UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

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

For the fiscal year ended: December 31, 2006

OR

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

For the transition period from ____________________ to _________________________

Commission file number: 1-106

THE LGL GROUP, INC.

(Exact name of Registrant as Specified in Its Charter)

Indiana *(State or other jurisdiction of Incorporation or Organization)*	
140 Greenwich Ave, 4th Fl, Greenwich, Connecticut (Address of Principal Executive Offices)	**38-1799862** *(I.R.S. Employer Identification No.)* **06830** (Zip Code)

Registrant's telephone number, including area code: (203) 622-1150

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.01 Par Value	American Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer____ Accelerated filer_____ Non-accelerated filer__•__

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant (based upon the closing price of the Registrant's Common Stock on the American Stock Exchange on June 30, 2006 of $8.18 per share) was $12.4 million. In determining this figure, the Registrant has assumed that all of the Registrant's directors and officers are affiliates. This assumption should not be deemed a determination or an admission by the Registrant that such individuals are, in fact, affiliates of the Registrant.

The number of outstanding shares of the registrant's common stock was 2,154,702 as of March 29, 2007.

DOCUMENTS INCORPORATED BY REFERENCE: Certain portions of the Registrant's definitive Proxy Statement for the 2007 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission are incorporated by reference in Part III of this Report.

Item 1. *Business*

The LGL Group, Inc. (the “Company”), formerly Lynch Corporation, incorporated in 1928 under the laws of the State of Indiana, is a multi-industry holding company with subsidiaries engaged in manufacturing a broad range of capital equipment and custom-designed electronic components. The Company’s executive offices are located at 140 Greenwich Ave, 4th Floor, Greenwich, Connecticut 06830. The telephone number is (203) 622-1150.

The Company has two principal operating manufacturing subsidiaries, MtronPTI, with operations in Orlando, Florida, Yankton, South Dakota, and Noida, India and Lynch Systems, Inc. (“Lynch Systems”), with operations in Bainbridge, Georgia.

The Company’s business development strategy is to expand its existing operations through internal growth and merger and acquisition opportunities. It may also, from time to time, consider the acquisition of other assets or businesses that are not related to its present businesses. As used herein, the Company includes subsidiary corporations.

MtronPTI

Overview

MtronPTI manufactures and markets custom designed electronic components that are used primarily to control the frequency or timing of signals in electronic circuits. Its devices, which are commonly called frequency control devices, are used extensively in infrastructure equipment for the telecommunications and network equipment industries. Its devices are also used in electronic systems for military applications, avionics, medical devices, instrumentation, industrial devices and global positioning systems.

MtronPTI’s frequency control devices consist of packaged quartz crystals, crystal oscillators and electronic filters. Our products produce an electrical signal that has the following attributes:

- accuracy — the frequency of the signal does not change significantly over a period of time;
- stability — the frequency of the signal does not vary significantly when our product is subjected to a range of operating environments; and
- low electronic noise — the signal does not add interfering signals that can degrade the performance of electronic systems.

MtronPTI has more than 40 years of experience designing, manufacturing and marketing crystal based frequency control products. Its customers rely on the skills of MtronPTI’s engineering and design team to help solve frequency control problems during all phases of their products’ life cycles, including product design, prototyping, manufacturing, and subsequent product improvements.

Selected Financial Information

For financial reporting purposes, MtronPTI comprises the Company’s “frequency control devices” segment. For information about this segment’s revenues, profit or loss, and total assets for each of the last three fiscal years, please see Note 11 to the Company’s Consolidated Financial Statements, “Segment Information”.

At December 31, 2006, MtronPTI net working capital was $5,218,000 compared to $5,515,000 at December 31, 2005. At December 31, 2006, the Company had current assets of $14,426,000 and current liabilities of $9,208,000. The ratio of current assets to current liabilities was 1.57 to 1.0. At December 31, 2005, the Company had current assets of $13,698,000 and current liabilities of $8,183,000, and a current ratio of 1.67 to 1.00. The increase in working capital is primarily due to the building up of inventory levels. The company is not obligated to carry significant inventory balances to meet rapid delivery requirements. MtronPTI typically receives estimated order details from its major customers and tries to stock accordingly.

MtronPTI's Objectives

MtronPTI intends to build on the strength of its core expertise in packaged quartz crystal oscillator technologies and electronic filter technologies to become the supplier of choice to original equipment manufacturers that supply equipment with high-performance timing needs MtronPTI intends to grow by strong penetration of the timing and timing management portion of the electronics industry. It plans to grow beyond a component company to a company offering timing system design services and engineered timing management products.

MtronPTI intends to increase its investment in technical resources, including design and engineering personnel, to enable it to provide a higher level of design and engineering support to its customers and potential customers. It believes that technical participation with its original equipment manufacturer customers in the early stages of their design process will lead to MtronPTI's frequency control devices being designed into their products more regularly.

MtronPTI has a long-standing relationship with offshore contract manufacturers who have added capacity on its behalf. MtronPTI's near term objective is to reduce the time it takes to manufacture its products, which will result in better service to its customers.

MtronPTI intends to design, manufacture and sell devices that offer higher frequencies or greater precision than its current products. It also plans to expand its offering of integrated timing systems to offer complete timing subsystems to its customers. It intends to achieve this through a combination of focused research and development and strategic acquisitions, if they are appropriate.

MtronPTI believes that it can significantly enhance its business opportunities by acquiring technology, product portfolios, new design capabilities, and/or access to a portfolio of targeted customers. Some of these may offer immediate sales opportunities, while others may meet longer term objectives. It plans to pursue these opportunities by making strategic acquisitions or by acquiring or licensing technology.

Products

MtronPTI's products are high quality, reliable, technically advanced frequency control devices, including packaged quartz crystals, oscillators incorporating those crystals and electronic filter products. The October 2002 acquisition of "Champion" provided MtronPTI an entry to the timing modules market. The September 2004 acquisition of PTI provided MtronPTI with its families of very high precision oven-controlled crystal oscillators and its electronic filter products.

MtronPTI designs and produces a wide range of packaged quartz crystals, quartz crystal based oscillators and electronic filter products. The Packaged Crystal is a single crystal in a hermetically sealed package and is used by electronic equipment manufacturers, along with their own electronic circuitry, to build oscillators for frequency control in their electronic devices. The Clock Oscillator is the simplest of its oscillators. It is a self-contained package with a crystal and electronic circuitry that is used as a subsystem by electronic equipment manufacturers to provide frequency control for their devices. The Voltage Controlled Crystal Oscillator (VCXO) is a variable frequency oscillator whose frequency can be changed by varying the control voltage to the oscillator. The Temperature Compensated Crystal Oscillator (TCXO) is a stable oscillator designed for use over a range of temperatures. Oven-Controlled Crystal Oscillators are designed to produce a much higher level of stability over a wide range of operating conditions with very low phase noise. The Electronic Filters use either crystal technology or precise manufacturing of inductive/capacitive circuits to provide filters with carefully defined capabilities to filter out unwanted portions of a timing signal. This variety of features in MtronPTI's product family offers the designers at electronic equipment manufacturers a range of options as they create the needed performance in their products.

Currently, MtronPTI's oscillator products operate at frequencies ranging from 2 kilohertz to over 2.5 gigahertz, which constitute most of the oscillator frequencies that are now in use in its target markets. It offers crystal and inductive/capacitive filters with central frequencies from a Direct Current to 15 gigahertz. However, many of its products, through amplification or other means, are ultimately incorporated into products that operate at higher frequencies.

MtronPTI's products are employed in numerous applications within the communications industry, including computer and telephone network switches, high-speed gigabit Ethernet, modems, wireless transmitters/receivers, multiplexers, data recovery/regeneration devices, fiber channel networks, repeaters, data transceivers, line interface devices, communications satellites, and base station controllers. Its products are incorporated into end products that serve all elements of the communications industry.

The crystals, oscillators and filters intended for non-communications applications are found in military applications for communications and armaments. Avionics applications include ground and flight control systems. Industrial applications are in security systems, metering systems, electronic test instruments and industrial control systems. MtronPTI's products are also used in medical instrumentation applications, as well as in various computer peripheral equipment such as storage devices, printers, modems, monitors, video cards and sound cards.

MtronPTI's timing module, an electronic subsystem, is a pre-assembled circuit that integrates several different functions into a small, single, self-contained module for control of timing in a circuit. Today, timing modules are frequently used for the synchronization of timing signals in digital circuits, particularly in wireless and optical carrier network systems.

Manufacturing

MtronPTI's operations are located in Yankton, South Dakota, Orlando, Florida, India, and Hong Kong. MtronPTI has two facilities in Yankton which contain approximately 51,000 square feet in the aggregate. MtronPTI owns one building, approximately 76,000 square feet, on approximately 7 acres of land in Orlando, which was purchased in connection with the acquisition of PTI. The Company leases approximately 7,500 square feet of office and manufacturing space in Delhi, India and approximately 1,500 square feet of office space in Hong Kong.

Mtron has established long-term relationships with several contract manufacturers in Asia. Approximately 15.9% of MtronPTI's revenues in 2006 were attributable to one such contract manufacturer located in both Korea and China. While MtronPTI does not have written long-term agreements with this contract manufacturer, MtronPTI believes that it occasionally receives preferential treatment on production scheduling matters. MtronPTI maintains a rigorous quality control system and is an ISO 9001/2000 qualified manufacturer. MtronPTI's Hong Kong subsidiary (M-tron Industries, Limited) does not manufacture, but acts as a buying agent, regional warehouse, quality control and sales representative for its parent company.

Research and Development

At December 31, 2006, MtronPTI employed 32 engineers and technicians primarily in South Dakota and Florida who devote most of their time to research and development. Its research and development expense was approximately $2,470,000, $2,408,000, and $1,089,000 in 2006, 2005, and 2004 respectively. As has been the case in the past, MtronPTI expects to increase its spending on research and development by about 30% in 2007.

Customers

MtronPTI markets and sells its frequency control devices primarily to:

- original equipment manufacturers of communications, networking, military, avionics, instrumentation and medical equipment;
- contract manufacturers for original equipment manufacturers; and
- distributors who sell to original equipment manufacturers and contract manufacturers.

In 2006, an electronics manufacturing company accounted for approximately 10.6% of Mtron/PTI's total revenues compared to 14% and 18% for MtronPTI's largest customer in 2005 and 2004, respectively. No other customer accounted for more than 10% of its 2006 revenues. Revenues from its ten largest customers accounted for approximately 58.6% of revenues in 2006, compared to approximately 63% and 48% of revenues for 2005 and 2004, respectively.

Seasonality

No portion of Mtron's business is regarded as seasonal.

Domestic Revenues

MtronPTI's domestic revenues were $20,501,000 in 2006 or 49% of total revenues compared with $19,078,000 and $12,096,000, or 54% and 52%, in 2005 and 2004, respectively.

International Revenues

MtronPTI's international revenues were $21,048,000 in 2006, 51% of total sales compared to $15,973,000, 46% of total sales and $11,317,000, 48% of total sales, for 2005 and 2004, respectively. In 2006, as was the case in 2005, these revenues were derived mainly from customers in China and Canada. In 2006, Mtron also had significant sales to Thailand and Malaysia. MtronPTI has increased its international sales efforts by adding distributors and manufacturers' representatives in Western Europe and Asia. The Company avoids currency exchange risk by transacting substantially all international revenues in United States dollars.

Risks Attendant to Foreign Operations

The company has a sales office in China which does significant amount of business as a representative of the company selling its products and locally purchased products. The Company has a production location in India which performs basic assembly work on consigned materials received from MtronPTI.

Risks associated with doing business outside of the United States especially China and India are: normal business risks, social instability, slow conforming legal systems, environmental catastrophes, poor infrastructure, information security technology issues, lack of distribution of power with business entities leads to embezzlement, kickbacks, and other forms of fraud and corruption. Other risks include sourcing risks: such as supply-chain and business interruption issues; protection of intellectual property; recruitment, development, and retention of talented employees; trends and concerns in mergers and acquisitions; and the potential pitfalls of the Chinese insurance market.

Backlog

MtronPTI had backlog orders of $8,065,000 at December 31, 2006 compared to $8,906,000 at December 31, 2005. MtronPTI's backlog may not be indicative of future revenues, because of its customers' ability to cancel orders. MtronPTI expects to fill all of its 2006 backlog in 2007.

Raw Materials

Most raw materials used in the production of MtronPTI products are available in adequate supply from a number of sources. The prices of these raw materials are relatively stable. However, some raw materials including printed circuit boards, quartz, and certain metals including steel, aluminum, silver, gold, tantalum and palladium, are subject to greater supply fluctuations and price volatility.

Competition

Frequency control devices are sold in a highly competitive industry. There are numerous domestic and international manufacturers who are capable of providing custom designed quartz crystals, oscillators and electronic filters comparable in quality and performance to MtronPTI's products. Competitors include Vectron International (a division of Dover Corporation), CTS Corporation, K&L (a division of Dover Corporation) and Saronix (a division of Pericom Semiconductor Corporation). MtronPTI does not operate in the same markets as high volume manufacturers of standard products; rather it focuses on manufacturing lower volumes of more precise, custom designed frequency control devices. Many of its competitors and potential competitors have substantially greater financial, engineering, manufacturing and marketing resources than it does. MtronPTI seeks to manufacture custom designed, high performance crystals and oscillators, which it believes it can sell competitively based upon performance, quality, order response time and a high level of engineering support.

Intellectual Property

MtronPTI has no patents, trademarks or licenses that are considered to be important to MtronPTI's business or operations. Rather, MtronPTI believes that its technological position depends primarily on the technical competence and creative ability of its engineering and technical staff in areas of product design and manufacturing processes as well as proprietary know-how and information.

Lynch Systems

Overview

Lynch Systems designs, develops, manufactures and markets glass forming machinery for the consumer glass industries. Lynch Systems produces and installs equipment that cuts and forms tableware such as glass tumblers, plates, cups, saucers and pitchers as well as glass block, industrial lighting, commercial optical glass and automobile lenses. Lynch Systems also produces replacement parts for various types of packaging and glass container-making machines that Lynch Systems does not manufacture.

Selected Financial Information

For financial reporting purposes, Lynch Systems comprises the Company's "Glass Manufacturing Equipment" segment. For information about this segment's revenues, profit or loss, and total assets for each of the last three fiscal years, please see Note 11 to the Company's Consolidated Financial Statements, "Segment Information".

At December 31, 2006, Lynch Systems net working capital was $1,574,000 compared to $3,174,000 at December 31, 2005. At December 31, 2006, the Company had current assets of $3,715,000 and current liabilities of $2,141,000. The ratio of current assets to current liabilities was 1.74 to 1.0 at December 31, 2006. At December 31, 2005, the Company had current assets of $6,737,000 and current liabilities of $3,563,000, and a current ratio of 1.89 to 1.00. The decrease in net working capital is primarily due to negative cash flow and increases in bank debt.

Lynch Systems Objectives

Lynch Systems expects to continue to build on its name recognition and reputation as one of the world's leading manufacturers of glass forming machinery. Lynch Systems is the oldest glass-forming supplier to the consumer (daily use) glass industry. It is Lynch Systems' intention to use this strength to form closer partnerships with its customers to foster innovation in its glass making machinery. Lynch Systems intends to also use its expertise to provide technical assistance to other glass product manufacturers.

Lynch Systems' long term intentions are to monitor the market direction and to be at the forefront of technology in order to respond to market demand for new and innovative types of machinery needed to produce glass. Lynch Systems anticipates that it will continue to research and develop state-of-the-art machinery within its core competence, and also to seek new markets, such as container ware, where its experience and proven success can be used to develop new products and increase its growth.

Within the consumer glass industry, Lynch has defined the market into three distinct groups having potential for our equipment as follows: 1) customers with growth potential (sales driven), 2) customers in a "stagnant" market (cost driven) and 3) new customer base (i.e. container market).

Lynch Systems is currently developing and marketing products to appeal to these three groups, which include a fully electronic press and blow high volume machine and a new machine designed to produce press and blow glass articles with an in-line modular concept. Long term planning indicates further development and application of gob weight controls and inspection systems may play an important role among consumer ware producers.

The Company has been approached by an investment group interested in purchasing Lynch Systems. In this regard, the Company has hired a middle market investment bank to investigate the offer and other value enhancing opportunities. The hiring of the investment bank continues the process of growing the business.

Products and Manufacturing

Lynch Systems' manufacturing operations are housed in two adjacent buildings totaling 95,840 square feet situated on 4.86 acres of land in Bainbridge, Georgia. Finished office area in the two buildings totals approximately 17,000 square feet. Additionally, the Company has 18,604 square feet that is utilized for warehouse and storage.

Lynch Systems manufactures and installs forming equipment that sizes, cuts, and forms tableware such as glass tumblers, plates, cups, saucers, pitchers, architectural glass block, industrial lighting, commercial optical glass and automobile lenses. Additionally, Lynch Systems manufactures and installs electronic controls and retrofit systems for CRT display and consumer glass presses.

