



*Laying the Foundation for Profitable Growth*

## **The LGL Group, Inc.**

The LGL Group, Inc. is a globally-positioned producer of industrial and commercial products and services that is currently focused on the design and manufacture of highly engineered electronic components and subsystems. For over 90 years, LGL has been creating value for its shareholders by providing customers with products and services that reflect the Company's commitment to operational excellence and technical innovation, and by disciplined deployment of capital resources. Its shares are traded on NYSE MKT under the symbol "LGL".



To our new and long-time shareholders:

I have always felt sustained improvement in our company's performance would eventually show up in our company's valuation.

I am pleased to finally report to you an increase in our share price, although not as high as I would like, a step in the right direction.

In fiscal 2018, our improvement continued for now the 4<sup>th</sup> fiscal year.

- Revenues of \$24.9 million, up 11% compared to 2017
- Net income of \$0.30 per share compared to net income of \$0.04 per share in 2017
- Order backlog improved 49.5% to \$17.5 million at December 31, 2018 from \$11.7 million at December 31, 2017
- Adjusted EBITDA was \$1,917,000 or \$0.39 per share on a diluted basis, compared to \$1,041,000 or \$0.34 per share on a diluted basis for 2017

The financial metrics listed above continue to reinforce the strategy put in place almost 4 years ago is working. We have become an easy company for our customers to do business with, as endorsed by the almost doubling of our backlog over 2017 while at the same time we increased shipments by 11% or by \$2.5 million.

We also made significant progress in advancing our technology to include more complex products so that today we have much less competition for our products and are looked at as an "engineering solution provider" for our blue ribbon customers.

As many of you know, I am conservative in predicting future results, however, as I write this letter I am confident that our continuous improvement program will continue into fiscal 2019.

In closing I must give credit to our management team and all of our employees. Their resolve to make our company world class is clearly noted in our results. To our customers, the only way we can thank them for their business which continues to grow, is offer competitive pricing, deliver products that meet every parameter of their specifications, and ship on time. Our team live that creed, and the results show it works.

To you our shareholders, I have heard from several of you, and am happy to take your calls. Your interest continues to motivate all of us at LGL. You have seen some appreciation in your investment over the last year; hopefully it will continue.

I assure you we are working to increase the probability of that happening.

Thank you,

A handwritten signature in dark ink that reads "Michael J. Ferrantino". The signature is written in a cursive, flowing style.

Michael J. Ferrantino, Sr.  
Executive Chairman and Chief Executive Officer  
September 30, 2019



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K**

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

For the fiscal year ended: December 31, 2018

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: 001-00106

**The LGL Group, Inc.**

(Exact name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)  
2525 Shader Road, Orlando, Florida  
(Address of Principal Executive Offices)

38-1799862  
(I.R.S. Employer  
Identification No.)  
32804  
(Zip Code)

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

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

Title of each class  
**Common Stock, \$0.01 Par Value Per Share**

Name of each exchange on which registered  
**NYSE American**

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant, based upon the \$5.17 per share closing price of the registrant's common stock on June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$20,791,812. Solely for the purpose of this calculation, shares held by directors and executive officers of the registrant have been excluded. Such exclusion should not be deemed a determination or an admission by the registrant that such individuals are, in fact, affiliates of the registrant.

The number of outstanding shares of the registrant's common stock was 4,831,178 as of March 12, 2019.



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## PART I

### Caution Concerning Forward-Looking Statements

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

### Item 1. Business.

The LGL Group, Inc. (together with its subsidiaries, the "Company," "LGL," "we," "us," or "our") is a globally-positioned producer of industrial and commercial products and services. We operate in two identified segments. Our electronic components segment is currently focused on the design and manufacture of highly-engineered, high reliability frequency and spectrum control products. These electronic components ensure reliability and security in aerospace and defense communications, low noise and base accuracy for laboratory instruments, and synchronous data transfers throughout the wireless and Internet infrastructure. Our electronic instruments segment is focused on the design and manufacture of high-performance Frequency and Time reference standards that form the basis for timing and synchronization in various applications. The Company was incorporated in 1928 under the laws of the State of Indiana, and in 2007, the Company was reincorporated under the laws of the State of Delaware as The LGL Group, Inc. We maintain our executive offices at 2525 Shader Road, Orlando, Florida, 32804. Our telephone number is (407) 298-2000. Our common stock is traded on the NYSE American under the symbol "LGL."

We operate through our two principal subsidiaries, M-tron Industries, Inc. (together with its subsidiaries, "MtronPTI"), which has design and manufacturing facilities in Orlando, Florida, Yankton, South Dakota and Noida, India, and Precise Time and Frequency, LLC ("PTF") which has a design and manufacturing facility in Wakefield, Massachusetts. We also have local sales and customer support offices in Sacramento, California, Austin, Texas and Hong Kong.

Our primary objective is to create long-term growth with a market-based approach of designing and offering new products to our customers through both organic research and development, and through strategic partnerships, joint ventures, acquisitions or mergers. We seek to leverage our core strength as an engineering leader to expand client access, add new capabilities and continue to diversify our product offerings. Our focus is on investments that will differentiate us, broaden our portfolio and lead toward higher levels of integration organically and through joint venture, merger and acquisition opportunities. We believe that successful execution of this strategy will lead to a transformation of our product portfolio towards longer product life cycles, better margins and improved competitive position.

### *Overview of MtronPTI*

Originally founded in 1965, MtronPTI designs, manufactures and markets highly-engineered, high reliability frequency and spectrum control products.

These component-level devices are used extensively in infrastructure equipment for the telecommunications and network equipment industries, as well as in electronic systems for applications in defense, aerospace, earth-orbiting satellites, down-hole drilling, medical devices, instrumentation, industrial devices and global positioning systems. As an engineering-centric company, MtronPTI provides close support to the customer throughout its products' entire life cycle, including product design, prototyping, production, and subsequent product upgrades. This collaborative approach has resulted in the development of long-standing business relationships with its blue-chip customer base.

All of MtronPTI's production facilities are ISO 9001:2008 certified, ITAR registered and Restriction of Hazardous Substances ("RoHS") compliant. In addition, its U.S. production facilities in Orlando and Yankton are AS9100 Rev C and MIL-STD-790 certified.

### ***MtronPTI Products***

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

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

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

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

### ***Overview of PTF***

PTF designs, manufactures and markets for sale time and frequency products. The industries PTF serves include computer networking, satellite earth stations, electric utilities, broadcasting, and telecommunication systems. PTF was originally founded in 2002 and the company's assets were acquired by LGL in September 2016 through a business acquisition, making us a broader based supplier of highly engineered products for the generation of time and frequency references for synchronization and control. Since its inception, PTF has developed a comprehensive portfolio of time and frequency instruments complemented by a wide range of ancillary products such as distribution amplifiers and redundancy auto switches.

### ***PTF Products***

PTF's products range from simple, low cost time and frequency solutions, to premium products designed to deliver maximum performance for the most demanding applications. PTF's products include Frequency and Time Reference Standards, distribution amplifiers, redundancy auto switches and NTP servers, all of which are used in a broad range of applications worldwide.

PTF's Frequency and Time Reference Standards include quartz Frequency Standards, GPS/GNS Frequency and Time Standards and rubidium atomic Frequency Standards. The de facto standard for many highly demanding applications, such as satellite communications, is PTF's range of GPS/GNS disciplined quartz frequency and time standards. Because of the high quality quartz oscillators utilized they deliver outstanding phase noise and short term stability performance for applications where low noise is paramount. This outstanding short-term performance, coupled with the long-term stability and accuracy of the external GPS/GNS reference, provides the user an excellent all around performance that is highly cost-effective.

When two or more computers are involved, accurate time keeping is a challenge especially when the computers are in different locations. PTF's range of GNS Time and Frequency References and Network Time Servers deliver a high level of performance that allows customers to synchronize to Universal Time Coordinated, in a number of cost-effective forms to meet a multitude of time and frequency reference requirements. Applications range from low phase noise, highly stable and accurate, system frequency references for Sat-Com and Digital Broadcasting applications, to computer networks, shipboard time code references and e-commerce time stamping applications.

PTF's portfolio of distribution amplifiers covers multiple signal types including RF, digital, time code, configurable and optical. The distribution range is designed to complement the high quality of the frequency and time references and provide the most effective cost/performance solution for the application, including options for full remote monitoring/control (including RF analog signal monitoring) and optional level control.

The distribution product range includes standard fixed configuration units with either 12 or 16 channels, together with more flexible units that allow the user to define specific configurations including different types of input/output signals combined into a convenient 1U or 2U package with up to 36 output channels.

