LGL GROUP INC
Form 10-Q
May 13, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2016
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 No. 1-106

THE LGL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

| | |
|---|---|
| 2525 Shader Rd., Orlando, Florida | 32804 |
| (Address of principal executive offices) | (Zip Code) |

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

(Former name, former address, and former fiscal year if changed since last report)

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 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<br>(Do not check if a smaller reporting company) | Smaller reporting company |

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at May 9, 2016 |
|---|---|
| Common Stock, $0.01 par value | 2,665,434 |

INDEX

THE LGL GROUP, INC.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | March 31, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 5,576 | $ 5,553 |
| Accounts receivable, less allowance of $34 at March 31, 2016 and December 31, 2015 | 2,544 | 2,606 |
| Inventories, net (Note C) | 3,550 | 3,546 |
| Prepaid expenses and other current assets | 359 | 247 |
| Total Current Assets | 12,029 | 11,952 |
| Property, Plant and Equipment: | | |
| Land | 633 | 633 |
| Buildings and improvements | 3,938 | 3,938 |
| Machinery and equipment | 16,681 | 16,633 |
| Gross property, plant and equipment | 21,252 | 21,204 |
| Less: accumulated depreciation | (18,229) | (18,039) |
| Net property, plant, and equipment | 3,023 | 3,165 |
| Intangible assets, net (Note D) | 461 | 475 |
| Other assets, net | 208 | 211 |
| Total Assets | $ 15,721 | $ 15,803 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 1,104 | $ 987 |
| Accrued compensation and commissions expense | 721 | 769 |
| Accrued warranty expense | 105 | 126 |
| Other accrued expenses | 209 | 194 |
| Total Current Liabilities | $ 2,139 | 2,076 |
| Commitments and Contingencies (Note J) | | |
| 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 March 31, 2016 and December 31, 2015 | 27 | 27 |
| Additional paid-in capital | 29,090 | 29,106 |
| Accumulated deficit | (15,000) | (14,874) |
| Treasury stock: 79,664 shares held in treasury at cost at March 31, 2016 and December 31, 2015 | (572) | (572) |
| Accumulated other comprehensive income | 37 | 40 |
| Total Stockholders' Equity | 13,582 | 13,727 |
| Total Liabilities and Stockholders' Equity | $ 15,721 | $ 15,803 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

THE LGL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS – UNAUDITED

(Dollars in Thousands, Except Per Share Amounts)

| | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| REVENUES | $4,756 | $5,404 |
| Cost and Expenses: | | |
| Manufacturing cost of sales | 3,257 | 3,605 |
| Engineering, selling and administrative | 1,661 | 1,960 |
| OPERATING LOSS | (162) | (161) |
| Other Income (Expense): | | |
| Interest expense, net | (6) | (5) |
| Other income (expense), net | 42 | (12) |
| Total Other Income (Expense) | 36 | (17) |
| LOSS BEFORE INCOME TAXES | (126) | (178) |
| Income tax provision | — | — |
| NET LOSS | $(126) | $(178) |
| Weighted average number of shares used in basic and diluted net loss per common share calculation | 2,665,434 | 2,616,485 |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | $(0.05) | $(0.07) |

See Accompanying Notes to Condensed Consolidated Financial Statements.
2

THE LGL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS - UNAUDITED

(Dollars in Thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| NET LOSS | $(126) | $(178) |
| Other Comprehensive (Loss) Income: | | |
| Unrealized (loss) gain on available-for-sale securities, net of taxes | (3) | 13 |
| TOTAL OTHER COMPREHENSIVE (LOSS) INCOME | (3) | 13 |
| COMPREHENSIVE LOSS | $(129) | $(165) |

See Accompanying Notes to Condensed Consolidated Financial Statements.