Lynch Systems' worldwide customers require capital equipment that produces a wide variety of Tableware products to remain competitive. In support of this market demand, Lynch Systems has invested in Research & Development (R&D) programs to manufacture new lines of capital equipment such as stretch machines for one-piece stemware, fire polishers for high quality tableware and spinning machines for high speed, high quality dishware. The production of glassware entails the use of machines, which heat glass and, using great pressure, form an item by pressing it into a desired shape. Because of the high energy cost of bringing the machine and materials up to temperature, a machine for producing glassware must be capable of running continuously.

To further expand Lynch Systems' Tableware product lines, additional product lines have been acquired through royalty partnerships with leading industry concerns. In 1999, Lynch Systems acquired the H-28 Press and Blow machine from Emhart Glass SA. This high production machine produces both round and geometric design Tumblers and is now marketed by Lynch Systems as the LH-28 with numerous Electronic Control improvements. In accordance with the terms of the agreement, Lynch Systems is obligated to pay Emhart a royalty of 13% on parts sales up to $2,000,000 a year, a 5% royalty rate on all parts sales in excess of $2,000,000, and 5% on all machine sales through 2008. In 2000, the Eldred product line of Burnoff Machines, used to fire finish the rims of the H-28 Tumblers, and four-color Decorating Machines were acquired by Lynch Systems. In accordance with the terms of the agreement, Lynch Systems is obligated to pay Eldred a royalty of 10% on sales up to $300,000 per year and 8% royalty on sales over $300,000 per year until 2010. All Tableware capital equipment requires moulds in the production of any article. In 2002, agreement was reached with Merkad Glassware Mould, Ltd., a producer of high quality moulds, to represent and distribute moulds throughout North and South America. Lynch Systems has no contractual obligations to Merkad.

Research and Development

Lynch Systems' research and development expense was $79,000 in 2006 compared to $97,000 and $104,000 in 2005, and 2004, respectively. Lynch Systems expects to increase its spending on research and development by about 50% during 2007.

Customers

Due to the nature of its products, Lynch Systems has historically had a small number of customers. Its largest customer, which varies year to year, accounted for 39% of revenue in 2006, compared with 46% and 36% of revenues for 2005 and 2004, respectively. Lynch Systems' sales to its ten largest customers accounted for approximately 84% of its revenues in 2006 compared with 79% of its revenues in 2005, and 80% in 2004.

Seasonality

No portion of Lynch System's business is regarded as seasonal.

Domestic Revenues

Lynch Systems' domestic revenues were $1,422,000 in 2006, or 18.3% of their total revenues, compared with $1,992,000 (17.9%) and $1,114,000 (10.7%) for 2005 and 2004, respectively.

International Revenues

Lynch Systems' international revenues were $6,329,000 in 2006 compared with $9,140,000 and $9,307,000 for 2005 and 2004, respectively. This represents approximately 82% of revenues in 2006, the same as in 2005, compared with 89% of total revenues in 2004. International revenues in 2006 were derived mainly from Brazil and China. The profitability of international revenues is approximately equivalent to that of domestic revenues. As many international orders require partial advance deposits, with the balance often secured by irrevocable letters of credit from banks in the foreign country, the Company believes that most of the credit risks commonly associated with doing business in international markets are minimized. The Company avoids currency exchange risk by transacting substantially all international sales in United States dollars.

Backlog

Lynch Systems had an order backlog of $1,853,000 at December 31, 2006, compared to $4,954,000 at December 31, 2005. The $3,100,000 million decrease in backlog is due to much lower bookings in 2006 due to absence of CRT business and higher energy costs. Most of Lynch Systems' December 31, 2006 backlog is scheduled to be delivered in 2007. Lynch Systems includes as backlog those orders that are subject to written contract or written purchase orders.

Competition

Lynch Systems believes that in the worldwide press ware market it is one of the largest suppliers of consumer ware forming machines to glass companies that do not manufacture their own press ware machines. Competition is based on service, performance and technology. Competitors include various companies in Italy, Turkey, China and Germany. Several of the largest domestic and international producers of glass press ware frequently build their own glass-forming machines and produce spare parts in-house.

Raw Materials

Raw materials are generally available to Lynch Systems in adequate supply from a number of suppliers. The price of steel, a major component of glass forming machinery, has remained steady in 2006 after increasing severely in 2004 and 2005. Lynch Systems has been required to absorb a portion of that price increase with little ability to pass price increases along to our customers.

Intellectual Property

Lynch Systems owns patents and proprietary know-how that are important to its business and the maintenance of its competitive position. Its most important patent is for a rotary glass-molding press with cushioned trunnion mounted hydraulic drive, expiring October, 2012.

Employees

As of December 31, 2006, the Company employed 386 people: 3 at Corporate headquarters, 335 at Mtron, including 8 in Hong Kong and 9 in India, and 48 at Lynch Systems, including 2 in Germany. None of its employees is represented by a labor union and the Company considers its employee relations to be good.

Environmental

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

The capital expenditures, earnings and competitive position of the Company have not been materially affected to date by compliance with current federal, state, and local laws and regulations relating to the protection of the environment; however, the Company cannot predict the effect of future laws and regulations.

Customers

In 2006, the Company's two largest single customers accounted for $4,400,000 and $3,493,000 in revenues, representing 8.9% and 7.1% of total consolidated revenues of $49,300,000. In 2005, the two largest customers accounted for 11.2% and 11.0% of total consolidated revenues, and in 2004, the two largest customer s accounted for 12.2% and 10.9% of consolidated revenues, respectively.

Long-lived Assets

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

Executive Officers of the Company

Pursuant to General Instruction G (3) of Form 10-K, the following list of executive officers of the Company is included in Part I of this Annual Report on Form 10-K in lieu of being included in the Proxy Statement for the 2007 Annual Meeting of Shareholders. Such list sets forth the names and ages of all executive officers of the Company indicating all positions and offices with the Company held by each such person and each such person's principal occupations or employment during the past five years.

Name	Officers and Positions Held	Age
Jeremiah M. Healy………	President and Chief Executive Officer, The LGL Group, Inc. (December 31, 2006 to present) and Chief Financial Officer, The LGL Group, Inc. (September 2006 to March 20, 2007); Chairman of the Audit Committee, Infocrossing Inc., an outsourcer of computer software; Vice President and Chief Financial Officer, Ge-Ray Holdings Company Inc. (1989-2005), a private manufacturer of knitted textiles.	64

Name	Officers and Positions Held	Age
Steve Pegg…...…………..	Chief Financial Officer, The LGL Group, Inc. (March 20, 2007 to present); Chief Financial Officer and Treasurer, Ultraviolet Devices, Inc. ("UVDI") (October 2004 to December 2006) and President, Sparks Technology, a UVDI division, (June 2006-December 2006), UVDI is a manufacturer and supplier of ultra violet and filtration products for air and water treatment; Operations and Financial Consultant, Camil Farr (2001-2004), a manufacturer of air filtration devices; Chief Financial Officer, Treasurer, Farr Company (1998-2001), an air filtration device manufacturer.	48

The executive officers of the Company are elected annually by the Board of Directors at its organizational meeting and hold office until the organizational meeting in the next year and until their respective successors are elected and qualify.

The LGL Group, Inc. has always held itself and its employees to the highest standards of business conduct and ethical behavior in all of its business dealings. The LGL Group's Code of Ethics is available on its website, www.lglgroup.com.

Item 1A. ***Risk Factors***

You should carefully consider the risks described below before investing in our publicly traded security. The risks described below are not the only ones facing us. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business operations and our liquidity.

While we have had net income in the past two years, we face uncertainty in our ability to sustain net income in the future.

While we had net income of $865,000 in 2006 and $1,210,000 in 2005, we had suffered a net loss of $3,326,000 in 2004. We are uncertain whether we will be able to sustain net income in the future.

If we are unable to secure necessary financing, we may not be able to fund our operations or strategic growth.

In order to achieve our strategic business objectives, we may be required to seek additional financing. We may be unable to renew our existing credit facilities or obtain new financing on acceptable terms, or at all. Under certain of our existing credit facilities, we are required to obtain the lenders' consent for most additional debt financing and to comply with other covenants, including specific financial ratios. For example, we may require further capital to continue to develop our technology and infrastructure and for working capital purposes. In addition, future acquisitions would likely require additional equity and/or debt financing. While we do have substantial cash and cash equivalents on hand, our failure to secure additional financing could have a material adverse effect on our continued development or growth.

As a holding company, we depend on the operations of our subsidiaries to meet our obligations.

We are a holding company that transacts our business through operating subsidiaries. Our primary assets are the shares of our operating subsidiaries. Our ability to meet our operating requirements and to make other payments depends on the surplus and earnings of our subsidiaries and their ability to pay dividends or to advance or repay funds. Payments of dividends and advances and repayments of inter-company debt by our subsidiaries are restricted by our credit agreements.

We may make acquisitions that are not successful or fail to properly integrate acquired businesses into our operations.

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

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

- the diversion of our management's attention from our existing business to integrate the operations and personnel of the acquired or combined business or joint venture;
- possible adverse effects on our operating results during the integration process;
- substantial acquisition related expenses, which would reduce our net income in future years;
- the loss of key employees and customers as a result of changes in management; and
- our possible inability to achieve the intended objectives of the transaction.

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

Your ability to influence corporate decisions may be limited because our principal shareholders own in the aggregate 45% of our common stock.

Our principal shareholders currently own in the aggregate approximately 45% of our outstanding common stock. These shareholders may be able to determine who will be elected to our board of directors and to control substantially all matters requiring approval by our shareholders, including mergers, sales of assets and approval of other significant corporate transactions, in a manner with which you may not agree or that may not be in your best interest. This concentration of stock ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling shareholders.

Provisions in our charter documents and under Indiana law may prevent or delay a change of control of us and could also limit the market price of our common shares.

Provisions of our certificate of incorporation and bylaws, as well as provisions of Indiana corporate law, may discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such a change in control would be beneficial to our shareholders. These provisions may also prevent or frustrate attempts by our shareholders to replace or remove our management. These provisions include those:

- prohibiting our shareholders from fixing the number of our directors;
- requiring advance notice for shareholder proposals and nominations; and
- prohibiting shareholders from acting by written consent, unless unanimous.

We are subject to certain provisions of the Indiana Business Corporation Law, or IBCL, that limit business combination transactions with 10% shareholders during the first five years of their ownership, absent approval of our board of directors. The IBCL also contains control share acquisition provisions that limit the ability of certain shareholders to vote their shares unless their control share acquisition was approved in advance by shareholders. These provisions and other similar provisions make it more difficult for shareholders or potential acquirers to acquire us without negotiation and could limit the price that investors are willing to pay in the future for our common shares.

Compliance with changing regulation of corporate governance and public disclosure will either require us to incur additional expenses or cease to be a reporting company.

Keeping abreast of, and in compliance with, changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and American Stock Exchange rules, will require an increased amount of management attention and external resources. We would be required to invest additional resources to comply with evolving standards, which would result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Our Board of Directors may determine that it is in the best interests of shareholders to eliminate or reduce such expense by ceasing to be a reporting company for purposes of the Securities Exchange Act of 1934, as amended. One commonly used method, subject to shareholder approval, is to effect a reverse share split to reduce the number of shareholders to fewer than 300, permitting termination of registration. Under this method, shareholders who own less than one whole common share following the reverse split would cease to be shareholders and would receive a cash payment for their fractional shares. After a reverse split, there may be no established trading market for our common shares, although we expect that our common shares may then be quoted on the "pink sheets."

We do not anticipate paying cash dividends on our common shares in the foreseeable future.

We anticipate that all of our earnings will be retained for the development of our business. The Board of Directors has adopted a policy of not paying cash dividends on our common shares. The Company also has restrictions under our debt agreements which limit our ability to pay dividends. We do not anticipate paying cash dividends on our common shares in the foreseeable future.

There is a limited market for our common shares. Our share price is likely to be highly volatile and could drop unexpectedly.

There is a limited public market for our common shares, and we cannot assure you that an active trading market will develop. As a result of low trading volume in our common shares, the purchase or sale of a relatively small number of shares could result in significant share price fluctuations. Our share price may fluctuate significantly in response to a number of factors, including the following, several of which are beyond our control:

- changes in financial estimates or investment recommendations by securities analysts relating to our shares;
- loss of a major customer;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments; and
- changes in key personnel.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We could be the target of similar litigation in the future. Securities litigation, regardless of merit or ultimate outcome, would likely cause us to incur substantial costs, divert management's attention and resources, harm our reputation in the industry and the securities markets and reduce our profitability.

Securities analysts may not initiate coverage of our common shares or may issue negative reports, and this may have a negative impact on the market price of our common shares.

We cannot assure you that security analysts will initiate coverage and publish research reports on us. It is difficult for companies with smaller market capitalizations, such as us, to attract independent financial analysts who will cover our common shares. If securities analysts do not, this lack of research coverage may adversely affect the market price of our common shares.

If we are unable to introduce innovative products, demand for our products may decrease.

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

Our operating results and financial condition could be materially adversely affected by economic, political, health, regulatory and other factors existing in foreign countries in which we operate.

As we have significant international operations, our operating results and financial condition could be materially adversely affected by economic, political, health, regulatory and other factors existing in foreign countries in which we operate. Our international operations are subject to inherent risks, which may materially adversely affect us, including:

- political and economic instability in countries in which our products are manufactured and sold;
- expropriation or the imposition of government controls;
- sanctions or restrictions on trade imposed by the United States government;
- export license requirements;
- trade restrictions;
- currency controls or fluctuations in exchange rates;
- high levels of inflation or deflation;
- greater difficulty in collecting our accounts receivable and longer payment cycles;
- changes in labor conditions and difficulties in staffing and managing our international operations; and
- limitations on insurance coverage against geopolitical risks, natural disasters and business operations.

In addition, these same factors may also place us at a competitive disadvantage when compared to some of our foreign competitors. In response to competitive pressures and customer requirements, we may further expand internationally at lower cost locations. If we expand into these locations, we will be required to incur additional capital expenditures.

Our businesses are cyclical. A decline in demand in the electronic component and glass component industries may result in order cancellations and deferrals and lower average selling prices for our products.

Our subsidiaries sell to industries that are subject to cyclical economic changes. The electronic component and glass component industries in general, and specifically the Company, could experience a decline in product demand on a global basis, resulting in order cancellations and deferrals and lower average selling prices. A slowing of growth in the demand for components used by telecommunications infrastructure manufacturers and newer technologies introduced in the glass display industry could lead to a decline. If a slowdown occurs, it may continue and may become more pronounced.

Our markets are highly competitive, and we may lose business to larger and better-financed competitors.

Our markets are highly competitive worldwide, with low transportation costs and few import barriers. We compete principally on the basis of product quality and reliability, availability, customer service, technological innovation, timely delivery and price. All of the industries in which we compete have become increasingly concentrated and global in recent years. Our major competitors, some of which are larger than us, and potential competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer support capabilities than we have.

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

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

MtronPTI's backlog may not be indicative of future revenues and may adversely affect our business.

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

MtronPTI relies upon one contract manufacturer for a significant portion of its finished products, and a disruption in its relationship could have a negative impact on MtronPTI's revenues.

In 2006, approximately 15.9% of MtronPTI's revenue was attributable to finished products that were manufactured by an independent contract manufacturer located in both Korea and China (10.2% in 2005). We expect this manufacturer to account for a smaller but substantial portion of MtronPTI's revenues in 2007 and a material portion of MtronPTI's revenues for the next several years. MtronPTI does not have a written, long-term supply contract with this manufacturer. If this manufacturer becomes unable to provide products in the quantities needed, or at acceptable prices, MtronPTI would have to identify and qualify acceptable replacement manufacturers or manufacture the products internally. Due to specific product knowledge and process capability, MtronPTI could encounter difficulties in locating, qualifying and entering into arrangements with replacement manufacturers. As a result, a reduction in the production capability or financial viability of this manufacturer, or a termination of, or significant interruption in, MtronPTI's relationship with this manufacturer, may adversely affect MtronPTI's results of operations and our financial condition.

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

If single source components were to become unavailable on satisfactory terms, and we could not obtain comparable replacement components from other sources in a timely manner, our business, results of operations and financial condition could be harmed. On occasion, one or more of the components used in our products have become unavailable, resulting in unanticipated redesign and related delays in shipments. We cannot assure you that similar delays will not occur in the future. Our suppliers may be impacted by compliance to environmental regulations including RoHS & WEEE, which could affect our continued supply of components or cause additional costs for us to implement new components into our manufacturing process.

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

When we release new products, or new versions of existing products, they may contain undetected or unresolved errors or defects. Despite testing, errors or defects may be found in new products or upgrades after the commencement of commercial shipments. Undetected errors and design flaws have occurred in the past and could occur in the future. These errors could result in delays, loss of market acceptance and sales, diversion of development resources, damage to our reputation, legal action by our customers, failure to attract new customers and increased service costs.

Continued market acceptance of MtronPTI's packaged quartz crystals, oscillator modules and electronic filters is critical to our success, because frequency control devices account for nearly all of MtronPTI's revenues.

