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UNITED STATES
SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2006

Or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OF 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)

Indiana	38-1799862
(State or Other Jurisdiction of Incorporation or Organization)	I.R.S. Employer Identification No.)
140 Greenwich Avenue, 4th Floor, Greenwich, CT	06830
(Address of principal executive offices)	(Zip Code)

(203) 622-1150

Registrant's telephone number, including area code

(Former address, 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 |X| No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [x]

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

Yes [ ] No |X|

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practical date.

Class	Outstanding at September 30 ,2006
Common Stock, $0.01 par value	2,154,702

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THE LGL GROUP, INC. AND SUBSIDIARIES

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ITEM 1 -- FINANCIAL STATEMENTS

THE LGL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS -- UNAUDITED
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	September 30, 2006	December 31, 2005 (A)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,989	$ 5,512
Restricted cash (Note D)	650	650
Investments - marketable securities (Note E)	2,548	2,738
Accounts receivable, net of allowances of $715 and $325, respectively	8,701	7,451
Unbilled accounts receivable (Note H)	586	902
Inventories (Note F)	9,291	7,045
Deferred income taxes	111	111
Prepaid expense and other current assets	568	461
Total Current Assets	26,444	24,870
Property, Plant and Equipment		
Land	855	855
Buildings and improvements	5,770	5,767
Machinery and equipment	15,115	14,606
	21,740	21,228
Less: accumulated depreciation	(14,909)	(14,025)
Net Property, Plant and Equipment	6,831	7,203
Other assets	469	591
Total Assets	$ 33,744	$ 32,664
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to bank (Note G)	$ 3,403	$ 2,838
Trade accounts payable	3,408	2,900
Accrued warranty expense (Note H)	208	357
Accrued compensation expense	1,787	1,372
Accrued income taxes	391	673
Accrued professional fees	471	574
Margin liability on marketable securities	--	330
Other accrued expenses	1,017	1,312
Commitments and contingencies (Note L)	--	859
Customer advances	532	515
Current maturities of long-term debt (Note G)	879	1,215
Total Current Liabilities	12,096	12,945
Long-term debt (Note G)	4,423	5,031
Total Liabilities	16,519	17,976
Shareholders' Equity		
Common stock, $0.01 par value - 10,000,000 shares authorized; 2,188,510 shares issued; 2,154,702 shares outstanding	22	22
Additional paid-in capital	21,053	21,053
Accumulated deficit	(4,808)	(6,576)
Accumulated other comprehensive income (Note J)	1,604	835
Treasury stock, at cost, 33,808 shares	(646)	(646)
Total Shareholders' Equity	17,225	14,688
Total Liabilities and Shareholders' Equity	$ 33,744	$ 32,664

(A) The Balance Sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

THE LGL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS -- UNAUDITED
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
REVENUES	$ 13,038	$ 10,745	$ 38,275	$ 36,253
Cost and expenses:				
Manufacturing cost of sales	9,575	7,784	27,151	24,503
Selling and administrative	3,492	3,277	10,309	9,838
Lawsuit settlement provision	--	200	--	200
OPERATING PROFIT (LOSS)	(29)	(516)	815	1,712
Other income (expense):				
Investment income	711	583	1,229	600
Interest expense	(151)	(217)	(493)	(610)
Other income (expense)	(17)	(12)	(25)	68
	543	354	711	58
INCOME (LOSS) BEFORE INCOME TAXES	514	(162)	1,526	1,770
Income Tax Benefit	(389)	(858)	(242)	(327)
NET INCOME	$ 903	$ 696	$ 1,768	$ 2,097
Per Common Share:				
Basic weighted average shares outstanding	2,154,702	1,617,934	2,154,702	1,626,801
BASIC INCOME PER SHARE	$ 0.42	$ 0.43	$ 0.82	$ 1.29
Fully diluted weighted average shares outstanding	2,159,702	1,617,934	2,156,702	1,626,801
FULLY DILUTED INCOME PER SHARE:	$ 0.42	$ 0.43	$ 0.82	$ 1.29

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

THE LGL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS -- UNAUDITED
(IN THOUSANDS)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
OPERATING ACTIVITIES		
Net income	$ 1,768	$ 2,097
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	884	1,050
Provision for doubtful accounts receivable	390	--
Amortization of definite-lived intangible assets	82	85
Gain realized on sale of marketable securities	(1,171)	(567)
Gain on sale of fixed assets	--	(69)
Lawsuit settlement provision	--	200
Changes in operating assets and liabilities:		
Receivables	(1,324)	734
Inventories	(2,246)	1,494
Accounts payable and accrued liabilities	111	21
Commitments and contingencies	(859)	--
Other assets/liabilities	(67)	(2,161)
Net cash (used in) provided by operating activities	(2,432)	2,884
INVESTING ACTIVITIES		
Capital expenditures	(512)	(287)
Restricted cash	--	475
Proceeds from sale of marketable securities	2,113	1,348
Proceeds from sale of fixed assets	--	307
Net repayment of margin liability on marketable securities	(330)	(1,241)
Cash provided by investing activities	1,271	602
FINANCING ACTIVITIES		
Net (repayments) borrowings of notes payable	565	(2,462)
Repayment of long-term debt	(944)	(588)
Purchase of treasury stock	--	(156)
Other	17	(36)

Net cash used in financing activities	(362)	(3,242)
(Decrease) increase in cash and cash equivalents	(1,523)	244
Cash and cash equivalents at beginning of period	5,512	2,580
Cash and cash equivalents at end of period	$ 3,989	$ 2,824

SEE ACCOMPANYING NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. SUBSIDIARIES OF THE REGISTRANT

As of September 30, 2006, the Subsidiaries of the Registrant are as follows:

	Owned by LGL
Lynch Systems, Inc.	100.0%
M-tron Industries, Inc.	100.0%
M-tron Industries, Ltd.	100.0%
Piezo Technology, Inc.	100.0%
Piezo Technology India Private Ltd.	99.9%

The LGL Group, Inc. (the "Company") has two reportable business segments operating through three principal subsidiaries, M-tron Industries, Inc. ("Mtron"), Piezo Technology, Inc. ("PTI") and Lynch Systems, Inc. ("Lynch Systems"). The combined operations of Mtron and PTI are referred to herein as "Mtron/PTI."

B. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month period ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant Company and Subsidiaries Annual Report, as amended, on Form 10-K/A for the year ended December 31, 2005, filed with the Securities and Exchange Commission on May 18, 2006.

Certain amounts in 2005 have been reclassified to conform to 2006 classifications.

