

LGL GROUP INC  
Form 10-K  
March 29, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

---

FORM 10-K

✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-106

The LGL Group, Inc.  
(Exact name of Registrant as Specified in Its Charter)

Delaware 38-1799862  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

2525 Shader Road, Orlando, Florida 32804  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (407) 298-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 Par Value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: Warrants to purchase Common Stock (expiring August 6, 2018)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes No ✓

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No ✓

---

Edgar Filing: LGL GROUP INC - Form 10-K

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of the registrant's common stock on the last business day of the registrant's most recently completed second fiscal quarter of \$4.41, was \$9,610,493. Solely for the purpose of this calculation, shares held by directors and executive officers of the registrant have been excluded. Such exclusion should not be deemed a determination or an admission by the registrant that such individuals are, in fact, affiliates of the registrant. The number of outstanding shares of the registrant's common stock was 2,665,434 as of March 23, 2015.

---

THE LGL GROUP, INC.

	Page
PART	
I	
Item 1. Business.	1
Item 1A. Risk Factors.	5
Item 1B. Unresolved Staff Comments.	13
Item 2. Properties.	13
Item 3. Legal Proceedings.	13
Item 4. Mine Safety Disclosures.	13
PART	
II	
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	14
Item 6. Selected Financial Data.	14
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.	16
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.	19
Item 8. Financial Statements and Supplementary Data.	19
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.	19
Item 9A. Controls and Procedures.	19
Item 9B. Other Information.	20
PART	
III	
Item 10. Directors and Executive Officers and Corporate Governance.	21
Item 11. Executive Compensation.	21
Item 12. Security Ownership Of Certain Beneficial Owners and Management and Related Stockholder Matters.	21
Item 13. Certain Relationships and Related Transactions, and Director Independence.	21
Item 14. Principal Accountant Fees and Services.	21
PART	
IV	
Item 15. Exhibits and Financial Statement Schedules.	22



## PART I

### Caution Concerning Forward-Looking Statements

This annual report on Form 10-K (this "Report") and the Company's other communications and statements may contain "forward-looking statements," including statements about the Company's beliefs, plans, objectives, goals, expectations, estimates, projections and intentions. These statements are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond the Company's control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "goal," and similar expressions are intended to identify forward-looking statements. All forward-looking statements, by their nature, are subject to risks and uncertainties. The Company's actual future results may differ materially from those set forth in the Company's forward-looking statements. For information concerning these factors and related matters, see "Risk Factors" in Part I, Item 1A in this Report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 in this Report. However, other factors besides those referenced could adversely affect the Company's results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by the Company herein speak as of the date of this Report. The Company does not undertake to update any forward-looking statement, except as required by law. As a result, you should not place undue reliance on these forward-looking statements.

### Item 1. Business.

The LGL Group, Inc. (together with its subsidiaries, the "Company" or "LGL") is a globally-positioned producer of industrial and commercial products and services that is currently focused on the design and manufacture of highly-engineered, high reliability frequency and spectrum control products. These electronic components ensure reliability and security in aerospace and defense communications, low noise and base accuracy for laboratory instruments, and synchronous data transfers throughout the wireless and Internet infrastructure. The Company was incorporated in 1928 under the laws of the State of Indiana, and in 2007, the Company was reincorporated under the laws of the State of Delaware as The LGL Group, Inc. LGL maintains its executive offices at 2525 Shader Road, Orlando, Florida, 32804. The Company's telephone number is (407) 298-2000. The Company's common stock is traded on the NYSE MKT under the symbol "LGL." The Company's warrants to purchase common stock, expiring August 6, 2018, are available for trading on the over-the-counter market under the symbol "LGLPW."

The Company operates through its principal subsidiary, M-tron Industries, Inc. (together with its subsidiaries, "MtronPTI"), which has design and manufacturing facilities in Orlando, Florida, Yankton, South Dakota and Noida, India, as well as local sales and customer support offices in Sacramento, California and Hong Kong.

### Overview of MtronPTI

Originally founded in 1965, MtronPTI designs, manufactures and markets highly-engineered, high reliability frequency and spectrum control products. These component-level devices are used extensively in infrastructure equipment for the telecommunications and network equipment industries, as well as in electronic systems for applications in defense, aerospace, earth-orbiting satellites, down-hole drilling, medical devices, instrumentation, industrial devices and global positioning systems.

As an engineering-centric company, MtronPTI provides close support to the customer throughout their products' entire life cycle, including product design, prototyping, production, and subsequent product upgrades. This collaborative approach has resulted in the development of long-standing business relationships with its blue-chip customer base.

### MtronPTI's Strategy

MtronPTI's primary objective is to create long-term growth with a market-based approach of designing and bringing new products to its customers through both organic research and development, and through strategic partnerships, joint ventures, acquisitions or mergers. Through direct collaboration with original equipment manufacturers ("OEMs"), our customers, MtronPTI seeks to leverage its core strength as an engineering leader to expand client access, add new capabilities and continue to diversify its product offerings. MtronPTI's focus is on investments that will differentiate and broaden its RF/microwave portfolio and lead toward higher levels of integration. We believe that successful execution of this strategy will lead to a transformation of MtronPTI's product portfolio towards longer product life cycles, better margins and improved competitive position.

### Products

MtronPTI's portfolio is divided into two product groupings, Frequency Control and Spectrum Control, and has expanded from primarily crystal-based components to include higher levels of integration, advanced materials science, cavity-based products, and various types of compensation methods employing integrated circuits and other methods. These products are differentiated by their precise level of accuracy, their stability over time and within harsh environments, and their very low phase noise.

MtronPTI's Frequency Control product group includes a broad portfolio of XTAL, clock oscillators, VCXO, TCXO OCXO and DOCXO devices which meet some of the tightest specifications, including IEEE 1588 standards. These devices may be based on quartz, quartz MEMS, or advanced materials science designed to achieve higher performance levels than quartz. MtronPTI's products offer high reliability over a wide temperature range and are well-suited for harsh environments, including shock and vibration-resistant oscillators with low-g sensitivity. These products are designed for applications within aerospace and defense, telecommunications infrastructure and instrumentation markets.

MtronPTI's Spectrum Control product group includes a wide array of RF, microwave and millimeter wave filters and diplexers covering a frequency range from 1 MHz to 90 GHz, and solid state power amplifiers covering a frequency range from 300 MHz to 26 GHz, with power output from 10 Watts to 10 kWatts. Filter devices include crystal, ceramic, LC, tubular, combline, cavity, interdigital and metal insert waveguide, as well as digital, analog and mechanical tunable filters, switched filter arrays and RF subsystems. Power amplifiers add active devices to MtronPTI's portfolio and include GaN, GaAS FET, LDMOS and chip and wire technologies in narrow or broadband, module or rack-mounted packages. These products are employed in applications within the aerospace, defense and commercial markets.

As always, new product development is a key focus for MtronPTI as it continues to push its roadmap to meet the needs of its served markets. Within Frequency Control, design efforts are focused on smaller packages, lower power, and use of new materials to provide compensation and harsh environment performance that surpasses customer requirements. Spectrum Control seeks to develop higher power handling, higher levels of integration and a range of integrated products within the RF subsystem.

### Manufacturing and Operations

MtronPTI has design and manufacturing facilities located in Orlando, Florida, Yankton, South Dakota and Noida, India, providing nearly 120,000 square feet of manufacturing space on approximately 14 acres of land. All of its production facilities are ISO 9001:2008 certified, ITAR registered and RoHS compliant. In addition, its U.S. production facilities in Orlando and Yankton are AS9100 Rev C and MIL-STD-790 certified.

MtronPTI's headquarters are located in Orlando, Florida, with sales and customer support offices also located in Sacramento, California and Hong Kong.

#### Research and Development

Utilizing its understanding of market requirements, MtronPTI employs a disciplined approach to capital allocation when selecting new product development projects. A cross-functional team comprised of engineering, marketing, operations, sales and finance reviews the merits of specific projects, seeking to invest in products that will exceed a specific return on investment level and a payback expectation within one to two years. In addition, the team considers the inherent value of intellectual property that each project presents with consideration for technical roadmap objectives.

Research and development expense was approximately \$1,964,000 and \$2,166,000 in 2015 and 2014, respectively, and will remain a significant part of MtronPTI's efforts to revitalize its IP position.

#### Customers

MtronPTI primarily works directly with OEMs to define the right solutions for their unique applications, including the design of custom parts with unique part numbers. Actual sales of production parts may be directly to the OEM or through either their designated contract manufacturers ("CMs"), or through franchised distributors of MtronPTI's products. As a result, MtronPTI has highly-skilled sales engineers who work directly with the designers and program managers at its OEMs, providing a high-level of engineering support at all points within the process. Over MtronPTI's 50-year history, it has developed a long list of blue-chip customers that have come to rely on its products because of their performance characteristics and their reliability.

In 2015, MtronPTI's largest customer, an electronics contract manufacturing company in the aerospace and defense markets, accounted for \$2,627,000, or 12.7%, of the Company's total revenues, compared to \$2,522,000, or 11.0%, in 2014.

#### Marketing and Sales

MtronPTI has a highly skilled team of sales engineers who work in tandem with a worldwide network of more than 30 independent external manufacturer representatives and franchised electronics distributors to market and sell its products. An important part of the sales process is gaining qualification of specific products from the OEM, confirming suitability for use in a specific system design, which is commonly referred to as a "design-win." Through direct contact with its clients and through its representative network, MtronPTI is able to understand the needs of the marketplace and then guide its product development process to allocate resources to meeting those requirements.

#### Seasonality

MtronPTI's business is not seasonal, although shipment schedules may be affected by the production schedules of its customers or their CMs based on regional practices or customs.

#### Domestic Revenues

MtronPTI's domestic revenues were \$15,260,000 in 2015, or 73.7% of total consolidated revenues, compared to \$13,556,000, or 58.9% of total consolidated revenues, in 2014.

#### International Revenues

MtronPTI's international revenues were \$5,453,000 in 2015, or 26.3% of total consolidated revenues, compared to \$9,457,000, or 41.1% of total consolidated revenues, in 2014. In each of 2015 and 2014, these revenues were derived mainly from customers in Asia, with significant sales in Malaysia and China. MtronPTI avoids significant currency exchange risk by transacting and settling substantially all international sales in United States dollars.

#### Order Backlog

MtronPTI's order backlog was \$8,799,000 and \$8,792,000 as of December 31, 2015 and 2014, respectively. The backlog of unfilled orders includes amounts based on signed contracts as well as agreed letters of intent, which MtronPTI has determined are firm orders and likely to proceed. Although backlog represents only firm orders that are considered likely to be fulfilled within the 12 months following receipt of the order, cancellations or scope adjustments may and do occur.

Order backlog is adjusted quarterly to reflect project cancellations, deferrals, revised project scope and cost. The Company expects to fill its entire 2015 order backlog in 2016, but cannot provide assurances as to what portion of the order backlog will be fulfilled in a given year.

#### Raw Materials

Most raw materials used in the production of MtronPTI products are available in adequate supply from a number of sources and the prices of these raw materials are relatively stable. However, some raw materials, including printed circuit boards, quartz and certain metals including steel, aluminum, silver, gold, tantalum and palladium, are subject to greater supply fluctuations and price volatility, as experienced in recent years. MtronPTI generally has been able to include some cost increases in its pricing, but in some cases its margins were adversely impacted.

#### Competition

Production of frequency and spectrum control devices is a highly competitive industry, with low transportation costs and few import barriers. There are numerous domestic and international manufacturers who are capable of providing custom-designed timing and filter products comparable in quality and performance to MtronPTI's products.