As was the case in 2005 and 2004, virtually all of MtronPTI's 2006 revenues came from sales of frequency control devices, which consist of packaged quartz crystals, oscillator modules and electronic filters. We expect that this product line will continue to account for substantially all of MtronPTI's revenues for the foreseeable future. Any decline in demand for this product line or failure to achieve continued market acceptance of existing and new versions of this product line may harm MtronPTI's business and our financial condition.

MtronPTI's future rate of growth is highly dependent on the development and growth of the market for communications and network equipment.

In 2006, the majority of MtronPTI's revenues was to manufacturers of communications and network infrastructure equipment, including indirect sales through distributors and contract manufacturers. In 2007, MtronPTI expects a smaller but significant portion of its revenues to be to manufacturers of communications and network infrastructure equipment. MtronPTI intends to increase its sales to communications and network infrastructure equipment manufacturers in the future. Communications and network service providers have experienced periods of capacity shortage and periods of excess capacity. In periods of excess capacity, communications systems and network operators cut purchases of capital equipment, including equipment that incorporates MtronPTI's products. A slowdown in the manufacture and purchase of communications and network infrastructure equipment could substantially reduce MtronPTI's net sales and operating results and adversely affect our financial condition. Moreover, if the market for communications or network infrastructure equipment fails to grow as expected, MtronPTI may be unable to sustain its growth. In addition, MtronPTI's growth depends upon the acceptance of its products by communications and network infrastructure equipment manufacturers. If, for any reason, these manufacturers do not find MtronPTI's products to be appropriate for their use, our future growth will be adversely affected.

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

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

MtronPTI's customers are significantly larger than it, and they may exert leverage that will not be in the best interest of MtronPTI.

The majority of MtronPTI's sales are to companies that are many times its size. This size differential may put MtronPTI at a disadvantage while negotiating contractual terms and may result in terms that are not in the best interest of MtronPTI. These items may include price, payment terms, product warranties and product consignment obligations.

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

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

Sales of a significant portion of our products to customers outside of the United States subjects us to business, economic and political risks.

Our 2006 export sales (primarily to China, Canada, and Brazil) accounted for 55.5% of 2006 consolidated revenues, compared to 46% in 2005. We anticipate that sales to customers located outside of the United Sates will continue to be a significant part of our revenues for the foreseeable future. Because significant portions of our sales are to customers outside of the United States, we are subject to risks including foreign currency fluctuations, longer payment cycles, reduced or limited protection of intellectual property rights, political and economic instability, and export restrictions. To date, very few of our international revenue and cost obligations have been denominated in foreign currencies. As a result, an increase in the value of the US dollar relative to foreign currencies could make our products more expensive and thus, less competitive in foreign markets. We do not currently engage in foreign currency hedging activities, but may do so in the future to the extent that such obligations become more significant.

Lynch Systems' dependence on a few significant customers exposes it to operating risks.

Lynch Systems' sales to its ten largest customers accounted for approximately 84% of its revenues in 2006 compared with and 79% of its revenues in 2005. Lynch Systems' sales to its single largest customer accounted for approximately 39% of its 2006 revenues, compared with 46% of its revenues in 2005. If a significant customer reduces, delays or cancels its orders for any reason, the business and results of operations of Lynch Systems would be negatively affected.

A multiple machine order with a significant customer in the tableware market has adversely affected Lynch System's financial performance.

In 2004, Lynch Systems signed a contract to sell five machines for a total purchase price of $2,350,000. The contract was accounted for under the percentage of completion method. Throughout 2004 and 2005, revenues totaling approximately $1,983,000 were recorded relating to the five machines based upon the percentage completed. In late 2005, the first machine was completed and shipped. The installation of the machine had been delayed several times due to the customer temporarily closing down its plant. The first machine has been installed, however the customer has not paid. In 2006, the Company provided additional reserves of $375,000 against the trade receivables outstanding from this customer on the initial machine that was shipped in 2004, and at December 31, 2006, such receivables are fully reserved. With regard to the four other machines, two were substantially complete and the Company continues to try and identify buyers for these units. Despite their efforts, to date no formal purchase commitments have been received and the company has provided a reserve of $145,000 against the value of these machines ($723,000) at December 31, 2006. The other two machines, which were much earlier in production, have been disassembled and have been substantially used in the production of other finished goods.

The results of Lynch Systems' operations are subject to fluctuations in the availability and cost of steel used to manufacture glass forming equipment.

Lynch Systems uses large amounts of steel to manufacture its glass forming equipment. The price of steel has risen substantially over the past several years and demand for steel is very high. Lynch Systems has only been able to pass some of the increased costs to its customers. As a result, Lynch Systems' profit margins on glass forming equipment have decreased. If the price of and demand for steel continues to rise, our profit margins will continue to decrease.

Lynch Systems may be unable to protect its intellectual property.

The success of Lynch Systems' business depends, in part, upon its ability to protect trade secrets, designs, drawings and patents, obtain or license patents and operate without infringing on the intellectual property rights of others. Lynch Systems relies on a combination of trade secrets, designs, drawings, patents, nondisclosure agreements and technical measures to protect its proprietary rights in its products and technology. The steps taken by Lynch Systems in this regard may not be adequate to prevent misappropriation of its technology. In addition, the laws of some foreign countries in which Lynch Systems operates do not protect its proprietary rights to the same extent as do the laws of the United States. Although Lynch Systems continues to evaluate and implement protective measures, we cannot assure you that these efforts will be successful. Lynch Systems' inability to protect its intellectual property rights could diminish or eliminate the competitive advantages that it derives from its technology, cause Lynch Systems to lose sales or otherwise harm its business.

FORWARD LOOKING INFORMATION

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this discussion and throughout this document, words, such as “intends,” “plans,” “estimates,” “believes,” “anticipates” and “expects” or similar expressions are intended to identify forward-looking statements. These statements are based on the Company’s current plans and expectations and involve risks and uncertainties, over which the Company has no control, that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and operating results to differ include fluctuating demand for capital goods such as large glass presses, delay in the recovery of demand for components used by telecommunications infrastructure manufacturers, and exposure to foreign economies. Important information regarding risks and uncertainties is also set forth elsewhere in this document, including in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Readers are also urged to carefully review and consider the various disclosures made by the Company, in this document, as well as the Company’s periodic reports on Forms 10-K, 10-Q and 8-K, filed with the Securities and Exchange Commission (“SEC”).

The Company 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 Company also makes this information available on its website www.lglgroup.com.

Item 1B. ***Unresolved Staff Comments***

Not applicable.

Item 2. ***Properties***

LGL Group’s principal executive offices are located in Greenwich, Connecticut, under a monthly lease for approximately 1,100 square feet of office space.

Lynch Systems’ operations are housed in two adjacent buildings totaling 95,840 square feet situated on 4.86 acres of land in Bainbridge, Georgia. Finished office area in the two buildings totals approximately 17,000 square feet. Additionally, the Company has 18,604 square feet that is utilized for warehouse and storage. At December 31, 2006, all such properties are subject to security deeds relating to loans.

MtronPTI’s operations are located in Yankton, South Dakota, Orlando, Florida, India, and Hong Kong. MtronPTI has two separate facilities in Yankton which contain approximately 51,000 square feet in the aggregate. One of these is owned, the other leased. The Yankton manufacturing facility that is owned by MtronPTI contains approximately 35,000 square feet is situated on approximately 15 acres of land and is subject to security deeds relating to loans. The Yankton leased facility contains approximately 16,000 square feet. The lease expires annually on September 30 and is renewable. MtronPTI owns one building, approximately 76,000 square feet, on approximately 7 acres of land in Orlando, which was purchased in connection with the acquisition of PTI. The Company leases approximately 7,500 square feet of office and manufacturing space in Delhi, India and approximately 1,500 square feet of office space in Hong Kong. It is the Company's opinion that the facilities referred to above are in good operating condition and suitable and adequate for present uses.

Item 3. ***Legal Proceedings***

In the normal course of business, subsidiaries of the Company are defendants in certain product liability, worker claims and other litigation. The Company has no litigation pending at this time.

Item 4. S*ubmission of Matters to a Vote of Security Holders*

Not applicable.

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

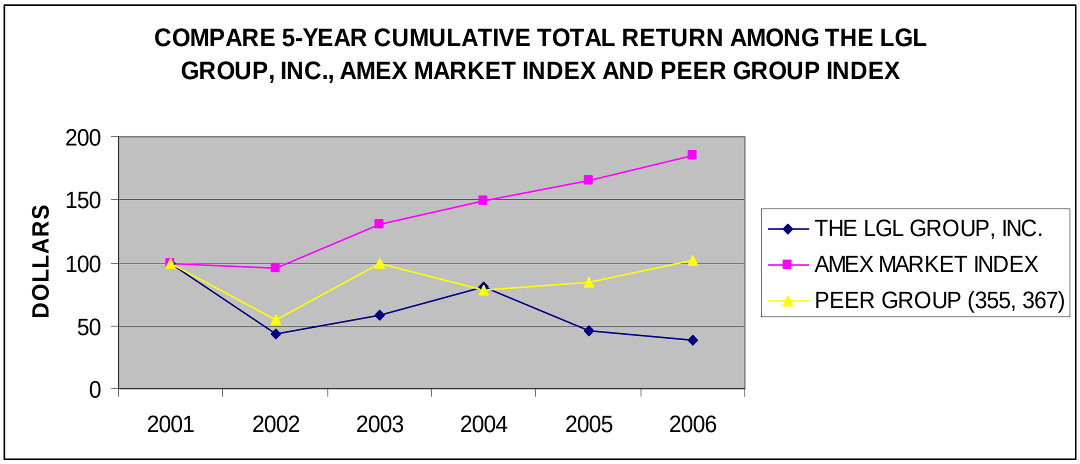
The Common Stock of the Company is traded on the American Stock Exchange under the symbol "LGL." The market price highs and lows in consolidated trading of the Common Stock during the fiscal years ended December 31, 2006 and December 31, 2005 are as follows:

	Quarter Ended			
2006	**March 31,**	**June 30,**	**September 30,**	**December 31,**
High	$10.30	$9.10	$8.25	$8.73
Low	6.79	7.21	7.06	7.00
2005	**March 31,**	**June 30,**	**September 30,**	**December 31,**
High	$ 14.97	$ 9.50	$ 13.70	$ 11.95
Low	9.00	7.75	8.35	7.50

At December 31, 2006, the Company's stock price was $7.00. At March 20, 2007, the Company had 1,475 shareholders of record.

Performance Graph

The graph below compares the cumulative total shareholder return on the Common Stock of the Corporation for the last five fiscal years ended December 31, 2006, with the cumulative total return over the same period (i) on the broad market, as measured by the AMEX Market Value Index, and (ii) on a peer group, as measured by a composite index based on the total returns earned on the stock of the publicly traded companies included in the Media General Financial Services database under the two Standard Industrial Classification (sic) codes within which the Corporation conducts the bulk of its business operations: SIC Code 355, Special Industry Machinery; and SIC Code 367, Electronic Components Accessories. The data presented in the graph assumes that $100 was invested in the Corporation's Common Stock and in each of the indexes on December 31, 2001, and that all dividends were reinvested.



	Fiscal Year Ending December 31,					
	2001	**2002**	**2003**	**2004**	**2005**	**2006**
THE LGL GROUP, INC.	100.00	43.06	58.06	80.56	45.83	38.89
AMEX MARKET INDEX	100.00	96.01	130.68	149.65	165.03	184.77
PEER GROUP (355, 367)	100.00	54.15	99.08	77.65	84.48	102.01

Dividend Policy

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 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 2007. Substantially all of the subsidiaries' assets are restricted under the Company's current credit agreements, which limit the subsidiaries' ability to pay dividends.

Issuer Repurchase of Its Equity Securities

There were no repurchases made by the Company during 2006.

Sale of Unregistered Securities

There were no sales of unregistered securities as defined under Securities Exchange Act of 1934, during 2006.

Item 6. ***Selected Financial Data***

THE LGL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED SELECTED FINANCIAL DATA

(in thousands, except per share amounts)

The following selected financial data is qualified by reference to, and should be read in conjunction with, the financial statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report.

	Year ended December 31, (a)				
	2006	**2005**	**2004**	**2003***	**2002***
Revenues…………………………………………..	$ 49,300	$ 46,183	$ 33,834	$ 27,969	$ 26,386
Operating profit (loss) (b)…………………….........	(548)	1,178	(2,888)	(832)	16,168
Gain (loss) on sale of subsidiary stock and other operating assets...	—	—	—	35	(92)
Gain on release of customer related contingency..	—	—	—	728	—
Income (loss) from continuing operations before income taxes and minority interests........	$ 639	1,001	(3,226)	183	15,996
Benefit (provision) for income taxes	226	209	(100)	(73)	1,967
Minority interests..	—	—	—	—	—
Net income (loss)..	$ 865	$ 1,210	$ (3,326)	$ 110	$ 17,963
Per Common Share:(c)					
Net income (loss):					
Basic...	$ .40	$ 0.73	$ (2.18)	$ 0.07	$ 11.99
Diluted..	$ .40	0.73	(2.18)	0.07	11.99

	December 31, (a)				
	2006	**2005**	**2004**	**2003***	**2002***
Cash, securities and short-term Investments..........	$ 7,039	$ 8,250	$ 6,189	$ 6,292	$ 6,847
Restricted cash(e)...	96	650	1,125	1,125	1,125
Total assets(d)...	30,957	32,664	33,883	23,019	23,430
Long-term debt, exclusive of current portion	3,100	5,031	3,162	833	1,089
Shareholders' equity (d)	16,707	14,688	9,993	11,033	10,934

Notes:

* Excludes Spinnaker Industries as a result of the September 30, 2001 deconsolidation of Spinnaker resulting from the Company's disposition of shares of Spinnaker that reduced its ownership and voting interest of Spinnaker

Industries, Inc. to 41.8% and 49.5% respectively, and the Company's subsequent disposition of its remaining interest in Spinnaker on September 23, 2002.

(a) The data presented includes results of the business acquired from PTI, from September 30, 2004, the effective date of its acquisition, and Champion Technologies, Inc. from October 18, 2002, the date of its acquisition.

(b) Operating profit (loss) is revenues less operating expenses, which excludes investment income, interest expense, extraordinary items, minority interests and taxes. Included are asset impairment and restructuring charges and the gain on deconsolidation.

(c) Based on weighted average number of common shares outstanding.

(d) No cash dividends have been declared over the period.

(e) See discussion of Restricted Cash in "Notes Payable and Long-Term Debt" in Note 3 to the Consolidated Financial Statements.

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

The following discussion and analysis should be read together with the Selected Financial Data and our Consolidated Financial Statements and the related notes included elsewhere in this Annual Report.

Results of Operations

2006 Compared to 2005

Consolidated Revenues and Gross Margin

In year ended December 31, 2006, consolidated revenues increased by $3,117,000, or 6.7%, to $49,300,000, from $46,183,000 in 2005, due to increased sales at MtronPTI. Revenues at MtronPTI increased in 2006 by $6,498,000, or 18.5%, to $41,549,000 from $35,051,000 for 2005. The increase was primarily due to improvements in the telecommunications market and the addition of several new customers. The products most responsible for the volume improvements were filters, oscillators, and resonators. Revenues at Lynch Systems decreased in 2006 by $3,381,000, or 30.4%, to $7,751,000 from $11,132,000 in 2005. This decrease was primarily due to a $5,138,000 decrease in sales of CRT machines somewhat offset by an increase in sales of glassware manufacturing machines.

The consolidated gross margin decreased $1,182,000 for the year ended December 31, 2006 to $13,553,000 from $14,735,000 in 2005. Over the same period, the consolidated gross margin as a percentage of revenues decreased to 27.5% from 31.9% primarily due to declining gross margins at Lynch Systems. MtronPTI's gross margin as a percentage of revenues for the year ended December 31, 2006 decreased slightly to 29.5% from 30.2% in 2005, due to a slight decrease in manufacturing yields which increased cost of goods sold. Lynch Systems' gross margin as a percentage of revenues for the year ended December 31, 2006 decreased by 20.4% to 16.9% from 37.3% in 2005. The decrease was primarily due to the loss of sales of large CRT machines which carry higher gross margins. Lynch Systems has undergone a shift in its business away from high margin CRT machines to lower margin tableware products and repair parts business. Lynch systems also reserved $145,000 against two of its finished machines built for an Indonesian customer but never shipped due to non-payment for the initial delivered machine.

Operating Profit (Loss)

The consolidated operating loss for the year ended December 31, 2006 was $548,000 compared to a $1,178,000 profit for 2005. This decrease of $1,726,000 is primarily due to decreased sales at Lynch Systems.

For the year ended December 31, 2006, MtronPTI had operating profit of $3,072,000, an improvement of $766,000 over the operating profit of $2,306,000 in 2005. The operating profit improvement was primarily due to increased sales of filters, oscillators, and resonators. For the year ended December 31, 2006, Lynch Systems had operating loss of $1,898,000 compared with its operating profit of $684,000 in 2005. The $2,582,000 decline in Lynch operating profit resulted primarily from the 30.4% decline in sales and 20.4 % decline in margin discussed in sales and gross margin section. Lynch also charged $375,000 to administrative expense in 2006 as a further allowance for bad debts to cover its remaining receivable exposure with an Indonesian customer.