THE LGL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY - UNAUDITED

(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, 2015 | 2,665,434 | $ 27 | $ 29,106 | $ (14,874) | $ (572) | $ 40 | $ 13,727 |
| Net loss | — | — | — | (126) | — | — | (126) |
| Other comprehensive loss | — | — | — | — | — | (3) | (3) |
| Stock-based compensation | — | — | (16) | — | — | — | (16) |
| Balance at March 31, 2016 | 2,665,434 | $ 27 | $ 29,090 | $ (15,000) | $ (572) | $ 37 | $ 13,582 |

See Accompanying Notes to Condensed Consolidated Financial Statements.
4

THE LGL GROUP, INC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED

(Dollars in Thousands)

| | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | $(126) | $(178) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 190 | 202 |
| Amortization of finite-lived intangible assets | 14 | 26 |
| Stock-based compensation | (16) | 13 |
| Gain on disposal of assets | (43) | — |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts receivable, net | 62 | 114 |
| (Increase) decrease in inventories, net | (4) | 168 |
| Increase in other assets | (69) | (36) |
| Increase (decrease) in trade accounts payable, accrued compensation and commissions expense, accrued warranty expense and other accrued liabilities | 63 | (197) |
| Net cash provided by operating activities | 71 | 112 |
| | | |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (48) | (256) |
| Net cash used in investing activities | (48) | (256) |
| | | |
| Increase (decrease) in cash and cash equivalents | 23 | (144) |
| Cash and cash equivalents at beginning of period | 5,553 | 5,192 |
| Cash and cash equivalents at end of period | $5,576 | $5,048 |
| | | |
| Supplemental Disclosure: | | |
| Cash paid for interest | $— | $— |
| Cash paid for income taxes | $20 | $5 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

5

THE LGL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT

A. Subsidiaries of the Registrant

The LGL Group, Inc. (together with its subsidiaries, 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 design and manufacture of highly-engineered, high reliability frequency and spectrum control products.

As of March 31, 2016, 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.

B. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2016, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016.

This interim information should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (the "SEC") on March 29, 2016.

C. Inventories

Inventories are valued at the lower of cost or market value using the FIFO (first-in, first-out) method. The Company reduces the value of its inventories to market value when the market value is believed to be less than the cost of the item. The inventory reserve for obsolescence as of March 31, 2016 and December 31, 2015 was $3,072,000 and $3,016,000, respectively.

Inventories are comprised of the following (in thousands):

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Raw materials | $1,289 | $ 1,418 |
| Work in process | 1,505 | 1,325 |
| Finished goods | 756 | 803 |
| Total Inventories, net | $3,550 | $ 3,546 |

D. 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 and is recorded as part of engineering, selling and administrative expenses in the accompanying Condensed Consolidated Statements of Operations. The intangible assets consist of intellectual property and goodwill. The net carrying value of the amortizable intangible assets was $421,000 and $435,000 as of March 31, 2016 and December 31, 2015, respectively. Goodwill, which is not amortizable, was $40,000 as of March 31, 2016 and December 31, 2015.

The estimated aggregate amortization expense for the remaining portion of 2016 and each of the four succeeding years and thereafter is as follows (in thousands):

| | |
|---|---|
| 2016 | $40 |
| 2017 | 54 |
| 2018 | 54 |
| 2019 | 54 |
| 2020 | 54 |
| Thereafter | 165 |
| Total | $421 |

E. 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.

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.

There were no stock option awards or restricted stock awards granted during the three months ended March 31, 2016. As of March 31, 2016, there was approximately $31,000 of total unrecognized compensation expense related to unvested share-based compensation arrangements.

F. Net Loss Per Share

The Company computes net loss per share in accordance with ASC 260, Earnings Per Share ("ASC 260"). Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share adjusts basic loss per share for the effects of stock options, non-participating restricted common stock, and other potentially dilutive financial instruments, only in the periods in which the effects are dilutive. Shares of restricted stock granted to members of the Board of Directors 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 loss per share.

For the three months ended March 31, 2016 and 2015, there were options to purchase 117,226 shares and 203,450 shares, respectively, of the Company's common stock and warrants to purchase 519,241 shares of common stock that were excluded from the diluted loss per share computation because the impact of the assumed exercise of such stock options would have been anti-dilutive during the respective periods.