C. ACCOUNTING PRONOUNCEMENTS

On January 1, 2006 the Company adopted revised Statement of Financial Accounting Standards No. 123 ("SFAS No. 123-R"), "Share-Based Payments." SFAS No. 123-R impacts the Company's accounting for its stock option plan. The Company's stock options were fully vested at December 31, 2005 and there were no new options issued through the third quarter of 2006. On September 5, 2006, the Company issued 20,000 non-vested (restricted) shares of stock to two senior executives. Fifty percent of these shares become vested in September 2007 and the remainder, quarterly in December 2007, March, July, and September 2008. The Company has recognized the compensation expense related to the vested portion of these shares in the three months ended September 30, 2006, and the potential increase in the number of shares outstanding in accordance with the provisions of SFAS No. 123-R.

In July 2006, the FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"). This Interpretation provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This statement is

effective for fiscal years beginning after December 15, 2006. The Company will adopt this Interpretation in the first quarter of 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings. The Company is currently assessing the impact of this Interpretation on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements". This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value, and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that are already required or permitted by other accounting standards and does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning subsequent to November 15, 2007. The Company will adopt this Statement in the first quarter of 2008, and is currently evaluating the impact on its financial position and results of operations.

D. RESTRICTED CASH

At September 30, 2006 and December 31, 2005, the Company had $650,000 of Restricted Cash that secured a Stand-By Letter of Credit issued by Bank of America to the First National Bank of Omaha ("FNBO") as collateral for its Mtron subsidiary's loans. As of October, 16, 2006, the stand-by letter of credit is no longer in place and as of October 19, 2006 the restriction on the $650,000 on deposit at Bank of America was lifted.

E. INVESTMENTS

The following is a summary of marketable equity securities held by the Company (in thousands).

Equity Securities	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2006	$1,049	$1,499	--	$2,548
December 31, 2005	$1,991	$ 747	--	$2,738

The Company had a margin liability of $330,000 against this investment at December 31, 2005 which was settled upon the disposition of the related securities whose fair value is based on quoted market prices. The Company paid off the margin liability in January 2006. The Company had designated these investments as available for sale pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

FAIR VALUE OF FINANCIAL INSTRUMENTS - INTEREST RATE SWAP

On September 30, 2005, the Company entered into a 5-year interest rate swap to eliminate the interest rate exposure on the RBC Term Loan that is described in Note G (the "Swap"). This Swap eliminates the variability of cash flows for the interest payments for the variable-rate term loan by offsetting the changes in interest rate payments on the debt, with payments received, based on the same LIBOR base rate Because the critical terms (notional amount, interest rate reset dates, maturity/expiration date and underlying index) of the Swap and the term loan coincide, the hedge is expected to exactly offset changes in expected cash flows despite fluctuations in the LIBOR base rate over the term of the loan. The Company has designated the Swap as a cash-flow hedge. Accordingly, this Swap qualifies for the short-cut method and therefore changes in the fair value of the Swap are recorded in "Other Comprehensive Income." The fair value of the interest rate swap at September 30, 2006 is $20,000 or $13,500, net of income tax.

F. INVENTORIES

Inventories are stated at the lower of cost or market value. At September 30, 2006, inventories were valued by two methods: last-in, first-out ("LIFO") - 49.6%, and first-in, first-out ("FIFO") - 50.4%. At December 31, 2005, inventories were valued by the same two methods: LIFO - 52.2%, and FIFO - 47.8%.

	September 30 2006	December 31, 2005
	(in thousands)	
Raw materials	$3,178	$2,817
Work in process	4,138	2,232
Finished goods	1,975	1,996
Total Inventories	$9,291	$7,045

Current costs exceed LIFO value of inventories by $1,007,000 and $1,075,000 at September 30, 2006 and December 31, 2005, respectively.

G. NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt consists of:

	September 30 2006	December 31, 2005
Notes payable:	(in thousands)	

Mtron/PTI variable interest rate revolving credit facility, at greater of prime or 4.5%, due May 2007	$ 1,497	$ 2,082
Lynch Systems working capital revolving loan at one month LIBOR + 2.75%. 8.08% at September 30, 2006 and 7.06% at December 31, 2005), due January 2007	1,906	756
	$ 3,403	$ 2,838
Long-term debt:		
Lynch Systems term-loan, repaid in February 2006	$ --	$ 378
Mtron Term loan, variable rate at LIBOR plus 2.75% essentially converted to fixed rate 7.51% with interest rate swap, due October 2010	2,981	3,030
Mtron variable interest rate Term Loan, greater of prime plus 50 basis points, or 4.5%, due October 2007	1,370	1,612
Mtron commercial bank term loan at variable interest rate, due April 2007	. 279	456
Mtron loan from South Dakota Board of Economic Development at a fixed interest rate of 3.0%, due December 2007	252	262
Mtron loan from Yankton Areawide Business Council loan at a fixed interest rate of 5.5%, due November 2007	68	74
Mtron loan from Rice University Promissory Note at a fixed interest rate of 4.5%, due August 2009	223	275
Mtron loan from Smythe Estate Promissory Note at a fixed interest rate of 4.5% due August 2009	129	159
	5,302	6,246
Current maturities	(879)	(1,215)
	$ 4,423	$ 5,031

At September 30, 2006, the prime rate is 8.25% and at December 31, 2005 was 7.75%.

At September 30, 2006, Mtron/PTI's variable interest rate revolving loan provides for a line of credit in the maximum principal amount of $5.5 million, of which $4.0 million is unused and available. Borrowings under the loan agreement bear interest at the greater of prime or 4.5%. On October 3, 2006, Mtron/PTI renewed its credit agreement with FNBO extending the due date for the revolving credit facility to May 31, 2007. In addition, on October 3, 2006, Mtron/PTI entered into a third amendment to its FNBO Loan Agreement to allow the Company to loan Mtron/PTI up to $3 million. Mtron/PTI is allowed to invest the loan proceeds in accordance with its business expansion needs.

Effective October 6, 2005, Lynch Systems entered into a variable interest rate revolving loan agreement with Branch Banking & Trust ("BB&T"), providing for a line of credit in the maximum principal amount of $3.5 million (the "BB&T Loan Agreement"). At September 30, 2006, there were no outstanding Letters of Credit and $1.6 million was unused and available under the line of credit. This line of credit replaced the working capital revolving loan that Lynch Systems had with SunTrust Bank, which expired by its terms on September 30, 2005. Borrowings under the loan agreement bear interest at the one month LIBOR Rate plus 2.75% and accrued interest is payable on a monthly basis, with the principal balance due to be paid on the first anniversary of the loan agreement. On October 4, 2006 the permitted borrowing capacity under this Line of Credit was reduced to $2 million, and the remainder can be used for letters of credit. The loan was extended to January 29, 2007.