PTF's series of redundancy auto switches range from simple level detection through to highly sophisticated sensing capability, extremely fast switching options and full Ethernet connectivity, to provide remote monitoring control, and including integration with SNMP management systems. The most recent model includes multi-channel input capability as well as the ability to switch up to three input types of signals.

### ***Customers***

We primarily work directly with original equipment manufacturers ("OEMs") to define the right solutions for their unique applications, including the design of custom parts with unique part numbers. Actual sales of production parts may be directly to the OEM or through either their designated contract manufacturers ("CMs") or through franchised distributors of our products. As a result, we have highly-skilled sales engineers who work directly with the designers and program managers at its OEMs, providing a high-level of engineering support at all points within the process.

In 2018, our largest customer, an electronics contract manufacturing company in the aerospace and defense markets, accounted for \$4,436,000, or 17.8%, of the Company's total revenues, compared to \$3,744,000, or 16.7%, in 2017.

As of December 31, 2018, four of our largest customers accounted for approximately \$1,043,000, or 30%, of accounts receivable. As of December 31, 2017, four of our largest customers accounted for approximately \$1,100,000, or 32%, of accounts receivable. The insolvency of any of these customers could have a material adverse impact on our liquidity.

### ***Research and Development***

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

Research and development expense was approximately \$1,947,000 and \$1,827,000 in 2018 and 2017, respectively, and will remain a significant part of the Company's efforts to revitalize our intellectual property position.

### ***Marketing and Sales***

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

### ***Seasonality***

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

### ***Domestic Revenues***

Our domestic revenues were \$18,673,000 in 2018, or 75.1% of total consolidated revenues, compared to \$16,090,000, or 71.8% of total consolidated revenues, in 2017.

### ***International Revenues***

Our international revenues were \$6,197,000 in 2018, or 24.9% of total consolidated revenues, compared to \$6,313,000, or 28.2% of total consolidated revenues, in 2017. In each of 2018 and 2017, these revenues were derived mainly from customers in Asia, with significant sales in Malaysia. We avoid significant currency exchange risk by transacting and settling substantially all of our international sales in United States dollars.

### ***Order Backlog***

Our order backlog was \$17,506,000 and \$11,713,000 as of December 31, 2018 and 2017, respectively. The backlog of unfilled orders includes amounts based on signed contracts as well as agreed letters of intent, which we have determined are firm orders and likely to proceed. Although backlog represents only firm orders that are considered likely to be fulfilled within the 12 months following receipt of the order, cancellations or scope adjustments may and do occur.

Order backlog is adjusted quarterly to reflect project cancellations, deferrals, revised project scope and cost. We expect to fill our entire 2018 order backlog in 2019, but cannot provide assurances as to what portion of the order backlog will be fulfilled in a given year.

### ***Raw Materials***

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

### ***Competition***

We design, manufacture and market products for the generation, synchronization and control of time and frequency as well as spectrum control products. There are numerous domestic and international manufacturers who are capable of providing custom-designed products comparable in quality and performance to our products. Our competitive strategy begins with our focus on niche markets where precise specification and reliability are the major requirements. Competitors in our electronic components segment include, but are not limited to, Vectron International (a division of Knowles Corporation), K&L Microwave (a division of Dover Corporation), Symmetricom (a division of Microsemi Corporation), and Rakon Limited. Competitors in our electronic instruments segment include, but are not limited to, Symmetricom, Spectracom Corporation and Brandywine Communications.

### ***Intellectual Property***

We have no patents, trademarks or licenses that are considered to be significant to our business or operations. Rather, we believe that our technological position depends primarily on the technical competence and creative ability of our engineering and technical staff in areas of product design and manufacturing processes, including our staff's ability to customize products to meet difficult specifications, as well as proprietary know-how and information.

### ***Employees***

As of December 31, 2018, we employed 308 people, including 146 full-time, and 16 part-time employees, along with 146 contractors. Of this total, the Company has 136 full-time, 15 part-time, and one contract employee within

the U.S., with 107 located in Orlando, Florida, 40 in Yankton, South Dakota, and five within its subsidiary PTF in Wakefield, Massachusetts. The Company has two full-time and one part-time employee in Hong Kong, and eight full-time employees and 145 contractors in Noida, India. None of the Company's employees are represented by a labor union and the Company considers its relationships with employees to be good.

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

### ***Environmental***

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

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

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

*Investing in our securities involves risks. Before making an investment decision, you should carefully consider the risks described below. Any of these risks could result in a material adverse effect on our business, financial condition, results of operations, or prospects, and could cause the trading price of our securities to decline, resulting in a loss of all or part of your investment. The risks and uncertainties described below are not the only ones we face, but represent those risks and uncertainties that we believe are material to our business, operating results, prospects and financial condition. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.*

### **Risks Related to Our Business and Industry**

#### ***We are dependent on a single line of business.***

Prior to our September 2016 acquisition of PTF, we were engaged only in the design, manufacture and marketing of standard and custom-engineered electronic components that are used primarily to control the frequency or timing of signals in electronic circuits. Although our acquisition of PTF added an additional product line of electronic instruments that includes highly engineered products for the generation of time and frequency references for synchronization and control, until we see significant growth from the PTF electronic instruments product line or develop or acquire additional product lines we will remain dependent on our electronic components line of business. Virtually all of our 2018 and 2017 revenues came from sales of electronic components, which consist of packaged quartz crystals, oscillator modules, electronic filters and integrated modules. We expect that this product line will continue to account for substantially all of our revenues in 2019.

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

#### ***Our operating results vary significantly from period to period.***

We experience fluctuations in our operating results. Some of the principal factors that contribute to these fluctuations include: changes in demand for our products; our effectiveness in managing manufacturing processes, costs and inventory; our effectiveness in engineering and qualifying new product designs with our OEM customers and in managing the risks associated with offering those new products into production; changes in the cost and availability of raw materials, which often occur in the electronics manufacturing industry and which affect our margins and our ability to meet delivery schedules; macroeconomic and served industry conditions; and events that



may affect our production capabilities, such as labor conditions and political instability. In addition, due to the prevailing economic climate and competitive differences between the various market segments which we serve, the mix of sales between our communications, networking, aerospace, defense, industrial and instrumentation market segments may affect our operating results from period to period.

For the years ended December 31, 2018 and 2017, we had net income of approximately \$1,405,000 and \$117,000, respectively. Our revenues are derived primarily from MtronPTI, whose future rate of growth and profitability are highly dependent on the development and growth of demand for our products in the communications, networking, aerospace, defense, instrumentation and industrial markets, which are cyclical. We cannot be certain whether we will generate sufficient revenues or sufficiently manage expenses to sustain profitability.

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

In 2018, our largest customer, an electronics contract manufacturing company, accounted for \$4,436,000, or 17.8%, of the Company's total revenues, compared to \$3,744,000, or 16.7%, in 2017. The loss of this customer, or a decrease in its demand for our products, could have a material adverse effect on our results.

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

As of December 31, 2018, four of our largest customers accounted for approximately \$1,043,000, or 30%, of accounts receivable. As of December 31, 2017, four of our largest customers accounted for approximately \$1,100,000, or 32%, of accounts receivable at the end of 2017. The insolvency of any of these customers could have a material adverse impact on our liquidity.

***Our order backlog may not be indicative of future revenues.***

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

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

We are a holding company that transacts business through our operating subsidiaries. Our primary assets are cash and cash equivalents, marketable securities, the shares of our operating subsidiaries and intercompany loans. Should our cash and cash equivalents be depleted, our ability to meet our operating requirements and to make other payments will depend on the surplus and earnings of our subsidiaries and their ability to pay dividends or to advance or repay funds.

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

In 2018 and 2017, the majority of our revenues were derived from sales to manufacturers of equipment for the defense, aerospace, instrumentation and industrial markets for frequency and spectrum control devices, including indirect sales through distributors and contract manufacturers. During 2019, we expect a significant portion of our revenues to continue to be derived from sales to these manufacturers. Often OEMs and other service providers within these markets have experienced periods of capacity shortage and periods of excess capacity, as well as periods of either high or low demand for their products. In periods of excess capacity or low demand, purchases of capital equipment may be curtailed, including equipment that incorporates our products. A reduction in demand for the manufacture and purchase of equipment for these markets, whether due to cyclical, macroeconomic or other factors, or due to our reduced ability to compete based on cost or technical factors, could substantially reduce our net sales and operating results and adversely affect our financial condition. Moreover, if these markets fail to grow as expected, we may be unable to maintain or grow our revenues. The multiple variables which affect the communications, networking, aerospace, defense, instrumentation and industrial markets for our products, as well as the number of parties involved in the supply chain and manufacturing process, can impact inventory levels and lead

to supply chain inefficiencies. As a result of these complexities, we have limited visibility to forecast revenue projections accurately for the near and medium-term timeframes.