Unallocated corporate expenses were $1,722,000 during the year ended December 31, 2006, a reduction of $60,000 from $1,662,000 incurred in 2005.

Other Income (Expense), Net

Investment income for the year ended December 31, 2006 was $1,750,000 compared to $608,000 for year ended December 31, 2005. The increase of $1,142,000 was due to the realization of more gains on more sales of marketable securities.

Net interest expense declined by $277,000 to $570,000 for year ended December 31, 2006, compared with $847,000 for the year ended December 31, 2005, primarily due to a reduction in the level of debt outstanding during the year.

Other Income for the year ended December 31, 2006 was $7,000 compared with other income for the comparable period in 2005 of $62,000 which was primarily due to a gain on the sale of a warehouse in Orlando, FL in the second quarter of 2005.

Income Taxes

The Company files consolidated federal income tax returns, which includes all subsidiaries.

The income tax benefit for the year ended December 31, 2006 included a reduction to an income tax reserve of $492,000 offset by provisions for foreign taxes. The income tax benefit for the year ended December 31, 2005 included a reduction to an income tax reserve of $484,000 offset by provisions for foreign taxes of $184,000.

Net Income (Loss)

Net income for the year ended December 31, 2006 was $865,000 compared with net income for the year ended December 31, 2005 of $1,210,000. Fully diluted income per share for the year ended December 31, 2006 was $0.40 compared with $0.73 for year ended December 31, 2005.

Backlog/New Orders

Total backlog of manufactured products at December 31, 2006 was $9,918,000, a $3,942,000 decrease from the $13,860,000 backlog at December 31, 2005. MtronPTI had backlog orders of $8,065,000 at December 31, 2006 compared with $8,906,000 at December 31, 2005. Lynch Systems had backlog orders of $1,853,000 compared with $4,954,000 at December 31, 2005.

2005 Compared to 2004

Consolidated Revenues and Gross Margin

Consolidated revenues increased $12,349,000, or 36%, to $46,183,000 for the year ended December 31, 2005 from $33,834,000 for the comparable period in 2004.

Revenues at MtronPTI increased by $11,638,000, or 50%, to $35,051,000 for the year ended December 31, 2005 from $23,413,000 in 2004. The increase was due to improvements in the telecommunications market, improvements in the infrastructure segment of the telecommunications market and the contribution of PTI, which was acquired effective September 30, 2004.

Revenues at Lynch Systems increased by $711,000, or 7%, to $11,132,000 for the year ended December 31, 2005 from $10,421,000 in 2004. This increase was primarily due to sales of large CRT machines in 2005, which was partially offset by lower revenue for glass press machines.

The consolidated gross margin as a percentage of revenues in 2005 increased to 31.9%, compared to 23.8% in the prior year.

MtronPTI's gross margin as a percentage of revenues for the year ended December 31, 2005 increased to 30.2% from 26.9% in 2004. The contribution from PTI, combined with selective price increases and operational efficiencies, resulted in the improved gross margin rates.

Lynch Systems' gross margin as a percentage of revenues for the year ended December 31, 2005 increased to 37.3% from 16.7% in 2004. The increase was primarily due to sales of large CRT machines, which carry higher gross margins, in 2005. Although the 2005 revenues for Lynch Systems' include a large CRT machine order, Lynch Systems has undergone a shift in its business away from higher margin CRT machines to lower margin tableware products and repair parts business.

Operating Profit (Loss)

The operating profit for the year ended December 31, 2005 was $1,178,000, compared to an operating loss of $2,888,000 for the comparable period in 2004, primarily due to higher margins at both MtronPTI and Lynch Systems and a $775,000 litigation provision recorded in 2004 compared to a $150,000 provision in 2005.

For the year ended December 31, 2005, MtronPTI had operating profit of $2,306,000, an improvement of $1,294,000 compared to $1,012,000 in 2004. The operating profit improvement was primarily due to the significant revenue increase and improvements in gross margin, which was partially offset by higher operating expenses resulting from the addition of PTI, which was acquired effective September 30, 2004.

For the year ended December 31, 2005, Lynch Systems had operating profit of $684,000, compared to an operating loss of $1,340,000 in 2004. The operating profit resulted from resulted from higher gross margins in 2005 directly related to the composition of revenues by product in 2005.

Unallocated corporate expenses decreased $748,000, to $1,662,000 for the year ended December 31, 2005 from $2,560,000 for the comparable period in 2004. The decline was primarily due to a lawsuit settlement provision in 2005 of $150,000 compared to $775,000 in 2004.

Other Income (Expense), Net

Investment income for the year ended December 31, 2005 was $608,000, $593,000 more than the $15,000 investment income for the comparable period in 2004, primarily due to a $567,000 realized gain on sale of marketable securities in 2005.

Interest expense of $847,000 for the year ended December 31, 2005 was $487,000 more than the comparable period in 2004, primarily due to an increase in the level of debt outstanding during the year resulting from the acquisition of PTI, borrowings at Lynch Systems, as well as higher interest rates.

Other income for the year ended December 31, 2005 was $62,000, $55,000 more than the $7,000 recorded for the comparable period in 2004, primarily due to a gain on the sale of a warehouse in Orlando, FL in the second quarter 2005.

Income Taxes

The Company files consolidated federal income tax returns, which includes all subsidiaries.

The income tax benefit for the year period ended December 31, 2005 included federal, as well as state, local, and foreign taxes offset by provisions made for certain net operating loss carry-forwards that may not be fully realized. The income tax benefit also includes a non-recurring reduction to an income tax reserve of $716,000 in the third quarter 2005, which was originally provided for during 2001. The tax reserve was increased in the fourth quarter of 2005 by a net $232,000 provision for federal and state tax reserves identified in that period.

Net Income (Loss)

Net income for the year ended December 31, 2005 was $1,210,000, compared to a net loss of $3,326,000 for the comparable period in 2004. As a result, fully diluted income per share for the year ended December 31, 2005 was $0.73 compared to a $2.18 loss per share for the comparable period of 2004.

Backlog/New Orders

Total backlog of manufactured products at December 31, 2005 was $13,860,000, a $3,714,000 decline compared to the backlog at December 31, 2004, and $790,000 increase from the backlog at September 30, 2005.

MtronPTI had backlog orders of $8,906,000 at December 31, 2005 compared to $7,647,000 at December 31, 2004 and $8,218,000 at September 30, 2005. Backlog increased $1,259,000 from December 31, 2004 and increased $688,000 from September 30, 2005. The increase in backlog is due to improved business conditions.

Lynch Systems had backlog orders of $4,954,000 at December 31, 2005 compared to $9,927,000 at December 31, 2004 and $4,852,000 at September 30, 2005. Backlog decreased $4,973,000 from December 2004 due to shipment of large CRT machines in 2005 and increased $102,000 from September 30, 2005. At December 31, 2005 the backlog of $4,954,000 comprised glass press machine orders and parts and did not contain any CRT machine orders.

Inflation Risk

In the three most recent years, the Company as a whole has not been significantly exposed to the impact of inflationary risk. Our principle raw materials have been relatively stable. The Company generally has been able to include cost increases in its pricing, and therefore, revenues and margins have not been significantly impacted.

Most raw materials used in the production of MtronPTI products are available in adequate supply from a number of sources. The prices of these raw materials are relatively stable. However, some raw materials including printed circuit boards, quartz, and certain metals including steel, aluminum, silver, gold, tantalum and palladium, are subject to greater supply fluctuations and price volatility.

Lynch Systems is in the industrial machinery market. The price of steel, a major component of glass forming machinery, has remained relatively stable in 2006 after rising severely in 2004 and 2005. Lynch Systems has been required to absorb a portion of that price increase with little ability to pass price increases along. The dramatic increase in energy prices have roiled the tableware market and have reduced demand.

Liquidity and Capital Resources

The Company's cash, cash equivalents and investments in marketable securities at December 31, 2006 totaled $7,135,000 (including $96,000 of restricted cash), a decrease of $1,765,000 over the prior year. At December 31, 2005, the Company had $8,900,000 in cash (including $650,000 of restricted cash) cash equivalents, and investments. The unrestricted cash and cash equivalents component decreased by $1,083,000, from $5,512,000 at December 31, 2005, to $4,429,000 at December 31, 2006.

Cash used in operating activities was $1,855,000 in 2006, compared to $2,283,000 of cash provided by operating activities in 2005. The year to year change in operating cash flow of $4,138,000 was primarily due to an increase in inventory of $1,861,000 and a decrease of $1,726,000 in operating income.

Investing activities provided $2,377,000 in cash to the Company primarily comprised of $2,976,000 of proceeds from the sales of marketable securities.

Cash of $1,604,000 was used in financing activities mainly as a result of $1,119,000 of long-term debt repayments and $582,000 of note repayments.

At December 31, 2006, the Company's net working capital was $12,463,000 compared to $11,925,000 at December 31, 2005. At December 31, 2006, the Company had current assets of $23,613,000 and current liabilities of $11,150,000. The ratio of current assets to current liabilities was 2.12 to 1.0. At December 31, 2005, the Company had current assets of $24,870,000 and current liabilities of $12,945,000, and a current ratio of 1.92 to 1.00. The increase in net working capital is primarily due to the building up of inventory levels.

The Company had a $6,744,000 of unused borrowing capacity under Lynch Systems' and MtronPTI's revolving lines of credit at December 31, 2006, compared to $5,327,000 at December 31, 2005. 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.

Lynch Systems and MtronPTI 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 Company. At December 31, 2005, MtronPTI's credit facility included an unsecured parent Company guarantee which was supported by a $650,000 Letter of Credit that was secured by a $650,000 deposit at Bank of America. As of October 7, 2006, the Company no longer guarantees the Letter of Credit and the $650,000 deposit is no longer restricted. The Lynch credit facility includes an unsecured parent Company guarantee at December 31, 2005 and 2006.

At December 31, 2006, the Company had $2,256,000 in notes payable to banks. At December 31, 2006, Mtron's short-term credit facility with First National Bank of Omaha ("FNBO") is $5,500,000, under which there is a revolving credit loan for $1,356,000. The Revolving Loan bears interest at the greater of prime rate or 4.5%. On May 31, 2006, Mtron renewed its credit agreement with FNBO extending the due date of its revolving loan to May 31, 2007.

The Company also had a working capital revolver at Lynch Systems that had been entered into in October 2005 with Branch Banking and Trust Company ("BB&T"). The revolving loan had a $3,500,000 borrowing capacity, due January 29, 2007 and bore interest at the One Month LIBOR Rate plus 2.75%. At December 31, 2006, Lynch's borrowings on the line of credit were $900,000. The revolver expired by its own terms in January 29, 2007. The line of credit borrowings plus accrued interest, of $905,000, was repaid on February 13, 2007.

In 2007, the Company has established a new line of credit with Bank of America which allows for $1,100,000 of borrowings. Borrowings on this new Lynch Systems line bear interest at a rate of LIBOR plus 1.75%. The entire borrowing capacity is collateralized by a $1,100,000 of restricted cash on deposit. There are no covenants associated with this credit line.

On September 30, 2005, MtronPTI entered into a Loan Agreement with RBC Centura Bank ("RBC"). The RBC Term Loan Agreement provided 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 of the RBC Term Loan. The RBC Term Loan is secured by a mortgage on PTI's premises. In connection with this RBC Term Loan, MtronPTI 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. 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 December 31, 2006 is $22,000, $14,000 net of tax, and at December 31, 2005 was ($1,000). The charge is reflected within other comprehensive income, net of tax.

All outstanding obligations under the RBC Term Loan Agreement are collateralized by security interests in the assets of MtronPTI. 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. At December 31, 2006, the Company was in compliance with these covenants.

On October 14, 2004, MtronPTI entered into a Loan Agreement with First National Bank of Omaha. The FNBO Loan Agreement provides for loans in the amounts of $2,000,000 (the “Term Loan”) in addition to the $3,000,000 Bridge Loan referred to above. The Term Loan bears interest at the greater of prime rate plus 50 basis points, or 4.5%, and is 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, October 2007. Accrued interest thereon was payable monthly and the principal amount thereof, together with accrued interest.

In 2004, in connection with the acquisition of PTI, the Company provided $1,800,000 of subordinated financing to MtronPTI and MtronPTI issued a subordinated promissory note to the Company in such amount increasing the subordinated total to $2,500,000. In October 2006, an additional $75,000 was lent to Mtron to enable it to make an investment in marketable equity securities.

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 2007. (See Note 3 to the Consolidated Financial Statements – “Notes Payable to Banks and Long-term Debt” for restrictions on the company’s assets).

At December 31, 2006, total debt of $7,383,000 was $1,701,000 less than the total debt of $9,084,000 at December 31, 2005. The debt decreased at both MtronPTI and Lynch Systems due to repayments of revolving debt and scheduled payments on long-term debt. Debt outstanding at December 31, 2006 included $3,601,000 of fixed rate debt at year-end average interest rate of 5%, and variable rate debt of $3,782,000 at a year end average rate of 8.45% as a result of the swap agreement which effectively converts the interest on the RBC loan into a fixed payment. At December 31, 2006, the Company had $2,027,000 in current maturities of long-term debt.

Off-Balance Sheet Arrangements

In December 2006, the Company entered into a cashless collar transaction to protect itself against the volatility associated with the Company’s investment in marketable securities which are designated as available for sale and accordingly, are marked to market. Under the terms of the collar, which began on December 27, 2006 and had a March 27, 2007 expiration, the Company hedged all of its marketable securities and received protection from market fluctuations within a defined market price range. The fair value of this collar at December 31, 2006 was de-minimis. On March 27, 2007, the Company allowed the call to expire and exercised the put, thereby selling the stock at the option’s strike price.

Aggregate Contractual Obligations

Details of the Company’s contractual obligations at December 31, 2006, for short-term debt, long-term debt, leases, purchases and other long term obligations are as follows (see Notes 3 and 10 to the Consolidated Financial Statements):

Contractual Obligations	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
	Payments Due by Period – Including Interest *(in thousands)*				
Short-term Debt	$ 2,256	$ 2,256	$ —	$ —	$ —
Long-term Debt Obligations	5,127	2,027	3,101		—
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	$ 135	109	26		—
Purchase Obligations	—	—	—	—	—
Other Long-term Liabilities	—	—	—	—	—
TOTAL	$ 7,519	$ 4,392	$ 3,127	$ —	$ —

Critical Accounting Policies

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements. The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to the carrying value of inventories, realizability of outstanding accounts receivable, percentage of completion of long-term contracts, and the provision for income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the past, actual results have not been materially different from the Company's estimates. However, results may differ from these estimates under different assumptions or conditions.

The Company has identified the following as critical accounting policies, based on the significant judgments and estimates used in determining the amounts reported in its consolidated financial statements:

Accounts Receivable

Accounts receivable on a consolidated basis consist principally of amounts due from both domestic and foreign customers. Credit is extended based on an evaluation of the customer's financial condition and collateral is not generally required except at Lynch Systems where collateral generally consists of letters of credit on large machine and international purchases. 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.

The Company maintains 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 were 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 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. At MtronPTI, inventories are valued using the first-in-first-out (FIFO) method for 69.3% of the inventory, and 30.7% is valued using last-in-first-out (LIFO). At

Lynch, 100% of the inventory is valued at last-in-first-out (LIFO), with no inventory valued using FIFO. Total consolidated gross inventories valued using LIFO represent 49.2% of consolidated inventories at December 31, 2006 compared with 52% of consolidated inventories valued using LIFO at December 31, 2005. (The balance of consolidated inventory at December 31, 2006 and 2005 are valued using FIFO.) If actual market conditions are more or less favorable than those projected by management, 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 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. 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 December 31, 2006 and 2005, unbilled accounts receivable were $227,000 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. 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. 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 worldwide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year or thirteen months. Based upon historical experience, the Company provides for estimated warranty costs 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, January 1, 2006	$ 357
Warranties issued during the year	169
Settlements made during the year	(193)
Changes in liabilities for pre-existing warranties during the year, including expirations	(152)
Balance, December 31, 2006	$ 181

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. A valuation allowance is recorded for deferred tax assets whose realization is not likely. As of December 31, 2006 a valuation allowance of $2,047,000 was recorded compared with a valuation allowance of $2,212,000 recorded at December 31, 2005.

The carrying value of the Company’s net deferred tax asset at December 31, 2006 is $111,000. At December 31, 2005 the carrying value of the Company’s net deferred tax asset was $111,000. This is equal to the amount of the Company’s carry-forward alternative minimum tax (“AMT”) at that date.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several different tax jurisdictions. The Company evaluates the exposure associated with the various filing positions and records estimated reserves for probable exposures. Based on the Company’s evaluation of current tax positions, it believes that it has appropriately accrued for probable exposures.

Stock Based Compensation

The Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, “Share-Based Payments (“SFAS No. 123-R”) beginning January 1, 2006, using the modified prospective transition method. SFAS 123-R requires the Company to measure the cost of employee services in exchange for an award of equity instruments based on the grant-date fair value of the award and to recognize cost over the requisite service period. Under the modified prospective transition method, financial statements for periods prior to the date of adoption are not adjusted for the change in accounting. However, the compensation expense is recognized for (a) all share-based payment granted after the effective date under SFAS 123R, and (b) all awards granted under SFAS 123 to employees prior to the effective date that remain unvested on the effective date. The Company recognizes compensation expense on fixed awards with pro rata vesting on a straight-line basis over the vesting period.

Prior to January 1, 2006, the Company used the intrinsic value method to account for stock-based employee compensation under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees.”

Recent Issued Accounting Pronouncements

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.

Item 7A. ***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 ($4,525,000 at December 31, 2006) and the amount the Company pays on its variable rate debt. The Company’s earnings and cash flows are also affected by changes in interest rates as a result of making variable interest rate payments on its debt. In order to minimize its interest rate risk, on September 30, 2005, in connection with its $3,040,000 five-year, LIBOR plus 2.75% RBC Term Loan, MtronPTI entered into a five-year interest rate swap with the notional amount equal to the loan amount from which it will receive periodic payments at the LIBOR Base Rate and will make periodic payments at a fixed rate. At December 31, 2006, the fixed rate is 7.51% comprised of the fixed pay rate of the swap of 6.59% plus the .92% differential between the variable rate of the loan, LIBOR plus 2.75%, and the prime rate, the variable rate of the swap. 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.

In December 2006, the Company entered into a cashless collar transaction to protect itself against the volatility associated with the Company's marketable securities which are designated as available for sale and accordingly, are marked to market. Under the terms of the collar, which began on December 27, 2006 and expired March 27, 2007, the Company hedged all of its marketable securities and received protection from market fluctuations within a defined market price range. The fair value of this collar at December 31, 2006 was de-minimis.

There has been no significant change in market risk since December 31, 2006.

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

See Item 15(a).

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

Item 9A. ***Controls and Procedures***

The Principal Executive Officer/Principal Financial Officer has 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, Rule 13a-15 under the Securities Exchange Act of 1934.

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

Item 9B. ***Other Information***

Not applicable.

Item 10. ***Directors and Executive Officers of the Registrant***

The information required by this Item 10 is either included in Item 1 of this Form 10-K or included in Company's Proxy Statement for its 2007 Annual Meeting of Shareholders, which information is incorporated herein by reference.

Item 11. ***Executive Compensation***

The information required by this Item 11 is included in the Company's Proxy Statement for its 2007 Annual Meeting of Shareholders, which information is incorporated herein by reference.

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

The information required by this Item 12 is either provided in Item 5 or included in the Company's Proxy Statement for its 2007 Annual Meeting of Shareholders, which information is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions***

The information required by this Item 13 is included in the Company's Proxy Statement for its 2007 Annual Meeting of Shareholders, which information is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information required by this Item 14 is included in the Company's Proxy Statement for its 2007 Annual Meeting of Shareholders, which information is incorporated herein by reference.

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as part of this Form 10-K Annual Report:

(1) Financial Statements:

The Report of Independent Registered Public Accounting Firm and the following Consolidated Financial Statements of the Company are included herein:
Consolidated Balance Sheets at December 31, 2006 and 2005
Consolidated Statements of Operations — Years ended December 31, 2006, 2005, and 2004
Consolidated Statements of Shareholders' Equity — Years ended December 31, 2006, 2005, and 2004
Consolidated Statements of Cash Flows — Years ended December 31, 2006, 2005, and 2004
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules as of December 31, 2006 and 2005 and for the three years ended December 31, 2006:

Schedule I — Condensed Financial Information of Company
Schedule II — Valuation and Qualifying Accounts

(3) Exhibits

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, and therefore have been omitted.

EXHIBIT INDEX

Exhibit No.	Description
3 (a)	Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3(a) to the Company's Form 10-K for the year ended December 31, 2004).
(b)	Articles of Amendment of the Articles of Incorporation of the Company (incorporated by reference to Exhibit 3(b) to the Company's Form 10-K for the year ended December 31, 2004).
(c)*	Articles of Amendment of the Articles of Incorporation of the Company.
(d)	By-laws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated December 22, 2004).
10 (a)	The LGL Group, Inc. 401(k) Savings Plan (incorporated by reference to Exhibit 10(b) to the Company's Annual Report on Form 10-K for the period ended December 31, 1995).
(b)	Directors Stock Plan (incorporated by reference to Exhibit 10(o) to the Company's Form 10-K for the year ended December 31, 1997).
(c)	The LGL Group, Inc. 2001 Equity Incentive Plan adopted December 10, 2001 (incorporated by reference to Exhibit 4 to the Company's Form 8-K filed on December 29, 2005.
(d)	Amended and Restated Credit Agreement by and between Lynch Systems, Inc. and SunTrust Bank dated as of June 10, 2002 (incorporated by reference to Exhibit 10(z) to the Company's Form 10-K for the year ended December 31, 2002).
(e)	Unlimited Continuing Guaranty Agreement by Guarantor, The LGL Group, Inc., dated June 10, 2002 (incorporated by reference to Exhibit 10(aa) to the Company's Form 10-K for the year ended December 31, 2002.
(f)	First Amendment and Waiver to Amended and Restated Credit Agreement between Lynch Systems, Inc. and SunTrust Bank dated May 30, 2003 (incorporated by reference to Exhibit 10(ee) to the Company's Form 10-Q for the period ending June 30, 2003).
(g)	Term Loan Promissory Note between Lynch Systems, Inc. and SunTrust Bank dated August 4, 2003 (incorporated by reference to Exhibit 10(ff) to the Company's Form 10-Q for the period ending June 30, 2003).
(h)	Second Amendment to Security Deed and Agreement dated August 4, 2003 between Lynch Systems, Inc. and SunTrust Bank (incorporated by reference to Exhibit 10(gg) to the Company's Form 10-Q for the period ending June 30, 2003).
(i)	Mortgage dated October 21, 2002 by Mortgagor, Mtron Industries, Inc., to Mortgagee, Yankton Area Progressive Growth, Inc. (incorporated by reference to Exhibit 10(hh) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(j)	Promissory Note between Mtron Industries, Inc. and Yankton Area Progressive Growth, Inc., dated October 21, 2002 (incorporated by reference to Exhibit 10(ii) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(k)	Standard Loan Agreement by and between Mtron Industries, Inc. and Areawide Business Council, Inc., dated October 10, 2002 and Exhibits thereto (incorporated by reference to Exhibit 10(jj) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(l)	Loan Agreement by and between Mtron Industries, Inc. and South Dakota Board of Economic Development, dated December 19, 2002 (incorporated by reference to Exhibit 10(kk) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(m)	Promissory Note between Mtron Industries, Inc. and South Dakota Board of Economic Development, dated December 19, 2002 (incorporated by reference to Exhibit 10(ll) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(n)	Employment Agreement by and between Mtron Industries, Inc. and South Dakota Board of Economic Development, dated December 19, 2002 (incorporated by reference to Exhibit 10(mm) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(o)	Loan Agreement by and among Mtron Industries, Inc., Piezo Technology, Inc. and First National Bank of Omaha (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 20, 2004).

(p) Unconditional Guaranty for Payment and Performance with First National Bank of Omaha (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated October 20, 2004).

(q) Registration Rights Agreement by and between the Company and Venator Merchant Fund, L.P. dated October 15, 2004 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated October 20, 2004).

(r) Form of Indemnification Agreement dated as of February 28, 2005 by and between The LGL Group, Inc. and its executive officers (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 16, 2005).

(s) Registration Rights Agreement by and between the Company and Venator Merchant Fund, L.P. dated October 15, 2004 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated October 20, 2004).

(t) Promissory Note made by The LGL Group, Inc. to Venator Merchant Fund, L.P., dated May 12, 2005 (incorporated herein by reference to Exhibit 10.1 the Company's Current Report on Form 8-K filed on May 16, 2005).

(u) First Amendment to the Loan Agreement by and among M-Tron Industries, Inc., Piezo Technology, Inc. and First National Bank of Omaha, dated May 31, 2005 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report of on Form 8-K filed on July 6, 2005).

(v) Letter Agreement, dated September 8, 2005, by and between The LGL Group, Inc. and Venator Merchant Fund L.P. extending the maturity date of the promissory note in favor of Venator Merchant Fund L.P. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 9, 2005).

(w) Loan Agreement, by and among M-Tron Industries, Inc., Piezo Technology, Inc. and RBC Centura Bank, dated September 30, 2005 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 4, 2005).

(x) Unconditional Guaranty for Payment by and between The LGL Group, Inc. and RBC Centura Bank, dated September 30, 2005 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 4, 2005).

(y) Loan Agreement, by and among The LGL Group, Inc., Lynch Systems and Branch Bank and Trust Company, dated September 29, 2005, effective October 6, 2005 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K on October 11, 2005).

(z) Guaranty Agreement for Payment and Performance by and between The LGL Group, Inc. and Branch Bank and Trust Company, dated September 29, 2005, effective October 6, 2005 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 11, 2005).

(aa) First Amended and Restated Extension Agreement by and among Lynch Systems, Inc., Lynch Corporation and SunTrust Bank, dated October 6, 2005 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 11, 2005).

(bb) First Amendment to First Amended and Restated Extension Agreement by and among Lynch Systems, Inc., Lynch Corporation and SunTrust Bank, dated December 21, 2005 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K on January 5, 2006).

(cc) Second Amendment to the Loan Agreement, dated June 30, 2006, by and among M-tron Industries, Inc., Piezo Technology, Inc. and First National Bank of Omaha, and acknowledged and guaranteed by The LGL Group, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 7, 2006).

(dd) Employment Agreement, dated September 5, 2006, by and between The LGL Group, Inc. and Jeremiah M. Healy (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 7, 2006).

(dd) Third Amendment to the Loan Agreement, dated October 3, 2006, by and among M-tron Industries, Inc., Piezo Technology, Inc. and First National Bank of Omaha, and acknowledged and guaranteed by LGL Group, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 4, 2006).

(ee) Letter Agreement, dated October 4, 2006, by and between Branch Banking & Trust Co. and Lynch Systems, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 11, 2006).

(ff)	Guaranty Agreement, dated September 29, 2006, by and between Branch Banking & Trust Co. and Lynch Systems, Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 11, 2006).
(gg)	Employment Agreement, dated March 20, 2007, by and between The LGL Group, Inc. and Steve Pegg (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 20, 2007).
14	Amended and Restated Business Conduct Policy (incorporated by reference to Exhibit 14 to the Company's Form 10-K for the year ended December 31, 2004).
21	Subsidiaries of the Company (incorporated by reference to Exhibit 21 to the Company's Form 10-K for the year ended December 31, 2004).
23*	Consent of Independent Registered Public Accounting Firm - Ernst & Young LLP.
31 (a)*	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31 (b)*	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32 (a)*	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32 (b)*	Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

The Exhibits listed above have been filed separately with the Securities and Exchange Commission in conjunction with this Annual Report on Form 10-K or have been incorporated by reference into this Annual Report on Form 10-K. The LGL Group, Inc. will furnish to each of its shareholders a copy of any such Exhibit for a fee equal to The LGL Group, Inc.'s cost in furnishing such Exhibit. Requests should be addressed to the Office of the Secretary, The LGL Group, Inc., 140 Greenwich Ave, 4th Floor, Greenwich, Connecticut 06830.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE LGL GROUP, INC.

March 30, 2007

BY: ______________________

Jeremiah M. Healy

President, Chief Executive Officer

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

Signature	**Capacity**	**Date**
/s/ *Jeremiah M. Healy* JEREMIAH M. HEALY	Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer	March 30, 2007
/s/ *Marc J. Gabelli* MARC J. GABELLI	Chairman of the Board of Directors	March 30, 2007
/s/ *E. Val Cerutti* E. VAL CERUTTI	Director	March 30, 2007
/s/ *Peter J. DaPuzzo* PETER J. DAPUZZO	Director	March 30, 2007
/s/ *Avrum Gray* AVRUM GRAY	Director	March 30, 2007
/s/ *Patrick J. Guarino* PATRICK J. GUARINO	Director	March 30, 2007
/s/ *Anthony Pustorino* ANTHONY PUSTORINO	Director	March 30, 2007

Report Of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
The LGL Group, Inc.

We have audited the accompanying consolidated balance sheets of The LGL Group, Inc. (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedules listed in Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The LGL Group, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) (revised 2004), Share-Based Payment, effective January 1, 2006.

ERNST & YOUNG LLP

Providence, Rhode Island
March 29, 2007

THE LGL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	December 31, 2006	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,429	$ 5,512
Restricted cash (Note 1)	96	650
Investments – marketable securities (Note 1)	2,610	2,738
Accounts receivable, net of allowances of $808 and $325, respectively (Note 1)	6,976	7,451
Unbilled accounts receivable (Note 1)	227	902
Inventories (Note 2)	8,906	7,045
Prepaid expense	369	461
Total Current Assets	23,613	24,759
Property, Plant and Equipment		
Land	855	855
Buildings and improvements	5,770	5,767
Machinery and equipment	15,358	14,606
Total Property, Plant and Equipment	21,983	21,228
Less: Accumulated depreciation	(15,218)	(14,025)
Net Property, Plant, and Equipment	6,765	7,203
Deferred Income Taxes	111	111
Other assets	469	591
Total Assets	$ 30,957	$ 32,664
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks	$ 2,256	$ 2,838
Trade accounts payable	2,796	2,900
Accrued warranty expense	181	357
Accrued compensation expense	1,492	1,372
Accrued income taxes	23	673
Accrued professional fees	562	574
Margin liability on marketable securities		330
Other accrued expenses	1,352	1,312
Commitments and contingencies (Note 10)	--	859
Customer advances	461	515
Current maturities of long-term debt	2,027	1,215
Total Current Liabilities	11,150	12,945
Long-term debt	3,100	5,031
Total Liabilities	14,250	17,976
Shareholders' Equity		
Common stock, $0.01 par value — 10,000,000 shares authorized; 2,188,510 and 1,649,834 shares issued; 2,154,702 and 1,632,126 shares outstanding, respectively	22	22
Additional paid-in capital	21,081	21,053
Accumulated deficit	(5,711)	(6,576)
Accumulated other comprehensive income (Note 8)	1,961	835
Treasury stock, at cost, of 33,808 shares	(646)	(646)
Total Shareholders' Equity	16,707	14,688
Total Liabilities and Shareholders' Equity	$ 30,957	$ 32,664

See accompanying Notes to Consolidating Financial Statements.

THE LGL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share amounts)

	Years Ended December 31,		
	2006	**2005**	**2004**
REVENUES	$ 49,300	$ 46,183	$ 33,834
Costs and expenses:			
Manufacturing cost of sales	35,747	31,448	25,784
Selling and administrative	14,101	13,407	10,163
Litigation provision (Note 10)	-	150	775
OPERATING PROFIT (LOSS)	(548)	1,178	(2,888)
Other income (expense):			
Investment income	1,750	608	15
Interest expense	(570)	(847)	(360)
Other income(expense)	7	62	7
Total other income(expense)	1,187	(177)	(338)
INCOME (LOSS) BEFORE INCOME TAXES	639	1,001	(3,226)
Benefit (Provision) for income taxes	226	209	(100)
NET INCOME (LOSS)	$ 865	$ 1,210	$ (3,326)
Weighted average number of shares used in basic, fully diluted EPS calculation	2,154,702	1,647,577	1,524,863
Basic, fully diluted income (loss) per share	$ 0.40	$ 0.73	$ (2.18)

See accompanying Notes to Consolidated Financial Statements

THE LGL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share data)

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Total
Balance at December 31, 2002	1,497,883	$ 15	$ 15,645	$ (4,570)	$ 302	$ (458)	$ 10,934
Comprehensive Income (Loss):							
Net income for year	—	—	—	110	—	—	110
Other comprehensive loss	—	—	—	—	(11)	—	(11)
Comprehensive Income							99
Balance at December 31, 2003	1,497,883	15	15,645	(4,460)	291	(458)	11,033
Comprehensive Income (Loss):							
Net loss for year	—	—	—	(3,326)	—	—	(3,326)
Other comprehensive income	—	—	—	—	558	—	558
Comprehensive Loss							(2,768)
Issuance of Common Stock to fund acquisition, net of fees of $40,000	136,643	1	1,759	—	—	—	1,760
Purchase of Treasury Stock	(2,400)	—	—	—	—	(32)	(32)
Balance at December 31, 2004	1,632,126	16	17,404	(7,786)	849	(490)	9,993
Comprehensive Income (Loss):							
Net income for year	—	—	—	1,210	—	—	1,210
Other comprehensive loss	—	—	—	—	(14)	—	(14)
Comprehensive Income							1,196
Issuance of Common Stock rights offering, net of fees of $250,000	538,676	6	3,649	—	—	—	3,655
Purchase of Treasury Stock	(16,100)	—	—	—	—	(156)	(156)
Balance at December 31, 2005	2,154,702	$ 22	$ 21,053	$ (6,576)	$ 835	$ (646)	$ 14,688
Comprehensive Income (Loss):							
Net income for year	—	—	—	865	—	—	865
Other comprehensive income	—	—	—	—	1,126	—	1,126
Comprehensive Income							1,991
Stock Based Compensation	—	—	28	—	—	—	28
Balance at December 31, 2006	2,154,702	$ 22	$ 21,081	$ (5,711)	$ 1,961	$ (646)	$ 16,707