Competitors include, but are not limited to, Vectron International (a division of Knowles Corporation), K&L Microwave (a division of Dover Corporation), CTS Corporation, and Rakon Limited. MtronPTI's competitive strategy begins with its focus on manufacturing lower volumes of more precise, custom designed frequency control devices, rather than producing higher volumes of standardized products like some of its competitors. MtronPTI also seeks to outperform the competition by producing market-based design solutions for customers utilizing MtronPTI's technical skill, and its high-performance, high-reliability product portfolio, and by providing high level quality engineering support throughout the customer's design process and the entire life cycle of the product.

#### Intellectual Property

MtronPTI has no patents, trademarks or licenses that are considered to be significant to its business or operations.

Rather, MtronPTI believes that its technological position depends primarily on the technical competence and creative ability of its engineering and technical staff in areas of product design and manufacturing processes, including their ability to customize to meet difficult specifications, as well as proprietary know-how and information.

#### Employees

As of December 31, 2015, the Company employed 141 people (full-time equivalents): two within corporate headquarters and 139 within its subsidiary, MtronPTI, which includes 33 in Yankton, South Dakota, 95 in Orlando, Florida, three in Hong Kong and eight in Noida, India. None of the Company's employees are represented by a labor union and the Company considers its relationships with employees to be good.

As an engineering-centric company, nearly 20% of MtronPTI's workforce consists of degreed-engineers bringing their expertise to product design and process development.

#### Environmental

The Company's manufacturing operations, products, and/or product packaging are subject to environmental laws and regulations governing air emissions, wastewater discharges, and the handling, disposal and remediation of hazardous substances, wastes and other chemicals. In addition, more stringent environmental regulations may be enacted in the future, both within the United States and internationally, and we cannot presently determine the modifications, if any, in the Company's operations that any future regulations might require, or the cost of compliance that would be associated with these regulations.



To date, capital expenditures, earnings and competitive position of the Company have not been materially affected by compliance with current federal, state, and local laws and regulations (domestic and foreign) relating to the protection of the environment. However, the Company cannot predict the effect of future laws and regulations.

Item 1A. Risk Factors.

Investing in our securities involves risks. Before making an investment decision, you should carefully consider the risks described below. Any of these risks could result in a material adverse effect on our business, financial condition, results of operations, or prospects, and could cause the trading price of our securities to decline, resulting in a loss of all or part of your investment.

Risks Related to Our Business and Industry

We are dependent on a single line of business.

We are currently engaged in the design, manufacture and marketing of standard and custom-engineered electronic components that are used primarily to control the frequency or timing of signals in electronic circuits, and we do not offer any other products. Virtually all of MtronPTI's 2015 and 2014 revenues came from sales of electronic components, which consist of packaged quartz crystals, oscillator modules, electronic filters and integrated modules. We expect that this product line will continue to account for substantially all of MtronPTI's revenues in 2016.

Given our reliance on this single line of business, any decline in demand for this product line or failure to achieve continued market acceptance of existing and new versions of this product line may harm MtronPTI's business and our financial condition. Additionally, unfavorable market conditions affecting this line of business would likely have a disproportionate impact on us in comparison with certain competitors, who have more diversified operations and multiple lines of business. Should this line of business fail to generate sufficient sales to support ongoing operations, there can be no assurance that we will be able to develop alternate business lines.

Our operating results vary significantly from period to period.

We experience fluctuations in our operating results. Some of the principal factors that contribute to these fluctuations include: changes in demand for our products; our effectiveness in managing manufacturing processes, costs and inventory; our effectiveness in engineering and qualifying new product designs with our OEM customers and in managing the risks associated with bringing those new products into production; changes in the cost and availability of raw materials, which often occur in the electronics manufacturing industry and which affect our margins and our ability to meet delivery schedules; macroeconomic and served industry conditions; and events that may affect our production capabilities, such as labor conditions and political instability. In addition, due to the prevailing economic climate and competitive differences between the various market segments which we serve, the mix of sales between our communications, networking, aerospace, defense, industrial and instrumentation market segments may affect our operating results from period to period.

For the years ended December 31, 2015 and 2014, we had net losses of approximately (\$711,000) and (\$2,825,000), respectively. Our revenues are derived solely from our operating subsidiary, MtronPTI, and its future rate of growth and profitability are highly dependent on the development and growth of demand for our products in the communications, networking, aerospace, defense, instrumentation and industrial markets, which are cyclical. We cannot be certain whether we will generate sufficient revenues or sufficiently manage expenses to return to profitability.

We have a large customer that accounts for a significant portion of our revenues, and the loss of this customer, or decrease in their demand for our products, could have a material adverse effect on our results.

In 2015, MtronPTI's largest customer, an electronics contract manufacturing company, accounted for \$2,627,000, or 12.7%, of the Company's total revenues, compared to \$2,522,000, or 11.0%, in 2014. The loss of this customer, or a decrease in their demand for our products, could have a material adverse effect on our results.

A relatively small number of customers account for a significant portion of our accounts receivable, and the insolvency of any of these customers could have a material adverse impact on our liquidity.

At December 31, 2015, three of MtronPTI's largest customers accounted for approximately \$819,000, or 31.4%, of accounts receivable, compared to approximately \$1,035,000, or 31.3%, at the end of 2014. The insolvency of any of these customers could have a material adverse impact on our liquidity.

MtronPTI's order backlog may not be indicative of future revenues.

MtronPTI's order backlog comprises orders that are subject to specific production release, orders under written contracts, oral and written orders from customers with which MtronPTI has had long-standing relationships and written purchase orders from sales representatives. MtronPTI's customers may order components from multiple sources to ensure timely delivery when backlog is particularly long and may cancel or defer orders without significant penalty. They also may cancel orders when business is weak and inventories are excessive. As a result, the Company cannot provide assurances as to the portion of backlog orders to be filled in a given year, and MtronPTI's order backlog as of any particular date may not be representative of actual revenues for any subsequent period.

We are a holding company, and therefore are dependent upon the operations of our subsidiaries to meet our obligations.

We are a holding company that transacts business through our operating subsidiaries. Our primary assets are the shares of our operating subsidiaries. Our ability to meet our operating requirements and to make other payments depends on the surplus and earnings of our subsidiaries and their ability to pay dividends or to advance or repay funds.

MtronPTI's future rate of growth and profitability are highly dependent on the development and growth of the communications, networking, aerospace, defense, instrumentation and industrial markets, which are cyclical.

In 2015 and 2014, the majority of MtronPTI's revenues were derived from sales to manufacturers of equipment for the communications, networking, defense, aerospace, instrumentation and industrial markets for frequency and spectrum control devices, including indirect sales through distributors and contract manufacturers. During 2016, MtronPTI expects a significant portion of its revenues to continue to be derived from sales to these manufacturers. Often OEMs and other service providers within these markets have experienced periods of capacity shortage and periods of excess capacity, as well as periods of either high or low demand for their products. In periods of excess capacity or low demand, purchases of capital equipment may be curtailed, including equipment that incorporates MtronPTI's products. A reduction in demand for the manufacture and purchase of equipment for these markets, whether due to cyclical, macroeconomic or other factors, or due to MtronPTI's reduced ability to compete based on cost or technical factors, could substantially reduce MtronPTI's net sales and operating results and adversely affect its financial condition. Moreover, if these markets fail to grow as expected, MtronPTI may be unable to maintain or grow its revenue.

The multiple variables which affect the communications, networking, aerospace, defense, instrumentation and industrial markets for equipment that require frequency and spectrum control devices, as well as the number of parties involved in the supply chain and manufacturing process, can impact inventory levels and lead to supply chain inefficiencies. As a result of these complexities, MtronPTI has limited visibility to forecast revenue projections accurately for the near and medium-term timeframes.

The market share of our customers in the communications, networking, aerospace, defense, instrumentation and industrial markets may change over time, reducing the potential value of our relationships with our existing customer base.

We have developed long-term relationships with our existing customers, including pricing contracts, custom designs and approved vendor status. If these customers lose market share to other equipment manufacturers in the communications, networking, aerospace, defense, instrumentation and industrial markets with whom we do not have similar relationships, our ability to maintain revenue, margin or operating performance may be adversely affected. We may make acquisitions that are not successful, or we may fail to integrate acquired businesses into our operations properly.

We intend to explore opportunities to buy other businesses or technologies that could complement, enhance or expand our current business or product lines, or that might otherwise offer us growth opportunities. We may have difficulty finding such opportunities or, if such opportunities are identified, we may not be able to complete such transactions for reasons including a failure to secure necessary financing.

Any transactions that we are able to identify and complete may involve a number of risks, including:

The diversion of our management's attention from the management of our existing business to the integration of the operations and personnel of the acquired or combined business or joint venture;

Due diligence may not identify material business risks;

Possible adverse effects on our operating results during the integration process;

Substantial acquisition-related expenses, which would reduce our net income, if any, in future years;

The loss of key employees and customers as a result of changes in management; and

Our possible inability to achieve the intended objectives of the transaction.

In addition, we may not be able to integrate, operate, maintain or manage, successfully or profitably, our newly acquired operations or employees. We may not be able to maintain uniform standards, controls, policies and procedures, and this may lead to operational inefficiencies.

Any of these difficulties could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If MtronPTI is unable to introduce innovative products, demand for its products may decrease.

MtronPTI's future operating results are dependent on its ability to develop, introduce and market innovative products continually, to modify existing products, to respond to technological change and to customize some of its products to meet customer requirements. There are numerous risks inherent in this process, including the risks that MtronPTI will be unable to anticipate the direction of technological change or that it will be unable to develop and market new products and applications in a timely or cost-effective manner to satisfy customer demand.

MtronPTI's markets are highly competitive, and it may lose business to larger and better-financed competitors.

MtronPTI's markets are highly competitive worldwide, with low transportation costs and few import barriers.

MtronPTI competes principally on the basis of product quality and reliability, availability, customer service, technological innovation, timely delivery and price. Within the industry in which MtronPTI competes, competition has become increasingly concentrated and global in recent years. Many of MtronPTI's major competitors, some of which are larger, and potential competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer support capabilities. If we are unable to successfully compete against current and future competitors, our operating results will be adversely affected.

Our ability to borrow under our credit facility may be limited by available collateral.

Our credit facility includes a revolving loan that requires cash equal to any amounts outstanding to be held as collateral in a deposit account with the lender. Should we not have sufficient cash to be held as collateral, the total amount available to borrow under the revolving loan may be reduced or not available.

Our success depends on our ability to retain key management and technical personnel and attracting, retaining, and training new technical personnel.

Our future growth and success will depend in large part upon our ability to recruit highly-skilled technical personnel, including engineers, and to retain our existing management and technical personnel. The labor markets in which we operate are highly competitive and some of our operations are not located in highly populated areas. As a result, we may not be able to recruit and retain key personnel. Our failure to hire, retain or adequately train key personnel could have a negative impact on our performance.

MtronPTI purchases certain key components and raw materials from single or limited sources and could lose sales if these sources fail to fulfill its needs.

If single-source components or key raw materials were to become unavailable on satisfactory terms, and MtronPTI could not obtain comparable replacement components or raw materials from other sources in a timely manner, the Company's business, results of operations and financial condition could be harmed. On occasion, one or more of the components used in MtronPTI's products have become unavailable, resulting in unanticipated redesign and related delays in shipments. We cannot give assurance that similar delays will not occur in the future. Our suppliers may be impacted by compliance with environmental regulations including Restriction of Hazardous Substances ("RoHS") and Waste Electrical and Electronic Equipment ("WEEE"), which could disrupt the supply of components or raw materials or cause additional costs for MtronPTI to implement new components or raw materials into its manufacturing process. As a supplier to U.S. Government defense contractors, we are subject to a number of procurement regulations and other requirements and could be adversely affected by changes in regulations or any negative findings from a U.S. audit or investigation.