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

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

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

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

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

- The diversion of our management's attention from the management of our existing business to the integration of the operations and personnel of the acquired or combined business or joint venture;
- Material business risks not identified in due diligence;
- Possible adverse effects on our operating results during the integration process;
- Substantial acquisition-related expenses, which would reduce our net income, if any, in future years;
- The loss of key employees and customers as a result of changes in management; and
- Our possible inability to achieve the intended objectives of the transaction.

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

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

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

Our future operating results are dependent on our ability to develop, introduce and market innovative products continually, 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 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. Within the industries in which we compete, competition has become increasingly concentrated and global in recent years.

Many of our major competitors, some of which are larger, and potential competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer support capabilities. If we are unable to successfully compete against current and future competitors, our operating results will be adversely affected.

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

Our future growth and success will depend in large part upon our ability to recruit highly-skilled technical personnel, including engineers, and to retain our existing management and technical personnel. The labor markets in which we operate are highly competitive and some of our operations are not located in highly populated areas. As a

result, we may not be able to recruit and retain key personnel. Our failure to hire, retain or adequately train key personnel could have a negative impact on our performance.

***We purchase certain key components and raw materials from single or limited sources and could lose sales if these sources fail to fulfill our needs.***

If single-source components or key raw materials were to become unavailable on satisfactory terms, and we could not obtain comparable replacement components or raw materials 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 give assurance that similar delays will not occur in the future. Our suppliers may be impacted by compliance with environmental regulations including RoHS and Waste Electrical and Electronic Equipment ("WEEE"), which could disrupt the supply of components or raw materials or cause additional costs for us to implement new components or raw materials into our manufacturing processes.

***As a supplier to U.S. Government defense contractors, we are subject to a number of procurement regulations and other requirements and could be adversely affected by changes in regulations or any negative findings from a U.S. Government audit or investigation.***

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

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its agencies such as the Defense Contract Audit Agency and Defense Contract Management Agency. These agencies review our performance under our contracts, our cost structure and our compliance with applicable laws, regulations, and standards, as well as the adequacy of, and our compliance with, our internal control systems and policies. Systems that are subject to review include our purchasing systems, billing systems, property management and control systems, cost estimating systems, compensation systems and management information systems.

Any costs found to be improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspension, or prohibition from doing business as a supplier to contractors who sell products and services to the U.S. Government. In addition, our reputation could be adversely affected if allegations of impropriety were made against us.

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

***Our 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. The vast majority of our products are custom-designed for requirements of specific OEM systems. The expected business life of these products ranges from less than one year to more than 10 years depending on the application. Some of the customizations are modest changes to existing product designs while others are major product redesigns or new product platforms.



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

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

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

***Future changes in our environmental liability and compliance obligations may increase costs and decrease profitability.***

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

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

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

We have office and manufacturing space in Noida, India, and a sales office in Hong Kong. Additionally, foreign revenues for 2018 and 2017 (primarily to Malaysia) accounted for 24.9% and 28.2% of our 2018 and 2017 consolidated revenues, respectively. We anticipate that sales to customers located outside of the United States will continue to be a significant part of our revenues for the foreseeable future. Our international operations and sales to customers outside of the United States subject our operating results and financial condition to certain business, economic, political, health, regulatory and other risks, including but not limited to:

- Political and economic instability in countries in which our products are manufactured and sold;
- Expropriation or the imposition of government controls;
- Responsibility to comply with anti-bribery laws such as the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions;
- 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;
- Difficulty in staffing and managing non-U.S. operations
- Greater difficulty in collecting accounts receivable and longer payment cycles;
- Changes in labor conditions and difficulties in staffing and managing international operations; and
- Limitations on insurance coverage against geopolitical risks, natural disasters and business operations.

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

***We rely on information technology systems to conduct our business, and disruption, failure or security breaches of these systems could adversely affect our business and results of operations.***

We rely on information technology ("IT") systems in order to achieve our business objectives. We also rely upon industry accepted security measures and technology to securely maintain confidential information maintained on our IT systems. However, our portfolio of hardware and software products, solutions and services and our enterprise IT systems may be vulnerable to damage or disruption caused by circumstances beyond our control such as catastrophic events, power outages, natural disasters, computer system or network failures, computer viruses, cyber-attacks or other malicious software programs. The failure or disruption of our IT systems to perform as anticipated for any reason could disrupt our business and result in decreased performance, significant remediation costs, transaction errors, loss of data, processing inefficiencies, downtime, litigation and the loss of suppliers or customers. A significant disruption or failure could have a material adverse effect on our business operations, financial performance and financial condition.

***Cybersecurity risks and cyber incidents may adversely affect our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our business relationships, all of which could negatively impact our financial results.***

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our tenant and investor relationships. As our reliance on technology increases, so will the risks posed to our information systems, both internal and those we outsource. There is no guarantee that any processes, procedures and internal controls we have implemented or will implement will prevent cyber intrusions, which could have a negative impact on our financial results, operations, business relationships or confidential information.

#### **Risks Related to Our Securities**

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

From January 1, 2018 through December 31, 2018, the high and low closing sales prices for our common stock were \$8.00 and \$5.10, respectively, and the average daily trading volume in our common stock during that time period was approximately 10,000 shares per day. There is a limited public market for our common stock, and we cannot provide assurances that a more active trading market will develop or be sustained. As a result of limited trading volume in our common stock, the purchase or sale of a relatively small number of shares could result in significant price fluctuations and it may be difficult for holders to sell their shares without depressing the market price for our common stock.

Additionally, the market prices of our common stock may continue to fluctuate significantly in response to a number of factors, some of which are beyond our control, including the following:

- General economic conditions affecting the availability of long-term or short-term credit facilities, the purchasing and payment patterns of our customers, or the requirements imposed by our suppliers;
- Economic conditions in our industry and in the industries of our customers and suppliers;
- Changes in financial estimates or investment recommendations by securities analysts relating to our common stock;
- Market reaction to our reported financial results;
- Loss of a major customer;
- Announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments; and
- Changes in key personnel.

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

Our officers, directors and 10% or greater stockholders control approximately 40.9% of the voting power represented by our outstanding shares of common stock as of March 12, 2019. If these stockholders act together, they may be able to exert significant control over our management and affairs requiring stockholder approval, including approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of all of our stockholders.

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

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

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

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

None.

**Item 2. Properties.**

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

MtronPTI owns one building in Orlando, Florida, containing approximately 71,000 square feet on approximately five acres of land. MtronPTI owns two buildings in Yankton, South Dakota, containing a combined total of approximately 32,000 square feet on approximately 11 acres of land. MtronPTI also leases approximately 13,000 square feet of office and manufacturing space in Noida, India. PTF leases approximately 3,600 square feet of office and manufacturing space in Wakefield, Massachusetts. We also lease approximately 700 square feet of office space in Hong Kong and approximately 400 square feet of office space in Sacramento, California. It is our opinion that the facilities referred to above are in good operating condition, suitable, and adequate for present uses.

**Item 3. Legal Proceedings.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

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

#### *Market for Common Equity*

Our common stock is traded on the NYSE American, under the symbol "LGL." Based upon information furnished by our transfer agent, at March 12, 2019, we had 431 holders of record of our common stock. The following table sets forth the high and low sales prices for our common stock for the periods indicated as reported by the NYSE American:

<i>Fiscal Year 2018</i>	<u>High</u>	<u>Low</u>
Fourth Quarter .....	\$ 7.25	\$ 5.76
Third Quarter .....	8.00	5.11
Second Quarter .....	5.60	5.10
First Quarter .....	5.86	5.24

<i>Fiscal Year 2017</i>	<u>High</u>	<u>Low</u>
Fourth Quarter .....	\$ 6.70	\$ 5.35
Third Quarter .....	5.83	4.25
Second Quarter .....	5.40	4.45
First Quarter .....	5.49	4.40

On August 29, 2011, the Board authorized the Company to repurchase up to 100,000 shares of its common stock in accordance with applicable securities laws. This authorization increased the total number of shares authorized and available for repurchase under the Company's existing share repurchase program to 540,000 shares, at such times, amounts and prices as the Company shall deem appropriate. There is no expiration date for this program. As of December 31, 2018, the Company has repurchased a total of 81,584 shares of common stock under this program at a cost of \$580,000, which shares are currently held in treasury; however, no shares were repurchased by the Company during the year ended December 31, 2018.