See accompanying Notes to Consolidated Financial Statements

THE LGL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2006	**2005**	**2004**
OPERATING ACTIVITIES			
Net income (loss)	$ 865	$ 1,210	$ (3,326)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,193	1,398	980
Amortization of definite-lived intangible assets	96	111	187
(Gain) loss on disposal of fixed assets	—	(69)	47
Gain realized on sale of marketable securities	(1,750)	(567)	—
Lawsuit settlement provision	—	150	775
Stock based compensation	28	—	—
Deferred income taxes		—	(6)
Changes in operating assets and liabilities:			
Net Receivables	1,150	514	(1,505)
Inventories	(1,861)	807	(456)
Accounts payable and accrued liabilities	(836)	249	(198)
Other assets/liabilities	(740)	(1,520)	1,592
Net cash provided by (used in) operating activities	(1,855)	2,283	(1,910)
INVESTING ACTIVITIES			
Capital expenditures	(755)	(343)	(440)
Restricted cash	554	475	—
Acquisition, net of cash acquired	—	—	(7,348)
Proceeds from sale of marketable securities	2,976	1,348	—
Proceeds from sale of fixed assets	—	307	—
Payment on margin liability on marketable securities	(330)	(1,236)	(300)
Purchase of marketable securities	(68)	—	(754)
Net cash provided by (used in) investing activities	2,377	551	(8,842)
FINANCING			
Net (repayments) borrowings of notes payable	(582)	(2,719)	3,581
Repayment of long—term debt	(1,119)	(758)	(972)
Proceeds from long—term debt	—	—	5,000
Issuance of common stock, net of fees	—	3,655	1,760
Purchase of treasury stock	—	(156)	(32)
Other	96	76	14
Net cash provided by (used in) financing activities	(1,603)	98	9,351
Increase (decrease) in cash and cash equivalents	(1,088)	2,932	(1,401)
Cash and cash equivalents at beginning of year	5,512	2,580	3,981
Cash and cash equivalents at end of year	$ 4,429	$ 5,512	$ 2,580
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest Paid	$ 626	$ 772	$ 343

See accompanying Notes to Consolidated Financial Statements

THE LGL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

1. Accounting and Reporting Policies

Organization

The LGL Group, Inc. (the "Company") is a diversified holding company with subsidiaries engaged in manufacturing primarily in the United States. The Company has two principal operating subsidiaries Mtron/PTI and Lynch Systems, Inc ("Lynch Systems"). Information on the Company's operations by segment and geographic area is included in Note 12 — "Segment Information".

As of December 31, 2006, the Subsidiaries of the Company are as follows:

	Owned By LGL, Group, Inc.
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%

Principles of Consolidation

The consolidated financial statements include the accounts of The LGL Group, Inc. and entities in which Lynch had majority voting control. All intercompany transactions and accounts have been eliminated in consolidation.

Uses of Estimates

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

Reclassifications

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to current year presentation. During 2006, the Company began disclosing foreign segment information by country. For consistency, the 2005 and 2004 related amounts are also provided in Note 11 to the Consolidated Financial Statements "Segment Information".

Cash and Cash Equivalents

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

At December 31, 2006, the Company had $4,429,000 of cash and cash equivalents, not including restricted cash, compared with $5,512,000 at December 31, 2005. At December 31, 2006, $2,040,000 of this amount is invested in United States Treasury money market funds for which affiliates of the Company serve as investment managers to the respective funds. Interest earned on these funds is at market rates. At December 31, 2005, $47,000 was invested with the affiliate money manager.

Restricted Cash

The Company's cash and cash equivalents at December 31, 2006 totaled $4,525,000, including $96,000 of restricted cash. This restricted cash is held against a Stand-by Letter of Credit that was issued to a customer against a partially completed machine. At December 31, 2005, the Company had $6,162,000 in cash and cash equivalents, including $650,000 of restricted cash. The restricted cash had secured a Stand-By Letter of Credit that had been issued as collateral for MtronPTI's loan with the Bank of Omaha. As of October 16, 2006, the stand-by letter of credit was no longer in place and at October 19, 2006 the restriction on the $650,000 on deposit was lifted. (See Note 3 to the Consolidated Financial Statements – "Notes Payable to Banks and Long-term Debt").

Investments

Investments in marketable equity securities are classified as available for sale and are recorded at fair value as a component of other assets, pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Unrealized gains and losses on these securities, net of income taxes, are included in shareholders' equity as a component of accumulated other comprehensive income (loss). First in first out method is used in determining cost basis for the calculation of gain/loss of securities sold. Investments in non-marketable equity securities are accounted for under either the cost or equity method of accounting. The Company periodically reviews investment securities for impairment based on criteria that include the duration of the market value decline. If a decline in the fair value of an investment security is judged to be other than temporary, the cost basis is written down to fair value with a charge to earnings.

In December 2006, the Company entered into a cashless collar transaction to protect itself against the volatility associated with the Company's investment in marketable securities which are designated as available for sale and accordingly, are marked to market. Under the terms of the collar, which began on December 27, 2006 and had an expiration date of March 27, 2007, the Company hedged all of its marketable securities and received protection from market fluctuations within a defined market price range. The fair value of this collar at December 31, 2006 was de-minimis. On March 27, 2007, the Company allowed the call to expire and exercised the put, thereby selling the stock at the option's strike price.

The following is a summary of marketable securities (investments) held by the Company (in thousands) December 31, 2006:

December 31,	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2006	$ 833	$1,777	----	$2,610
2005	$1,991	$ 747	—	$2,738

The Company had a margin liability against this investment of $330,000 at December 31, 2005 which was settled in February 2006 upon disposition of the related securities. At December 31, 2006, the Company has no margin liability against its investments.

Accounts Receivable

Accounts receivable on a consolidated basis consist principally of amounts due from both domestic and foreign customers. Credit is extended based on an evaluation of the customer's financial condition and collateral is not 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 credit sales are made to industries that are subject to cyclical economic changes. The Company maintains an allowance for doubtful accounts at a level that management believes is sufficient to cover potential credit losses.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its clients 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 may be required. The Company’s failure to accurately estimate the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on its business, financial condition, and results of operations.

Property, Plant and Equipment, Net

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

Intangible Assets

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 the estimated useful lives of the assets, which range from 2 years to 10 years. The intangible assets consist of customer relationships, trade name and funded technologies.

Revenue Recognition

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.

Accounting for Long-Term Contracts

Lynch Systems 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. Guarantees by letter of credit from a qualifying financial institution are generally 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 December 31, 2006, unbilled accounts receivable was $227,000 compared with unbilled accounts receivable of $902,000 at December 31, 2005.

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. 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, the Company has occasionally been required to commit unanticipated additional resources to complete projects, which has resulted in lower than anticipated profitability or losses on those contracts. The Company 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 worldwide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year or thirteen months. Based upon historical experience, the Company provides for estimated warranty costs 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. The warranty expense at December 31, 2006 is comprised of the following:

	(in thousands)
Balance, January 1, 2005	$466
Warranties issued during the year	186
Settlements made during the year	(282)
Changes in liabilities for pre-existing warranties during the year, including expirations	(13)
Balance, December 31, 2005	$ 357
Warranties issued during the year	$169
Settlements made during the year	($193)
Changes in liabilities for pre-existing warranties during the year, including expirations	(152)
Balance, December 31, 2006	$181

Research and Development Costs

Research and development costs are charged to operations as incurred. Such costs were $2,549,000 in 2006 compared with $2,505,000 and $1,193,000 in 2005 and 2004, respectively.

Advertising Expense

Advertising costs are charged to operations as incurred. Such costs were $177,000 in 2006 compared with $181,000 and $183,000 in 2005 and 2004, respectively.

Stock Based Compensation and Earnings per Share

The Company adopted the provisions of Statement of Financial Accounting Standards 123R, “Share-Based Payment” (“SFAS 123R”), beginning January 1, 2006, using the modified prospective transition method. SFAS 123R requires the Company to measure the cost of employee services in exchange for an award of equity instruments based on the grant-date fair value of the award and to recognize cost over the requisite service period. Under the modified prospective transition method, financial statements for periods prior to the date of adoption are not adjusted for the change in accounting. However, compensation expense is recognized for (a) all share-based payments granted after the effective date under SFAS 123R, and (b) all awards granted under SFAS 123 to employees prior to the effective date that remain unvested on the effective date. The Company recognizes compensation expense on fixed awards with pro rata vesting on a straight-line basis over the vesting period.

Prior to January 1, 2006, the Company used the intrinsic value method to account for stock-based employee compensation under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and therefore the Company did not recognize compensation expense in association with options granted at or above the market price of the Company’s common stock at the date of grant.

On May 2005, the Company granted options to purchase 120,000 shares of common stock to certain employees and directors of the Company at $13.17 per share. The vesting of these shares was accelerated to reduce the effects of the adoption of SFAS 123R, which requires companies to recognize stock-based compensation associated with stock options based on the fair value method. Had the Company not taken this action, $300,000 of stock-based compensation charges would have been recorded in the statement of operations through fiscal 2010 (approximately $68,000 in fiscal years 2006, 2007, 2008, 2009 and $28,000 for the five months in fiscal 2010.)

The adoption of SFAS 123R did not have a material impact on the Company’s results of operations, cash flows and earnings per share for the year ended December 31, 2006 due to the fact that all of the Company’s outstanding stock options were fully vested at December 31, 2005.

In September 2006, the Company issued restricted stock to two executives which are being accounted for under SFAS No. 123 R. Total stock compensation expense recognized by the Company for the year ended December 31, 2006 associated with this restricted stock was $28,000. The remaining unrecognized compensation expense of $137,000 will be recognized rateably over the next 20 months.

The following table presents a reconciliation of reported net income (loss) and per share information to pro forma net loss and per share information that would have been reported if the fair value method had been used to account for stock-based employee compensation in 2005 and 2004.

	2005	**2004**
Net income (loss)-as reported	$1,210	($3,326)
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(340)	(52)
Net income (loss) pro forma	$ 870	($3,378)
Earnings (loss) per share:		
Basic and diluted earnings (loss) – as reported	$0.73	($2.18)
Basic and diluted (loss) earnings – pro forma	$0.52	($2.22)

The fair value of each option is estimated on the date of the grant using the Black-Scholes-Merton option-pricing model with the following weighted average assumptions:

	2005	2004

Dividend Yield	0.0%	0.0%
Expected volatility	49.0%	48.5%
Risk-free interest rate	3.0%	5.2%
Expected lives (years)	5.0	10.0
Weighted average fair value of options granted during the year	$2.83	$9.74

Historical Company information was the primary basis for the expected volatility assumption. Prior year grants were calculated using historical volatility as the Company believes that the historical volatility over the life of the option is more indicative of the options expected volatility in the future. Based on past history of actual performance, a zero forfeiture rate has been assumed.

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share adjusts basic earnings per share for the effects of stock options, restricted common stock, and other potentially dilutive financial instruments, only in the periods in which the effects are dilutive.

The following securities have been excluded from the dilutive earnings per share computation because the impact of the assumed exercise of stock options and vesting of restricted stock would have been anti-dilutive:

	2006	2005	2004
Options to purchase common stock	275,000	300,000	180,000
Unvested restricted stock	20,000	0	0
Total	295,000	300,000	180,000

Concentration of Credit Risk

In 2006, an electronics manufacturing company accounted for approximately $4,400,000 of total revenue of $41,549,000, or 10.6% of MtronPTI's total revenues, compared to approximately 14% and 18% for MtronPTI's largest customer in 2005 and 2004, respectively. (No other customer accounted for more than 10% of its 2006 revenues.) Sales to its ten largest customers accounted for approximately 58.6% of revenues in 2006, compared to approximately 63% and 48% of revenues for 2005 and 2004, respectively.

Lynch Systems' sales to its ten largest customers accounted for approximately 84% of its revenues in 2006 compared with 79% of its revenues in 2005 and 80% in 2004. Lynch Systems' sales to its single largest customer accounted for approximately 39% of its 2006 revenues, compared with 46% of its revenues in 2005 and 36% in 2004. If a significant customer reduces, delays, or cancels its orders for any reason, the business and results of operations of Lynch Systems would be negatively affected.

In 2006, approximately 15.9% of MtronPTI's revenue was attributable to finished products that were manufactured by an independent contract manufacturer located in both Korea and China. We expect this manufacturer to account for a smaller but substantial portion of MtronPTI's revenues in 2006 and a material portion of MtronPTI's revenues for the next several years. MtronPTI does not have a written, long-term supply contract with this manufacturer. If this manufacturer becomes unable to provide products in the quantities needed, or at acceptable prices, MtronPTI would have to identify and qualify acceptable replacement manufacturers or manufacture the products internally. Due to specific product knowledge and process capability, MtronPTI could encounter difficulties in locating, qualifying and entering into arrangements with replacement manufacturers. As a result, a reduction in the production capability or financial viability of this manufacturer, or a termination of, or significant interruption in, MtronPTI's relationship with this manufacturer, may adversely affect MtronPTI's results of operations and our financial condition.

Segment Information

The Company reports segment information in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 requires companies to report financial and descriptive information for each operating segment based on management's internal organizational decision-making structure. See Note 11 to the Consolidated Financial Statements – "Segment Information" - for the detailed presentation of the Company's business segments.

Impairments of Long-Lived Assets

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

Financial Instruments

Cash and cash equivalents, trade accounts receivable, short-term borrowings, trade accounts payable and accrued liabilities are carried at cost which approximates fair value due to the short-term maturity of these instruments. The carrying amount of the Company's borrowings under its revolving lines of credit approximates fair value, as the obligations bear interest at a floating rate. The fair value of other long-term obligations approximates cost based on borrowing rates for similar instruments.

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.

Guarantees

At December 31, 2006, the Company guaranteed (unsecured) the BB&T loans of Lynch Systems. The loan was paid off in February, 2007. The BB&T revolver was replaced with a revolving loan with Bank of America. The Company guarantees this loan which is secured by cash on deposit. The Company also guarantees (unsecured) the RBC loan of MtronPTI. As of December 31, 2006, there are no obligations to the RBC Centura Bank.

The Company had guaranteed to First National Bank of Omaha the payment and performance of Mtron's obligations under the Loan Agreement and ancillary agreements and instruments and had guaranteed a Letter of Credit issued to the First National Bank of Omaha on behalf of MtronPTI (see Note 3 to the Consolidated Financial Statements – "Notes Payable to Banks and Long-term Debt.) As of October 2006, the Letter of Credit is no longer in place.

There is no other financial, performance, indirect guarantees or indemnification agreement.

Recent Issued 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 123-R requires companies to measure compensation costs for share-based payments to employees, including stock options and restricted stock, at fair value and expense such compensation over the service period. Under SFAS 123-R, companies must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption.

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.

2. Inventories

Inventories are stated at the lower of cost or market value. At MtronPTI, inventories are valued using the first-in-first-out (FIFO) method for 69.3% of the inventory and the remaining 30.7% is valued using last-in-first-out (LIFO). At Lynch Systems, 100% of the inventory is valued at last-in-first-out (LIFO), with no inventory valued using FIFO. Total consolidated inventories valued using LIFO represent 49.2% of consolidated inventories at December 31, 2006 compared with 50.8% of consolidated inventories valued using LIFO at December 31, 2005. (The balance of consolidated inventory at December 31, 2006 and 2005 are valued using FIFO.) If actual market conditions are more or less favorable than those projected by management, adjustments may be required.

	December 31,	
	2006	**2005**
	(in thousands)	
Raw materials and supplies	$ 3,016	$ 2,817
Work in progress	2,394	2,232
Finished goods	3,496	1,996
Total	$ 8,906	$ 7,045

Current cost exceeded the LIFO value of inventories by $1,038,000 and $1,075,000 at December 31, 2006 and 2005, respectively.

