies Capital Management>: Sounds great.

<A – Jerry Kieliszak – Chief Financial Officer, Secretary & Treasurer>: When we do, we hope to do it in time before we issue our 10-Q next Wednesday and we will disclose the status in that 10-Q.

<Q – Doug Pies – Douglas H Pies Capital Management>: Okay, sounds great. Thanks very much, guys. I appreciate all your help. Onward and upward from here.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: Thank you, Doug.

Operator: [Operator Instructions] our next question comes from Christopher Ferris with Noble Financial. Please go ahead.

<Q – Christopher Ferris – Noble Financial Capital Markets>: Hi, Michael, another follow-up. You mentioned the other media verticals. So I was wondering if you could talk a little bit about your plans there and what the timing of the roll out of those might be.

<A – Michael Wellesley-Wesley – President & Chief Executive Officer>: The other media verticals, the most obvious media verticals for axis is publication of graphics online for anywhere where there is rich media being published or video media being published, so newspaper website, radio, online radio websites are all deploying more and more video and more and more graphics as well as – our traditional market television market.

So I would say that the logical first media vertical for us is in the online newspaper vertical where there's a lot of common ownership between the groups that own state TV stations and also newspapers in this country. And I would hope to be in a position to announce something in that vertical before the end of this year.

<Q – Christopher Ferris – Noble Financial Capital Markets>: Great.

Operator: [Operator Instructions] I'm not showing any further questions. This does conclude the Q&A session. I would like to turn the conference back over to Mr. Wellesley-Wesley for closing comments.

Michael I. Wellesley-Wesley, President & Chief Executive Officer

Thanks, Sean. Thank you all very much for joining us today. Jerry and I appreciated the time we spent with you and look forward to speaking with you again in our next call at the end of this quarter. Thank you.

Operator: Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the conference. You may now disconnect. Good day.