#### *Dividend Policy*

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

**Item 6. Selected Financial Data.**

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

*The selected consolidated statement of operations data for the years ended December 31, 2018 and 2017, and the selected consolidated balance sheet data as of December 31, 2018 and 2017, are derived from our audited financial statements included elsewhere in this report. The selected consolidated statement of operations data for the years ended December 31, 2016, 2015 and 2014, and the selected consolidated balance sheet data as of December 31, 2016, 2015 and 2014, are derived from our audited financial statements not included in this report. These consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Our historical results may not be indicative of the operating results to be expected in any future period.*

	Year ended December 31,				
	(in thousands, except share and per share data)				
	2018	2017	2016	2015	2014
Revenues .....	\$ 24,870	\$ 22,402	\$ 20,891	\$ 20,713	\$ 23,013
Operating income (loss) (a) .....	1,430	276	(161)	(788)	(2,829)
Income (loss) before income taxes .....	1,570	219	(17)	(703)	(2,829)
Provision (benefit) for income taxes .....	165	102	(165)	8	(4)
Net income (loss) .....	<u>\$ 1,405</u>	<u>\$ 117</u>	<u>\$ 148</u>	<u>\$ (711)</u>	<u>\$ (2,825)</u>
Weighted average number of shares used in the basic earnings per share calculation .....	4,748,609	2,929,641	2,665,043	2,640,803	2,595,988
Weighted average number of shares used in the diluted earnings per share calculation .....	4,875,031	3,035,104	2,665,730	2,640,803	2,595,988
Per share:					
Basic net income (loss) per share .....	\$ 0.30	\$ 0.04	\$ 0.06	\$ (0.27)	\$ (1.09)
Diluted net income (loss) per share .....	\$ 0.29	\$ 0.04	\$ 0.06	\$ (0.27)	\$ (1.09)

	December 31,				
	(in thousands)				
	2018	2017	2016	2015	2014
Cash and cash equivalents .....	\$ 15,508	\$ 13,250	\$ 2,778	\$ 5,553	\$ 5,192
Working capital .....	\$ 24,633	\$ 21,923	\$ 10,135	\$ 9,876	\$ 9,909
Total assets .....	\$ 30,075	\$ 27,555	\$ 16,646	\$ 15,803	\$ 17,262
Stockholders' equity (b) .....	\$ 27,323	\$ 24,928	\$ 13,891	\$ 13,727	\$ 14,237

- (a) Operating income (loss) is revenues less operating expenses, which excludes investment income, interest expense, gain on sale of land and equipment, insurance proceeds, other income and taxes and includes impairment charges.
- (b) No cash dividends have been declared during the periods presented.

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

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

### **Results of Operations**

#### ***2018 Compared to 2017***

##### *Consolidated Revenues, Gross Margin and Backlog*

Total revenues for the year ended December 31, 2018 were \$24,870,000, an increase of \$2,468,000, or 11.0% from revenues of \$22,402,000 in 2017. The increase is due to an increase in filter sales of \$2,580,000.

Consolidated gross margin, which is consolidated revenues less manufacturing cost of sales, as a percentage of revenues increased significantly to 38.8% from 34.6% for the year ended December 31, 2018, compared to the prior year. The increase reflects our strategy to move away from the low margin commodities business and focus on achieving revenue growth through the development of more complex, higher margin products, particularly in the aerospace and defense product markets.

As of December 31, 2018, our order backlog was \$17,506,000, an increase of 49.5% compared to a backlog of \$11,713,000 as of December 31, 2017. The significant increase in backlog is primarily due to receiving orders that we didn't expect to receive until the second or third quarter, much earlier than expected. The backlog of unfilled orders includes amounts based on signed contracts as well as agreed letters of intent, which we have determined are firm orders likely to be fulfilled in the next 12 months.

Order backlog is adjusted quarterly to reflect project cancellations, deferrals, revised project scope and cost, and sales of subsidiaries, if any. We expect to fill our entire order backlog as of December 31, 2018 in 2019, but cannot provide assurances as to what portion of the order backlog will be fulfilled in a given year.

##### *Operating Income*

Operating income of \$1,430,000 for the year ended December 31, 2018, was an improvement of \$1,154,000 from the year ended December 31, 2017 operating income of \$276,000. The improvement was primarily due to the \$1,918,000 increase in gross margins as a result of increased sales, offset partially by increased operating expenses of (\$764,000). Engineering, selling and administrative expenses were 33.1% of revenue for the year ended December 31, 2018, compared to 33.3% of revenue for the year ended December 31, 2017.

##### *Interest Income (Expense), Net*

Interest income (expense), net, showed income of \$2,000 for the year ended December 31, 2018, which was an increase of \$13,000 from the interest expense of (\$11,000) for the year ended December 31, 2017.

##### *Other Income (Expense), Net*

For the years ended December 31, 2018 and 2017, other income (expense), net was \$138,000 and (\$46,000), respectively, an increase of \$184,000 in the current year. This increase resulted directly from the investment income from our investment portfolio.

##### *Income Tax Provision*

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



In assessing the realizability of deferred tax assets, in accordance with the provisions of Accounting Standards Codification 740, *Income Taxes* (“ASC 740”), we consider whether it is more likely than not that some portion or all of our deferred tax assets will or will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become realizable. Based upon the weighting of positive and negative evidence, the Company has determined the results of future operations of one of its foreign subsidiaries will generate enough taxable income that it is more likely than not that deferred tax assets of \$127,000 at December 31, 2018, generated from foreign net operating losses (“NOLs”), can be utilized in the foreseeable future. The Company has also determined that a full valuation against the remaining net deferred tax assets is required and has recorded a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. Should a change in circumstances lead to a change in judgment about the ability to realize deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

We recorded an income tax provision for the years ended December 31, 2018 and 2017 of \$165,000 and \$102,000, respectively. The increase in our income tax provision over the prior year was primarily due to increased income in foreign jurisdictions.

#### *Net Income*

Net income for the year ended December 31, 2018 was \$1,405,000 compared with income of \$117,000 for the year ended December 31, 2017. Basic net income per share for the years ended December 31, 2018 and 2017 was \$0.30 and \$0.04, respectively. Diluted net income per share for the years ended December 31, 2018 and 2017 was \$0.29 and \$0.04, respectively.

#### *Liquidity and Capital Resources*

As of December 31, 2018 and 2017, cash and cash equivalents were \$15,508,000 and \$13,250,000, respectively.

Cash provided by operating activities was \$1,656,000 and \$681,000 for the years ended December 31, 2018 and 2017, respectively. The \$975,000 increase was primarily due to the improvement in net income of \$1,288,000, offset by the prior year impairment and partial recovery in the current year of a note receivable netting to (\$106,000), changes in operating assets and liabilities of (\$93,000), and a decrease in non-cash adjustments for depreciation and amortization of (\$150,000).

Cash used in investing activities for the years ended December 31, 2018 and 2017 was (\$324,000) and (\$1,003,000), respectively. The capital expenditures in 2018 related primarily to the purchase of production machinery.

For the year ended December 31, 2018, financing activity related to the \$927,000 received as a result of warrant exercises, along with \$27,000 received from exercises of stock options, and payments of (\$28,000) related to issuance costs for the rights offering in 2017.

As of December 31, 2018, our consolidated working capital was \$24,633,000, compared to \$21,923,000 as of December 31, 2017. As of December 31, 2018, we had current assets of \$27,385,000, current liabilities of \$2,752,000 and a ratio of current assets to current liabilities of 9.95 to 1.00. As of December 31, 2017, we had current assets of \$24,550,000, current liabilities of \$2,627,000 and a ratio of current assets to current liabilities of 9.35 to 1.00. Management continues to focus on efficiently managing working capital requirements to match operating activity levels, and will seek to deploy the Company’s working capital where it will generate the greatest returns.

We believe that existing cash and cash equivalents and cash generated from operations will be sufficient to meet our ongoing working capital and capital expenditure requirements for the next 12 months from the date of this filing.

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

### ***Critical Accounting Policies***

Our significant accounting policies are described in Note A. "Accounting and Reporting Policies" in the accompanying Notes to the Consolidated Financial Statements. The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to the carrying value of inventories, the likelihood of collecting outstanding accounts receivable, value of stock-based compensation, and the provision for income taxes. We base our 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 our estimates. However, results may differ from these estimates under different assumptions or conditions.

### ***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements.

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

Not applicable.

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

See the financial statements included at the end of this report beginning on page 33.

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

None.

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

#### ***Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms, and that such information is accumulated and communicated to us, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and we necessarily were required to apply our judgment in evaluating whether the benefits of the controls and procedures that we adopt outweigh their costs.

As required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act, an evaluation as of December 31, 2018 was conducted under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures, as of December 31, 2018, were effective at the reasonable assurance level.



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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting as of December 31, 2018, based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that evaluation, our management has concluded that our internal controls over financial reporting were effective as of December 31, 2018.