3. Notes Payable to Banks and Long-term Debt

Notes payable to banks and long-term debt is comprised of:	December 31, 2006	December 31, 2005
	(in thousands)	
Notes payable:		
Mtron revolving loan (First National Bank of Omaha) at greater of prime or 4.5% (which is 8.25% at December 31, 2006), due May 2007	$ 1,356	$ 2,082
Lynch Systems working capital revolving loan (BB&T) at One Month LIBOR + 2.75%, (which is 8.07% at December 31, 2006), due January 29, 2007	900	756
	$ 2,256	$ 2,838
Long-term debt:		
Lynch Systems term loan (SunTrust) at a fixed interest rate of 6.5% was repaid in February 2006	----	$ 378
Mtron term loan (RBC) due October 2010. The note bears interest at LIBOR Base Rate plus 2.75%. Interest rate swap converts loan to a fixed rate, at 7.51% at December 31, 2006.	2,964	3,030
Mtron term loan (First National Bank of Omaha) at greater of: prime plus 50 basis points or 4.5%; 8.75% at December 31, 2006, due October 2007	1,287	1,612
Mtron commercial bank term loan at variable interest rates (8.75% at December 31, 2006), due April 2007	239	456
South Dakota Board of Economic Development at a fixed rate of 3%, due December 2007	250	262
Yankton Areawide Business Council loan at a fixed interest rate of 5.5%, due November 2007	65	74
Rice University Promissory Note at a fixed interest rate of 4.5%, due August 2009	203	275
Smythe Estate Promissory Note at a fixed interest rate of 4.5% due August 2009	119	159
	5,127	6,246
Current maturities	(2,027)	(1,215)
Long-term Debt	$ 3,100	$ 5,031

Lynch Systems and MtronPTI 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 Company. At December 31, 2005, MtronPTI's credit facility included an unsecured parent Company guarantee which was supported by a $650,000 Letter of Credit that was secured by a $650,000 deposit at Bank of America. As of October 7, 2006, the Company no longer guarantees the Letter of Credit and the $650,000 deposit is no longer restricted. The Lynch credit facility includes an unsecured parent Company guarantee at December 31, 2005 and 2006.

At December 31, 2006, the Company had $2,256,000 in notes payable to banks. At December 31, 2006, Mtron's short-term credit facility with First National Bank of Omaha ("FNBO") is $5,500,000, under which there is a revolving credit loan for $1,356,000. The Revolving Loan bears interest at the greater of prime rate or 4.5%. On May 31, 2006, Mtron renewed its credit agreement with FNBO extending the due date of its revolving loan to May 31, 2007.

The Company also had a working capital revolver at Lynch Systems that had been entered into in October 2005 with Branch Banking and Trust Company ("BB&T"). The revolving loan had a $3,500,000 borrowing capacity, due January 29, 2007 and bore interest at the One Month LIBOR Rate plus 2.75%. At December 31, 2006, Lynch's borrowings on the line of credit were $900,000. The revolver expired by its own terms in January 29, 2007. The line of credit, borrowings, plus accrued interest of $905,000 was repaid on February 13, 2007, and a new line of credit has been established which allows for $1,100,000 of borrowings. Borrowings on this new Lynch Systems line bear interest at a rate of LIBOR plus 1.75%. The entire borrowing capacity is collateralized by a $1,100,000 of restricted cash on deposit.

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 Company was in compliance with these covenants at December 31, 2006 except for the tangible net worth covenant for which the Company received a waiver from BB&T.

The Company had a $6,744,000 of unused borrowing capacity under Lynch Systems' and MtronPTI's revolving lines of credit at December 31, 2006, compared to $5,327,000 at December 31, 2005.

At December 31, 2006, the Company had $2,027,000 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.

On September 30, 2005, MtronPTI entered into a Loan Agreement with RBC Centura Bank ("RBC"). The RBC Term Loan Agreement provided 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 of the RBC Term Loan. The RBC Term Loan is secured by a mortgage on PTI's premises. In connection with this RBC Term Loan, MtronPTI 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. 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 December 31, 2006 is $22,000, $14,000 net of tax, and is included in "other assets" on the balance sheet and at December 31, 2005 was ($1,000) net of tax and was included in "other liabilities" on the balance sheet. The value is reflected in within other comprehensive income, net of tax.

All outstanding obligations under the RBC Term Loan Agreement are collateralized by security interests in the assets of MtronPTI. 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. At December 31, 2006, the Company was in compliance with these covenants.

On October 14, 2004, MtronPTI, entered into a Loan Agreement with First National Bank of Omaha. The FNBO Loan Agreement provides for loans in the amounts of $2,000,000 (the "Term Loan") in addition to the $3,000,000 Bridge Loan referred to above. The Term Loan bears interest at the greater of prime rate plus 50 basis points, or 4.5%, and is 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, October 2007. Accrued interest thereon was payable monthly and the principal amount thereof, together with accrued interest.

On October 14, 2004, in connection with the acquisition of PTI, the Company provided $1,800,000 of subordinated financing to MtronPTI and MtronPTI issued a subordinated promissory note to the Company in such amount increasing the subordinated total to $2,500,000. In October 2006, an additional $75,000 was lent to Mtron to enable it to make an investment in marketable equity securities.

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 2007. (See Note 3 to the Consolidated Financial Statements – "Notes Payable to Banks and Long-term Debts" – for restrictions on the company's assets).

The debt decreased at both MtronPTI and Lynch Systems due to repayments of revolving debt and scheduled payments on long-term debt. Debt outstanding at December 31, 2006 included $3,601,000 of fixed rate debt at year-end average interest rate of 5% (after considering the effect of the interest rate swap) and variable rate debt of $3,782,000 at a year end average rate of 8.45%.

Aggregate principal maturities of long-term debt for each of the next five years are as follows:

2007 - $2, 027,000; 2008 - $204,000; 2009 - $170,000; and 2010 - $2,726,000.

4. Related Party Transactions

At December 31, 2006, the Company had $4,429,000 of cash and cash equivalents, not including restricted cash, compared with $5,512,000 at December 31, 2005. Of this amount, $2,040,000 is invested in United States Treasury money market funds for which affiliates of the Company serve as investment managers to the respective funds. At December 31, 2005, $47,000 was invested with the affiliate money manager.

5. Stock Option Plans

On May 26, 2005, the Company's shareholders approved amendments to the 2001 Equity Incentive 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 fully vested in 2005, are anti-dilutive, and expire at the earlier of May 25, 2010 or 90 days following the termination or resignation of employment. Of these 120,000 options, at December 31, 2006, 95,000 remain outstanding. Also outstanding at December 31, 2006, are 180,000 options granted in 2001 to a former Chief Executive Officer at $17.50 per share. These options are also anti-dilutive; they expire on October 1, 2009.

Total options outstanding at December 31, 2006, is 275,000 as summarized in the following table:

Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Number Exercisable
$17.50	180,000	2.6	180,000
$13.17	95,000	3.4	95,000
Total	275,000		275,000

The following table summarizes information about stock options outstanding and exercisable at December 31, 2006:

	Number of Stock Options	Weighted Average Exercise price	Weighted Average Years Remaining
Oustanding at December 31, 2005	300,000	15.77	3.9
Granted during 2006	-		
Exercised during 2006	-		
Forfeited during 2006	(25,000)	13.17	
Oustanding at December 31, 2006	275,000	16.01	2.9
Exercisable at December 31, 2006	275,000	16.01	2.9
Vested	275,000	16.01	2.9

Pro forma information regarding net income and earnings per share is required by SFAS 123, which requires that the information be determined as if the Company has accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes-Merton option pricing model. See Note 1 to the Consolidated Financial Statements – "Accounting and Reporting Policies – Stock Based Compensation and Earnings Per Share".

In connection with the separation of the Company CEO on December 29, 2006, his 75,000 options were forfeited 90 days thereafter, on March 29, 2007.

6. Shareholders' Equity

In December 2005, the Company completed its rights offering. The fully subscribed rights offering resulted in the issuance of 538,676 additional shares of common stock for proceeds to the Company of approximately $3,655,000, net of $250,000 in fees. The offering granted holders of the Company's common stock transferable subscription rights to purchase shares of the Company's common stock at a subscription price of $7.25 per share.

Under the terms of the offering, holders of the Company's common stock were entitled to one transferable subscription right for each share of common stock held on the record date, November 9, 2005. Every three such rights entitled the shareholder to subscribe for one common share at a subscription price of $7.25 per share. The rights were transferable and contained an oversubscription privilege.

The Board of Directors previously authorized the purchase of up to 50,000 shares of Common Stock. During 2005 the Company purchased 16,100 shares of Common Stock at an average price of $9.67 per share. (During 2004 the Company purchased 2,400 shares of Common Stock at an average price of $13.38 per share.) There were no stock purchases in 2006.

Mtron has a plan that provides certain former shareholders with Stock Appreciation Rights (SAR's). These SAR's are fully vested and expire at the earlier of certain defined events, or 2008. These SAR's provide the participants a certain percentage, ranging from 1-5%, of the increase in the defined value of Mtron. Expense related to the SAR's was $27,400 in 2006, $18,000 in 2005, and $0 in 2004 (during the year ended December 31, 2004, the Company paid out the entire SAR liability that had been accrued at December 31, 2003). There is SAR liability at December 31, 2006 of $45,000 compared with $18,000 at December 31, 2005.

During the third quarter of 2006, the Company issued restricted stock to two executives which are being accounted for under SFAS No. 123 R. Total stock compensation expense recognized by the Company for the year ended December 31, 2006 associated with this restricted stock was $28,000, causing additional paid in capital to increase by this amount.

7. Income Taxes

The Company files consolidated federal income tax returns, which includes all subsidiaries.

The Company has a net operating loss ("NOL") carry-forward of $ 2,836,000 as of December 31, 2006 compared with its net operating loss ("NOL") carry-forward of $2,404,000 as of December 31, 2005. This NOL expires through 2026 if not utilized prior to that date. The Company has research and development credit carry-forwards of approximately $561,000 at December 31, 2006 (compared with $357,000 at December 31, 2005) that can be used to reduce future income tax liabilities and expire principally between 2020 and 2026. In addition, the Company has foreign tax credit carry-forwards of approximately $210,000 at December 31, 2006 compared with foreign tax credit carry-forwards of approximately $169,000 at December 31, 2005, 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 through 2016.

Deferred income taxes for 2006 and 2005 provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Cumulative temporary differences and carry-forwards at December 31, 2006 and 2005 are as follows:

	December 31, 2006		**December 31, 2005**	
	Deferred Tax		**Deferred Tax**	
	Asset	**Liability**	**Asset**	**Liability**
		(in thousands)		
Inventory reserve	661		$ 601	$ —
Fixed assets		1,084	—	1,448
Other reserves and accruals	1,781		2,163	—
Other		1,163	—	547
Tax loss and other credit carry-forwards	1,963		1,554	—
Total deferred income taxes	4,405	2,247	4,318	1,995
Valuation allowance	(2,047)		(2,212)	
Cumulative temporary differences	$2,358		$2,106	

At December 31, 2006 the net deferred tax asset of $111,000 presented in the Company's balance sheet is comprised of deferred tax assets of $2,358,000 offset by deferred tax liabilities of $2,247,000. At December 31, 2005 the net deferred tax asset of $111,000 presented in the Company's balance sheet is comprised of deferred tax assets of $2,106,000 offset by deferred tax liabilities of $1,995,000. The carrying value of the Company's net deferred tax asset at December 31, 2006 of $111,000 is equal to the amount of the Company's carry-forward alternative minimum tax ("AMT") at that date. These AMT credits do not expire.

The provision (benefit) for income taxes from continuing operations is summarized as follows:

	2006	2005	2004
		(in thousands)	
Current:			
Federal	$ (492)	$ (484)	$ —
State and local	--	91	24
Foreign	266	184	82
Total Current	(226)	(209)	106
Deferred:			
Federal	--	—	—
State and local	--	—	(6)
Total Deferred	--	—	(6)
	(226)	$ (209)	$ 100

A reconciliation of the provision (benefit) for income taxes from continuing operations and the amount computed by applying the statutory federal income tax rate to income before income taxes, minority interest and extraordinary item:

	2006	2005	2004
		(in thousands)	
Tax (benefit) at statutory rate	$ 217	$ 340	$ (1,097)
Permanent Differences	91	98	6
Foreign tax rate differential	(73)	(40)	(87)
State and local taxes, net of federal benefit	12	61	5
Foreign export sales benefit	(12)		(66)
		(17)	
Change in tax reserves	(492)	(484)	—
Valuation allowance	6	(178)	1,245
Other	25	11	94
	$ (226)	$ (209)	$ 100

The income tax benefit for the period ended December 31, 2006 included federal, as well as state, local, and foreign taxes offset by provisions made for certain net operating loss carry-forwards that may not be fully realized. The income tax benefit also includes a non-recurring reduction to an income tax reserve of $492,000 in the third quarter 2006, which was originally provided for during 2005.

The income tax benefit for the period ended December 31, 2005 included federal, as well as state, local, and foreign taxes offset by provisions made for certain net operating loss carry-forwards that may not be fully realized. The income tax benefit also includes a non-recurring reduction to an income tax reserve of $716,000 in the third quarter 2005, which was originally provided for during 2001. The tax reserve was increased in the fourth quarter of 2005 by a net provision for federal and state tax reserves identified in that period.

Profit before income taxes from foreign operations was $2,096,000, $1,169,000, and $499,000 in 2006, 2005, and 2004 respectively. At December 31, 2006, U.S. income taxes have been provided on approximately $3,424,000 of earnings of the Company's foreign subsidiaries because these earnings are not considered to be indefinitely reinvested.

Federal, State and Foreign income tax payments were $335,000, $202,000 and $83,000, for the years 2006, 2005 and 2004, respectively.

The valuation allowance decreased from $2,212,000 in 2005 to $ 2,047,000 at December 31, 2006.

8. Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes the changes in fair value of investments classified as available for sale, the changes in fair values of derivatives designated as cash flow hedges, and translation adjustments.

For the year ended December 31, 2006, total comprehensive income was $1,991,000, comprised of Other Comprehensive Income of $1,126,000, plus net income of $865,000, for the year ended December 31, 2006. Other Comprehensive Income included $1,030,000 from unrealized gains on available for sale securities, $82,000 of currency translation gain associated with MtronPTI's foreign subsidiary, and $14,000, the fair value of the interest rate swap, net of tax.

Total comprehensive income was $1,196,000 in the year ended December 31, 2005, including other comprehensive loss of $88,000 on available for sale securities, $75,000 of currency translation associated with MtronPTI's foreign subsidiary, and $1,000, the fair value of the interest rate swap, net of tax, and net income of $1, 210,000.

Total comprehensive loss was $2,768,000 in the year ended December 31, 2004, including "other" comprehensive income of $544,000 for unrealized gains on available for sale securities and $14,000 of currency translation associated with MtronPTI's foreign subsidiary.

The components of accumulated other comprehensive income, net of related tax, at December 31, 2006, 2005, and 2004 are as follows:

	December 31,		
	2006	2005	2004
	(in thousands)		
Balance beginning of year	$ 835	$ 849	$ 291
Foreign currency translation	83	75	14
Deferred gain/(loss) on hedge contract	14	(1)	—
Unrealized (loss) gain on available for-sale securities	1,030	(88)	544
Accumulated other comprehensive income	$ 1,962	$ 835	$ 849

9. Employee Benefit Plans

The Company, through its operating subsidiaries, has several defined contribution plans for eligible employees. The following table sets forth the consolidated expenses for these plans:

	December 31,		
	2006	2005	2004
	(in thousands)		
Defined contribution total	$ 175	$ 187	$ 90

Under the Lynch Systems and MtronPTI defined contribution plans, the Company contributes up to a maximum of 62.5 percent of participants' contributions that do not exceed $800 per participant in the plan year. The Company contribution occurs at the end of the plan year and the participant is immediately vested in the employers' contribution. Under the PTI defined contribution plan, the Company contributes 50 percent of the first 6% of eligible compensation contributed by participants. The Company is in the process of merging its two 401K plans.

10. Commitments and Contingencies

In the normal course of business, subsidiaries of the Company are defendants in certain product liability, worker claims and other litigation. The following matters have been resolved; the Company has no litigation pending at this time.

In re: Spinnaker Coating, Inc., Debtor/PACE Local 1-1069 v. Spinnaker Coating, Inc., and The LGL Group, Inc., U.S. Bankruptcy Court, District of Maine, Chapter 11, Adv. Pro. No. 02-2007, and PACE Local 1-1069 v. The LGL Group, Inc. and Lynch Systems, Inc. Cumberland County Superior Court, CV-2001-00352

On or about June 26, 2001, in anticipation of the July 15, 2001 closure of Spinnaker's Westbrook, Maine facility, Plaintiff PACE Local 1-1069 ("PACE") filed a three count complaint in Cumberland County Superior Court, CV-2001-00352 naming the following Defendants: Spinnaker Industries, Inc., Spinnaker Coating, Inc., and Spinnaker Coating-Maine, Inc. (collectively, the "Spinnaker Entities") and the Company. The complaint alleged that under Maine's Severance Pay Act both the Spinnaker Entities and the Company would be liable to pay approximately $1,166,000 severance pay under Maine's Severance Pay Act in connection with the plant closure. Subsequently, the Spinnaker Entities filed for relief under Chapter 11 of the Bankruptcy Code and the action proceeded against the Company on the issue of whether the Company has liability to PACE's members under the Maine Severance Pay Act.

On November 3, 2004, the Superior Court granted summary judgment to PACE on the second count of its complaint, based on the Courts' earlier ruling that the Company was the parent corporation of the Spinnaker Entities. The Court also issued a separate order that related to the calculation of damages, largely agreeing with the Company on the appropriate method of calculating damages and awarded PACE $653,018 (subsequently modified to $656,020) in severance pay, which is approximately one-half the amount claimed by PACE. The Superior Court rejected PACE's claim for pre-judgment interest, but granted its request for attorney fees.