The BB&T Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including those relating to reporting requirements, maintenance of records, properties and corporate existence, compliance with laws, incurrence of other indebtedness and liens, restrictions on certain payments and transactions and extraordinary corporate events. The BB&T Loan Agreement also contains financial covenants relating to maintenance of levels of minimal tangible net worth, a debt to worth ratio, and restricting the amount of capital expenditures. In addition, the BB&T Loan Agreement provides that the following will constitute events of default there under, subject to certain grace periods: (i) payment defaults; (ii) failure to meet reporting requirements; (iii) breach of other obligations under the BB&T Loan Agreement; (iv) default with respect to other material indebtedness; (v) final judgment for a material amount not discharged or stayed; and (vi) bankruptcy or insolvency. The Company was in compliance with all financial covenants at September 30, 2006 except at Lynch Systems with regard to the covenant to maintain tangible net worth at or above $4,450,000. On September 30, 2006, [Lynch System's] tangible net worth was $4,308,000. The Company has received a waiver from BB&T for the non-compliance.

During 2005, the Company executed various amendments and extensions with one of Lynch Systems' commercial lenders, SunTrust. As a result, certain required repayments were made on amounts owed to SunTrust, and the expiring working capital loan was not renewed. Additionally, it was agreed that the Company's remaining obligation to SunTrust, a $378,000 term note would be payable on March 1, 2006. This amount was repaid in full in February 2006.

On September 30, 2005, Mtron/PTI entered into a Loan Agreement with RBC Centura Bank ("RBC"). The Loan Agreement provides for a loan in the amount of $3,040,000 ("RBC Term Loan"), the proceeds of which were used to pay off the $3,000,000 bridge loan with First National Bank of Omaha ("FNBO") which had been due October 2005. The RBC Term Loan bears interest at LIBOR Base Rate plus 2.75% and is to be repaid in monthly installments based on a twenty year amortization, with the then remaining principal balance to be paid on the fifth anniversary. The RBC Term Loan is secured by a mortgage on PTI's premises. In connection with this RBC Term Loan, Mtron/PTI entered into a five-year interest rate swap to hedge the variable interest rate volatility. Under the terms of the interest rate swap, the variable interest rate RBC Term Loan is essentially converted to a 7.51% fixed rate loan. The Company has designated this swap as a cash flow hedge in accordance with FASB 133 "Accounting for Derivative Instruments and Hedging Activities". The fair value of the interest rate swap at September 30, 2006 is $20,000, or $13,500, net of related income taxes.

In connection with the completion of the acquisition of PTI, on October 14, 2004, Mtron and PTI had entered into a Loan Agreement with First National Bank of Omaha. The Loan Agreement provided for loans in the amounts of $2,000,000

(the "Term Loan") and $3,000,000 (the "Bridge Loan"), in addition to the $5,500,000 Revolving Line of Credit discussed above. The Term Loan bears interest at the greater of prime rate plus 50 basis points, or 4.5%, and is to be repaid in monthly installments of $37,514, with the then remaining principal balance plus accrued interest to be paid on the third anniversary of the Loan Agreement. The Bridge Loan was repaid in 2005 from proceeds received from the RBC Term Loan, as discussed above. The Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility. The Loan Agreement also contains financial covenants relating to maintenance of levels of minimal tangible net worth and working capital, and current, leverage and fixed charge ratios, restricting the amount of capital expenditures.

Lynch Systems and Mtron/PTI maintain their own short-term line of credit facilities. In general, the credit facilities are secured by property, plant and equipment, inventory, receivables and common stock of certain subsidiaries and contain certain covenants restricting distributions to the parent company. Lynch Systems' credit facility includes an unsecured parent company guarantee.

The Company has guaranteed a letter of credit issued to the First National Bank of Omaha ("FNBO") on behalf of its subsidiary, Mtron Industries, Inc. The Letter of Credit is secured by a $650,000 restricted deposit at Bank of America and is classified as restricted cash on the balance sheet. As of October, 16, 2006, the letter of credit is no longer in place and as of October 19, 2006, the restriction on the $650,000 on deposit at Bank of America was lifted. In addition, on October 3, 2006, Mtron/PTI entered into a third amendment to its FNBO Loan Agreement to allow the Company to loan Mtron/PTI up to $3 million. Mtron/PTI under this amendment would be allowed to invest the proceeds in accordance with its business expansion needs. On October 3, 2006, Mtron/PTI renewed its credit agreement with FNBO extending the due date for the revolving credit facility to May 31, 2007.

H LONG-TERM CONTRACTS AND WARRANTY EXPENSE

Lynch Systems, a 100% wholly-owned subsidiary of the Company, is engaged in the manufacture and marketing of glass-forming machines and specialized manufacturing machines. Certain sales contracts require an advance payment (usually 30% of the contract price) which is accounted for as a customer advance. The contractual sales prices are paid either (i) as the manufacturing process reaches specified levels of completion or (ii) based on the shipment date or (iii) negotiated terms of sale. Guarantees by letter of credit from a qualifying financial institution are required for most sales contracts. Because of the specialized nature of these machines and the period of time needed to complete production and shipping, Lynch Systems accounts for these contracts using the percentage-of-completion accounting method as costs are incurred compared to total estimated project costs (cost-to-cost basis). At September 30, 2006 unbilled accounts receivable was $586,000 and at December 31, 2005, it was $902,000.

Lynch Systems provides a full warranty to world-wide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year to thirteen months. Based upon experience, the warranty accrual is based upon three to five percent of the selling price of the machine. The Company periodically assesses the adequacy of the reserve and adjusts the amounts as necessary.

	(in thousands)
Balance, December 31, 2005	$ 357
Warranties issued during the period	168
Settlements made during the period	(317)
Balance, September 30, 2006	$ 208

I. EARNINGS PER SHARE AND STOCKHOLDERS' EQUITY

The Company's basic and fully diluted earnings per share were equal as of

September 30, 2005, however the Company increased its fully diluted shares outstanding, to account for the unvested portion of restricted stock referred to below.

Prior to January 1, 2006, the Company accounted for their 2001 Equity Incentive Plan ("the Plan") under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company has provided pro forma disclosures of the compensation expense determined under the fair value provisions of SFAS No. 123R, "Accounting for Stock-Based Compensation."