A number of our customers are U.S. Government contractors. As one of their suppliers, we must comply with significant procurement regulations and other requirements. We also maintain registration under the International Traffic in Arms Regulations for all of our production facilities. One of those production facilities must comply with additional requirements and regulations for its production processes and for selected personnel in order to maintain the security of classified information. These requirements, although customary within these markets, increase our performance and compliance costs. If any of these various requirements change, our costs of complying with them could increase and reduce our operating margins.

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its agencies such as the Defense Contract Audit Agency ("DCAA") and Defense Contract Management Agency ("DCMA"). These agencies review our performance under our contracts, our cost structure and our compliance with applicable laws, regulations, and standards, as well as the adequacy of, and our compliance with, our internal control systems and policies. Systems that are subject to review include our purchasing systems, billing systems, property management and control systems, cost estimating systems, compensation systems and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspension, or prohibition from doing business as a supplier to contractors who sell products and services to the U.S. Government. In addition, our reputation could be adversely affected if allegations of impropriety were made against us.

From time to time, we may also be subject to U.S. Government investigations relating to our or our customers' operations and products, and are expected to perform in compliance with a vast array of federal laws, including the Truth in Negotiations Act, the False Claims Act, the International Traffic in Arms Regulations promulgated under the Arms Export Control Act, and the Foreign Corrupt Practices Act. We or our customers may be subject to reductions of the value of contracts, contract modifications or termination, and the assessment of penalties and fines, which could negatively impact our results of operations and financial condition, or result in a diminution in revenue from our customers, if we or our customers are found to have violated the law or are indicted or convicted for violations of federal laws related to government security regulations, employment practices or protection of the environment, or are found not to have acted responsibly as defined by the law. Such convictions could also result in suspension or debarment from serving as a supplier to government contractors for some period of time. Such convictions or actions could have a material adverse effect on us and our operating results. The costs of cooperating or complying with such audits or investigations may also adversely impact our financial results.

MtronPTI's products are complex and may contain errors or design flaws, which could be costly to correct.

When MtronPTI releases new products, or new versions of existing products, they may contain undetected or unresolved errors or defects. The vast majority of MtronPTI's products are custom-designed for requirements of specific OEM systems. The expected business life of these products ranges from less than one year to more than 10 years depending on the application. Some of the customizations are modest changes to existing product designs while others are major product redesigns or new product platforms.

Despite testing, errors or defects may be found in new products or upgrades after the commencement of commercial shipments. Undetected errors and design flaws have occurred in the past and could occur in the future. These errors could result in delays, loss of market acceptance and sales, diversion of development resources, damage to the Company's reputation, product liability claims and legal action by its customers and third parties, failure to attract new customers and increased service costs.

Communications and network infrastructure equipment manufacturers increasingly rely upon contract manufacturers, thereby diminishing our ability to sell our products directly to those equipment manufacturers.

There is a continuing trend among communications and network infrastructure equipment manufacturers to outsource the manufacturing of their equipment or components. As a result, MtronPTI's ability to persuade these OEMs to utilize our products in customer designs could be reduced and, in the absence of a manufacturer's specification of MtronPTI's products, the prices that MtronPTI can charge for them may be subject to greater competition.

Future changes in MtronPTI's environmental liability and compliance obligations may increase costs and decrease profitability.

MtronPTI's present and past manufacturing operations, products, and/or product packaging are subject to environmental laws and regulations governing air emissions, wastewater discharges, and the handling, disposal and remediation of hazardous substances, wastes and other chemicals. In addition, more stringent environmental regulations may be enacted in the future, and we cannot presently determine the modifications, if any, in MtronPTI's operations that any future regulations might require, or the cost of compliance that would be associated with these regulations.

Environmental laws and regulations may cause us to change our manufacturing processes, redesign some of our products, and change components to eliminate some substances in MtronPTI's products in order to be able to continue to offer them for sale.

We have significant international operations and sales to customers outside of the United States that subject us to certain business, economic and political risks.

We have office and manufacturing space in Noida, India, and a sales office in Hong Kong. Additionally, foreign revenues for 2015 and 2014 (primarily to Malaysia and China) accounted for 26.3% and 41.1% of our 2015 and 2014 consolidated revenues, respectively. We anticipate that sales to customers located outside of the United States will continue to be a significant part of our revenues for the foreseeable future. Our international operations and sales to customers outside of the United States subject our operating results and financial condition to certain business, economic, political, health, regulatory and other risks, including:

Political and economic instability in countries in which MtronPTI's products are manufactured and sold;

Expropriation or the imposition of government controls;

Sanctions or restrictions on trade imposed by the United States government;

Export license requirements;

Trade restrictions;

Currency controls or fluctuations in exchange rates;

High levels of inflation or deflation;

Greater difficulty in collecting accounts receivable and longer payment cycles;

Changes in labor conditions and difficulties in staffing and managing international operations; and

Limitations on insurance coverage against geopolitical risks, natural disasters and business operations.

Additionally, to date, very few of our international revenue and cost obligations have been denominated in foreign currencies. As a result, changes in the value of the United States dollar relative to foreign currencies may affect our competitiveness in foreign markets. We do not currently engage in foreign currency hedging activities, but may do so in the future to the extent that we incur a significant amount of foreign-currency denominated liabilities.

New regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions designed to improve transparency and accountability concerning the supply of certain minerals, known as "conflict minerals," originating from the Democratic Republic of Congo and adjoining countries that are believed to be benefitting armed groups. As a result, the SEC recently adopted new due diligence, disclosure and reporting requirements for companies that manufacture products that include components containing such minerals. Since we manufacture such products, we are required to comply with the new SEC rules. We expect that the compliance process will be both time-consuming and costly. Costs associated with complying with these disclosure requirements will include diligence to determine the sources of minerals used in our products and potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of certain materials used in our products. Because there may be only a limited number of suppliers offering "conflict free" minerals, we cannot be sure that we will be able to obtain necessary minerals from such suppliers in sufficient quantities or at competitive prices. In addition, our supply chain is complex and we may not be able to easily verify the origins for all minerals used in our products. We may face reputational challenges with our customers and other stakeholders if our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins of minerals contained in the components included in our products through the due diligence procedures that we implement.

10

---

### Risks Related to Our Securities

The price of our common stock has fluctuated considerably and is likely to remain volatile, in part due to the limited market for our common stock.

From January 1, 2015 through March 23, 2016, the high and low closing sales prices for our common stock were \$5.20 and \$3.21, respectively, and the average daily trading volume in our common stock during that time period was approximately 5,300 shares per day. There is a limited public market for our common stock, and we cannot provide assurances that a more active trading market will develop or be sustained. As a result of limited trading volume in our common stock, the purchase or sale of a relatively small number of shares could result in significant price fluctuations and it may be difficult for holders to sell their shares without depressing the market price for our common stock. Additionally, the market prices of our common stock may continue to fluctuate significantly in response to a number of factors, some of which are beyond our control, including the following:

- General economic conditions affecting the availability of long-term or short-term credit facilities, the purchasing and payment patterns of our customers, or the requirements imposed by our suppliers;

- Economic conditions in our industry and in the industries of our customers and suppliers;

- Changes in financial estimates or investment recommendations by securities analysts relating to our common stock;

- Market reaction to our reported financial results;

- Loss of a major customer;

- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments; and

- Changes in key personnel.

Our warrants, expiring August 6, 2018, currently have a limited public market which may affect their value.

On August 6, 2013, we distributed warrants to purchase shares of our common stock (expiring August 6, 2018) as a dividend to holders of our common stock on July 29, 2013, the record date for the dividend. Stockholders received five warrants for each share of our common stock owned on the record date. When exercisable, 25 warrants will entitle their holder to purchase one share of our common stock at an exercise price of \$7.50 per share (subject to adjustment).

There is a limited public market for our warrants, and we cannot provide assurances that an active trading market will develop or be sustained. The warrants are quoted on the over-the-counter market under the symbol "LGLPW."

Securities traded on the over-the-counter markets are typically less liquid than securities that trade on a national securities exchange, such as the NYSE MKT. Trading on the over-the-counter market may negatively affect the trading price and liquidity of the warrants and could result in larger spreads in the bid and ask prices for the warrants. Warrant holders may find it difficult to resell their warrants due to very limited trading volume.

The warrants are "European style warrants" and will only become exercisable on the earlier of (i) the expiration date, August 6, 2018, and (ii) such date that the 30-day volume weighted average price per share, or VWAP, of our common stock is greater than or equal to \$15.00. Once the warrants become exercisable, they may be exercised in accordance with the terms of the warrant agreement until their expiration at 5:00 p.m., Eastern Time, on the expiration date.

The warrants have an exercise price of \$7.50 per share. This exercise price does not necessarily bear any relationship to established criteria for valuation of our common stock, such as book value per share, cash flows, or earnings, and you should not consider this exercise price as an indication of the current or future market price of our common stock. There can be no assurance that the market price of our common stock will exceed \$7.50 per share at any time on the expiration date of the warrants, August 6, 2018, or at any other time the warrants may be exercised. If the warrants only become exercisable on the expiration date and the market price of our common stock on such date does not exceed \$7.50 per share, the warrants will be of no value.

There can be no assurance that the 30-day VWAP of our common stock will be greater than or equal to \$15.00 at any time prior to the expiration date of the warrants, August 6, 2018. As a result, the warrants may become exercisable only on the expiration date. If the warrants may be exercised only on the expiration date and their holder does not exercise their warrants on that date, their warrants will expire and be of no value.

No warrants will be exercisable unless at the time of exercise a prospectus relating to our common stock issuable upon exercise of the warrants is current and the common stock has been registered or qualified or deemed to be exempt under the securities laws of the state of residence of the holder of the warrants. Under the terms of the warrant agreement, we have agreed to meet these conditions and use our best efforts to maintain a current prospectus relating to common stock issuable upon exercise of the warrants until the expiration of the warrants. However, we cannot assure you that we will be able to do so, and if we do not maintain a current prospectus related to the common stock issuable upon exercise of the warrants, holders will be unable to exercise their warrants and we will not be required to settle any such warrant exercise. If the prospectus relating to the common stock issuable upon the exercise of the warrants is not current or if the common stock is not qualified or exempt from qualification in the jurisdictions in which the holders of the warrants reside, we will not be required to net cash settle or cash settle the warrant exercise, the warrants may have no value, the market for the warrants may be limited and the warrants may expire worthless. Holders of our warrants will have no rights as a common stockholder until such holders exercise their warrants and acquire shares of our common stock.

Until warrant holders acquire shares of our common stock upon exercise of the warrants, warrant holders will have no rights with respect to the shares of our common stock underlying such warrants. Upon the acquisition of shares of our common stock upon exercise of the warrants, the holders thereof will be entitled to exercise the rights of a common stockholder only as to matters for which the record date for the matter occurs after the exercise date of the warrants. Adjustments to the exercise price of the warrants, or the number of shares of common stock for which the warrants are exercisable, following certain corporate events may not fully compensate warrant holders for the value they would have received if they held the common stock underlying the warrants at the time of such events.

The warrants provide for adjustments to the exercise price of the warrants following a number of corporate events, including (i) our issuance of a stock dividend or the subdivision or combination of our common stock, (ii) our issuance of rights, options or warrants to purchase our common stock at a price below the 10-day VWAP of our common stock, (iii) a distribution of capital stock of the Company or any subsidiary other than our common stock, rights to acquire such capital stock, evidences of indebtedness or assets, (iv) our issuance of a cash dividend on our common stock, and (v) certain tender offers for our common stock by the Company or one or more of our wholly-owned subsidiaries. The warrants also provide for adjustments to the number of shares of common stock for which the warrants are exercisable following our issuance of a stock dividend or the subdivision or combination of our common stock. Any adjustment made to the exercise price of the warrants or the number of shares of common stock for which the warrants are exercisable following a corporate event in accordance with these provisions may not fully compensate warrant holders for the value they would have received if they held the common stock underlying the warrants at the time of the event.