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

There were no changes in our internal controls over financial reporting during the fourth quarter ended December 31, 2018, or in other factors that could significantly affect these controls, that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

None.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

#### *Directors*

The following table sets forth information regarding our directors, including their business experience for the past five years (and, in some instances, for prior years) and their specific experience, qualifications, attributes or skills that led to the conclusion that they should serve as directors.

<u>Name</u>	<u>Age</u>	<u>Director Since</u>	<u>Offices and Positions Held With the Company, Business Experience and Principal Occupation for the Last Five Years, and Directorships in Public Corporations and Investment Companies</u>
Michael J. Ferrantino, Sr.	76	2014	Executive Chairman of the Board, The LGL Group, Inc. (December 2017 to present), Chairman of the Board, The LGL Group, Inc. (April 2016 to November 2017); Chief Executive Officer, The LGL Group, Inc. (June 2014 to present); Executive Chairman of the Board, M-tron Industries, Inc. (October 2013 to present); President and Chief Executive Officer, Valpey-Fisher Corporation (September 2002 to November 2009), a provider of electronic components used in communications, medical, defense and aerospace, industrial and computer applications for original equipment manufacturers and contract manufacturers worldwide; President, Micro Networks Division, Integrated Circuit Systems, Inc. (January 2002 to September 2002), a supplier of precision timing devices for optical networking, wireless infrastructure and high end network servers using surface acoustic wave and RF technology; President and Chief Executive Officer, Micro Networks Corporation (pre-2000 to January 2002); and Chairman of the Board of Directors, Micro Networks Corporation (April 2000 to January 2002). Mr. Ferrantino brings to Board his extensive knowledge and leadership experience in the RF/microwave integrated system and frequency control industries.
Marc J. Gabelli	51	2004	Non-executive Chairman of the Board, The LGL Group, Inc. (December 2017 to present, and September 2004 to April 2016); Chairman of Gabelli Merger Plus Trust since July 2017; Director of GAMCO Investors, Inc. from November 2014 to May 2016; Director and President of Associated Capital Group (October 2015 to May 2016); Managing Partner, Horizon Research (January 2013 to present), an investment management and research services provider; Chief Executive Officer, Gabelli Securities International Ltd. (1994 to present), a global alternative asset management platform and merchant advisor; President and Managing Partner, GGCP, Inc. (1999 to present), a private corporation that makes investments for its own account; Managing Member, Commonwealth Management Partners LLC (2008 to present); and Director and Managing Partner, GAMA Funds Holdings GmbH (2009 to present). Mr. Gabelli brings to the Board his extensive knowledge of the Company's business and industry due to his longstanding service on the Board, as well as his financial expertise and leadership experience as an executive of various investment firms.
Timothy Foufas	50	2007	Managing Partner, Plato Foufas & Co. LLC (2005 to present), a financial services company; President, Levalon Properties LLC (2007 to 2018), a real estate property management company; Senior Vice President, Bayshore Management Co. LLC (2005 to 2006), a real estate property management company; Director of Investments, Liam Ventures Inc. (2000 to 2005), a private equity investment firm; and Director, ICTC Group, Inc. (2010 to 2013), a rural local exchange carrier headquartered in Nome, ND. Mr. Foufas brings to the Board his management skills and expertise in financial, investment and real estate matters.

Donald H. Hunter	62	2013	Principal, Donald Hunter LLC (April 2007 to present), a consulting practice based in Wellesley, MA; Director of KushCo Holdings, Inc. (OTCQB: KSHB), a packaging and supply company serving the regulated Cannabis industry (February 2018 to present); Chief Operating Officer and Chief Financial Officer for Harbor Global Company Limited (October 2000 to December 2006), a public company that owned and operated international investment management and natural resources subsidiaries; Chief Operating Officer, Pioneer Global Investments, a Division of the Pioneer Group, Inc. (August 1998 to October 2000), a company that provided investment management services and owned several natural resources investments; Manager of International Finance, the Pioneer Group, Inc. (January 1991 to August 1998), with financial responsibility for international strategic start-up companies. Mr. Hunter served as a director of Juniper Pharmaceuticals, Inc. (February 2014 to March 2016), a specialty pharmaceuticals company (NASDAQ: JNP), where he served as Chairman of the Audit Committee; LICT Corporation (June 2014 to May 2016), an integrated provider of broadband and voice services (OTC PK: LICT); and the Pioneer First Polish Trust Fund, where he served as Audit Committee Chairman for the first mutual fund in Poland. Mr. Hunter brings to the Board financial, operating, corporate development, international and mergers and acquisition experience.
Manjit Kalha	44	2011	Managing Partner, Horizon Research (August 2012 to present), a firm that provides investment management and research services; Chief Executive Officer, Horizon AMC (June 2008 to present), a firm that provides investment management and consulting services; Chief Executive Officer and Director, Jeet Associates Private Limited (December 2006 to present), a consulting firm based in New Delhi that provides business strategy, finance, and taxation advisory services; and Co-founder and Chief Operating Officer, Radiant Polymers Private Limited (2001 to 2006), a manufacturing company of high quality specialty plastic components. Mr. Kalha brings to the Board his experience in management and manufacturing operations, and an extensive knowledge of global financial markets.
Hendi Susanto	45	2016	Vice President, Equity Research, Technology Leader, Gabelli & Company, a provider of institutional research and brokerage services (August 2007 to present) and Portfolio Manager, GAMCO Investors, Inc. (December 2015 to present). Mr. Susanto brings to the Board extensive experience in evaluating investments in technology, and special situations such as mergers and acquisitions, convertible debts and restructuring.
Bel Lazar	57	2019	Vice President, Operations and member of the Board of Directors at Efficient Power Corporation (April, 2015 to present), a leading provider of gallium nitride (GaN)-based power management technology. President and CEO at API Technologies Corp. (Aug 2012 to Feb 2015) and was previously their COO (March 2011 to Aug 2012).
Ivan Arteaga	50	2019	Chartered Financial Analyst and Founding and Managing Member of Arteaga Capital Management, LLC (May, 2006 to present), a firm that provides alternative investment management services to accredited or qualified investors. Mr. Arteaga has previously served as a Portfolio Manager of several funds for GAMCO Investors, Inc.

### ***Executive Officers***

The following table sets forth information regarding our executive officers, including their business experience for the past five years and prior years.

<b>Name</b>	<b>Age</b>	<b>Offices and Positions Held with the Company, Business Experience and Principal Occupation for the Last Five Years</b>
Michael J. Ferrantino, Sr.	76	Mr. Ferrantino's business experience, including his term in office, is listed in the section above titled "Directors."
James W. Tivy	51	Chief Financial Officer, The LGL Group, Inc. (January 2018 to present); SVP, Finance for INTL FCStone Securities Inc. (November 2012 to January 2017); Group Controller, INTL FCStone Inc. (January 2008 to November 2012).

### ***Family Relationships***

There are no family relationships among our executive officers and directors.

### ***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and holders of more than 10% of the Company's common stock to file with the SEC and NYSE American initial reports of ownership and reports of changes in the ownership of common stock and other equity securities of the Company. Such persons are required to furnish the Company with copies of all Section 16(a) filings.

Based solely upon a review of the copies of the forms furnished to the Company, the Company believes that its directors, officers and holders of more than 10% of the Company's common stock complied with all applicable filing requirements during the 2018 fiscal year.

### ***Code of Ethics***

We adopted a code of ethics as part of our Business Conduct Policy, which applies to all of our employees, including our principal executive, financial and accounting officers. Our Business Conduct Policy is available at [www.lglgroup.com](http://www.lglgroup.com). Amendments to and waivers of our code of ethics and Business Conduct Policy will be disclosed on our website.

### ***Audit Committee***

The Audit Committee of the Board (the "Audit Committee") consists of Messrs. Hunter, Kalha and Susanto. The Board has determined that all Audit Committee members are financially literate and independent under applicable NYSE American listing standards. Mr. Hunter serves as Chairman of the Audit Committee, and the Board has determined that he qualifies as the Audit Committee financial expert, as defined under the Exchange Act.

## **Item 11. Executive Compensation.**

### ***Summary Compensation Table***

The following table sets forth information with respect to compensation earned by the named executive officers:

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Stock Awards (1)</b>	<b>Option Awards (1)</b>	<b>All Other Compensation</b>	<b>Total</b>
		<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Michael J. Ferrantino, Sr..... Chief Executive Officer.....	2018	215,987	350,000 (2)	—	—	7,611 (4)	573,598
	2017	214,603	165,000 (3)	—	—	7,472 (4)	387,075
James W. Tivy ..... Chief Financial Officer	2018	104,991	—	—	—	911 (5)	105,902

- (1) Reflects the aggregate grant date fair value of stock awards or option awards granted in the applicable year, computed in accordance with Financial Accounting Standard Board Standards Codification Topic 718. For a discussion of the assumptions and methodologies used to calculate these amounts, please see Note E – Stock-Based Compensation in the Notes to Consolidated Financial Statements.

- (2) Reflects Mr. Ferrantino's Annual Incentive Payment for 2017 (defined below) of \$45,000 along with discretionary bonuses of \$55,000 awarded by the Company's Board of Directors and including \$250,000 advanced from Mr. Ferrantino's Annual Incentive Payment for 2018 (defined below).
- (3) Reflects Mr. Ferrantino's Annual Incentive Payment for 2016 (defined below) of \$95,000 along with discretionary bonuses of \$70,000 awarded by the Company's Board of Directors.
- (4) Amounts include reimbursement of healthcare insurance costs and the personal income tax expense arising from those costs, as well as matching contributions made by the Company to the individual's 401(k) plan.  
20182017
- (5) Amounts include reimbursement of travel expenses paid to consultant.

### ***Employment Agreements***

#### ***Michael J. Ferrantino, Sr.***

Pursuant to an offer letter entered into between the Company and Michael J. Ferrantino, Sr. (the "Offer Letter") on May 21, 2014, and as revised on January 11, 2017 (the "Revised Offer Letter"), Mr. Ferrantino is eligible to receive an annual incentive payment (the "Annual Incentive Payment") based on the increase in the economic value of the Company ("EV"), as further described in the Revised Offer Letter, over the prior fiscal year. The total amount of the Annual Incentive Payments payable for any fiscal year shall be equal to 3.0% of the increase in EV over the prior fiscal year. Mr. Ferrantino's Annual Incentive Payment is included in the Summary Compensation Table above.

### ***Outstanding Equity Awards at Fiscal Year-End***

The following table sets forth information regarding equity awards held by our named executive officers as of December 31, 2018:

<u>Name</u>	<u>Option Awards</u>			
	<u>Number of Securities Underlying Unexercised Options (#) Exercisable</u>	<u>Number of Securities Underlying Unexercised Options (#) Unexercisable</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>
Michael J. Ferrantino, Sr. ....	45,000 (1)	—	4.90	6/11/2019
	20,250 (2)	6,750	5.02	12/30/2021

- (1) On June 11, 2014, the Company granted Mr. Ferrantino options to purchase 75,000 shares of common stock under the 2011 Incentive Plan with a grant date fair value of \$111,055. These options vest as follows: 60% on the grant date; an additional 20% on the second anniversary of the grant date; and the remaining 20% on the third anniversary of the grant date. On March 1, 2016, Mr. Ferrantino voluntarily forfeited 30,000 of these options that were unvested.
- (2) On December 30, 2016, Mr. Ferrantino, was granted options to purchase 27,000 shares of common stock under the Amended and Restated 2011 Incentive Plan with a grant date fair value of \$32,084. These options vest as follows: 25% on the grant date; 25% on the first anniversary of the grant date; an additional 25% on the second anniversary of the grant date; and the remaining 25% on the third anniversary of the grant date.

### ***Non-Employee Director Compensation***

The following table sets forth information with respect to compensation earned by or awarded to each non-employee director who served on the Board during the fiscal year ended December 31, 2018:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$ (1))	Option Awards (\$ (1))	Total (\$)
Timothy Fofas .....	31,000	10,000	—	41,000
Marc J. Gabelli .....	16,750	10,000	—	26,750
Donald H. Hunter .....	29,000	10,000	—	39,000
Manjit Kalha.....	30,250	—	10,000	40,250
Frederic Salerno (2).....	15,000	—	—	15,000
Hendi Susanto .....	27,750	10,000	—	37,750
Antonio Visconti (2).....	15,750	—	—	15,750

- (1) On December 19, 2018, non-employee directors received grants of 1,629 shares of common stock as 50% of their base compensation for the fiscal year ended December 31, 2018 (\$10,000), except for Mr. Kalha, who elected to receive a grant of options to purchase 6,067 shares of common stock as 50% of his base compensation for the fiscal year ended December 31, 2018. These shares and options were granted under the Amended and Restated 2011 Incentive Plan. The options vest as follows: 30% on the first anniversary of the grant date; 30% on the second anniversary of the grant date; and the remaining 40% on the third anniversary of the grant date.
- (2) Messrs. Salerno and Visconti left the Board effective October 4, 2018.

In 2018, our directors also received the following in addition to the equity awards granted as part of their base compensation; (i) the remaining 50% of their annual base compensation in cash (\$10,000); (ii) \$2,000 for each meeting of the Board attended in person or \$750 for each meeting held telephonically; and (iii) the Audit Committee Chairman received a \$2,000 annual cash retainer and the Nominating Committee Chairman, and Compensation Committee Chairman each received a \$1,000 annual cash retainer.

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

The following table sets forth information regarding the number of shares of our common stock beneficially owned on March 12, 2019, by:

- Each person who is known to us to beneficially own more than 5% of our common stock;
- Each of our directors, nominees and named executive officers; and
- All of our directors and executive officers, as a group.

The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares voting power, which includes the power to vote or direct the voting of a security, or investment power, which includes the power to dispose of or to direct the disposition of a security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which such person has no economic interest. Except as otherwise indicated in these footnotes, each of the beneficial owners listed has, to our knowledge, sole voting and investment power with respect to the indicated shares of common stock.

Except as otherwise set forth below, the address of each of the persons listed below is: The LGL Group, Inc., 2525 Shader Road, Orlando, Florida 32804.

<u>Name and Address of Beneficial Owner</u>	<u>Common Stock Beneficially Owned (1)</u>	
	<u>Shares</u>	<u>%</u>
<b>5% Stockholders:</b>		
Mario J. Gabelli .....	957,178 (2)	19.8
<b>Directors and Named Executive Officers:</b>		
Marc J. Gabelli .....	823,417 (3)	17.0
Michael J. Ferrantino, Sr. ....	116,038 (4)	2.4
Timothy Foufas .....	29,900 (5)	*
Donald H. Hunter .....	17,873 (5)	*
Manjit Kalha.....	22,482 (6)	*
Hendi Susanto.....	5,426	*
James W. Tivy .....	3,000	*
All executive officers and directors as a group (7 persons).....	1,018,136 (7)	21.0

\* Less than 1% of outstanding shares.

- (1) The applicable percentage of ownership for each beneficial owner is based on 4,837,928 shares of common stock outstanding as of March 12, 2019. Shares of common stock issuable upon exercise of options, warrants or other rights beneficially owned that are exercisable within 60 days are deemed outstanding for the purpose of computing the percentage ownership of the person holding such securities and rights and all executive officers and directors as a group.
- (2) Includes (i) 521,471 shares of common stock owned directly by Mario J. Gabelli; (ii) 169,323 shares owned by MJG-IV Limited Partnership, of which Mario J. Gabelli is the general partner and has less than 100% interest; (iii) 479,423 shares owned by GGCP, Inc., of which Mario J. Gabelli is the chief executive officer, a director and controlling shareholder; and (iv) 500 shares held by GAMCO Asset Management Inc.. Mario J. Gabelli disclaims beneficial ownership of the shares owned by MJG-IV Limited Partnership, GGCP, Inc., and GAMCO Asset Management Inc., except to the extent of his pecuniary interest therein. Mario J. Gabelli's business address is 401 Theodore Fremd Avenue, Rye, New York 10580-1430. This disclosure is based solely on information in a Schedule 13D filed by Mario J. Gabelli with the SEC on December 24, 2018.
- (3) Includes (i) 59,114 shares of common stock owned directly by Marc J. Gabelli; (ii) 2,824 shares issuable upon the exercise of options held by Marc Gabelli; and (iii) 764,303 shares held by Venator Merchant Fund, L.P. ("Venator Fund"). Venator Global, LLC ("Venator Global"), which is the sole general partner of Venator Fund, may be deemed to beneficially own the securities owned by Venator Fund. Marc J. Gabelli, who is the President and Sole Member of Venator Global, may be deemed to beneficially own the securities owned by Venator Fund. Marc J. Gabelli disclaims beneficial ownership of the securities owned by Venator Fund, except to the extent of his pecuniary interest therein.
- (4) Includes 65,250 shares issuable upon the exercise of options.
- (5) Includes 2,824 shares issuable upon the exercise of options.
- (6) Includes 8,599 shares issuable upon the exercise of options.
- (7) Includes 933,355 shares of common stock and 87,605 shares issuable upon the exercise of options.



### ***Equity Compensation Plan Information***

The following table provides information as of December 31, 2018 about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans (including individual arrangements):

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)</b>
Equity compensation plans approved by security holders (1) .....	153,877	\$ 4.75	428,468
Equity compensation plans not approved by security holders .....	—	—	—
Total .....	153,877	\$ 4.75	428,468

- (1) The Amended and Restated 2011 Incentive Plan was approved by our stockholders on June 16, 2016. 750,000 shares of common stock are authorized for issuance under the Amended and Restated 2011 Incentive Plan. Options to purchase 153,877 shares of common stock issued under the Amended and Restated 2011 Incentive Plan were outstanding as of December 31, 2018.

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

#### ***Transactions with Related Persons, Promoters and Certain Control Persons***

Certain balances held and invested in various mutual funds are managed by a related entity (the "Fund Manager"), which is related through a director who is also a 10% stockholder and currently serves as an executive officer of the Fund Manager. As of December 31, 2018, and December 31, 2017, the balance with the Fund Manager totaled \$16,270,000 and \$14,842,000, respectively. Fund management fees earned by the Fund Manager are anticipated to average less than 0.25% of the asset balances under management on an annual basis. The brokerage and fund transactions in 2018 and 2017 were directed solely at the discretion of the Company's management.

All transactions between us and any of our officers, directors, director nominees, principal stockholders or their immediate family members are to be approved by the Audit Committee, and are to be on terms no less favorable to us than we could obtain from unaffiliated third parties. Such policy and procedures are set forth in a resolution of the Board.

#### ***Director Independence***

As required under NYSE American rules, a majority of the members of a listed company's board of directors must qualify as "independent," as affirmatively determined by such board of directors. The Board has determined that Messrs. Foufas, Hunter, Kalha, and Susanto are independent within the meaning of NYSE American rules.

### **Item 14. Principal Accounting Fees and Services Fees Billed During Fiscal 2018 and 2017**

#### ***Audit Fees***

Aggregate audit fees for the years ended December 31, 2018 and 2017, were \$221,634 and \$214,988, respectively, and include fees billed by RSM US LLP ("RSM") as the Company's independent registered public accounting firm for the years ended December 31, 2018 and 2017. Audit fees include services relating to auditing the Company's annual financial statements, reviewing the Company's financial statements included in the Company's quarterly reports on Form 10-Q and annual report on Form 10-K.



#### *Audit-Related Fees*

RSM did not render any audit-related services during 2018. RSM rendered audit-related services in connection with the Company's registration statement on Form S-1 (Registration No. 333-218901) for the company's rights offering during the year ended December 31, 2017 and charged fees of \$24,150 during 2017.

#### *Tax Fees*

RSM did not render any tax services during 2018 or 2017.

#### *All Other Fees*

RSM did not render any other services during 2018 or 2017.

#### *Pre-Approval Policies and Procedures*

The Audit Committee policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm are reflected in the Audit Committee Charter. The Audit Committee Charter provides that the Audit Committee shall pre-approve all audit and non-audit services provided by the independent registered public accounting firm and shall not engage the independent registered public accounting firm to perform the specific non-audit services proscribed by law or regulation. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any Audit Committee member to whom pre-approval authority is delegated must be presented to the full Audit Committee at its next scheduled meeting.

If any services other than audit services are rendered by our independent registered public accounting firm, the Audit Committee determines whether such services are compatible with maintaining our independent registered public accounting firm's independence.

All services performed by our independent registered public accounting firm were pre-approved by the Audit Committee.

## PART IV

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

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

1. Financial Statements:

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Report of Independent Registered Public Accounting Firm.....	30
Consolidated Balance Sheets: December 31, 2018 and 2017.....	31
Consolidated Statements of Operations: Years ended December 31, 2018 and 2017.....	32
Consolidated Statements of Comprehensive Income: Years ended December 31, 2018 and 2017 .....	33
Consolidated Statements of Stockholders' Equity: Years ended December 31, 2018 and 2017 .....	34
Consolidated Statements of Cash Flows: Years ended December 31, 2018 and 2017.....	35
Notes to Consolidated Financial Statements.....	36

2. Financial Statement Schedules:

None.

3. Exhibit Index

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

<u>Exhibit No.</u>	<u>Description</u>
2.1	Asset Purchase Agreement, dated as of January 31, 2014, made by and between M-tron Industries, Inc. and Trilithic, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 15, 2014).
3.1	Certificate of Incorporation of The LGL Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on August 31, 2007).
3.2	The LGL Group, Inc. By-Laws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on August 31, 2007).
3.3	The LGL Group, Inc. Amendment No. 1 to By-Laws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 17, 2014).
4.1	Warrant Agreement, dated as of July 30, 2013, by and among The LGL Group, Inc., Computershare Inc. and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 14, 2013).
4.2	Form of Subscription and Information Agent Agreement by and between The LGL Group, Inc. and Broadridge Corporate Issuer Solutions, Inc. (incorporated by reference to Exhibit 4.2 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-218901) filed with the SEC on August 21, 2017).
4.3	Form of Transferable Subscription Rights Certificate (incorporated by reference to Exhibit 4.3 to Amendment No. 1 to the Company's Registration Statement on Form S-1 (Registration No. 333-218901) filed with the SEC on August 21, 2017).
10.1	The LGL Group, Inc. 401(k) Savings Plan (incorporated by reference to Exhibit 10(b) to the Company's Annual Report on Form 10-K filed with the SEC on April 1, 1996).

<b>Exhibit No.</b>	<b>Description</b>
10.2	The LGL Group, Inc. 2001 Equity Incentive Plan adopted December 10, 2001 (incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 filed with the SEC on December 29, 2005).
10.3	Form of Restricted Stock Agreement (2001 Equity Incentive Plan) by and between The LGL Group, Inc. and each of its directors (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2011).
10.4	Form of Restricted Stock Agreement (2001 Equity Incentive Plan) by and between The LGL Group, Inc. and each of its executive officers (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2011).
10.5	The LGL Group, Inc. Amended and Restated 2011 Incentive Plan (incorporated by reference to Annex A of the Company's Definitive Proxy Statement with respect to the Company's 2016 Annual Meeting of Stockholders, filed on April 29, 2016).
10.6	Form of Stock Option Agreement (2011 Incentive Plan) (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed with the SEC on December 30, 2011).
10.7	Form of Restricted Stock Agreement (2011 Incentive Plan) (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed with the SEC on December 30, 2011).
10.8	Form of Indemnification Agreement by and between The LGL Group, Inc. and its executive officers and directors (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed with the SEC on March 24, 2011).
10.9	Offer of Employment Letter, effective as of October 1, 2013, by and between The LGL Group, Inc. and Michael J. Ferrantino (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 7, 2013).
10.10	Agreement and Release, dated May 27, 2014, by and between Gregory P. Anderson and The LGL Group, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2014).
10.11	Agreement and Release, dated May 27, 2014, by and between James L. Williams and The LGL Group, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on May 28, 2014).
10.12	Registration Rights Agreement, dated as of September 19, 2013, by and between the Company and Venator Merchant Fund L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 19, 2013).
10.13	Loan Agreement, dated as of September 30, 2014, by and between M-tron Industries, Inc. and City National Bank of Florida (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2014).
10.14	Revolving Promissory Note, dated as of September 30, 2014, by and between M-tron Industries, Inc. and City National Bank of Florida (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2014).
10.15	Cash Collateral Agreement, dated as of September 30, 2014, by and between M-tron Industries, Inc. and City National Bank of Florida (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on October 2, 2014).
10.16	Independent Contractor Agreement between The LGL Group, Inc. and James W. Tivy (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 6, 2018).
21.1	Subsidiaries of The LGL Group, Inc.*

<b>Exhibit No.</b>	<b>Description</b>
23.1	Consent of Independent Registered Public Accounting Firm – RSM US LLP.*
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

\* Filed herewith

\*\*Furnished herewith. In accordance with Item 601(b)(32) of Regulation S-K, this Exhibit is not deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

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

**Item 16. Form 10-K Summary.**

None.

## SIGNATURES

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

THE LGL GROUP, INC.

March 21, 2019

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

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

<u>SIGNATURE</u>	<u>CAPACITY</u>	<u>DATE</u>
<u>/s/ Michael J. Ferrantino, Sr.</u> MICHAEL J. FERRANTINO, SR.	President and Chief Executive Officer (Principal Executive Officer)	March 21, 2019
<u>/s/ James W. Tivy</u> JAMES W. TIVY	Chief Financial Officer (Principal Financial Officer)	March 21, 2019
<u>/s/ Marc J. Gabelli</u> MARC J. GABELLI	Director	March 21, 2019
<u>/s/ Timothy Foufas</u> TIMOTHY FOUFAS	Director	March 21, 2019
<u>/s/ Donald H. Hunter</u> DONALD H. HUNTER	Director	March 21, 2019
<u>/s/ Manjit Kalha</u> MANJIT KALHA	Director	March 21, 2019
<u>/s/ Bel Lazar</u> BEL LAZAR	Director	March 21, 2019
<u>/s/ Hendi Susanto</u> HENDI SUSANTO	Director	March 21, 2019
<u>/s/ Ivan Arteaga</u> IVAN ARTEAGA	Director	March 21, 2019

## **Report of Independent Registered Public Accounting Firm**

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

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of The LGL Group, Inc. and its subsidiaries (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2011.