G. 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 March 31, 2016, 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 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.

The warrants are quoted on the over-the-counter market under the symbol "LGLPW."

H. Fair Value Measurements

The Company measures financial and non-financial assets and liabilities at fair value in accordance with ASC 820, Fair Value Measurements and Disclosures. These measurements involve various valuation techniques and assume that the transactions would occur between market participants in the most advantageous market for the Company.

Fair Value Hierarchy

The three levels of inputs that may be used to measure fair value are as follows:

Level 1. Quoted prices in active markets for identical assets and liabilities.

8

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in less active markets, or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include non-binding market consensus prices that can be corroborated with observable market data, as well as quoted prices that were adjusted for security-specific restrictions.

Level 3. Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities. Level 3 inputs also include non-binding market consensus prices or non-binding broker quotes that we were unable to corroborate with observable market data.

The following is a summary of valuation techniques utilized by the Company for its significant financial and non-financial assets and liabilities as of March 31, 2016 and December 31, 2015:

Assets

To estimate the fair value of its equity and U.S. Treasury 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 (in thousands).

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total March 31, 2016 |
|---|---|---|---|---|
| Equity securities | $ 53 | $ — | $ — | $53 |
| U.S. Treasury securities (cash equivalents) | $ 4,091 | $ — | $ — | $4,091 |

| | 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 |

There were no transfers from level 2 to level 3 during the period. There were no level 2 or 3 assets as of March 31, 2016 or December 31, 2015.

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 the carrying value of these 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.

I. Foreign Revenues

For the three months ended March 31, 2016 and 2015, significant foreign revenues from operations (10% or more of foreign sales) were as follows:

| | Three Months Ended March 31, 2016 | 2015 |
|---|---|---|
| Significant Foreign Revenues: | | |
| Malaysia | $726 | $598 |
| Hong Kong | 132 | 79 |
| China | 63 | 235 |
| All other foreign countries | 353 | 544 |
| Total foreign revenues | $1,274 | $1,456 |

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

J. 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.

K. Related Party Transactions

At March 31, 2016 and December 31, 2015, approximately $4,091,000 and $4,089,000, respectively, 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 during the three months ended March 31, 2016 and for the year ended December 31, 2015, were directed solely at the discretion of Company management. There are no management fees associated with fund transactions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This Quarterly Report on Form 10-Q 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 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the Securities and Exchange Commission (the "SEC") on March 29, 2016, this Report and our other filings with the SEC. 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.

Results of Operations

Three months ended March 31, 2016, compared to three months ended March 31, 2015

Consolidated Revenues and Gross Margin

Total revenues for the three months ended March 31, 2016 were $4,756,000, a decrease of 12.0% from revenues of $5,404,000 for the same prior year period. 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 continues to move away from such low margin commodities business and focus 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 decreased to 31.5% from 33.3% for the three months ended March 31, 2016, compared to the same prior year period. The slight decline in margin from the prior year period was primarily due to the affect of lower overall revenues on the fixed portion of manufacturing costs.

At March 31, 2016, the Company's order backlog was $9,016,000, which was an increase of 2.5% compared to the backlog as of December 31, 2015, which was $8,799,000. 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 backlog within the next 12 months, but cannot provide assurances as to what portion of the order backlog will be fulfilled in a given year.

Operating Loss

Operating loss was ($162,000) for the three months ended March 31, 2016, which was comparable to the operating loss of ($161,000) for the three months ended March 31, 2015.

Stock-Based Compensation

For the three months ended March 31, 2016, stock-based compensation expense was ($16,000) due to the effect of forfeitures. For the three months ended March 31, 2015, stock-based compensation expense was $13,000. Compensation expense related to stock-based compensation is recognized over the applicable vesting periods. As of March 31, 2016, there was approximately $31,000 of total unrecognized compensation expense related to unvested share-based compensation arrangements.