Both PACE and the Company appealed to the Maine Supreme Judicial Court. The parties filed written briefs during April and May 2005 and made oral arguments to the Supreme Court on September 13, 2005. On January 13, 2006, before the Superior Court issued its decision, the Company and PACE agreed to settle the case. The settlement included payment of a total of $800,000 to resolve the claims of 67 workers who lost their jobs in 2001. This amount included $677,000 in severance and $123,000 in interest. The settlement was paid in full in March 2006. The parties also withdrew their respective appeals pending in the Supreme Court and, therefore, no decision was ever issued by the Court.

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 was 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 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.

Rent Expense

Rent expense under operating leases was $197,000, $291,000, and $285,000 for the years ended December 31, 2006, 2005, and 2004, respectively. The Company leases certain property and equipment, including warehousing, and sales and distribution equipment, under operating leases that extend from one to five years. Certain of these leases have renewal options.

Future minimum rental payments under long-term non-cancellable operating leases subsequent to December 31, 2006 are as follows:

	(in thousands)
2007	63
2008	19
2009	4
2010 and thereafter	3

11. 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) that represents products manufactured and sold by MtronPTI. The Company's foreign operations in Hong Kong and India exist under MtronPTI.

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 $300,000 in 2006, $500,000 in 2005, and $350,000 in 2004. 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.

	Years Ended December 31, 2006	2005	2004
		(in thousands)	
Revenues			
Glass manufacturing equipment – USA	$ 1,422	$ 1,992	$ 1,114
Glass manufacturing equipment – Foreign	6,329	9,140	9,307
Total glass manufacturing equipment	7,751	11,132	10,421
Frequency control devices – USA	20,501	19,078	12,096
Frequency control devices – Foreign	21,048	15,973	11,317
Total frequency control devices	41,549	35,051	23,413
Consolidated total revenues	$ 49,300	$ 46,183	$ 33,834
Operating Profit (Loss)			
Glass manufacturing equipment	$ (1,898)	$ 684	$(1,340)
Frequency control devices	3,072	2,306	1,012
Total manufacturing	1,174	2,990	(328)
Unallocated corporate expense	(1,722)	(1,812)	(2,560)
Consolidated total operating profit (loss)	(548)	$ 1,178	$(2,888)
Income (Loss) Before Income Taxes			
Investment income	$ 1,750	$ 608	$ 15
Interest expense	(570)	(847)	(360)
Other income (expense)	7	62	7
Consolidated income (loss) before income taxes	$ 1,187	$ 1,001	$ (3,266)
Capital Expenditures			
Glass manufacturing equipment	$ 18	$ 32	$ 97
Frequency control devices	737	310	326
General corporate	-	1	17
Consolidated total capital expenditures	$ 755	$ 343	$ 440
Total Assets			
Glass manufacturing equipment	$ 6,050	$ 8,096	$ 10,832
Frequency control devices	21,699	17,589	17,417
General corporate	3,208	6,979	5,634
Consolidated total assets	$ 30,957	$ 32,664	$ 33,883

For years ended December 31, 2006, 2005, and 2004, significant foreign revenues (10% or more of foreign sales) were as follows:

	Years Ended - December 31,		
	2006	**2005**	**2004**
Glass manufacturing equipment – Significant Foreign Revenues			
Brazil	$ 3,080	$ 260	$ 27
China	827	42	2,618
Indonesia		1,110	3,811
All other foreign countries	2,422	2,462	2,851
Total foreign revenues	$6,329	$9,140	$9,307

	Years Ended - December 31,		
	2006	**2005**	**2004**
Frequency control devices – Significant Foreign Revenues			
China	4,250	3,203	1,783
Canada	3,683	3,218	2,901
Malaysia	2,262	686	463
Thailand	2,114	1,084	34
Mexico	1,543	2,216	1,415
All other foreign countries	7,196	5,566	4,721
Total foreign revenues	$21,048	$15,973	$11,317

"All other foreign countries" include countries which individually comprise less than 10% of total foreign revenues for each segment. If a country had significant foreign revenues in any one of the three years presented, the sales to that country are shown for the other years presented even if it is under the 10% threshold.

12. Quarterly Results of Operations (unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2006 and December 31, 2005:

	2006 Three Months Ended			
	Mar. 31	**June 30**	**Sep. 30**	**Dec. 31**
	(in thousands, except per share amounts)			
Revenues	$ 12,091	$ 13,146	$ 13,038	$ 11,025
Gross profit	3,547	4,114	3,463	2,430
Operating profit (loss)	386	458	(29)	(1,363)
Net income (loss)	366	499	903	(903)
Basic and diluted earnings (loss) per share	$ 0.17	$ 0.23	$ 0.42	$ (0.42)

	2005 Three Months Ended			
	Mar. 31	June 30	Sep. 30	Dec. 31
	(in thousands, except per share amounts)			
Revenues	$ 10,595	$ 14,913	$ 10,745	$ 9,930
Gross profit	3,277	5,512	2,961	2,985
Operating profit (loss)	227	2,001	(516)	(534)
Net income (loss)	50	1,351	696	(887)
Basic and diluted earnings (loss) per share	$ 0.03	$ 0.83	$ 0.43	$ (0.56)

SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT THE LGL GROUP, INC.

CONDENSED BALANCE SHEET
(in thousands)

	December 31, 2006	December 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,906	$ 3,542
Restricted cash		650
Investments – marketable securities	2,550	2,738
Deferred income taxes		-
Other current assets	70	38
	6,526	6,968
Net Property, Plant & Equipment	5	11
Other Assets (principally investment in and amounts due from wholly owned subsidiaries)	10,804	11,554
Total Assets	$ 17,335	18,533
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities	$ 628	$ 3,845
Long Term Liabilities		-
Total Shareholders' Equity	16,707	14,688
Total Liabilities And Shareholders' Equity	$ 17,335	$ 18,533

See Accompanying Notes to Consolidated Financial Statements

THE LGL GROUP, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED STATEMENT OF OPERATIONS
(in thousands)

	Years Ended December 31,		
	2006	**2005**	**2004**
Interest, dividends and gains on sale of marketable securities	$ 1,878	$ 592	$ 17
Dividend from subsidiary	(32)	32	22
Interest and other income from subsidiaries	126	126	55
TOTAL INCOME	1,972	750	94
Costs and Expenses:			
Unallocated corporate administrative expense	1,673	1,662	1,435
Commitments and contingencies		150	775
Interest expense		86	47
TOTAL COST AND EXPENSE	1,673	1,898	2,257
LOSS BEFORE INCOME TAXES AND EQUITY IN NET INCOME (LOSS) OF SUBSIDIARIES	299	(1,148)	(2,163)
Benefit for income taxes	233	716	—
Equity in net income (loss) of subsidiaries	332	1,642	(1,163)
NET INCOME (LOSS)	$ 865	$ 1,210	$(3,326)

THE LGL GROUP, INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED STATEMENTS OF CASH FLOW
(in thousands)

	Year Ended December 31,		
	2006	**2005**	**2004**
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ (2,207)	$ (483)	$ (430)
INVESTING ACTIVITIES:			
Capital expenditures		(1)	(17)
Proceeds from sale of marketable securities	2,976	1,348	—
Payment of margin liability	(330)	(1,236)	(300)
Purchase of available for-sale securities		—	(754)
Dividend from subsidiaries		—	22
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	$ 2,646	111	(1,049)
FINANCING ACTIVITIES:			
Loan to Subsidiary	(75)	—	(1,800)
Issuance of Common Stock, net of fees		3,655	1,760
Purchase of Treasury Stock		(156)	(32)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(75)	3,499	(32)
TOTAL INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	364	3,127	(1,551)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,542	415	1,966
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,906	$ 3,542	$ 415

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE A — BASIS OF PRESENTATION

In the parent company's financial statements, the Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of the subsidiaries.

NOTE B — PURCHASE OF AVAILABLE FOR SALE SECURITIES

Proceeds from the sale of marketable securities totaled $2,976,000 and $1,348,000 for the years ended December 31, 2006 and 2005, respectively. Purchases of marketable securities were $68,000 for the year ended December 31, 2006, there were no purchases in 2005, and purchases of marketable securities were $754,000 for the year ended December 31, 2004. Payments on margin liabilities were $330,000, $1,236,000 and $300,000 for the years ended December 31, 2006, 2005 and 2004. There were no margin liabilities at December 31, 2006.

NOTE C — DIVIDENDS FROM SUBSIDIARIES

The Company's consolidated subsidiaries paid no dividends in 2006, or 2005, and paid $22,000 in 2004 to the parent company, LGL Group, Inc.

NOTE D — LOANS TO SUBSIDIARIES

In 2004, the Company lent its subsidiary, Mtron, $1,800,000 to support its banking relationships and to fund Mtron's acquisition of PTI. In 2006, the Company lent Mtron $75,000 to make investments in marketable equity securities.

NOTE E — SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR ADDITIONAL INFORMATION.

THE LGL GROUP, INC. AND SUBSIDIARIES

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

Column A	Column B	Column C		Column D	Column E
		Additions			
Deduction	Balance at Beginning Of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions(A)	Balance at End of Period
Year ended December 31, 2006 Allowances	$ 325,000	$ 573,000		$ 77,000	$ 808,000
Year ended December 31, 2005 Allowances	$ 92,000	$ 259,000	-	$ 26,000	$ 325,000
Year ended December 31, 2004 Allowances	$ 91,000	$ 14,000	-	$ 13,000	$ 92,000

(A) Uncollectible accounts receivable written off are net of recoveries.

EXHIBIT INDEX

Exhibit No.	Description
3 (a)	Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3(a) to the Company's Form 10-K for the year ended December 31, 2004).
(b)	Articles of Amendment of the Articles of Incorporation of the Company (incorporated by reference to Exhibit 3(b) to the Company's Form 10-K for the year ended December 31, 2004).
(c)*	Articles of Amendment of the Articles of Incorporation of the Company.
(d)	By-laws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated December 22, 2004).
10 (a)	The LGL Group, Inc. 401(k) Savings Plan (incorporated by reference to Exhibit 10(b) to the Company's Annual Report on Form 10-K for the period ended December 31, 1995).
(b)	Directors Stock Plan (incorporated by reference to Exhibit 10(o) to the Company's Form 10-K for the year ended December 31, 1997).
(c)	The LGL Group, Inc. 2001 Equity Incentive Plan adopted December 10, 2001 (incorporated by reference to Exhibit 4 to the Company's Form 8-K filed on December 29, 2005.
(d)	Amended and Restated Credit Agreement by and between Lynch Systems, Inc. and SunTrust Bank dated as of June 10, 2002 (incorporated by reference to Exhibit 10(z) to the Company's Form 10-K for the year ended December 31, 2002).
(e)	Unlimited Continuing Guaranty Agreement by Guarantor, The LGL Group, Inc., dated June 10, 2002 (incorporated by reference to Exhibit 10(aa) to the Company's Form 10-K for the year ended December 31, 2002.
(f)	First Amendment and Waiver to Amended and Restated Credit Agreement between Lynch Systems, Inc. and SunTrust Bank dated May 30, 2003 (incorporated by reference to Exhibit 10(ee) to the Company's Form 10-Q for the period ending June 30, 2003).
(g)	Term Loan Promissory Note between Lynch Systems, Inc. and SunTrust Bank dated August 4, 2003 (incorporated by reference to Exhibit 10(ff) to the Company's Form 10-Q for the period ending June 30, 2003).
(h)	Second Amendment to Security Deed and Agreement dated August 4, 2003 between Lynch Systems, Inc. and SunTrust Bank (incorporated by reference to Exhibit 10(gg) to the Company's Form 10-Q for the period ending June 30, 2003).
(i)	Mortgage dated October 21, 2002 by Mortgagor, Mtron Industries, Inc., to Mortgagee, Yankton Area Progressive Growth, Inc. (incorporated by reference to Exhibit 10(hh) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(j)	Promissory Note between Mtron Industries, Inc. and Yankton Area Progressive Growth, Inc., dated October 21, 2002 (incorporated by reference to Exhibit 10(ii) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(k)	Standard Loan Agreement by and between Mtron Industries, Inc. and Areawide Business Council, Inc., dated October 10, 2002 and Exhibits thereto (incorporated by reference to Exhibit 10(jj) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(l)	Loan Agreement by and between Mtron Industries, Inc. and South Dakota Board of Economic Development, dated December 19, 2002 (incorporated by reference to Exhibit 10(kk) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(m)	Promissory Note between Mtron Industries, Inc. and South Dakota Board of Economic Development, dated December 19, 2002 (incorporated by reference to Exhibit 10(ll) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
(n)	Employment Agreement by and between Mtron Industries, Inc. and South Dakota Board of Economic Development, dated December 19, 2002 (incorporated by reference to Exhibit 10(mm) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).

(o) Loan Agreement by and among Mtron Industries, Inc., Piezo Technology, Inc. and First National Bank of Omaha (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 20, 2004).

(p) Unconditional Guaranty for Payment and Performance with First National Bank of Omaha (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated October 20, 2004).

(q) Registration Rights Agreement by and between the Company and Venator Merchant Fund, L.P. dated October 15, 2004 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated October 20, 2004).

(r) Form of Indemnification Agreement dated as of February 28, 2005 by and between The LGL Group, Inc. and its executive officers (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 16, 2005).

(s) Registration Rights Agreement by and between the Company and Venator Merchant Fund, L.P. dated October 15, 2004 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated October 20, 2004).

(t) Promissory Note made by The LGL Group, Inc. to Venator Merchant Fund, L.P., dated May 12, 2005 (incorporated herein by reference to Exhibit 10.1 the Company's Current Report on Form 8-K filed on May 16, 2005).

(u) First Amendment to the Loan Agreement by and among M-Tron Industries, Inc., Piezo Technology, Inc. and First National Bank of Omaha, dated May 31, 2005 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report of on Form 8-K filed on July 6, 2005).

(v) Letter Agreement, dated September 8, 2005, by and between The LGL Group, Inc. and Venator Merchant Fund L.P. extending the maturity date of the promissory note in favor of Venator Merchant Fund L.P. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 9, 2005).

(w) Loan Agreement, by and among M-Tron Industries, Inc., Piezo Technology, Inc. and RBC Centura Bank, dated September 30, 2005 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 4, 2005).

(x) Unconditional Guaranty for Payment by and between The LGL Group, Inc. and RBC Centura Bank, dated September 30, 2005 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 4, 2005).

(y) Loan Agreement, by and among The LGL Group, Inc., Lynch Systems and Branch Bank and Trust Company, dated September 29, 2005, effective October 6, 2005 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K on October 11, 2005).

(z) Guaranty Agreement for Payment and Performance by and between The LGL Group, Inc. and Branch Bank and Trust Company, dated September 29, 2005, effective October 6, 2005 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 11, 2005).

(aa) First Amended and Restated Extension Agreement by and among Lynch Systems, Inc., Lynch Corporation and SunTrust Bank, dated October 6, 2005 (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 11, 2005).

(bb) First Amendment to First Amended and Restated Extension Agreement by and among Lynch Systems, Inc., Lynch Corporation and SunTrust Bank, dated December 21, 2005 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K on January 5, 2006).

(cc) Second Amendment to the Loan Agreement, dated June 30, 2006, by and among M-tron Industries, Inc., Piezo Technology, Inc. and First National Bank of Omaha, and acknowledged and guaranteed by The LGL Group, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 7, 2006).

(dd) Employment Agreement, dated September 5, 2006, by and between The LGL Group, Inc. and Jeremiah M. Healy (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 7, 2006).

(dd) Third Amendment to the Loan Agreement, dated October 3, 2006, by and among M-tron Industries, Inc., Piezo Technology, Inc. and First National Bank of Omaha, and acknowledged and guaranteed by LGL Group, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 4, 2006).

(ee)	Letter Agreement, dated October 4, 2006, by and between Branch Banking & Trust Co. and Lynch Systems, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 11, 2006).
(ff)	Guaranty Agreement, dated September 29, 2006, by and between Branch Banking & Trust Co. and Lynch Systems, Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 11, 2006).
(gg)	Employment Agreement, dated March 20, 2007, by and between The LGL Group, Inc. and Steve Pegg (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 20, 2007).
14	Amended and Restated Business Conduct Policy (incorporated by reference to Exhibit 14 to the Company's Form 10-K for the year ended December 31, 2004).
21	Subsidiaries of the Company (incorporated by reference to Exhibit 21 to the Company's Form 10-K for the year ended December 31, 2004).
23*	Consent of Independent Registered Public Accounting Firm - Ernst & Young LLP.
31 (a)*	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31 (b)*	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32 (a)*	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32 (b)*	Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

The Exhibits listed above have been filed separately with the Securities and Exchange Commission in conjunction with this Annual Report on Form 10-K or have been incorporated by reference into this Annual Report on Form 10-K. The LGL Group, Inc. will furnish to each of its shareholders a copy of any such Exhibit for a fee equal to The LGL Group, Inc.'s cost in furnishing such Exhibit. Requests should be addressed to the Office of the Secretary, The LGL Group, Inc., 140 Greenwich Ave, 4th Floor, Greenwich, Connecticut 06830.