Our officers, directors and 10% stockholders have significant voting power and may vote their shares in a manner that is not in the best interest of other stockholders.

Our officers, directors and 10% or greater stockholders control approximately 36.0% of the voting power represented by our outstanding shares of common stock as of March 23, 2016. If these stockholders act together, they may be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all of our stockholders.

Provisions in our corporate charter documents and under Delaware law could make an acquisition of the Company more difficult, which acquisition may be beneficial to stockholders.

Provisions in our certificate of incorporation and by-laws, as well as provisions of the General Corporation Law of the State of Delaware ("DGCL"), may discourage, delay or prevent a merger, acquisition or other change in control of the Company, even if such a change in control would be beneficial to our stockholders. These provisions include prohibiting our stockholders from fixing the number of directors, and establishing advance notice requirements for stockholder proposals that can be acted on at stockholder meetings and nominations to our Board.

Additionally, Section 203 of the DGCL prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. We have not opted out of the restrictions under Section 203, as permitted under DGCL.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's principal executive offices are located in Orlando, Florida within an MtronPTI operating facility. MtronPTI's operations are located in Orlando, Florida, Yankton, South Dakota, and Noida, India. MtronPTI also has sales offices in Sacramento, California and Hong Kong.

MtronPTI owns one building in Orlando, Florida, containing approximately 71,000 square feet on approximately seven acres of land. MtronPTI owns two buildings in Yankton, South Dakota, containing a combined total of approximately 32,000 square feet on approximately 11 acres of land. The Company leases approximately 13,000 square feet of office and manufacturing space in Noida, India, approximately 700 square feet of office space in Hong Kong and approximately 400 square feet of office space in Sacramento, California. It is the Company's opinion that the facilities referred to above are in good operating condition, suitable, and adequate for present uses.

Item 3. Legal Proceedings.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

13

---

## PART II

## Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

## Market for Common Equity

Our common stock is traded on the NYSE MKT, under the symbol "LGL." Based upon information furnished by our transfer agent, at March 23, 2016, we had 478 holders of record of our common stock. The following table sets forth the high and low sales prices for our common stock for the periods indicated as reported by the NYSE MKT:

Fiscal Year 2016	High	Low
First Quarter <sup>(1)</sup>	\$4.09	\$2.86
Fiscal Year 2015	High	Low
First Quarter	\$4.30	\$3.53
Second Quarter	5.47	3.82
Third Quarter	5.11	3.42
Fourth Quarter	4.15	3.51
Fiscal Year 2014	High	Low
First Quarter	\$6.00	\$4.71
Second Quarter	5.40	3.85
Third Quarter	5.19	3.85
Fourth Quarter	4.02	3.12

(1) From January 1, 2016 through March 23, 2016.

## Dividend Policy

The Board has adhered to a practice of not paying cash dividends. This policy takes into account our long-term growth objectives, including our anticipated investments for organic growth, potential technology acquisitions or other strategic ventures, and stockholders' desire for capital appreciation of their holdings. In addition, the covenants under MtronPTI's credit facility effectively place certain limitations on its ability to make certain payments to its parent, including but not limited to payments of dividends and other distributions, which effectively could limit the Company's ability to pay cash dividends to stockholders. No cash dividends have been paid to the Company's stockholders since January 30, 1989, and none are expected to be paid for the foreseeable future.

## Item 6. Selected Financial Data.

You should read the following selected consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this report.

The selected statement of operations data for the years ended December 31, 2015 and 2014, and the selected balance sheet data as of December 31, 2015 and 2014, are derived from our audited financial statements included elsewhere in this report. The selected statement of operations data for the years ended December 31, 2013, 2012 and 2011, and the selected balance sheet data as of December 31, 2013, 2012 and 2011, are derived from our audited financial statements not included in this report. These financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Our historical results may not be indicative of the operating results to be expected in any future period.

Edgar Filing: LGL GROUP INC - Form 10-K

	Year ended December 31, (in thousands, except share and per share data)				
	2015	2014	2013	2012	2011
Revenues	\$20,713	\$23,013	\$26,201	\$29,706	\$35,682
Operating (loss) income (a)	(788 )	(2,829 )	(4,164 )	(1,782 )	674
(Loss) income before income taxes	(703 )	(2,829 )	(4,271 )	(1,844 )	567
(Provision) benefit for income taxes	(8 )	4	(3,948 )	524	(185 )
Net (loss) income	\$(711 )	\$(2,825 )	\$(8,219 )	\$(1,320 )	\$382
Weighted average number of shares used in basic and diluted EPS calculation	2,640,803	2,595,988	2,595,362	2,593,741	2,572,825
Per common share:					
Basic and diluted net (loss) income per common share	\$(0.27 )	\$(1.09 )	\$(3.17 )	\$(0.51 )	\$0.15

	December 31, (in thousands)				
	2015	2014	2013	2012	2011
Cash and cash equivalents	\$5,553	\$5,192	\$7,183	\$8,625	\$13,709
Working capital	9,876	9,909	12,446	16,624	18,118
Total assets	15,803	17,262	21,263	29,593	32,421
Total long-term debt (including current portion)	—	—	—	58	400
Stockholders' equity (b)	\$13,727	\$14,237	\$16,755	\$24,614	\$25,593

(a) Operating (loss) income is revenues less operating expenses, which excludes investment income, interest expense, gain on sale of land and equipment, other income and taxes. Included are asset impairment charges.

(b) No cash dividends have been declared during the periods presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis together with our audited consolidated financial statements and the accompanying notes. This discussion contains forward-looking statements, including statements regarding our expected financial position, business and financing plans. These statements involve risks and uncertainties. Our actual results could differ materially from the results described in or implied by these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this report, particularly under the headings "Caution Concerning Forward-Looking Statements" and "Risk Factors."

Results of Operations

2015 Compared to 2014

Consolidated Revenues, Gross Margin and Backlog

Total revenues for the year ended December 31, 2015, were \$20,713,000, a decrease of 10.0% from revenues of \$23,013,000 in 2014. Price compression from offshore manufacturers has continued to reduce the number of economically feasible opportunities in the Internet Communications Technology ("ICT") market segment. The Company has moved away from such low margin commodities business and focused on achieving revenue growth through the development of more complex and higher margin products, particularly in the Aerospace and Defense ("Aero/Defense") market segment.

Consolidated gross margin, which is consolidated revenues less manufacturing cost of sales, as a percentage of revenues increased to 33.1% from 27.5% for the year ended December 31, 2015, compared to the same prior year period. The year-over-year improvement was primarily due to a favorable product mix and continued margin improvement initiatives. The favorable product mix is due to engineering investments the Company made that resulted in the development of more complex products that are producing higher margins.

At December 31, 2015, MtronPTI's order backlog was \$8,799,000, an increase of 0.2% compared to a backlog of \$8,783,000 at September 30, 2015. The backlog of unfilled orders includes amounts based on signed contracts as well as agreed letters of intent, which MtronPTI has determined are firm orders and likely to proceed. Although backlog represents only firm orders that are considered likely to be fulfilled within the 12 months following receipt of the order, cancellations or scope adjustments may and do occur.

Order backlog is adjusted quarterly to reflect project cancellations, deferrals, revised project scope and cost, and sales of subsidiaries, if any. The Company expects to fill its entire order backlog as of December 31, 2015 in 2016, but cannot provide assurances as to what portion of the order backlog will be fulfilled in a given year.

Operating Loss

Operating loss of (\$788,000) for the year ended December 31, 2015, was an improvement of \$2,041,000 from an operating loss for the year ended December 31, 2014 of (\$2,829,000). The improvement in operating loss was due primarily to the 5.6 percentage point improvement in gross margin and a year-over-year decrease of \$1,054,000 in engineering, selling and administrative expenses as a result of the restructuring plan that realigned sales, general and administrative activities and customer support operations across all of our locations in an effort to gain efficiencies. Operating loss for the year ended December 31, 2014, also included \$465,000 of restructuring expense.

Interest Expense, Net

Interest expense, net, was \$32,000 for the year ended December 31, 2015, which was an increase of \$6,000 from \$26,000 for the year ended December 31, 2014. The increase was the result of the transition from the Company's prior credit facility in August 2014 to the Company's current revolving line of credit with City National Bank of Florida.

## Other Income, Net

For the years ended December 31, 2015 and 2014, other income, net was \$117,000 and \$26,000, respectively. The 2015 amount consists of approximately \$132,000 of net insurance proceeds received for damaged equipment and inventory and \$35,000 of foreign currency transaction gains offset by an impairment loss of \$38,000 and legal settlement of \$15,000. The 2014 amount consists of approximately \$56,000 of net insurance proceeds received for damaged equipment and inventory and \$44,000 of foreign currency transaction gains offset by a loss on fixed asset disposal of \$15,000 and legal settlement of \$59,000.

## Income Taxes

The Company must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to the tax provision in a subsequent period.

Based on the Company's assessment of the uncertainty surrounding the realization of the favorable U.S. tax attributes in future tax returns in accordance with the provisions of ASC 740, Income Taxes ("ASC 740"), the Company has determined that a full valuation allowance against our otherwise recognizable U.S. net deferred tax assets is required. The Company has recorded a full valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. When assessing the need for valuation allowances, the Company considers future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the ability to realize deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

The Company recorded an income tax (provision) benefit for the years ended December 31, 2015 and 2014 of (\$8,000) and \$4,000, respectively. The valuation allowance was \$7,631,000 at December 31, 2015, which reflects a net increase of \$305,000 over December 31, 2014.

As of December 31, 2015, the Company has not provided for U.S. federal and state income taxes on approximately \$475,000 of undistributed earnings of Piezo Technology India Private Ltd. in India since such earnings are considered permanently reinvested outside the U.S. If in the future, the Company decides to repatriate earnings from Piezo Technology India Private Ltd., the Company would incur incremental U.S. federal and state income taxes. However, the Company's intent is to keep these funds permanently reinvested outside of the U.S. and current plans do not demonstrate a need to repatriate them to fund U.S. operations.

## Net Loss

Net loss for the year ended December 31, 2015, was (\$711,000) compared with (\$2,825,000) for the year ended December 31, 2014. The reduction in net loss was due primarily to the 5.6 percentage point improvement in gross margin and a year-over-year decrease of \$1,054,000 in engineering, selling and administrative expenses as a result of the restructuring plan that realigned sales, general and administrative activities and customer support operations across all of our locations in an effort to gain efficiencies. Net loss for the year ended December 31, 2014, also included \$465,000 of restructuring expense. Basic and diluted net loss per share for the years ended December 31, 2015 and 2014, was (\$0.27) and (\$1.09), respectively.

## Liquidity and Capital Resources

At December 31, 2015, cash and cash equivalents were \$5,553,000, an increase of \$361,000 from \$5,192,000 at December 31, 2014.

Cash provided by operating activities was \$689,000 for the year ended December 31, 2015, compared to cash used in operating activities of (\$1,299,000) for the same period in 2014. The \$1,988,000 improvement was primarily attributable to a \$2,114,000 reduction in year over year net losses, offset by decreases in depreciation, amortization of intangible assets and stock-based compensation.



Cash used in investing activities for the years ended December 31, 2015 and 2014 was (\$328,000) and (\$1,011,000), respectively. The decrease was primarily due to the January 31, 2014 acquisition of certain of Trilithic, Inc.'s filter product line assets for cash consideration, including acquisition costs, of \$748,000, partially offset by an increase in current period capital expenditures of \$159,000.