Other Income (Expense), Net

Other income (expense), net was $42,000 for the three months ended March 31, 2016, compared to ($12,000) for the three months ended March 31, 2015. The current period income reflects a gain realized on the disposal of assets. The prior year period represents approximately $15,000 of other expenses, partially offset by foreign currency transaction gains.

Income Taxes

The Company did not record a tax provision or tax benefit for the three months ended March 31, 2016 and 2015.

The Company maintains a full valuation allowance against its deferred tax assets under the provisions of ASC 740, based on the Company's assessment of the uncertainty surrounding the realization of the favorable U.S. tax benefits in future tax returns. 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.

Net Loss

Despite the decline in revenue, net loss for the three months ended March 31, 2016, improved to ($126,000) compared to a net loss of ($178,000) for the comparable period in 2015. Basic and diluted net loss per share for the three month periods ended March 31, 2016 and 2015, was ($0.05) and ($0.07), respectively.

Liquidity and Capital Resources

Cash and cash equivalents increased by $23,000, to $5,576,000 at March 31, 2016 from $5,553,000 at December 31, 2015.

Cash provided by operating activities was $71,000 and $112,000 for the three months ended March 31, 2016 and 2015, respectively. The decrease was primarily due to non-cash adjustments for a gain on the disposal of assets and stock-based compensation offset by an improvement in net loss.

Cash used in investing activities for the three months ended March 31, 2016 and 2015 was ($48,000) and ($256,000), respectively. The decrease was due to a reduction in capital expenditures.

At March 31, 2016, the Company's consolidated working capital was $9,890,000, compared to $9,876,000 at December 31, 2015. At March 31, 2016, the Company had current assets of $12,029,000, current liabilities of $2,139,000 and a ratio of current assets to current liabilities of 5.62 to 1.00. 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. 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, and expires on September 30, 2016. The CNB Loan Agreement also provides that MtronPTI will pay City National a fee equal to 0.75% per year on the daily unused amount. The Company's obligations under the CNB Loan Agreement are secured only by cash collateral and do not require any other liens.

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. At March 31, 2016 and December 31, 2015, there was no balance outstanding under the CNB Revolver and no associated restricted cash.

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

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such statements requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities as of the date of the financial statements. Our estimates are based on historical experience and other assumptions that we consider to be reasonable given the circumstances. Actual results may vary from our estimates.

The Company's most critical accounting policies include revenue recognition, accounts receivable allowance, valuation of inventories, accounting for warranty obligations, accounting for income taxes, and accounting for stock-based compensation.

Revenue Recognition

The Company recognizes revenue from the sale of its products in accordance with the criteria in 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 amount of the reserve at March 31, 2016 and December 31, 2015, is not material to the financial statements.

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;
13

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.

Accounts Receivable Allowance

Accounts receivable on a consolidated basis consists 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 generally required. In relation to export sales, the Company generally 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 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 relationship between accounts receivable and revenues. In determining these estimates, the Company examines historical write-offs of its receivables and reviews each client'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 the losses for doubtful accounts accurately 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.

Inventory Valuation

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

The Company maintains a reserve for inventory based on estimated losses that result from inventory that becomes obsolete as of period end. In determining these estimates, the Company performs an analysis on 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.

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 immaterial.

Income Taxes

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. The future recoverability of the Company's net deferred tax assets is dependent upon the generation of future taxable income prior to the expiration of the loss carry forwards. The Company maintains a full valuation allowance against the Company's net deferred tax assets. The valuation allowance was calculated in accordance with the provisions of ASC 740, which requires an assessment of both positive and negative evidence when measuring the need for a valuation allowance. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal.

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 upon past history of actual performance, forfeiture rates ranging from zero percent to ten percent have been assumed for options granted.

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

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. 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 March 31, 2016, 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.

Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended March 31, 2016, there were no changes in the Company's internal controls over financial reporting, 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.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the 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 |

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.

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|---|---|
| Date: May 13, 2016 | By: /s/ Michael J. Ferrantino, Sr.<br>Michael J. Ferrantino, Sr.<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: May 13, 2016 | By: /s/ Patti A. Smith<br>Patti A. Smith<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |