

LGL GROUP INC  
Form 10-Q  
November 14, 2014  
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 September 30, 2014

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).

Edgar Filing: LGL GROUP INC - Form 10-Q

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 ☐ Smaller reporting company ☒  
(Do not check if a 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 November 10, 2014
Common Stock, \$0.01 par value	2,594,680

---

# INDEX

## THE LGL GROUP, INC.

### PART

#### I. FINANCIAL INFORMATION

##### Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets: 1

- As of September 30, 2014
- As of December 31, 2013

Condensed Consolidated Statements of Operations: 2

- Three and nine months ended September 30, 2014 and 2013

Condensed Consolidated Statements of Comprehensive Loss: 3

- Three and nine months ended September 30, 2014 and 2013

Condensed Consolidated Statement of Stockholders' Equity: 4

- Nine months ended September 30, 2014

Condensed Consolidated Statements of Cash Flows: 5

- Nine months ended September 30, 2014 and 2013

Notes to Condensed Consolidated Financial Statements: 6

##### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 13

##### Item 3. Quantitative and Qualitative Disclosures About Market Risk 20

##### Item 4. Controls and Procedures 20

### PART

#### II. OTHER INFORMATION

##### Item 1. Legal Proceedings 21

##### Item 1A. Risk Factors 21

##### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 21

Item 3. Defaults Upon Senior Securities	21
Item 4. Mine Safety Disclosures	21
Item 5. Other Information	21
Item 6. Exhibits	22
SIGNATURES	23

---

## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements.

## THE LGL GROUP, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(Dollars in Thousands)

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,496	\$ 7,183
Restricted cash (Note E)	-	1,500
Accounts receivable, less allowances of \$46 and \$42, respectively	3,482	3,237
Inventories, net (Note C)	4,423	4,629
Prepaid expenses and other current assets	288	405
Total Current Assets	13,689	16,954
Property, Plant and Equipment:		
Land	633	633
Buildings and improvements	3,908	3,908
Machinery and equipment	16,264	15,980
Gross property, plant and equipment	20,805	20,521
Less: accumulated depreciation	(17,157 )	(16,535 )
Net property, plant, and equipment	3,648	3,986
Other assets, net	802	323
Total Assets	18,139	\$ 21,263
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Note payable to bank (Note E)	\$ -	\$ 1,181
Accounts payable	2,193	1,978
Accrued compensation and commissions expense	840	992
Accrued restructuring expense	88	70
Accrued warranty expense	295	22
Other accrued expenses	329	265
Total Current Liabilities	3,745	4,508
Commitments and Contingencies (Note L)		
Stockholders' Equity		
Common stock, \$0.01 par value - 10,000,000 shares authorized; 2,674,448 shares issued and 2,594,680 shares outstanding at September 30, 2014 and 2,674,530 shares issued and 2,594,784 shares outstanding at December 31, 2013	27	27
Additional paid-in capital	28,806	28,593
Accumulated deficit	(13,908 )	(11,338 )
Treasury stock: 79,768 and 79,664 shares held in treasury at cost at September 30, 2014 and December 31, 2013, respectively	(572 )	(572 )
Accumulated other comprehensive income	41	45
Total Stockholders' Equity	14,394	16,755
Total Liabilities and Stockholders' Equity	\$ 18,139	\$ 21,263

See Accompanying Notes to Condensed Consolidated Financial Statements.

1

---

## THE LGL GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

(Dollars in Thousands, Except Per Share Amounts)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
REVENUES	\$5,581	\$6,098	\$17,562	\$20,461
Cost and Expenses:				
Manufacturing cost of sales	3,849	4,731	12,869	14,904
Engineering, selling and administrative	2,094	2,548	6,750	7,834
Restructuring expense	47	-	444	-
OPERATING LOSS	(409)	(1,181)	(2,501)	(2,277)
Other Income (Expense):				
Interest expense, net	(5)	(4)	(21)	(33)
Other expense, net	(78)	(14)	(48)	(14)
Total Other Income (Expense)	(83)	(18)	(69)	(47)
LOSS BEFORE INCOME TAXES	(492)	(1,199)	(2,570)	(2,324)
Income tax provision	-	-	-	(3,922)
NET LOSS	\$(492)	\$(1,199)	\$(2,570)	\$(6,246)
Weighted average number of shares used in basic and diluted net loss per common share calculation.	2,594,730	2,595,385	2,594,752	2,598,609
BASIC AND DILUTED NET LOSS PER COMMON SHARE	\$(.19)	\$(.46)	\$(.99)	\$(2.40)

See Accompanying Notes to Condensed Consolidated Financial Statements.

THE LGL GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS - UNAUDITED

(Dollars in Thousands)

	Three Months Ended September 30 2014	Three Months Ended September 30 2013	Nine Months Ended September 30 2014	Nine Months Ended September 30, 2013
NET LOSS	\$ (492 )	\$ (1,199 )	\$ (2,570 )	\$ (6,246 )
Other Comprehensive (Loss) Income:				
Unrealized (loss) gain on available-for-sale securities, net of taxes	(7 )	6	(4 )	18
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(7 )	6	(4 )	18
COMPREHENSIVE LOSS	\$ (499 )	\$ (1,193 )	\$ (2,574 )	\$ (6,228 )

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, 2013	2,594,784	\$ 27	\$ 28,593	\$ (11,338 )	\$ (572 )	\$ 45	\$ 16,755
Net loss	—	—	—	(2,570 )	—	—	(2,570 )
Other comprehensive loss	—	—	—	—	—	(4 )	(4 )
Stock-based compensation	(104 )	—	213	—	—	—	213
Balance at September 30, 2014	2,594,680	\$ 27	\$ 28,806	\$ (13,908 )	\$ (572 )	\$ 41	14,394

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Dollars in Thousands)

	Nine Months Ended September 30, 2014      2013	
OPERATING ACTIVITIES		
Net loss	\$(2,570)	\$(6,246)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	621	681
Amortization of finite-lived intangible assets	83	61
Write-down of note receivable	-	11
Stock-based compensation	213	388
Deferred income tax provision	-	3,922
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(245 )	1,072
Decrease in inventories, net	298	524
Decrease in other assets	88	354
Increase in accrued restructuring expense	18	-
Increase (decrease) in trade accounts payable, accrued compensation and commissions expense, accrued warranty expense and other accrued liabilities	400	(827 )
Net cash used in operating activities	(1,094)	(60 )
INVESTING ACTIVITIES		
Capital expenditures	(164 )	(351 )
Asset acquisition	(748 )	-
Net cash used in investing activities	(912 )	(351 )
FINANCING ACTIVITIES		
Net repayments on note payable to bank	(1,181)	(163 )
Restricted cash	1,500	-
Principal payments of long-term debt	-	(58 )
Purchase of treasury stock	-	(81 )
Net cash provided by (used in) financing activities	319	(302 )
Decrease in cash and cash equivalents	(1,687)	(713 )
Cash and cash equivalents at beginning of period	7,183	8,625
Cash and cash equivalents at end of period	\$5,496	\$7,912
Supplemental Disclosure:		
Cash paid for interest	\$32	\$27
Cash paid for income taxes	\$-	\$112

See Accompanying Notes to Condensed Consolidated Financial Statements.



## THE LGL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## A. Subsidiaries of the Registrant

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 September 30, 2014, the subsidiaries of the Company are as follows:

	Owned By The LGL Group, Inc.
M-tron Industries, Inc.	100.0 %
M-tron Industries, Ltd.	99.9 %
Piezo Technology, Inc.	100.0 %
Piezo Technology India Private Ltd.	99.0 %
M-tron Asia, LLC	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 M-tron Industries, Ltd. ("Mtron") and Piezo Technology, Inc. ("PTI"). 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, Yantai, China and Noida, India. MtronPTI also has sales offices in Sacramento, California, Hong Kong and Shanghai, China.

During 2007, the Company sold the operating assets of Lynch Systems, Inc., a subsidiary of the Company, to an unrelated party.

On January 31, 2014, MtronPTI completed the acquisition of certain filter product line assets from Trilithic, Inc. ("Trilithic") for net cash consideration of \$700,000, excluding acquisition costs. The acquired assets were comprised of intellectual property for Trilithic's fixed and tunable frequency filter products used in cellular, military and other wireless applications, as well as some equipment. See Note D – Intangible Assets. This investment is expected to further strengthen and differentiate MtronPTI's high reliability RF & microwave portfolio, providing increased service to clients in the Aerospace and Defense ("Aero/Defense"), and Internet Communications Technology ("ICT") market segments.

## 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 for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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 and nine months ended September 30, 2014, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2014. Certain prior year amounts have been reclassified to conform to the current year presentation.

This interim information should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013.

6

---

## C. Inventories

Inventories are stated at the lower of actual cost (determined using the first-in, first-out method), or market (estimated realizable value), with adjustment being recorded in the reserve for obsolescence, which was \$2,883,000 and \$2,586,000 as of September 30, 2014 and December 31, 2013, respectively. Inventories are comprised of the following:

	September 30, 2014	December 31, 2013
	(in thousands)	
Raw materials	\$ 1,550	\$ 1,834
Work in process	1,964	1,490
Finished goods	909	1,305
Total Inventories, net	\$ 4,423	\$ 4,629

## D. Intangible Assets

As part of MtronPTI's acquisition of certain filter product line assets from Trilithic, MtronPTI acquired \$538,000 of intellectual property. These intangible assets are included in "other assets" and are recorded at cost less accumulated amortization. Amortization is computed for financial reporting purposes using the straight-line method over an estimated useful life of 10 years. The net carrying value of these intangible assets is \$502,000 as of September 30, 2014.

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

Remainder of 2014	\$ 13
2015	54
2016	54
2017	54
2018	54
Thereafter	273
Total	\$ 502

## E. Note Payable to Bank

	September 30, 2014	December 31, 2013
Note Payable:	(in thousands)	
MtronPTI revolving loan with J.P. Morgan Chase Bank, N.A.	\$ -	1,181

On August 29, 2014, MtronPTI paid off and terminated its \$1.5 million revolving line of credit entered into on June 30, 2011, with JPMorgan Chase Bank, N.A. (the "Chase Revolving Loan"). The Chase Revolving Loan was scheduled to expire on September 30, 2014. The Chase Revolving Loan was secured by a \$1.5 million cash collateral deposit and by a general lien on all of MtronPTI's assets, both of which have been released. The Chase Revolving Loan was scheduled to expire on September 30, 2014.

Prior to the termination of the Chase Revolving Loan, management began an active search for alternative financing in order to obtain more favorable terms. On September 30, 2014, MtronPTI entered into a Loan Agreement, dated as of September 30, 2014, with City National Bank of Florida ("City National") (the "CNB Loan Agreement"). The CNB Loan Agreement provides for a revolving line of credit in the amount of \$3,000,000 (the "CNB Revolver"). The CNB

Revolver bears interest at a variable rate equal to 30-day LIBOR plus two hundred (200) basis points to be set on the first day of each month.

7

---

The CNB Loan Agreement is secured only by cash collateral and does 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 \$3,000,000 to City National (the "CNB Revolving Promissory Note"). The CNB Cash Collateral Agreement provides that if there are amounts outstanding under the CNB Revolver, City National will hold cash collateral equal to the amounts outstanding under the CNB Revolver in a non-interest bearing deposit account. Provided that MtronPTI is not in default of any of its obligations under the CNB Loan Agreement, CNB Revolving Promissory Note or the CNB Cash Collateral Agreement, the funds deposited by MtronPTI under the CNB Cash Collateral Agreement are restricted only to the extent of the outstanding principal amount under the CNB Revolver.

Under the terms of the CNB Loan Agreement and the CNB Revolving Promissory Note, MtronPTI may borrow under the CNB Revolver until September 30, 2016, unless the term of the CNB Revolving Promissory Note is extended. The CNB Loan Agreement, CNB Revolving Promissory Note and 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, CNB Revolving Promissory Note and 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.

As of September 30, 2014, there was no balance outstanding under the CNB Revolver.

#### F. Stock-Based Compensation

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. The fair value of grants was calculated using historical volatility 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. Accounting Standards Codification ("ASC") 718, Stock Compensation, also requires forfeitures to be estimated at the time of grant and revised, 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 twenty percent have been assumed for options granted.

On June 11, 2014, the Board of Directors granted options to purchase a total of 75,000 shares of the Company's common stock to Michael Ferrantino, Sr., pursuant to the Company's 2011 Incentive Plan. These stock options have an exercise price of \$4.90, a five-year life expiring on June 11, 2019, and vest as follows: 60% immediately; an additional 20% on the second anniversary of the grant date; and the remaining 20% on the third anniversary of the grant date. These stock options have a grant date fair value of \$1.48 per option.

In connection with Gregory P. Anderson's resignation on May 21, 2014, the Company modified the terms of his August 9, 2012 Incentive Stock Option Agreement pursuant to which options to purchase 7,500 shares of the Company's common stock vested immediately. The Company also modified the terms of Mr. Anderson's February 29, 2012 and March 26, 2013 Restricted Stock Agreements pursuant to which a total of 1,470 restricted shares will vest six months after his resignation and an additional 1,470 restricted shares will vest one year after his resignation.

On March 13, 2014, the Board of Directors granted a total of 24,576 options to purchase shares of the Company's common stock to members of executive management, pursuant to the Company's 2011 Incentive Plan. These stock options have an exercise price of \$5.82, a five-year life expiring on March 13, 2019, and vest as follows: 30% on the first anniversary of the grant date; an additional 30% on the second anniversary of the grant date; and the remaining 40% on the third anniversary of the grant date. These stock options have a grant date fair value of \$1.88 per option.

The terms of the options reflect the objective to align management incentives with long-term value creation.





Restricted stock awards are granted at a value equal to the market price of our common stock on the date of the grant. There were no restricted stock awards granted during the nine months ended September 30, 2014.

Compensation expense related to share-based compensation is recognized over the applicable vesting periods. As of September 30, 2014, there was approximately \$140,000 of total unrecognized compensation expense related to unvested share-based compensation arrangements.

G. Earnings (Loss) Per Share

The Company computes earnings (loss) per share in accordance with ASC 260, Earnings Per Share ("ASC 260").

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share adjusts basic earnings (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 securities as defined by ASC 260 and therefore are included in the computation of basic earnings (loss) per share.

For the three and nine months ended September 30, 2014 there were options to purchase 221,635 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. For the three and nine months ended September 30, 2013, there were options to purchase 192,401 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.

H. Warrant Dividend

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 traded separately from the Company's common stock on the NYSE MKT under the symbol "LGL WS".

I. 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. The following is a summary of valuation techniques utilized by the Company for its significant financial and non-financial assets and liabilities as of September 30, 2014 and December 31, 2013:

# 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.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total September 30, 2014
Equity securities	\$ 56	\$ —	\$ —	\$ 56
U.S. Treasury securities (cash equivalents)	\$ 4,439	\$ —	\$ —	\$ 4,439

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total December 31, 2013
Equity securities	\$ 61	\$ —	\$ —	\$ 61
U.S. Treasury securities (cash equivalents)	\$ 5,589	\$ —	\$ —	\$ 5,589

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.

## J. Foreign Revenues

For the three and nine months ended September 30, 2014 and 2013, significant foreign revenues from operations (10% or more of foreign sales) were as follows:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Significant Foreign Revenues:		
Malaysia	\$ 674	\$ 884
China	539	954
Hong Kong	158	247
All other foreign countries	910	897
Total foreign revenues	\$ 2,281	\$ 2,982



	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Significant Foreign Revenues:		
Malaysia	\$ 2,354	\$ 3,272
China	2,155	2,735
Hong Kong	442	1,268
Thailand	513	894
All other foreign countries	2,059	1,827
Total foreign revenues	\$ 7,523	\$ 9,996

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

#### K. Income Taxes

The Company had total federal and state net operating loss carry-forwards ("NOLs") of \$7,607,000 and \$14,559,000, respectively, as of December 31, 2013. These NOLs expire through 2033 if not utilized prior to their expiration. The Company had research and development credit carry-forwards of approximately \$1,178,000 at December 31, 2013 that can be used to reduce future income tax liabilities and expire principally between 2020 and 2033. In addition, the Company has foreign tax credit carry-forwards of approximately \$359,000 at December 31, 2013 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.

The Company maintains a full valuation allowance against its deferred tax assets under the provisions of ASC 740, Income Taxes, 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.

The Company recorded a net tax provision of \$0 and \$3,922,000, for the nine months ended September 30, 2014 and 2013, respectively.

#### L. 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.

#### M. Related Party Transactions

At September 30, 2014 and December 31, 2013, approximately \$4,439,000 and \$5,589,000, respectively, was invested in United States Treasury money market funds managed by a related entity (the "Fund Manager") which is related through two common directors. One of the Company's directors, who is also a 10% stockholder, currently serves as a director and executive officer of the Fund Manager. Another of the Company's directors (who served as a director up until the Company's Annual Meeting on October 21, 2014) serves as a director and audit committee member of the Fund Manager. The fund transactions in the nine months ended September 30, 2014 and the year ended December 31, 2013 were directed solely at the discretion of Company management.



## N. Restructuring Charges

On October 17, 2013, the Company's management initiated a restructuring plan to restore sustainable profitability and to improve its competitive position as a niche design and manufacturing company of highly-engineered electronics components and subsystems within a dynamic market environment. The first phase of the restructuring plan was designed to realign its customer support operations across all of the Company's locations and to reduce structural costs in an effort to gain efficiencies. Implementation of the first phase was substantially completed during the fourth quarter of 2013.

During the second quarter of 2014, the Company initiated the second phase of the restructuring plan which was designed to realign its sales, general and administrative activities. Implementation of these realignments was substantially completed during the third quarter of 2014. Management continues to evaluate opportunities to improve the Company's operating leverage and to position for improved results.

As a result of these realignment activities, the Company incurred restructuring charges during the nine months September 30, 2014, of \$444,000. These restructuring charges consisted of approximately \$379,000 of employee separation costs and \$65,000 of other office closure-related costs. The charges for employee separation costs consisted of severance pay and other benefits. The costs related to these restructuring activities were recorded in the consolidated statements of operations as restructuring charges.

A reconciliation of the Company's restructuring liability, included as a component of other accrued expenses, is as follows:

	Employee		
	Related	Other	Total
Ending balance, December 31, 2013	\$ 19,000	\$ 51,000	\$ 70,000
Plus: Additional expenses	379,000	65,000	444,000
Less: Cash payments	(335,000)	(91,000)	(426,000)
Ending balance, September 30, 2014	\$ 63,000	\$ 25,000	\$ 88,000

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Information included or incorporated by reference in this Quarterly Report on Form 10-Q may contain forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different than the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology.

Examples of forward-looking statements include, but are not limited to, statements regarding efforts to grow revenue, expectations regarding fulfillment of backlog, future benefits to operating margins and the adequacy of cash resources. These statements may be found under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as in this Quarterly Report generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2014, as updated by our subsequently filed quarterly reports on Form 10-Q. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Quarterly Report on Form 10-Q will in fact be accurate. Further, we do not undertake any obligation to publicly update any forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements.

#### Results of Operations

Three months ended September 30, 2014, compared to three months ended September 30, 2013

#### Consolidated Revenues and Gross Margin

Consolidated revenues decreased by \$517,000, or 8.5%, to \$5,581,000, for the quarter ended September 30, 2014, from \$6,098,000 for the comparable period in 2013. The decrease was primarily due to price compression and a decrease in share with certain customers in the Internet Communications Technology ("ICT") market segment, and to a lesser degree, reduced demand from existing customers within the Aerospace and Defense ("Aero/Defense") market segment.

As of September 30, 2014, the Company's order backlog was \$8,693,000, which was a decrease of 9.1% compared to the backlog as of June 30, 2014, which was \$9,563,000. The decline from the previous quarter is primarily due to reduced order activity from existing customers and extended order requests dates that fall outside the 12-month timeframe reflected in the order backlog.

The backlog of unfilled orders includes amounts based on signed contracts as well as other agreements we have determined are legally binding and likely to proceed. Although the order backlog represents only firm orders that are considered likely to be fulfilled within 12 months, cancellations or scope adjustments may and do occur. The 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 substantially its entire current order backlog within the next twelve months, but cannot provide assurance as to the portion of the order backlog to be fulfilled in a given period.

Consolidated gross margin, which is consolidated revenues less manufacturing cost of sales, as a percentage of revenues increased to 31.0% from 22.4% for the three-month period ended September 30, 2014, compared to the same prior year period. The increase was primarily due to a favorable product mix and continued margin improvement initiatives.

#### Operating Loss

Operating loss of (\$409,000) for the three months ended September 30, 2014, decreased by \$772,000 compared to an operating loss of (\$1,181,000) for the comparable period in 2013. The decrease in operating loss was due primarily to the 8.6 percentage point increase in gross margin, and a 4.3% improvement in engineering, selling and administrative



expense as a percent of revenue resulting from the first phase of our restructuring plan, executed during the quarter ended December 31, 2013, to realign customer support operations across all of our locations in an effort to gain efficiencies.

#### Stock-Based Compensation

Stock-based compensation expense was \$27,000 and \$143,000 for the three months ended September 30, 2014 and 2013, respectively. Compensation expense related to stock-based compensation is recognized over the applicable vesting periods. As of September 30, 2014, there was approximately \$140,000 of total unrecognized compensation expense related to unvested share-based compensation arrangements.

#### Interest Expense, Net

Interest expense, net, was \$5,000 for the three months ended September 30, 2014, an increase from \$4,000, for the three months ended September 30, 2013, reflecting a higher average balance during the quarter prior to the retirement of the Chase Revolving Loan on August 29, 2014.

#### Other Expense, Net

Other expense, net, was \$78,000 for the three months ended September 30, 2014, which was an increase of \$64,000, from \$14,000, for the three months ended September 30, 2013. The current period reflects approximately \$59,000 of expense related to a legal settlement and a net loss of approximately \$28,000 realized on the disposal of assets, offset by foreign currency transaction gains. The prior year expense reflects a \$21,000 gain on disposal of assets offset by foreign currency transaction losses.

#### Income Taxes

The Company maintains a full valuation allowance against its deferred tax assets under the provisions of ASC 740, Income Taxes, 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 in which the change in circumstances occurs, along with a corresponding increase or charge to income.

#### Net Loss

Net loss for the three months ended September 30, 2014, was (\$492,000) compared to a net loss of (\$1,199,000) for the comparable period in 2013. Basic and diluted net loss per share for the three month periods ended September 30, 2014 and 2013, was (\$0.19) and (\$0.46), respectively.

Nine months ended September 30, 2014, compared to nine months ended September 30, 2013

#### Consolidated Revenues and Gross Margin

Consolidated revenues decreased by \$2,899,000, or 14.2%, to \$17,562,000 for the nine-month period ended September 30, 2014, from \$20,461,000 for the comparable period in 2013. The decrease was primarily due to price compression and decrease in share with certain customers in the Internet Communications Technology ("ICT") market segment, and to a lesser degree, reduced demand from existing customers within the Aerospace and Defense ("Aero/Defense") market segment.

As of September 30, 2014, the Company's order backlog was \$8,693,000, which was an increase of 1.1% compared to the backlog as of December 31, 2013, which was \$8,601,000, and an increase of 2.9% compared to the backlog as of September 30, 2013, which was \$8,446,000. The year over year increase in backlog is due to an increase in repeat orders for existing products, as well as new orders resulting from our recent acquisition of certain filter product line assets from Trilithic on January 31, 2014.

Consolidated gross margin, which is consolidated revenues less manufacturing cost of sales, as a percentage of revenues decreased slightly to 26.7% for the nine-month period ended September 30, 2014, from 27.2% for the comparable period in 2013. The decrease was primarily due to a 14.2% decrease in revenues as well as a \$366,000 charge to warranty expense related to two isolated product defects.

#### Operating Loss

Operating loss of (\$2,501,000) for the nine months ended September 30, 2014, increased by \$224,000 compared to an operating loss of (\$2,277,000) for the comparable period in 2013. The increase in operating loss was primarily due to the 14.2% decrease in revenues, and a restructuring charge of \$444,000, offset partially by a decrease in engineering, selling and administrative expenses of \$1,084,000 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.

#### Stock-Based Compensation

On June 11, 2014, the Board of Directors granted options to purchase a total of 75,000 shares of the Company's common stock to Michael Ferrantino, Sr., pursuant to the Company's 2011 Incentive Plan. These stock options have an exercise price of \$4.90, a five-year life expiring on June 11, 2019, and vest as follows: 60% immediately; an additional 20% on the second anniversary of the grant date; and the remaining 20% on the third anniversary of the grant date. These stock options have a grant date fair value of \$1.48 per option.

On March 13, 2014, the Board of Directors granted a total of 24,576 options to purchase shares of the Company's common stock to members of executive management pursuant to the Company's 2011 Incentive Plan. These stock options have an exercise price of \$5.82, which reflects a 10% premium compared to the closing price on the date of grant, have a five-year life expiring on March 13, 2019, and vest as follows: 30% on the first anniversary of the grant date; an additional 30% on the second anniversary of the grant date; and the remaining 40% on the third anniversary of the grant date. These stock options have a grant date fair value of \$1.88 per option.

Stock-based compensation expense was \$213,000 and \$388,000 for the nine months ended September 30, 2014 and 2013, respectively.

#### Interest Expense, net

Interest expense was \$21,000 for the nine-month period ended September 30, 2014, which was a decrease of \$12,000 from \$33,000 for the comparable period in 2013. The decrease was primarily due to a reduction in the average outstanding balance on MtronPTI's credit facilities for the nine months ended September 30, 2014, compared with the same prior year period.

## Other Expense, Net

Other expense, net, was \$48,000 for the nine months ended September 30, 2014, versus \$14,000 for the same prior year period. The current period reflects approximately \$59,000 of expense related to a legal settlement and a net loss of approximately \$28,000 realized on the disposal of assets, offset by foreign currency transaction gains.

## Income Taxes

The Company recorded a net provision for income taxes of \$0 and of \$3,922,000 for the nine months ended September 30, 2014 and 2013, respectively. The provision is based on our estimated tax liability at the end of the year, including our assessment of the probability that we will be able to utilize our net operating losses and tax credits prior to expiration.

The Company maintains a full valuation allowance against its deferred tax assets under the provisions of ASC 740, Income Taxes, 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

Net loss for the nine-month period ended September 30, 2014, was (\$2,570,000) compared to (\$6,246,000) for the comparable period in 2013. The decrease in loss is primarily due to the 2013 increase in the valuation allowance of \$3,922,000 against the Company's deferred tax assets as of September 30, 2013, which did not recur in 2014, partially offset by the current year restructuring charge of \$444,000. Basic and diluted net loss per share for the nine-month periods ended September 30, 2014 and 2013, was (\$0.99) and (\$2.40), respectively.

## Liquidity and Capital Resources

Cash and cash equivalents decreased by \$1,687,000, from \$7,183,000 at December 31, 2013 to \$5,496,000 at September 30, 2014.

Cash used in operating activities was (\$1,094,000) for the nine months ended September 30, 2014, compared to (\$60,000) for the same period in 2013. The increase in cash used was due primarily to a net loss of (\$2,570,000), offset by depreciation and amortization of \$704,000, net working capital adjustments of \$471,000, including an increase in accrued warranty expense of \$273,000, stock-based compensation of \$213,000, and a decrease in other assets of \$88,000, for the nine months ended September 30, 2014, compared to a net loss of (\$6,246,000), which was offset by a deferred tax provision of \$3,922,000, net working capital adjustments of \$769,000, depreciation and amortization of 742,000, stock-based compensation of \$388,000 and a decrease in other assets of \$354,000, for the nine months ended September 30, 2013.

Cash used in investing activities for the nine months ended September 30, 2014 and 2013 was (\$912,000) and (\$351,000), respectively. The increase was primarily due to our acquisition of certain of Trilithic's filter product line assets for cash consideration of \$700,000 on January 31, 2014.

Cash provided by financing activities was \$319,000 for the nine months ended September 30, 2014, compared with cash used in financing activities of (\$302,000) for the comparable prior year period. The change was due primarily to a year over year increase in net repayments of (\$1,018,000), offset by the reduction in restricted cash of \$1,500,000 related to the August 29, 2014 termination of the Chase Revolving Loan on August 29, 2014.

At September 30, 2014, the Company's consolidated working capital was \$9,944,000, compared to \$12,446,000 at December 31, 2013. At September 30, 2014, the Company had current assets of \$13,689,000, current liabilities of \$3,745,000 and a ratio of current assets to current liabilities of 3.66 to 1.00. At December 31, 2013, the Company had current assets of \$16,954,000, current liabilities of \$4,508,000 and a ratio of current assets to current liabilities

of 3.76 to 1.00. Management continues to focus on efficiently managing working capital requirements to match operating activity levels.

On August 29, 2014, MtronPTI paid off and terminated its \$1.5 million revolving line of credit entered into on June 30, 2011, with JPMorgan Chase Bank, N.A. (the "Chase Revolving Loan"). The Chase Revolving Loan was scheduled to expire on September 30, 2014. The Chase Revolving Loan was secured by a \$1.5 million cash collateral deposit and by a general lien on all of MtronPTI's assets, both of which have been released. The Chase Revolving Loan was scheduled to expire on September 30, 2014.

Prior to the termination of the Chase Revolving Loan, management began an active search for alternative financing in order to obtain more favorable terms. On September 30, 2014, MtronPTI entered into a Loan Agreement, dated as of September 30, 2014, with City National Bank of Florida ("City National") (the "CNB Loan Agreement"). The CNB Loan Agreement provides for a revolving line of credit in the amount of \$3,000,000 (the "CNB Revolver"). The CNB Revolver bears interest at a variable rate equal to 30-day LIBOR plus two hundred (200) basis points to be set on the first day of each month.

The CNB Loan Agreement is secured only by cash collateral and does 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 \$3,000,000 to City National (the "CNB Revolving Promissory Note"). The CNB Cash Collateral Agreement provides that if there are amounts outstanding under the CNB Revolver, City National will hold cash collateral equal to the amounts outstanding under the CNB Revolver in a non-interest bearing deposit account. Provided that MtronPTI is not in default of any of its obligations under the CNB Loan Agreement, CNB Revolving Promissory Note or the CNB Cash Collateral Agreement, the funds deposited by MtronPTI under the CNB Cash Collateral Agreement are restricted only to the extent of the outstanding principal amount under the CNB Revolver.

Under the terms of the CNB Loan Agreement and the CNB Revolving Promissory Note, MtronPTI may borrow under the CNB Revolver until September 30, 2016, unless the term of the CNB Revolving Promissory Note is extended. The CNB Loan Agreement, CNB Revolving Promissory Note and 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, CNB Revolving Promissory Note and 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.

As of September 30, 2014, there was no balance outstanding under the CNB Revolver.

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 product 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 these reserves at September 30, 2014, 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:

The seller's price to the buyer is fixed or determinable at the date of sale;

The 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;

The buyer's obligation to the seller would not be changed in the event of theft or physical destruction or damage of the product;

The buyer acquiring the product for resale has economic substance apart from that provided by the seller;

The 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.

18

---

### Inventory Valuation

Inventories are stated at the lower of cost (based on a first-in, first-out method), and market value (net realizable 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, Income Taxes, 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 twenty 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.

#### Restructuring Charges

The Company accounts for restructuring activities in accordance with ASC 420, Exit or Disposal Cost Obligations. Under the guidance for the cost of restructuring activities that do not constitute a discontinued operation, the liability for the current fair value of expected future costs associated with such restructuring activity shall be recognized in the period in which the liability is incurred. The Company segregates the costs of restructuring activities taken pursuant to restructuring plans approved by management.

#### 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 September 30, 2014.

##### Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended September 30, 2014, there were no changes in the Company's internal control over financial reporting 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.	
21	

---

Item 6. Exhibits.

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

Exhibit

No.	Description
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).
10.1	Loan Agreement, dated 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).
10.2	Revolving Promissory Note, dated 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).
10.3	Cash Collateral Agreement, dated 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).
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**

\* Filed herewith

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Exchange Act and otherwise are not subject to liability under those sections.

+ Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a supplemental copy of the omitted schedules and exhibits to the SEC upon request.

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.

Date: November 14, 2014 By: /s/ Michael J. Ferrantino, Sr.  
Michael J. Ferrantino, Sr.  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 14, 2014 By: /s/ R. LaDuane Clifton  
R. LaDuane Clifton  
Chief Financial Officer  
(Principal Financial Officer)