On May 26, 2005, the Company's shareholders approved amendments to the Plan to increase the total number of shares of the Company's Common Stock available for issuance from 300,000 to 600,000 shares and to add provisions that require terms and conditions of awards to comply with section 409A of the Internal Revenue Code of 1986. Also on May 26, 2005, the Company granted options to purchase 120,000 shares of Company common stock to certain employees and directors of the Company at $13.17 per share. These options were anti-dilutive and expire on May 26, 2010. On December 10, 2001, the Company had granted options to purchase 180,000 shares of Company common stock to a director of the Company at $17.50 per share. As of September 30, 2006, options to purchase these 300,000 shares are outstanding and fully vested.

For purposes of pro forma disclosures under SFAS No. 123R, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	Three Months Ended September 30, 2005 (in thousands, except per Share amounts)	Nine Months Ended September 30, 2005 (in thousands, except per Share amounts)
Net income as reported	$ 696	$ 2,097
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effect	--	(222)
Pro-forma net income	$ 696	$ 1,875
Basic and fully diluted income per share:		
As reported	$ 0.43	$ 1.29
Pro forma	$ 0.43	$ 1.15

On September 5, 2006, the Company issued 20,000 non-vested (restricted) shares of stock to two senior executives. Fifty percent of these shares become vested in September 2007 and the remainder, quarterly, December 2007, March, July, and September 2008. The Company has recognized the compensation expense and the potential increase in the number of shares outstanding in accordance with the provisions of SFAS No. 123-R.

J. ACCUMULATED OTHER COMPREHENSIVE INCOME

Total comprehensive income was $952,000 and $2.5 million and in the three months and nine months ended September 30, 2006, respectively, compared to total comprehensive income of $684,000 and $2.4 million respectively, in the three and nine month periods ended September 30, 2005.

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net income as reported	$ 903	$ 696	$ 1,768	$ 2,097
Foreign currency translation	(33)	(71)	3	(37)
Deferred gain on hedge contract	(38)	--	14	--
Unrealized gain on available for sale securities	120	59	752	292
Total comprehensive income	$ 952	$ 684	$ 2,537	$ 2,352

The components of accumulated other comprehensive income, net of related tax, at September 30, 2006, and December 31, 2005 are as follows:

	9 Months Ended September 30,	December 31,	9 Months Ended September 30,

	2006	2005	2005
Balance beginning of period	$ 835	$ 849	$ 849
Foreign currency translation	3	75	(37)
Deferred gain (loss) on hedge contract	15	(1)	--
Unrealized gain on available for-sale securities	751	(88)	292
Accumulated other comprehensive income	$ 1,604	$ 835	$ 1,104

K. SEGMENT INFORMATION

The Company has two reportable business segments: 1) glass manufacturing equipment business, which represents the operations of Lynch Systems and 2) frequency control devices (quartz crystals and oscillators) which represents products manufactured and sold by Mtron/PTI. The Company's foreign operations in Hong Kong and India are under the control of Mtron/PTI.

Operating profit (loss) is equal to revenues less operating expenses, excluding investment income, interest expense, and income taxes. The Company allocates a negligible portion of its general corporate expenses to its operating segments. Such allocation was $125,000 in the three months ending September 30, 2006 and 2005, respectively. Identifiable assets of each industry segment are the assets used by the segment in its operations excluding general corporate assets. General corporate assets are principally cash and cash equivalents, short-term investments and certain other investments and receivables.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
REVENUES				
Glass manufacturing equipment - USA	$ 230	$ 394	$ 1,145	$ 1,460
Glass manufacturing equipment - Foreign	1,766	1,358	5,766	8,567
Total Glass manufacturing equipment	1,996	1,752	6,911	10,027
Frequency control devices - USA	$ 5,622	$ 5,303	$ 15,493	$ 14,994
Frequency control devices - Foreign	5,420	3,690	15,871	11,232
Total Frequency control devices	11,042	8,993	31,364	26,226
Consolidated total revenues	$ 13,038	$ 10,745	$ 38,275	$ 36,253
OPERATING PROFIT (LOSS)				
Glass manufacturing equipment	$ (311)	$ (518)	$ (922)	$ 1,330
Frequency control devices	686	540	2,788	1,757
Total manufacturing	375	22	1,866	3,087
Unallocated Corporate expense	(404)	(538)	(1,051)	(1,375)
Consolidated total operating profit (loss)	$ (29)	$ (516)	$ 815	$ 1,712
OTHER PROFIT (LOSS)				
Investment income	$ 711	$ 583	$ 1,229	$ 600
Interest expense	(151)	(217)	(493)	(610)
Other income (expense)	(17)	(12)	(25)	68
Consolidated total profit before taxes	$ 514	$ (162)	$ 1,526	$ 1,770
CAPITAL EXPENDITURES				
Glass manufacturing equipment	$ 1	$ --	$ 15	$ 16
Frequency control devices	174	100	497	270
General Corporate	--	--	1	
Consolidated total capital expenditures	$ 175	$ 100	$ 512	$ 287
TOTAL ASSETS				
Glass manufacturing equipment			$ 8,549	$ 9,176
Frequency control devices			22,196	16,688
General Corporate			2,999	4,323
Consolidated total assets			$ 33,744	$ 30,187

For the significant three and nine months ended September 30, 2006 and September 30, 2005, significant foreign revenues (10% or more of foreign sales by segment) were as follows:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
GLASS MANUFACTURING EQUIPMENT - FOREIGN REVENUES				
Brazil	$1,172	$ 210	$2,865	$ 226
Democratic Republic of the Congo	--	--	385	385
China	296	765	805	5,191
Pakistan	--	--	306	--
Indonesia	33	81	142	1,082
All other foreign countries	265	302	1,263	1,683
Total foreign revenues	$1,766	$1,358	$5,766	$8,567

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
FREQUENCY CONTROL DEVICES - FOREIGN REVENUES				
China	$ 1,175	$ 1,054	$ 3,241	$ 2,484
Malaysia	1,187	595	2,525	1,927
Canada	967	731	3,117	2,435
Thailand	494	289	1,678	608
Mexico	523	425	1,167	1,550
All other foreign countries	1,074	596	4,143	2,228
Total foreign revenues	$ 5,420	$ 3,690	$15,871	$11,232

"All other foreign countries" include countries with less than 10% of total foreign revenues for each segment

L. COMMITMENTS AND CONTINGENCIES

In the normal course of business, subsidiaries of the Company are defendants in certain product liability, worker claims and other litigation in which the amounts being sought may exceed insurance coverage levels. The resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or operations. In addition, the Company and/or one or more of its subsidiaries were parties to the following additional legal proceedings.

QUI TAM LAWSUIT

The Company, Lynch Interactive and numerous other parties were named as defendants in a lawsuit originally brought under the so-called "qui tam" provisions of the federal False Claims Act in the United States District Court for the District of Columbia. The main allegation in the case is that the defendants participated in the creation of "sham" bidding entities that allegedly defrauded the United States Treasury by improperly participating in Federal Communications Commission ("FCC") spectrum auctions restricted to small businesses, as well as obtaining "bidding credits" in other spectrum auctions allocated to "small" and "very small" businesses. In May 2006, a tentative settlement was reached pursuant to which the defendants agreed to pay the government $130 million, plus approximately $8.7 million to relator's counsel as legal fees and expenses. In June 2006, the defendants reached a tentative agreement allocating the above-mentioned settlement amounts among themselves; however, the Company did not have to make any payments under such allocations. In July 2006, the definitive settlement agreements with the government and the

relator were signed and approved by the federal judge hearing the case, and the case was dismissed with prejudice in August 2006. In entering into the settlement agreements, the Company admitted no liability and the conduct giving rise to the case is expressly excluded as a basis for any future administrative proceedings by the FCC.

For a historical chronology of the case, please refer to the Company's prior SEC filings.

M. INCOME TAXES

The Company files consolidated federal income tax returns, which includes all U.S. subsidiaries. The Company has a $2,404,000 net operating loss ("NOL") carry-forward as of December 31, 2005. This NOL expires through 2024 if not utilized prior to that date. For the three and nine month period ended September 30, 2006 and 2005, the Company has reported a net income tax benefit. For these periods, the net benefit is the result of foreign income tax provisions on the Company's Hong Kong and India operations which were more than offset by the reversal of income tax related reserves, in the third quarter of 2006 and 2005, which were no longer warranted. The Company continues to utilize net operating loss carry-forwards to offset federal income tax expense on the Company's profitable U.S. operations."

N. GUARANTEES

The Company guarantees (unsecured) the BB&T loan of its subsidiary, Lynch Systems. The Company had guaranteed an unsecured loan of Lynch Systems, which loan was repaid in February 2006. At September 30, 2006, the Company had guaranteed the FNBO loans of its subsidiary, Mtron, and had guaranteed a letter of credit issued to FNBO which had been secured by a $650,000 restricted deposit at Bank of America. (see Note G - "Notes Payable to Banks and Long-term Debt"). As of October, 16, 2006, the stand-by letter of credit is no longer in place and as of October 19, 2006, the restriction on the $650,000 on deposit at Bank of America was lifted.

There was no other financial, performance, indirect guarantees or indemnification agreements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The Company has identified the accounting policies listed below that we believe are most critical to our financial condition and results of operations, and that require management's most difficult, subjective and complex judgments in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 1 to the Consolidated Financial Statements, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, which includes other significant accounting policies.

ACCOUNTS RECEIVABLE

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 except at Lynch Systems. In relation to export sales, the Company requires letters of credit supporting a significant portion of the sales price prior to production to limit exposure to credit risk. Certain subsidiaries and business segments have credit sales to industries that are subject to cyclical economic changes. The Company maintains an allowance for doubtful accounts at a level that management believes is sufficient to cover potential credit losses.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. We base our estimates on our historical collection experience, current trends, credit policy and relationship of our accounts receivable and revenues. In determining these estimates, we examine historical write-offs of our receivables and review each

client's account to identify any specific customer collection issues. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Our failure to estimate accurately the losses for doubtful accounts and to ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition, and results of operations.

INVENTORY VALUATION

Inventories are stated at the lower of cost or market value. Inventories valued using the LIFO method comprised approximately 49.6% of consolidated inventories at September 30, 2006 and 52.2% at December 31, 2005, respectively. The balance of inventories is valued using the FIFO method. If actual market conditions are more or less favorable than those projected by management, including the demand for our products, changes in technology, internal labor costs and the costs of materials, adjustments may be required.

REVENUE RECOGNITION AND ACCOUNTING FOR LONG-TERM CONTRACTS

Revenues, with the exception of certain long-term contracts discussed below, are recognized upon shipment when title passes. Shipping costs are included in manufacturing cost of sales.

Lynch Systems, a 100% owned subsidiary of the Company, is engaged in the manufacture and marketing of glass-forming machines and specialized manufacturing machines. Certain sales contracts require an advance payment (usually 30% of the contract price) which is accounted for as a customer advance. The contractual sales prices are paid either (i) as the manufacturing process reaches specified levels of completion; or (ii) based on the shipment date; or (iii) negotiated terms of sale. Guarantees by Letter of Credit from a qualifying financial institution are required for most sales contracts. Because of the specialized nature of these machines and the period of time needed to complete production and shipping, Lynch Systems accounts for these contracts using the percentage-of-completion accounting method as costs are incurred compared to total estimated project costs (cost-to-cost basis). At September 30, 2006, and December 31, 2005, unbilled accounts receivable were $586,000 and

$902,000, respectively.

The percentage of completion method is used since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made, based on historical experience and milestones set in the contract. These estimates include current customer contract specifications, related engineering requirements and the achievement of project milestones. Financial management maintains contact with project managers to discuss the status of the projects and, for fixed-price engagements, financial management is updated on the budgeted costs and required resources to complete the project. These budgets are then used to calculate revenue recognition and to estimate the anticipated income or loss on the project. In the past, we have occasionally been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated profitability or losses on those contracts. Favorable changes in estimates result in additional profit recognition, while unfavorable changes in estimates result in the reversal of previously recognized earnings to the extent of the error of the estimate. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

WARRANTY EXPENSE

Lynch Systems provides a full warranty to world-wide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year or thirteen months. Based upon experience, the warranty accrual is based upon three to five percent of the selling price of the machine. The Company periodically assesses the adequacy of the reserve and adjusts the amounts as necessary.

RESULTS OF OPERATIONS

THIRD QUARTER

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2005

CONSOLIDATED REVENUES AND GROSS MARGIN

Consolidated revenues for the third quarter 2006 were $13.0 million, an increase of $2.3 million or 21.5% over the revenues for the same quarter 2005. The increase was caused primarily by improved sales of filters and resonators at Mtron/PTI. Revenues at Mtron/PTI were $11.0 million for the third quarter 2006, compared to $9.0 over the same quarter prior year. Revenues at Lynch Systems were $2.0 million for the third quarter 2006, compared with $1.8 million for the third quarter of 2005.

The consolidated gross margin as a percentage of revenues for the third quarter decreased slightly to 26.6%, compared to 27.6% for the comparable period in 2005. Mtron/PTI's gross margin as a percentage of revenues for the third quarter decreased to 27.4% from 29.2% for the comparable period in 2005. Lynch Systems' gross margin as a percentage of revenues for the third quarter declined to 21.8%, from 24.7% for the comparable period in 2005, because of lower sales of spare parts which earn higher margins.

OPERATING PROFIT (LOSS)

Consolidated operating loss decreased $487,000, to a $29,000 loss for the third quarter 2006 from a $516,000 loss for the comparable period in 2005. Operating profit at Mtron/PTI was $686, 000 for the third quarter 2006 compared to $540, 000 for the comparable period in 2005 primarily due to a 23% increase in revenues. Operating loss at Lynch Systems was $311,000 for the third quarter 2006 as compared with a $518,000 loss for the comparable period in 2005 partly due to lower overhead expenses and provisions taken in 2005 for doubtful accounts. Corporate expenses were $404,000 for the third quarter 2006 as compared with $538,000 for the comparable period in 2005, due to a non-recurring reserve for a lawsuit settlement of $200,000 in September 2005.

OTHER INCOME (EXPENSE)

Investment income was $711,000 for the third quarter 2006 due to gains on sales of marketable securities. This compares to $583,000 for the third quarter of 2005. Interest expense for the third quarter 2006 was $151,000 versus $217,000 in the comparable quarter of 2005 due to an overall reduction in debt.

INCOME TAXES

The Company files consolidated federal income tax returns, which includes all U.S. subsidiaries. The income tax provision for the three and nine month period ended September 30, 2006 included federal, state and foreign taxes. The income tax benefit for the quarter was $389,000. The income tax benefit included a non-recurring reduction to an income tax reserve of $504,000. The provision was increased during the quarter by a $115,000 provision for foreign and state income taxes relating to the quarter.

NET INCOME

Net income was $903,000 for the third quarter 2006, compared to $696,000 for the comparable period in 2005. Fully diluted income per share for the third quarter 2006 was $0.42 compared to $0.43 per share for the comparable period in 2005, due to an increase in the weighted average shares outstanding.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO SEPTEMBER 30, 2005

CONSOLIDATED REVENUES AND GROSS MARGIN

Consolidated revenues for the nine month period ending September 30, 2006 increased $2.0 million, or 5.6%, to $38.3 million from $36.3 million for the comparable period in 2005. Revenues at Mtron/PTI increased by $5.2 million, or 19.6%, to $31.4 million for the nine month period ending September 30, 2006 from $26.2 million for the comparable period in 2005. The increase was primarily due to a strengthening of the foreign market. Revenues at Lynch Systems decreased by $3.1 million, or 31.1%, to $6.9 million for the nine month period ending September 30, 2006 from $10.0 million for the comparable period in 2005 due to a reduction in sales of CRT machines.

The consolidated gross margin as a percentage of revenues for the nine month period ending September 30, 2006 decreased to 29.1%, compared to 32.4% for the comparable period in 2005. Mtron/PTI's gross margin as a percentage of revenues for the nine month period ending September 30, 2006 increased to 30.3% from 29.4% reflecting a slightly improved sales mix. Lynch Systems' gross margin as a percentage of revenues for the nine month period ending September 30, 2006 decreased to 23.3% from 40.4% for the comparable period in 2005, due to lower CRT machine revenue and a decline in higher margin spare parts sales.

OPERATING PROFIT (LOSS)

Consolidated operating profit decreased $897,000, to $815,000 for the nine month period ended September 30, 2006 from an operating profit of $1.7 million for the comparable period in 2005. Operating profit at Mtron/PTI increased $1.0 million to $2.8 million for the nine month period ended September 30, 2006 from $1.8 million for the comparable period in 2005 because of a 19.6% increase in sales. Operating profit at Lynch Systems decreased $2.2 million to a loss of $922,000 for the nine month period ended September 30, 2006 from a $1.3 million profit for the comparable period in 2005, due to a 31.1% decline in revenues. Corporate expenses decreased $324,000 or 23.1% to $1.1 million for the nine month period ending September 30, 2006 from $1.4 million for the comparable period in 2005. The lower expenses at Corporate were primarily due to the absence of a lawsuit settlement provision of $200,000 and lower audit and legal expenses.

OTHER INCOME (EXPENSE)

Investment income was $1.2 million for the nine month period ended September 30, 2006, up 104.8% from the comparable period in 2005 due to realized gain on sales of marketable securities. Interest expense, net of interest income, decreased $117,000 or 19.2% to $493,000 for the nine month period ended September 30, 2006 from $610,000 for the comparable period in 2005 due to a decrease in the total debt level and an increase in interest income at corporate as a result of more cash in the bank.

INCOME TAXES

The Company files consolidated federal income tax returns, which includes all U.S. subsidiaries. The income tax benefit for the nine month period ended September 30, 2006 was $242,000. The income tax benefit included a non-recurring reduction to an income tax reserve of $504,000. The provision was increased during the period by a $262,000 provision for foreign and state taxes identified during the period.

NET INCOME

Net income for the nine months ended September 30, 2006 was $1.8 million compared to $2.1 million in the comparable period in 2005. Fully diluted income per share for the nine month period ended September 30, 2006 was $0.82 per share compared to $1.29 per share for the comparable period in 2005 due to lower net income and the increase in the weighted average shares outstanding from 1.6 million to 2.2 million.

BACKLOG/ NEW ORDERS

Total backlog of manufactured products at September 30, 2006 was $13.7 million, $638,000 more than the backlog at September 30, 2005, which was $13.1 million. The September 30, 2006 back log is $152,000 less than the backlog at December 31, 2005.

Mtron/PTI had backlog orders of $8.9 million at September 30, 2006, which was unchanged from December 31, 2005 and a $688,000 increase from September 30, 2005. Lynch Systems has backlog orders of $4.8 million at September 30, 2006, compared to $4.9 million at December 31, 2005 and at September 30, 2005.

FINANCIAL CONDITION

The Company's cash, cash equivalents and investments in marketable securities at September 30, 2006 was $7.2 million as compared to $8.9 million at December 31, 2005 (including $650,000 of restricted cash in both periods). In addition, the Company had borrowing capacity of $4.1 million under Lynch Systems' and Mtron/PTI's revolving lines of credit at September 30, 2006, as compared to $5.3 million at December 31, 2005.

At September 30, 2006, the Company's net working capital was $14.3 million as compared to $12.0 million at December 31, 2005. At September 30, 2006, the Company had current assets of $26.4 million and current liabilities of $12.1 million. At December 31, 2005, the Company had current assets of $24.9 million and current liabilities of $12.9 million. The ratio of current assets to current liabilities was 2.18 to 1.00 at September 30, 2006, compared to 1.93 to 1.00 at December 31, 2005. The increase in net working capital was primarily due to realized and unrealized gains on marketable securities.

Cash used in operating activities was $2.4 million for the nine months ended September 30, 2006, compared to cash provided by operating activities of $2.9 million for the nine months ended September 30, 2005. The year to year unfavorable change in operating cash flow of $5.3 million was primarily due to payments relating to a litigation settlement in the first quarter 2006 and increases in receivables and inventories. The Company and United Steel workers of America Local 1069, formerly known as PACE Local 1-1069 reached a settlement of their severance pay litigation, which arose out of the July 2001 closure of the Spinnaker-Maine manufacturing plant in Westbrook, Maine. The settlement includes payment of a total of $800,000 to resolve the claims of 67 workers who lost their jobs in 2001. Capital expenditures were $512,000 in the nine months ended September 30, 2006, compared to $287,000 for the comparable period in 2005.

At September 30, 2006, the Company had $3.4 million in notes payable to First National Bank of Omaha and BB&T. The FNBO Note is a revolving credit facility note borrowed by Mtron/PTI for $1.5 million due in May, 2007. The BB&T Note is a Lynch Systems working capital revolver for $1.9 million which is due in January 2007. The Company intends to renew these facilities with the existing banks, however, there can be no assurances the existing facilities will continue to be renewed. At September 30, 2006, the Company also had $879,000 in current maturities of long-term debt. The Company believes that existing cash and cash equivalents, cash generated from operations and available borrowings under its subsidiaries' lines of credit, including the proposed renewals, will be sufficient to meet its ongoing working capital and capital expenditure requirements for the foreseeable future.

At September 30, 2006, total debt of $8.7 million was $379,000 less than the total debt at December 31, 2005 of $9.1 million. The debt decreased at both Mtron/PTI and Lynch Systems due to repayments of revolving debt, repayment of the SunTrust term loan, and scheduled payments on long-term debt.

The Company is in compliance with all financial covenants at September 30, 2006 except with regard to the covenant to maintain tangible net worth at or above $4,450,000. On September 30, 2006 the Company's tangible net worth was $4,308,000. A waiver was received from BB&T.

In connection with the completion of the acquisition of PTI, on October 14, 2004, Mtron and PTI, each wholly-owned subsidiaries of the Company, entered into a Loan Agreement with FNBO. The Loan Agreement provided for loans in the amounts of $2,000,000 (the "Term Loan") and $3,000,000 (the "Bridge Loan"), together with a $5,500,000 Revolving Line of Credit (the "Revolving Loan"). The Term Loan bears interest at the greater of prime rate plus 50 basis points, or 4.5%, and is to be repaid in monthly installments of $37,514, with the then remaining principal balance plus accrued interest to be paid on the third anniversary of the Loan Agreement. The Bridge Loan was repaid in 2005 from proceeds received from the RBC Term Loan. The Revolving Loan was renewed on June 30, 2005 as previously discussed. The Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility. The Loan Agreement also contains financial covenants relating to maintenance of levels of minimal tangible net worth and working capital, and current, leverage and fixed charge ratios, restricting the amount of capital expenditures.

The Company has guaranteed a letter of credit issued to the First National Bank of Omaha on behalf of its subsidiary, Mtron as collateral for its Mtron's loans. As of September 30, 2006, the $650,000 letter of credit issued by Bank of America to The First National Bank of Omaha was secured by a $650,000 deposit at Bank of America. As of October 16, 2006, the stand-by letter of credit is no longer in place and, as of October 19, 2006, the restriction on the $650,000 on deposit at Bank of America was lifted.

As of September 30, 2006, the Company has a total of $2,500,000 of subordinated promissory notes issued from Mtron/PTI.

At September 30, 2006, Mtron/PTI's short-term credit facility provides for a line of credit in the maximum principal amount of $5.5 million of which $4.0 million was available under the line of credit. On October 3, 2006, Mtron/PTI renewed its credit agreement with FNBO extending the due date for the revolving credit facility to May 31, 2007. On October 3, 2006, Mtron/PTI renewed its credit agreement with FNBO extending the due date for the revolving credit facility to May 31, 2007. In addition, on October 3, 2006, Mtron/PTI entered into a third amendment to its FNBO Loan Agreement to allow the Company to loan Mtron/PTI up to $3 million Mtron/PTI under this amendment would be allowed to invest the proceeds in accordance with its business expansion needs

Effective October 6, 2005, Lynch Systems entered into a variable interest rate revolving loan agreement with BB&T, providing for a line of credit in the maximum principal amount of $3.5 million. At September 30, 2006, there were no outstanding Letters of Credit and $1.6 million was unused and available under the line of credit. This line of credit replaced the working capital revolving loan that Lynch Systems had with SunTrust Bank, which expired by its terms on September 30, 2005. Borrowings under the loan agreement bear interest at the one month LIBOR Rate plus 2.75% and accrued interest is payable on a monthly basis, with the principal balance due to be paid on the first anniversary of the loan agreement. On October 14, 2006 the permitted borrowing capacity under this Line of Credit was reduced to $2 million, and the remainder can be used for letters of credit. The loan was extended to January 29, 2007.

During 2005, the Company executed various amendments and extensions with one of Lynch Systems' commercial lenders, SunTrust. As a result, certain required repayments were made on amounts owed to SunTrust, and the expiring working capital loan was not renewed. Additionally it was agreed that the Company's remaining obligation to SunTrust, a $378,000 term note would be payable on March 1, 2006. This amount was repaid in full in February 2006.

On September 30, 2005, Mtron/PTI entered into a Loan Agreement with RBC Centura Bank ("RBC"). The Loan Agreement provides for a loan in the amount of $3,040,000 (the "RBC Term Loan"), the proceeds of which were used to pay off the $3,000,000 bridge loan with First National Bank of Omaha which had been due October 2005. The RBC Term Loan bears interest at LIBOR Base Rate plus 2.75% and is to be repaid in monthly installments based on a twenty year amortization, with the then remaining principal balance to be paid on the fifth anniversary. The RBC Term Loan is secured by a mortgage on PTI's premises. In connection with this RBC Term Loan, Mtron/PTI entered into a five-year interest rate swap to

hedge the variable interest rate volatility. Under the terms of the interest rate swap, the variable interest rate RBC Term Loan will be essentially converted to a 7.51% fixed rate loan. The Company has designated this swap as a cash flow hedge in accordance with FASB 133 "Accounting for Derivative Instruments and Hedging Activities". The fair value of the interest rate swap at September 30, 2006 is $20,000, which is included in "Other Current Assets" or $13,500, net of related income taxes, which is included in "Other Comprehensive Income."

The BB&T Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including those relating to reporting requirements, maintenance of records, properties and corporate existence, compliance with laws, incurrence of other indebtedness and liens, restrictions on certain payments and transactions and extraordinary corporate events. The BB&T Loan Agreement also contains financial covenants relating to maintenance of levels of minimal tangible net worth, a debt to worth ratio, and restricting the amount of capital expenditures. In addition, the BB&T Loan Agreement provides that the following will constitute events of default thereunder, subject to certain grace periods: (i) payment defaults; (ii) failure to meet reporting requirements; (iii) breach of other obligations under the BB&T Loan Agreement; (iv) default with respect to other material indebtedness; (v) final judgment for a material amount not discharged or stayed; and (vi) bankruptcy or insolvency.

The Board of Directors has adopted a policy of not paying cash dividends, a policy which is reviewed annually. This policy takes into account the long-term growth objectives of the Company, especially in its acquisition program, shareholders' desire for capital appreciation of their holdings and the current tax law disincentives for corporate dividend distributions. Accordingly, no cash dividends have been paid since January 30, 1989 and none are expected to be paid in 2006. (See Note G to the Condensed Consolidated Financial Statements - "Notes Payable to Banks and Long-term Debts" - for restrictions on the company's assets).

ACCOUNTING PRONOUNCEMENTS

On January 1, 2006 the Company adopted SFAS No. 123-R, "Share-Based Payments." SFAS No. 123-R impacts the Company's accounting for its stock option plan. Because all of the Company's stock options were fully vested at December 31, 2005 and there were no new options issued in the first three quarters of 2006, there was no impact on the Company's 2006 financial statements from the adoption of this standard. On September 5, 2006, the Company issued 20,000 non-vested (restricted) shares of stock to two senior executives. Fifty percent of these shares become vested in September 2007 and the remainder, quarterly, in December 2007, March, July, and September 2008. The Company has recognized the compensation expense and the potential increase in the number of shares outstanding in accordance with the provisions of SFAS No. 123-R

In July 2006, the FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes - An interpretation of FASB Statement No. 109" ("FIN 48"). This Interpretation provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company will adopt this Interpretation in the first quarter of 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings. The Company is currently assessing the impact of this Interpretation on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements." This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value, and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that are already required or permitted by other accounting standards and does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning subsequent to November 15, 2007. The Company will adopt this Statement in the first quarter of 2008, and is currently evaluating the impact on its financial position and results of operations.

OFF-BALANCE SHEET ARRANGEMENT

Aside from the Company's stand-by Letter of Credit in the amount of $650,000, which is no longer in place as of October 16, 2006, the Company does not have any off-balance sheet arrangements.

FORWARD LOOKING INFORMATION

Included in this Management Discussion and Analysis of Financial Condition and Results of Operations are certain forward looking financial and other information, including without limitation matters relating to "Risks". It should be recognized that such information are projections, estimates or forecasts based on various assumptions, including without limitation, meeting its assumptions regarding expected operating performance and other matters specifically set forth, as well as the expected performance of the economy as it impacts the Company's businesses, government and regulatory actions and approvals, and tax consequences, and the risk factors and cautionary statements set forth in reports filed by the Company with the Securities and Exchange Commission. As a result, such information is subject to uncertainties, risks and inaccuracies, which could be material.

The Registrant makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and current reports, if any, on Form 8-K.

The Registrant also makes this information available on its website, whose internet address is WWW.LGLGROUP.COM.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risk relating to changes in the general level of U.S. interest rates. Changes in interest rates affect the amounts of interest earned on the Company's cash and cash equivalents and restricted cash (approximately $4.6 million at September 30, 2006). The Company generally finances the debt portion of the acquisition of long-term assets with fixed and variable rate, long-term debt. The Company does not use derivative financial instruments for trading or speculative purposes. Management does not foresee any significant changes in the strategies used to manage interest rate risk in the near future, although the strategies may be reevaluated as market conditions dictate. There has been no significant change in market risk since December 31, 2005.

As the Company's international sales are in U.S. Dollars, there is no associated monetary risk.

At September 30, 2006, $8,032,000 of the Company's debt bears interest at variable rates. Accordingly, the Company's earnings and cash flows are affected by changes in interest rates. In October 2005, in connection with the RBC Term Loan, Mtron/PTI entered into a five-year interest rate swap from which it will receive periodic payments at the LIBOR Base Rate and make periodic payments at a fixed rate of 7.51% with monthly settlement and rate reset dates, effectively reducing the variable rate debt exposed to interest rate fluctuations to $5,051,000.

ITEM 4. CONTROLS AND PROCEDURES

The principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report based on the evaluation of these controls and procedures required by Exchange Act Rule 13a-15.

There has been no changes in the Registrant's internal control over financial reporting that occurred during the Registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

Certain subsidiaries and business segments of the Company sell to industries that are subject to cyclical economic changes. Any downturns in the economic environment would have a financial impact on the Company and its consolidated subsidiaries and may cause the reported financial information herein not to be indicative of future operating results, financial condition or cash flows.

Future activities and operating results may be adversely affected by fluctuating demand for capital goods such as large glass presses, delay in the recovery of demand for components used by telecommunications infrastructure manufacturers, disruption of foreign economies and the inability to renew or obtain new financing for expiring loans.

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

The Company maintains cash and cash equivalents and short-term investments with various financial institutions. These financial institutions are located throughout the country and the Company's policy is designed to limit exposure to any one institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. Other than certain accounts receivable, the Company does not require collateral on these financial instruments. In relation to export sales, the Company requires Letters of Credit supporting a significant portion of the sales price prior to production to limit exposure to credit risk. The Company maintains an allowance for doubtful accounts at a level that management believes is sufficient to cover potential credit losses.

For a complete list of risk factors, see the Company's Annual Report, as amended, on Form 10-K/A for the year ended December 31, 2005 filed with the Securities and Exchange Commission on May 18, 2006.

ITEM 6. EXHIBITS

Exhibits filed herewith:

31.1* Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32* Certification by Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

The LGL Group, Inc.
(Registrant)

November 14, 2006

By: /s/ Jeremiah M. Healy

Jeremiah M. Healy
Principal Financial Officer

EXHIBIT INDEX

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* filed herewith

The Exhibits listed above have been filed separately with the Securities and Exchange Commission in conjunction with this Quarterly Report on Form 10-Q or have been incorporated by reference into this Quarterly Report on Form 10-Q. Upon request, the Company. will furnish to each of its shareholders a copy of any such Exhibit. Requests should be addressed to the Office of the Secretary, The LGL Group, Inc., 140 Greenwich Avenue, 4th Floor, Greenwich CT 06830.

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