Cash provided by financing activities was \$0 for the year ended December 31, 2015, compared with \$319,000 for the comparable period in 2014. The change was due to a one-time return of \$1,500,000 in restricted cash and net repayment on a note payable of \$1,181,000 in connection with the termination of our prior credit facility in August 2014. There were no comparable financing activities during 2015.

At December 31, 2015, the Company's consolidated working capital was \$9,876,000, compared to \$9,909,000 at December 31, 2014. At December 31, 2015, the Company had current assets of \$11,952,000, current liabilities of \$2,076,000 and a ratio of current assets to current liabilities of 5.76 to 1.00. At December 31, 2014, the Company had current assets of \$12,934,000, current liabilities of \$3,025,000 and a ratio of current assets to current liabilities of 4.28 to 1.00. Management continues to focus on efficiently managing working capital requirements to match operating activity levels.

On September 30, 2014, MtronPTI entered into a Loan Agreement (the "CNB Loan Agreement"), with City National Bank of Florida ("City National"). The CNB Loan Agreement provides for a revolving line of credit in the amount of \$3.0 million (the "CNB Revolver"), which bears interest at a variable rate equal to 30-day LIBOR plus 200 basis points to be set on the first day of each month. Under the terms of the CNB Loan Agreement and the CNB Revolving Promissory Note (as defined below), MtronPTI may borrow under the CNB Revolver until September 30, 2016, unless the term of the CNB Revolving Promissory Note is extended.

The Company's obligations under the CNB Loan Agreement are secured only by cash collateral and do not require any other liens. The CNB Loan Agreement provides that MtronPTI will pay City National a fee equal to 0.75% per year on the daily unused amount of the CNB Revolving Promissory Note. In connection with the CNB Loan Agreement, MtronPTI also entered into a Cash Collateral Agreement with City National (the "CNB Cash Collateral Agreement") and delivered a Revolving Promissory Note in the principal amount of \$3.0 million to City National (the "CNB Revolving Promissory Note"). The CNB Cash Collateral Agreement provides that MtronPTI will hold cash collateral equal to any amounts outstanding under the CNB Revolver in a non-interest bearing deposit account with City National. Provided that MtronPTI is not in default of any of its obligations under the CNB Loan Agreement, the CNB Revolving Promissory Note or the CNB Cash Collateral Agreement, the funds collateralizing the CNB Revolver are restricted only to the extent of the outstanding principal amount under the CNB Revolver. As of December 30, 2015 and 2014, there was no balance outstanding under the CNB Revolver and no associated restricted cash. The CNB Loan Agreement, the CNB Revolving Promissory Note and the CNB Cash Collateral Agreement provide for customary events of default, including but not limited to payment defaults, breach of other obligations under the CNB Loan Agreement, the CNB Revolving Promissory Note and the CNB Cash Collateral Agreement, bankruptcy or insolvency, material default with respect to any obligation owed to City National and default with respect to other material indebtedness.

The Company believes that existing cash and cash equivalents and cash generated from operations will be sufficient to meet its ongoing working capital and capital expenditure requirements for the next 12 months. However, the Company may seek additional capital to fund future growth in its business, to provide flexibility to respond to dynamic market conditions, or to fund its strategic growth objectives.

The Board has adhered to a practice of not paying cash dividends. This policy takes into account our long-term growth objectives, including our anticipated investments for organic growth, potential technology acquisitions or other strategic ventures, and stockholders' desire for capital appreciation of their holdings. No cash dividends have been paid to the Company's stockholders since January 30, 1989, and none are expected to be paid for the foreseeable future.

### Critical Accounting Policies

The Company's significant accounting policies are described in Note A, "Accounting and Reporting Policies" in the accompanying Notes to the Consolidated Financial Statements. The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to the carrying value of inventories, the likelihood of collecting its outstanding accounts receivable, value of stock based compensation, and the provision for income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the past, actual results have not been materially different from the Company's estimates. However, results may differ from these estimates under different assumptions or conditions.

### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

### Item 8. Financial Statements and Supplementary Data.

See the financial statements included at the end of this report beginning on page 27.

### Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

### Item 9A. Controls and Procedures.

#### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's principal executive officer and principal financial officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on their evaluation of the Company's disclosure controls and procedures, the Company's principal executive officer and principal financial officer, with the participation of the Company's management, have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, as appropriate to allow for timely decisions regarding required disclosure.

#### Management's Annual Report on Internal Controls Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015, based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2015.



**Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal controls over financial reporting during the fourth quarter ended December 31, 2015, or in other factors that could significantly affect these controls, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

20

---

PART III

Item 10. Directors and Executive Officers and Corporate Governance.

The information required by this Item 10 is incorporated herein by reference to the information under the headings "Proposal No. 1: Election of Directors" and "Corporate Governance" in our definitive Proxy Statement with respect to our 2016 Annual Meeting of Stockholders to be filed with the SEC not later than 120 days after the end of the fiscal year ended December 31, 2015 (the "2016 Proxy Statement").

Item 11. Executive Compensation.

The information required by this Item 11 is incorporated herein by reference to the information under the heading "Executive Compensation" in our 2016 Proxy Statement.

Item 12. Security Ownership Of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item 12 is incorporated herein by reference to the information under the heading "Security Ownership of Certain Beneficial Owners and Management" in our 2016 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 is incorporated herein by reference to the information under the headings "Proposal No. 1: Election of Directors" and "Corporate Governance" in our 2016 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by this Item 14 is incorporated herein by reference to the information under the heading "Proposal No. 2: Ratification of Appointment of Independent Registered Public Accounting Firm" in our 2016 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of documents filed as part of this report:

1. Financial Statements:

Report of Independent Registered Public Accounting Firm  
 Consolidated Balance Sheets: December 31, 2015 and 2014  
 Consolidated Statements of Operations: Years ended December 31, 2015 and 2014  
 Consolidated Statements of Comprehensive Loss: Years ended December 31, 2015 and 2014  
 Consolidated Statements of Stockholders' Equity: Years ended December 31, 2015 and 2014  
 Consolidated Statements of Cash Flows: Years ended December 31, 2015 and 2014  
 Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

None

3. Exhibit Index

The following is a list of exhibits filed as part of this Form 10-K:

Exhibit No.	Description
2.1	Asset Purchase Agreement, dated as of January 31, 2014, made by and between M-tron Industries, Inc. and Trilithic, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 10-Q filed with the SEC on May 15, 2014).
3.1	Certificate of Incorporation of The LGL Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on August 31, 2007).
3.2	The LGL Group, Inc. By-Laws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on August 31, 2007).
3.3	The LGL Group, Inc. Amendment No. 1 to By-Laws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 17, 2014).
4.1	Warrant Agreement, dated as of July 30, 2013, by and among The LGL Group, Inc., Computershare Inc. and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2013).
10.1	The LGL Group, Inc. 401(k) Savings Plan (incorporated by reference to Exhibit 10(b) to the Company's Annual Report on Form 10-K filed with the SEC on April 1, 1996).

22

---

- 10.2 The LGL Group, Inc. 2001 Equity Incentive Plan adopted December 10, 2001 (incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 filed with the SEC on December 29, 2005).  
10.3 Form of Restricted Stock Agreement (2001 Equity Incentive Plan) by and between The LGL Group, Inc. and each of its directors (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2011).  
10.4 Form of Restricted Stock Agreement (2001 Equity Incentive Plan) by and between The LGL Group, Inc. and each of its executive officers (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2011).  
10.5 The LGL Group, Inc. 2011 Incentive Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed with the SEC on December 30, 2011).  
10.6 Form of Stock Option Agreement (2011 Incentive Plan) (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed with the SEC on December 30, 2011).  
10.7 Form of Restricted Stock Agreement (2011 Incentive Plan) (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed with the SEC on December 30, 2011).  
10.8 Form of Indemnification Agreement by and between The LGL Group, Inc. and its executive officers and directors (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2011).  
10.9 Offer of Employment Letter, effective as of October 1, 2013, by and between The LGL Group, Inc. and Michael J. Ferrantino (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 7, 2013).  
10.10 Agreement and Release, dated May 27, 2014, by and between Gregory P. Anderson and The LGL Group, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2014).  
10.11 Agreement and Release, dated May 27, 2014, by and between James L. Williams and The LGL Group, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2014).  
10.12 Registration Rights Agreement, dated as of September 19, 2013, by and between the Company and Venator Merchant Fund L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 19, 2013).  
10.13 Loan Agreement, dated as of September 30, 2014, by and between M-tron Industries, Inc. and City National Bank of Florida (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2014).  
10.14 Revolving Promissory Note, dated as of September 30, 2014, by and between M-tron Industries, Inc. and City National Bank of Florida (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2014).  
10.15 Cash Collateral Agreement, dated as of September 30, 2014, by and between M-tron Industries, Inc. and City National Bank of Florida (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2014).

Edgar Filing: LGL GROUP INC - Form 10-K

- 21.1 Subsidiaries of The LGL Group, Inc.\*
- 23.1 Consent of Independent Registered Public Accounting Firm – RSM US LLP.\*
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 101.INS XBRL Instance Document\*
- 101.SCH XBRL Taxonomy Extension Schema Document\*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document\*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*

\*Filed herewith

The exhibits listed above have been filed separately with the SEC in conjunction with this Annual Report on Form 10-K or have been incorporated by reference into this Annual Report on Form 10-K. Upon request, the Company will furnish to each of its stockholders a copy of any such exhibit. Requests should be addressed to the Corporate Secretary, The LGL Group, Inc., 2525 Shader Road, Orlando, Florida, 32804.

24

---

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE LGL GROUP, INC.

March 29, 2016 By: /s/ Michael J. Ferrantino, Sr.  
 Michael J. Ferrantino, Sr.  
 President and Chief Executive Officer  
 (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	CAPACITY	DATE
/s/ Michael J. Ferrantino, Sr. MICHAEL J. FERRANTINO, SR.	President and Chief Executive Officer (Principal Executive Officer)	March 29, 2016
/s/ Patti A. Smith PATTI A. SMITH	Chief Financial Officer (Principal Financial Officer)	March 29, 2016
/s/ Marc J. Gabelli MARC J. GABELLI	Chairman of the Board of Directors (Non-Executive)	March 29, 2016
/s/ Patrick J. Guarino PATRICK J. GUARINO	Executive Chairman of the Board	March 29, 2016
/s/ Timothy Foufas TIMOTHY FOUFAS	Director	March 29, 2016
/s/ Donald H. Hunter DONALD H. HUNTER	Director	March 29, 2016
/s/ Manjit Kalha MANJIT KALHA	Director	March 29, 2016
/s/ Antonio Visconti ANTONIO VISCONTI	Director	March 29, 2016

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders  
The LGL Group, Inc.

We have audited the accompanying consolidated balance sheets of The LGL Group, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The LGL Group, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP

Orlando, Florida  
March 29, 2016  
26

---

THE LGL GROUP, INC.  
CONSOLIDATED BALANCE SHEETS  
(Dollars in Thousands)

	December 31,	
	2015	2014
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents (Note A)	\$5,553	\$5,192
Accounts receivable, less allowances of \$34 and \$43, respectively (Note A)	2,606	3,266
Inventories, net (Notes A and B)	3,546	4,198
Prepaid expenses and other current assets	247	278
Total Current Assets	11,952	12,934
Property, Plant and Equipment (Note A)		
Land	633	633
Buildings and improvements	3,938	3,922
Machinery and equipment	16,633	16,314
Gross property, plant and equipment	21,204	20,869
Less: accumulated depreciation	(18,039)	(17,322)
Net property, plant, and equipment	3,165	3,547
Intangible assets, net (Note A)	475	528
Other assets	211	253
Total Assets	\$15,803	\$17,262
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$987	\$1,719
Accrued compensation and commissions expense	769	681
Accrued warranty expenses	126	242
Other accrued expenses	194	383
Total Current Liabilities	2,076	3,025
Commitments and Contingencies (Note I)		
Stockholders' Equity		
Common stock, \$0.01 par value - 10,000,000 shares authorized; 2,745,098 shares issued and 2,665,434 shares outstanding at December 31, 2015, and 2,696,201 shares issued and 2,616,485 shares outstanding at December 31, 2014	27	27
Additional paid-in capital	29,106	28,901
Accumulated deficit	(14,874)	(14,163)
Treasury stock, 79,664 and 79,716 shares held in treasury at cost at December 31, 2015 and 2014, respectively	(572 )	(572 )
Accumulated other comprehensive income	40	44
Total Stockholders' Equity	13,727	14,237
Total Liabilities and Stockholders' Equity	\$15,803	\$17,262

See Accompanying Notes to Consolidated Financial Statements.



THE LGL GROUP, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollars in Thousands, Except Per Share Amounts)

	Years Ended December	
	31,	
	2015	2014
REVENUES	\$20,713	\$23,013
Costs and expenses:		
Manufacturing cost of sales	13,863	16,685
Engineering, selling and administrative	7,638	8,692
Restructuring charges	—	465
OPERATING LOSS	(788 )	(2,829 )
Other Income (Expense):		
Interest expense, net	(32 )	(26 )
Other income, net	117	26
Total Other Income	85	—
LOSS BEFORE INCOME TAXES	(703 )	(2,829 )
Income tax (provision) benefit (Note E)	(8 )	4
NET LOSS	\$(711 )	\$(2,825 )
Weighted average number of shares used in basic and diluted EPS calculation	2,640,803	2,595,988
BASIC AND DILUTED NET LOSS PER COMMON SHARE (Note A)	\$(0.27 )	\$(1.09 )

See Accompanying Notes to Consolidated Financial Statements.

28

---

THE LGL GROUP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Dollars in Thousands)

	Years Ended	
	December 31,	
	2015	2014
NET LOSS	\$(711)	\$(2,825)
Other comprehensive loss:		
Unrealized loss on available-for-sale securities, net	(4 )	(1 )
TOTAL OTHER COMPREHENSIVE LOSS	(4 )	(1 )
COMPREHENSIVE LOSS	\$(715)	\$(2,826)

See accompanying Notes to Consolidated Financial Statements.

29

---

THE LGL GROUP, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Dollars in Thousands)

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2013	2,594,784	\$ 27	\$ 28,593	\$ (11,338 )	\$ (572 )	\$ 45	\$ 16,755
Net loss	—	—	—	(2,825 )	—	—	(2,825 )
Other comprehensive loss	—	—	—	—	—	(1 )	(1 )
Stock-based compensation	21,701	—	308	—	—	—	308
Balance at December 31, 2014	2,616,485	27	28,901	(14,163 )	(572 )	44	14,237
Net loss	—	—	—	(711 )	—	—	(711 )
Other comprehensive loss	—	—	—	—	—	(4 )	(4 )
Stock-based compensation	48,949	—	265	—	—	—	265
Warrant dividend issuance costs	—	—	(60 )	—	—	—	(60 )
Balance at December 31, 2015	2,665,434	\$ 27	\$ 29,106	\$ (14,874 )	\$ (572 )	\$ 40	\$ 13,727

See Accompanying Notes to Consolidated Financial Statements.

THE LGL GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Years Ended December 31,	
	2015	2014
<b>OPERATING ACTIVITIES</b>		
Net loss	\$(711 )	\$(2,825)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	804	821
Amortization of finite-lived intangible assets	66	101
Gain on disposal of assets	(67 )	—
Impairment of note receivable	43	—
Stock-based compensation	265	308
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable, net	660	(29 )
Decrease in inventories, net	625	523
Decrease in other assets	13	104
Decrease in trade accounts payable, accrued compensation and commissions expense, accrued warranty expense and other accrued liabilities	(1,009)	(302 )
Net cash provided by (used in) operating activities	689	(1,299)
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(422 )	(263 )
Asset acquisition	—	(748 )
Other	94	—
Net cash used in investing activities	(328 )	(1,011)
<b>FINANCING ACTIVITIES</b>		
Net repayments on note payable to bank	—	(1,181)
Restricted cash	—	1,500
Net cash provided by financing activities	—	319
Increase (decrease) in cash and cash equivalents	361	(1,991)
Cash and cash equivalents at beginning of year	5,192	7,183
Cash and cash equivalents at end of year	\$5,553	\$5,192
<b>Supplemental Disclosure:</b>		
Cash paid for interest	\$21	\$32
Cash paid for income taxes	\$30	\$—

See Accompanying Notes to Consolidated Financial Statements.

THE LGL GROUP, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Accounting and Reporting Policies

Organization

The LGL Group, Inc. (the "Company"), incorporated in 1928 under the laws of the State of Indiana and reincorporated under the laws of the State of Delaware in 2007, is a holding company with subsidiaries engaged in the manufacturing and marketing of highly-engineered electronic components used to control the frequency or timing of signals in electronic circuits.

As of December 31, 2015, the subsidiaries of the Company are as follows:

	Owned By The LGL Group, Inc.
M-tron Industries, Inc.	100.0 %
Piezo Technology, Inc.	100.0 %
Piezo Technology India Private Ltd.	99.0 %
M-tron Asia, LLC	100.0 %
M-tron Industries, Ltd.	100.0 %
GC Opportunities Ltd.	100.0 %
M-tron Services, Ltd.	100.0 %
Lynch Systems, Inc.	100.0 %

The Company operates through its principal subsidiary, M-tron Industries, Inc., which includes the operations of Piezo Technology, Inc. ("PTI") and M-tron Asia, LLC ("Mtron"). The combined operations of Mtron and PTI and their subsidiaries are referred to herein as "MtronPTI." MtronPTI has operations in Orlando, Florida, Yankton, South Dakota, and Noida, India. MtronPTI also has sales offices in Sacramento, California and Hong Kong. During 2007, the Company sold the operating assets of Lynch Systems, Inc., a subsidiary of the Company, to an unrelated party.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and entities for which it has control. Material intercompany transactions and accounts have been eliminated in consolidation.

Uses of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly-liquid investments with a maturity of less than three months when purchased.

Accounts Receivable

Accounts receivable, on a consolidated basis, consist principally of amounts due from both domestic and foreign customers. Credit is extended based on an evaluation of the customer's financial condition and collateral is not required. In relation to export sales, the Company requires letters of credit supporting a significant portion of the sales price prior to production to limit exposure to credit risk. Certain credit sales are made to industries that are subject to cyclical economic changes. The Company maintains an allowance for doubtful accounts at a level that management believes is sufficient to cover potential credit losses.

32

---

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Estimates are based on historical collection experience, current trends, credit policy and the relationship between accounts receivable and revenues. In determining these estimates, the Company examines historical write-offs of its receivables and reviews each customer's account to identify any specific customer collection issues. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances might be required. The Company's failure to estimate accurately the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on its business, financial condition and results of operations.

#### Inventories

Inventories are valued at the lower of cost or market value using the FIFO (first-in, first-out) method.

The Company maintains a reserve for inventory based on estimated losses that result from inventory that becomes obsolete or for which the Company has excess inventory levels as of period end. In determining these estimates, the Company performs an analysis on current demand and usage for each inventory item over historical time periods. Based on that analysis, the Company reserves a percentage of the inventory amount within each time period based on historical demand and usage patterns of specific items in inventory.

#### Property, Plant and Equipment, Net

Property, plant and equipment are recorded at cost less accumulated depreciation and include expenditures for additions and major improvements. Maintenance and repairs are charged to operations as incurred. Depreciation is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets, which range from 5 years to 35 years for buildings and improvements, and from 3 to 10 years for other fixed assets. Property, plant, and equipment are periodically reviewed for indicators of impairment. If any such indicators were noted, the Company would assess the appropriateness of the assets' carrying value and record any impairment at that time.

Depreciation expense from operations was approximately \$804,000 for 2015 and \$821,000 for 2014.

#### Warranties

The Company offers a standard one-year warranty. The Company tests its products prior to shipment in order to ensure that they meet each customer's requirements based upon specifications received from each customer at the time its order is received and accepted. The Company's customers may request to return products for various reasons, including, but not limited to, the customers' belief that the products are not performing to specification. The Company's return policy states that it will accept product returns only with prior authorization and if the product does not meet customer specifications, in which case the product would be replaced or repaired. To accommodate the Company's customers, each request for return is reviewed, and if and when it is approved, a return materials authorization ("RMA") is issued to the customer. Each month the Company records a specific warranty reserve for approved RMAs covering products that have not yet been returned. The Company does not maintain a general warranty reserve because, historically, valid warranty returns resulting from a product not meeting specifications or being non-functional have been de minimis.

#### Intangible Assets

Intangible assets are recorded at cost less accumulated amortization. Amortization is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets, which range up to 10 years. The intangible assets consist of intellectual property and goodwill. The net carrying value of the amortizable intangible assets was \$435,000 and \$488,000 as of December 31, 2015 and 2014, respectively. Goodwill, which is not amortizable, was \$40,000 as of December 31, 2015 and 2014.

The estimated aggregate amortization expense for intangible assets, excluding goodwill, for each of the remaining years of the estimated useful life is as follows (in thousands):

2016	\$54
2017	54
2018	54
2019	54
2020	54
Thereafter	165
Total	\$435

#### Revenue Recognition

The Company recognizes revenue from the sale of its products in accordance with the criteria in Accounting Standards Codification ("ASC") 605, Revenue Recognition, which are:

- persuasive evidence that an arrangement exists;
- delivery has occurred;
- the seller's price to the buyer is fixed and determinable; and
- collectability is reasonably assured.

The Company meets these conditions upon shipment because title and risk of loss passes to the customer at that time. However, the Company offers a limited right of return and/or authorized price protection provisions in its agreements with certain electronic component distributors who resell the Company's products to original equipment manufacturers or electronic manufacturing services companies. As a result, the Company estimates and records a reserve for future returns and other charges against revenue at the time of shipment consistent with the terms of sale. The reserve is estimated based on historical experience with each respective distributor.

The Company recognizes revenue related to transactions with a right of return and/or authorized price protection provisions when the following conditions are met:

- seller's price to the buyer is fixed or determinable at the date of sale;
- buyer has paid the seller, or the buyer is obligated to pay the seller and the obligation is not contingent on resale of the product;
- buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product;
- buyer acquiring the product for resale has economic substance apart from that provided by the seller;
- seller does not have obligations for future performance; and
- the amount of future returns can be reasonably estimated.

#### Shipping Costs



Amounts billed to customers related to shipping and handling are classified as revenue, and the Company's shipping and handling costs are included in manufacturing cost of sales.

34

---

### Research and Development Costs

Research and development costs are charged to operations as incurred. Such costs were approximately \$1,964,000 and \$2,166,000 in 2015 and 2014, respectively, and are included within engineering, selling and administrative expenses.

### Advertising Expense

Advertising costs are charged to operations as incurred. Such costs were \$146,000 in 2015, compared with \$92,000 in 2014, and are included within engineering, selling and administrative expenses.

### Stock-Based Compensation

The Company measures the cost of employee services in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the cost over the requisite service period, typically the vesting period.

The Company estimates the fair value of stock options on the grant date using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton option-pricing model requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. There is no expected dividend rate. Historical Company information was the basis for the expected volatility assumption as the Company believes that the historical volatility over the life of the option is indicative of expected volatility in the future. The risk-free interest rate is based on the U.S. Treasury zero-coupon rates with a remaining term equal to the expected term of the option. The Company also estimates forfeitures at the time of grant and revises, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on past history of actual performance, forfeiture rates ranging from zero to 0.1 have been assumed for the years ended December 31, 2015 and 2014.

Restricted stock awards are made at a value equal to the market price of the Company's common stock on the date of the grant.

### Earnings Per Share

The Company computes earnings per share in accordance with ASC 260, "Earnings Per Share" ("ASC 260"). Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share adjusts basic earnings per share for the effects of stock options and other potentially dilutive financial instruments, only in the periods in which the effects are dilutive. Shares of stock granted to members of the Board of Directors (the "Board") as a portion of their director fees are deemed to be participating as defined by ASC 260 and therefore are included in the computation of basic earnings per share.

For the years ended December 31, 2015 and 2014, there were options to purchase 194,726 shares and 218,667 shares, respectively, of common stock and warrants to purchase 519,241 shares of common stock that were excluded from the diluted earnings per share computation because the impact of the assumed exercise of such stock options would have been anti-dilutive, based on the fact that the Company had a net loss for the years ended December 31, 2015 and 2014.

### Income Taxes

The Company's deferred income tax assets represent (a) temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, and (b) the tax effects of net operating loss carry-forwards. Based on the Company's assessment of the uncertainty surrounding the realization of the favorable U.S. tax attributes in future tax returns in accordance with the provisions of ASC 740, "Income Taxes" ("ASC 740"), the Company has determined that a full valuation allowance against our otherwise recognizable U.S. net deferred tax assets is required. The Company has recorded a full

valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. When assessing the need for valuation allowances, the Company considers future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the ability to realize deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income. The Company recognizes interest and/or penalties, if any, related to income tax matters in income tax expense.

35

---

## Concentration Risk

In 2015, MtronPTI's largest customer, an electronics contract manufacturing company, accounted for \$2,627,000, or 12.7% of the Company's total revenues, compared to \$2,522,000, or 11.0%, in 2014.

A significant portion of MtronPTI's accounts receivable is concentrated with a relatively small number of customers. As of December 31, 2015, three of MtronPTI's largest customers accounted for approximately \$819,000 of accounts receivable, or 31.4% compared to approximately \$1,035,000, or 31.3% at the end of 2014. The Company carefully evaluates the creditworthiness of its customers in deciding to extend credit, and utilizes letters of credit to further limit credit risk for export sales. As a result of these policies, the Company has experienced very low historical bad debt expense and believes the related risk to be minimal.

At various times throughout the year and at December 31, 2015, some deposits held at financial institutions were in excess of federally insured limits. The Company has not experienced any losses related to these balances and believes the related risk to be minimal.

## Segment Information

The Company reports segment information in accordance with ASC 280, "Segment Information" ("ASC 280"). ASC 280 requires companies to report financial and descriptive information for each operating segment based on management's internal organizational decision-making structure. See Note J, "Segment Information" for the detailed presentation of the Company's business segment.

## Impairments of Long-Lived Assets

Long-lived assets, including intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Long-lived assets are grouped with other assets to the lowest level to which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Management assesses the recoverability of the carrying cost of the assets based on a review of projected undiscounted cash flows. If an asset is held for sale, management reviews its estimated fair value less cost to sell. Fair value is determined using pertinent market information, including appraisals or broker's estimates, and/or projected discounted cash flows. In the event an impairment loss is identified, it is recognized based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset.

## Financial Instruments

Cash and cash equivalents, trade accounts receivable, short-term borrowings, trade accounts payable, and accrued expenses are carried at cost, which approximates fair value due to the short-term maturity of these instruments.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and trade accounts receivable.

The Company maintains cash and cash equivalents and short-term investments with various financial institutions. The Company's policy is designed to limit exposure to any one institution. At times, such amounts may exceed federally insured limits.

### Foreign Currency Translation

The assets and liabilities of international operations are re-measured at the exchange rates in effect at the balance sheet date for monetary assets and liabilities and at historical rates for non-monetary assets and liabilities, with the related re-measurement gains or losses reported within the consolidated statement of operations. The results of international operations are re-measured at the monthly average exchange rates. The Company's foreign subsidiaries and respective operations' functional currency is the U.S. dollar. The Company has determined this based upon the majority of transactions with customers as well as inter-company transactions and parental support being based in U.S. dollars. The Company has recognized a re-measurement gain of \$35,000 and \$44,000, in 2015 and 2014, respectively, which is included within other income, net in the consolidated statements of operations.

### Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)", which requires lessees to recognize at the commencement date for all leases, with the exception of short-term leases, (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This standard will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. While the Company is currently assessing the impact of the new standard, it does not expect it will have a material impact on its Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The amendment to the standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. While the Company is currently assessing the impact of the new standard, it does not expect it will have a material impact on its Consolidated Financial Statements.

In November 2015, the FASB issued ASU No. 2015-17 "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes. Under the new accounting standard, deferred tax assets and liabilities are required to be classified as noncurrent, eliminating the prior requirement to separate deferred tax assets and liabilities into current and noncurrent. The new guidance is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. The standard may be adopted prospectively or retrospectively to all periods presented. The Company is currently assessing the timing of adoption of the new guidance, but does not expect it will have a material impact on its Consolidated Financial Statements.

In July 2015, the FASB issued ASU No. 2015-11 "Inventory (Topic 330): Simplifying the Measurement of Inventory," which simplifies the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out ("LIFO") and the retail inventory method. The new guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. This new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. This new guidance is not

expected to have a material impact on the Company's financial statements or financial disclosures.

37

---

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. This new guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

	December 31,	
	2015	2014
	(in thousands)	
Raw materials	\$1,418	\$1,588
Work in process	1,325	1,572
Finished goods	803	1,038
Total Inventories, net	\$3,546	\$4,198

#### C. Related Party Transactions

At December 31, 2015 and 2014, approximately \$4,089,000 was invested in United States Treasury money market funds managed by a related entity (the "Fund Manager") which is related through a common director. One of the Company's directors, who is also a 10% stockholder, currently serves as a director and executive officer of the Fund Manager. The fund transactions in 2015 and 2014 were directed solely at the discretion of Company management.

#### D. Stock-Based Compensation

On August 4, 2011, the Company's stockholders approved the 2011 Incentive Plan. 500,000 shares of common stock are authorized for issuance under the 2011 Incentive Plan. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price 10% above the market price of the Company's stock at the date of grant; those option awards generally have 5-year contractual terms and generally vest over three years. Restricted stock awards are granted at a value equal to the market price of the Company's common stock on the date of grant.

The following table summarizes the inputs to the option valuation model for the options granted during the years ended December 31, 2015 and 2014:

	2015	2014
Expected volatility	32% – 50%	44% – 54%
Dividend rate	0%	0%
Expected term (in years)	3.55	3.00 – 3.45
Risk-free rate	1.06% – 1.25%	0.36% – 1.05%
Forfeiture rate	0% – 10%	0% – 10%

The Company bases expected volatility on the weighted average historical stock volatility of the Company's common stock. There is no dividend rate. The expected term utilizes historical data to estimate the period of time that the options are expected to remain unexercised. The Company bases risk-free rates on the U.S. Treasury zero-coupon rates with a remaining term equal to the expected term of the option. The Company also estimates forfeitures at the time of grant and revises, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2015 as well as activity during the year then ended:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2014	218,667	9.98	3.2	\$ —
Granted during 2015	42,127	4.20	4.4	—
Exercised during 2015	—	—	—	—
Forfeited during 2015	(66,068 )	10.96	2.0	—
Expired during 2015	—	—	—	—
Outstanding at December 31, 2015	194,726	\$ 9.27	2.7	\$ —
Exercisable at December 31, 2015	109,988	\$ 12.77	1.9	\$ —

The weighted-average grant-date fair value of options granted during the years 2015 and 2014 was \$4.10 and \$4.47, respectively.

The following table summarizes information about the Company's unvested stock awards as of December 31, 2015, as well as activity during the year then ended:

	Number of Stock Awards	Weighted Average Grant Date Fair Value
Unvested at December 31, 2014	6,271	\$ 6.64
Granted during 2015	49,951	4.20
Vested during 2015	(54,375 )	4.26
Forfeited during 2015	(1,002 )	5.81
Unvested at December 31, 2015	845	\$ 5.81

As of December 31, 2015, there was approximately \$59,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the 2011 Incentive Plan. That cost is to be recognized over a weighted average period of 1.9 years. The total fair value of shares vested during the year ended December 31, 2015, was approximately \$182,000.

The 2011 Incentive Plan had 216,308 shares remaining available for future issuance at December 31, 2015.



## E. Income Taxes

Income tax provision (benefit) for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
	(in thousands)	
Current:		
Federal	\$—	\$—
State and local	8	5
Foreign	—	(9 )
Total Current	8	(4 )
Deferred:		
Federal	(292)	(985 )
State and local	(12 )	(381 )
Foreign	(1 )	8
Total before change in valuation allowance	(305)	(1,358)
Change in Valuation Allowance	305	1,358
Net Deferred	—	—
	\$8	\$(4 )

A reconciliation of the provision (benefit) for income taxes and the amount computed by applying the statutory federal income tax rate to income before income taxes:

	2015	2014
	(in thousands)	
Tax provision at expected statutory rate	\$(239)	\$(962 )
State taxes, net of federal benefit	4	(57 )
Permanent differences	8	(5 )
Credits	(97 )	(56 )
Foreign tax expense, and other	27	(282 )
Change in valuation allowance	305	1,358
Provision (benefit) for income taxes	\$8	\$(4 )

Loss before income taxes from domestic operations was (\$731,000) and (\$2,832,000) in 2015 and 2014, respectively. Income before income taxes from foreign operations was \$28,000 and \$4,000 in 2015 and 2014, respectively. At December 31, 2015, U.S. income taxes benefit have been provided on approximately (\$35,000) of losses of the Company's foreign subsidiaries, because these losses are not considered to be indefinitely reinvested. As of December 31, 2015, earnings of non-U.S. subsidiaries considered to be indefinitely reinvested totaled \$475,000. No provision for U.S. income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to U.S. taxes, reduced by any foreign tax credits available. It is not practicable to estimate the amount of additional tax that might be payable on this undistributed foreign income.

The Company has a total federal net operating loss ("NOL") carry-forward of \$9,617,000 as of December 31, 2015. This NOL carry-forward expires through 2035 if not utilized prior to that date. The Company has total state NOL carry-forwards of \$24,130,000 as of December 31, 2015. These NOL carry-forwards expire through 2035 if not utilized prior to that date. The Company has research and development tax credit carry-forwards of approximately \$1,371,000 at December 31, 2015, that can be used to reduce future income tax liabilities and expire principally between 2020 and 2035. The Company has foreign tax credit carry-forwards of approximately \$359,000 at December 31, 2015, that are available to reduce future U.S. income tax liabilities subject to certain limitations. These foreign tax

credit carry-forwards expire at various times between 2018 and 2020. Additionally, the Company has federal alternative minimum tax ("AMT") credits of approximately \$111,000 at December 31, 2015, that are available to offset future federal tax liabilities, and have no expiration.

40

---

Based on the Company's assessment of the uncertainty surrounding the realization of the favorable U.S. tax attributes in future tax returns in accordance with the provisions of ASC 740, the Company has determined that a full valuation allowance against our otherwise recognizable U.S. net deferred tax assets is required. The Company has recorded a full valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. When assessing the need for valuation allowances, the Company considers future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the ability to realize deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

Deferred income taxes for 2015 and 2014 were provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Tax effects of temporary differences and carry-forwards at December 31, 2015 and 2014, were as follows:

	December 31, 2015		December 31, 2014	
	Deferred Tax		Deferred Tax	
	Asset	Liability	Asset	Liability
	(in thousands)			
Inventory reserve	\$ 1,179	\$ —	\$ 1,151	\$ —
Fixed assets	—	230	—	285
Other reserves and accruals	173	—	109	—
Stock-based compensation	380	—	367	—
Undistributed foreign earnings	—	97	—	86
Other	—	68	1	75
Tax credit carry-forwards	1,840	—	1,755	—
Federal tax loss carry-forwards	3,270	—	3,220	—
State tax loss carry-forwards	915	—	901	—
Foreign tax loss carry-forwards	269	—	268	—
Total deferred income taxes	8,026	\$ 395	7,772	\$ 446
Valuation allowance	(7,631)		(7,326)	
Net deferred tax assets	\$—		\$—	

At December 31, 2015, the net deferred tax assets of \$0 presented in the Company's balance sheet comprises deferred tax assets of \$395,000, offset by deferred tax liabilities of \$395,000. At December 31, 2014, the net deferred tax assets of \$0 presented in the Company's balance sheet comprises deferred tax assets of \$446,000, offset by deferred tax liabilities of \$446,000.

The Company will recognize any interest and penalties related to unrecognized tax positions in income tax expense. At the date of adoption of ASC 740, the Company did not have a liability for unrecognized tax positions. In addition, the Company did not record any increases or decreases to its liability for unrecognized tax positions during the years ended December 31, 2015 or 2014. Accordingly, the Company has not accrued for any interest and penalties as of December 31, 2015 or 2014. The Company does not anticipate any change in its liability for unrecognized tax positions over the next fiscal year.

The Company files income tax returns in the U.S. Federal, various state, Hong Kong and India jurisdictions. The statute of limitations for assessment by the Internal Revenue Service ("IRS") and state tax authorities is open for tax years ended December 31, 2012, 2013 and 2014, although carry-forward attributes that were generated prior to tax year 2012, including net operating loss carry-forwards and tax credits, may still be adjusted upon examination by the IRS or state tax authorities if they either have been or will be used in a future period. The Company is generally subject to examinations by foreign tax authorities from 2009 to the present.



#### F. Stockholders' Equity

On August 29, 2011, the Board authorized the Company to repurchase up to 100,000 shares of its common stock in accordance with applicable securities laws. This authorization increased the total number of shares authorized and available for repurchase under the Company's existing share repurchase program to 540,000 shares, at such times, amounts and prices as the Company shall deem appropriate. As of December 31, 2015, the Company had repurchased a total of 79,664 shares of common stock at a cost of \$572,000, which shares are currently held in treasury.

On August 6, 2013, the Company distributed 12,981,025 warrants to purchase shares of the Company's common stock as a dividend to holders of the Company's common stock on July 29, 2013, the record date for the dividend. Stockholders received five warrants for each share of the Company's common stock owned on the record date. When exercisable, 25 warrants will entitle their holder to purchase one share of the Company's common stock at an exercise price of \$7.50 per share (subject to adjustment).

The warrants are "European style warrants" and will only become exercisable on the earlier of (i) their expiration date, August 6, 2018, and (ii) such date that the 30-day volume weighted average price per share, or VWAP, of the Company's common stock is greater than or equal to \$15.00 (subject to adjustment). Once the warrants become exercisable, they may be exercised in accordance with the terms of the warrant agreement between the Company and the warrant agent until their expiration at 5:00 p.m., Eastern Time, on the expiration date.

#### G. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value guidance identifies three primary valuation techniques: the market approach, the income approach and the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts such as cash flows or earnings, to a single present amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The maximization of observable inputs and the minimization of the use of unobservable inputs are required.

Classification within the fair value hierarchy is based upon the objectivity of the inputs that are significant to the valuation of an asset or liability as of the measurement date. The three levels within the fair value hierarchy are characterized as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the Company's own assumptions about what market participants would use to price the asset or liability. These inputs may include internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

42

---

## Assets

To estimate the market value of its marketable securities, the Company obtains current market pricing from quoted market sources or uses pricing for identical securities. Assets measured at fair value on a recurring basis are summarized below.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total December 31, 2015
Equity securities	\$ 56	\$ —	\$ —	\$ 56
U.S. Treasury securities (cash equivalents)	\$ 4,089	\$ —	\$ —	\$ 4,089

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total December 31, 2014
Equity securities	\$ 60	\$ —	\$ —	\$ 60
U.S. Treasury securities (cash equivalents)	\$ 4,089	\$ —	\$ —	\$ 4,089

The Company also has assets that may be subject to measurement at fair value on a non-recurring basis, including goodwill and intangible assets, and other long-lived assets. The Company reviews goodwill annually and the carrying value of long-lived assets whenever events and circumstances indicate that the carrying amounts of the assets may not be recoverable. If it is determined that the assets are impaired, the carrying value would be reduced to estimated fair value.

## H. Employee Benefit Plans

The Company offers a defined contribution plan for eligible employees, in which the Company makes discretionary contributions up to 50% of the first 6% of eligible compensation contributed by participants. The Company contributed approximately \$112,000 and \$116,000 in discretionary contributions during 2015 and 2014, respectively. Participants vest in employer contributions starting after their second year of service at 20% increments vesting 100% in year six.

## I. Commitments and Contingencies

In the normal course of business, the Company and its subsidiaries may become defendants in certain product liability, patent infringement, worker claims and other litigation. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. The Company is not involved in any legal proceedings other than routine litigation arising in the normal course of business, none of which the Company believes will have a material adverse effect on the Company's business, financial condition or results of operations.





## Rent Expense

Rent expense under operating leases was \$196,000 and \$295,000 for the years ended December 31, 2015 and 2014, respectively. The Company leases certain property and equipment, including warehousing, and sales and distribution equipment, under operating leases that extend from one to two years. Certain of these leases have renewal options.

## J. Segment Information

The Company has one reportable business segment from operations: electronic components, which includes all products manufactured and sold by MtronPTI. The Company's foreign operations in Hong Kong and India exist under MtronPTI.

Operating income (loss) is equal to revenues less cost of sales, operating expenses, excluding investment income, interest expense, and income taxes. Identifiable assets of the segment are those used in its operations and exclude general corporate assets. General corporate assets are principally cash and cash equivalents, short-term investments and certain other investments and receivables.

	Years Ended December 31, 2015      2014 (in thousands)	
Revenues from Operations		
Electronic components – USA	\$15,260	\$13,556
Electronic components – Foreign	5,453	9,457
Total consolidated revenues	\$20,713	23,013
Operating Income (Loss) from Operations		
Electronic components	\$309	\$(1,392)
Unallocated corporate expense	(1,097)	(1,437)
Consolidated total operating loss	(788)	(2,829)
Interest expense, net	(32)	(26)
Other income, net	117	26
Total other income	85	—
Loss Before Income Taxes	\$(703)	\$(2,829)
Capital Expenditures		
Electronic components	\$412	\$1,006
General corporate	10	5
Total capital expenditures	\$422	\$1,011
Total Assets		
Electronic components	\$8,266	\$9,641
General corporate	7,537	7,621
Consolidated total assets	\$15,803	\$17,262

## K. Foreign Revenues

For years ended December 31, 2015 and 2014, significant foreign revenues from operations (10% or more of foreign sales) were as follows:

	Years Ended December 31, 2015    2014 (in thousands)	
Malaysia	\$2,455	\$3,018
China	778	2,604
All other foreign countries	2,220	3,835
Total foreign revenues	\$5,453	\$9,457

The Company allocates its foreign revenue based on the customer's ship-to location.

## L. Subsequent Events

On February 24, 2016, the Company received notice from the staff of NYSE Regulation that NYSE MKT LLC ("NYSE MKT") had determined to commence proceedings to delist the Company's warrants expiring August 6, 2018 (the "Warrants") from NYSE MKT due to non-compliance with Section 1003 of the NYSE MKT Company Guide based on the abnormally low trading price of the Warrants. Trading in the Warrants on NYSE MKT was suspended after market hours on February 24, 2016.

The Company's common stock continues to be listed on NYSE MKT, and the Company's common stock and its operations are not affected by the delisting proceedings related to the Warrants.

NYSE MKT stated that it will apply to the Securities and Exchange Commission to delist the Warrants upon completion of all applicable procedures. The Company does not intend to appeal NYSE MKT's determination and, therefore, it is expected that the Warrants will be delisted. Effective February 25, 2016, the Warrants are quoted on the over-the-counter market under the symbol "LGLPW."

## EXHIBIT INDEX

Exhibit No.	Description
2.1	Asset Purchase Agreement, dated as of January 31, 2014, made by and between M-tron Industries, Inc. and Trilithic, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 10-Q filed with the SEC on May 15, 2014).
3.1	Certificate of Incorporation of The LGL Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on August 31, 2007).
3.2	The LGL Group, Inc. By-Laws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on August 31, 2007).
3.3	The LGL Group, Inc. Amendment No. 1 to By-Laws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 17, 2014).
4.1	Warrant Agreement, dated as of July 30, 2013, by and among The LGL Group, Inc., Computershare Inc. and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2013).
10.1	The LGL Group, Inc. 401(k) Savings Plan (incorporated by reference to Exhibit 10(b) to the Company's Annual Report on Form 10-K filed with the SEC on April 1, 1996).
10.2	The LGL Group, Inc. 2001 Equity Incentive Plan adopted December 10, 2001 (incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 filed with the SEC on December 29, 2005).
10.3	Form of Restricted Stock Agreement (2001 Equity Incentive Plan) by and between The LGL Group, Inc. and each of its directors (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2011).
10.4	Form of Restricted Stock Agreement (2001 Equity Incentive Plan) by and between The LGL Group, Inc. and each of its executive officers (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2011).
10.5	The LGL Group, Inc. 2011 Incentive Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed with the SEC on December 30, 2011).
10.6	Form of Stock Option Agreement (2011 Incentive Plan) (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed with the SEC on December 30, 2011).
10.7	Form of Restricted Stock Agreement (2011 Incentive Plan) (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed with the SEC on December 30, 2011).
10.8	Form of Indemnification Agreement by and between The LGL Group, Inc. and its executive officers and directors (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2011).
10.9	Offer of Employment Letter, effective as of October 1, 2013, by and between The LGL Group, Inc. and Michael J. Ferrantino (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 7, 2013).

Edgar Filing: LGL GROUP INC - Form 10-K

- 10.10 Agreement and Release, dated May 27, 2014, by and between Gregory P. Anderson and The LGL Group, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2014).
- 10.11 Agreement and Release, dated May 27, 2014, by and between James L. Williams and The LGL Group, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2014).
- 10.12 Registration Rights Agreement, dated as of September 19, 2013, by and between the Company and Venator Merchant Fund L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 19, 2013).
- 10.13 Loan Agreement, dated as of September 30, 2014, by and between M-tron Industries, Inc. and City National Bank of Florida (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2014).
- 10.14 Revolving Promissory Note, dated as of September 30, 2014, by and between M-tron Industries, Inc. and City National Bank of Florida (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2014).
- 10.15 Cash Collateral Agreement, dated as of September 30, 2014, by and between M-tron Industries, Inc. and City National Bank of Florida (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2014).
- 21.1 Subsidiaries of The LGL Group, Inc.\*
- 23.1 Consent of Independent Registered Public Accounting Firm – McGladrey LLP.\*
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 101.INS XBRL Instance Document\*
- 101.SCH XBRL Taxonomy Extension Schema Document\*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document\*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*

\*Filed herewith

The exhibits listed above have been filed separately with the SEC in conjunction with this Annual Report on Form 10-K or have been incorporated by reference into this Annual Report on Form 10-K. Upon request, the Company will furnish to each of its stockholders a copy of any such exhibit. Requests should be addressed to the Corporate Secretary, The LGL Group, Inc., 2525 Shader Road, Orlando, Florida, 32804.