Orlando, Florida  
March 21, 2019

**THE LGL GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in Thousands, Except per Share Amounts)

	December 31,	
	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents.....	\$ 15,508	\$ 13,250
Marketable securities.....	3,775	3,803
Accounts receivable, net of allowances of \$40 and \$35, respectively .....	3,394	3,393
Inventories, net.....	4,466	3,875
Prepaid expenses and other current assets.....	242	229
Total Current Assets .....	27,385	24,550
Property, Plant and Equipment		
Land.....	536	536
Buildings and improvements.....	4,029	3,973
Machinery and equipment.....	17,012	16,974
Gross property, plant and equipment .....	21,577	21,483
Less: accumulated depreciation .....	(19,491)	(19,304)
Net property, plant and equipment.....	2,086	2,179
Intangible assets, net.....	477	552
Deferred income taxes, net .....	127	173
Other assets.....	—	101
Total Assets .....	<u>\$ 30,075</u>	<u>\$ 27,555</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable .....	\$ 1,418	\$ 1,477
Accrued compensation and commissions expense.....	1,143	872
Other accrued expenses.....	191	278
Total Current Liabilities .....	2,752	2,627
Commitments and Contingencies (Note J)		
Stockholders' Equity		
Common stock, \$0.01 par value - 10,000,000 shares authorized; 4,912,762 shares issued and 4,831,178 shares outstanding at December 31, 2018, and 4,774,477 shares issued and 4,692,893 shares outstanding at December 31, 2017.....	49	47
Additional paid-in capital.....	41,023	40,035
Accumulated deficit .....	(13,169)	(14,609)
Treasury stock, 81,584 shares held in treasury at cost at December 31, 2018 and 2017.....	(580)	(580)
Accumulated other comprehensive income .....	—	35
Total Stockholders' Equity .....	27,323	24,928
Total Liabilities and Stockholders' Equity .....	<u>\$ 30,075</u>	<u>\$ 27,555</u>

*See Accompanying Notes to Consolidated Financial Statements.*

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

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>REVENUES</b> .....	\$ 24,870	\$ 22,402
Costs and expenses:		
Manufacturing cost of sales.....	15,211	14,661
Engineering, selling and administrative.....	8,229	7,465
<b>OPERATING INCOME</b> .....	<u>1,430</u>	<u>276</u>
Other Income (Expense):		
Interest income (expense), net.....	2	(11)
Other income (expense), net.....	138	(46)
Total Other Income (Expense), net.....	<u>140</u>	<u>(57)</u>
<b>INCOME BEFORE INCOME TAXES</b> .....	1,570	219
Income tax provision .....	165	102
<b>NET INCOME</b> .....	<u>\$ 1,405</u>	<u>\$ 117</u>
Basic per share information:		
Weighted average number of shares used in basic earnings per share calculation .....	<u>4,748,609</u>	<u>2,929,641</u>
Basic net income per share.....	<u>\$ 0.30</u>	<u>\$ 0.04</u>
Diluted per share information:		
Weighted average number of shares used in diluted earnings per share calculation .....	<u>4,875,031</u>	<u>3,035,104</u>
Diluted net income per share.....	<u>\$ 0.29</u>	<u>\$ 0.04</u>

*See Accompanying Notes to Consolidated Financial Statements.*



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

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>NET INCOME</b> .....	<u>\$ 1,405</u>	<u>\$ 117</u>
Other comprehensive income:		
Unrealized gain on available-for-sale securities, net .....	<u>—</u>	<u>38</u>
Total other comprehensive income .....	<u>—</u>	<u>38</u>
<b>COMPREHENSIVE INCOME</b> .....	<u><u>\$ 1,405</u></u>	<u><u>\$ 155</u></u>

*See Accompanying Notes to Consolidated Financial Statements.*

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

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2016 ....	2,675,465	\$ 27	\$ 29,173	\$ (14,726)	\$ (580)	\$ (3)	\$ 13,891
Net income .....				117			117
Other comprehensive income .....						38	38
Stock-based compensation .....	10,830	—	88				88
Issuance of shares, net of issuance costs .....	2,006,598	20	10,774				10,794
Balance at December 31, 2017 ....	4,692,893	47	40,035	(14,609)	(580)	35	24,928
Net income .....				1,405			1,405
Cumulative effect adjustment from adoption of Accounting Standards Update 2016-01 .....				35		(35)	—
Exercise of stock options .....	9,376		27				27
Repurchase of shares exercised ...	(1,200)	—					—
Stock-based compensation .....	6,516	—	64				64
Warrant dividend exercise .....	123,593	2	925				927
Issuance costs for rights offering .....			(28)				(28)
Balance at December 31, 2018 ....	<u>4,831,178</u>	<u>\$ 49</u>	<u>\$ 41,023</u>	<u>\$ (13,169)</u>	<u>\$ (580)</u>	<u>\$ —</u>	<u>\$ 27,323</u>

*See Accompanying Notes to Consolidated Financial Statements.*

**THE LGL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in Thousands)

	Years Ended December 31,	
	2018	2017
<b>OPERATING ACTIVITIES</b>		
Net income.....	\$ 1,405	\$ 117
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	417	567
Amortization of finite-lived intangible assets.....	75	75
(Recovery) impairment of note receivable .....	(4)	102
Stock-based compensation.....	64	88
Deferred income tax expense.....	46	41
Loss (gain) on marketable securities .....	28	(21)
Dividend from marketable securities.....	—	(6)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net .....	(1)	111
Increase in inventories, net.....	(591)	(237)
Decrease (increase) in prepaid expenses and other assets .....	92	(28)
Increase (decrease) in accounts payable, accrued compensation and commissions expense and other accrued liabilities.....	125	(128)
<b>Net cash provided by operating activities</b> .....	<u>1,656</u>	<u>681</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of marketable securities.....	—	(1,002)
Capital expenditures .....	(324)	(131)
Proceeds from sale of land.....	—	96
Other .....	—	34
<b>Net cash used in investing activities</b> .....	<u>(324)</u>	<u>(1,003)</u>
<b>FINANCING ACTIVITIES</b>		
(Costs) proceeds from issuance of common stock, net of issuance costs.....	(28)	10,794
Proceeds from warrant exercise .....	927	—
Proceeds from stock option exercise .....	27	—
<b>Net cash provided by financing activities</b> .....	<u>926</u>	<u>10,794</u>
(Decrease) increase in cash and cash equivalents .....	2,258	10,472
Cash and cash equivalents at beginning of year .....	13,250	2,778
Cash and cash equivalents at end of year .....	<u>\$ 15,508</u>	<u>\$ 13,250</u>
<b>Supplemental Disclosure:</b>		
Cash paid for interest .....	<u>\$ 23</u>	<u>\$ 23</u>
Cash paid for income taxes .....	<u>\$ 69</u>	<u>\$ 41</u>

*See Accompanying Notes to Consolidated Financial Statements.*

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

**A. Accounting and Reporting Policies**

***Organization***

The LGL Group, Inc. (the "Company"), incorporated in 1928 under the laws of the State of Indiana and reincorporated under the laws of the State of Delaware in 2007, is a diversified holding company with subsidiaries engaged in the design, manufacturing and marketing of highly-engineered, high reliability frequency and spectrum control products used to control the frequency or timing of signals in electronic circuits and in the design of high performance Frequency and Time Reference Standards that form the basis for timing and synchronization in various applications.

As of December 31, 2018, the subsidiaries of the Company are as follows:

	<b>Owned By The LGL Group, Inc.</b>
M-tron Industries, Inc. ....	100.0%
Piezo Technology, Inc. ....	100.0%
Piezo Technology India Private Ltd. ....	99.9%
M-tron Asia, LLC ....	100.0%
M-tron Industries, Ltd. ....	100.0%
GC Opportunities Ltd. ....	100.0%
M-tron Services, Ltd. ....	100.0%
Precise Time and Frequency, LLC ....	100.0%
Lynch Systems, Inc. ....	100.0%

The Company operates through its two principal subsidiaries, M-tron Industries, Inc. ("MtronPTI"), which includes the operations of Piezo Technology, Inc. ("PTI") and M-tron Asia, LLC ("Mtron"), and Precise Time and Frequency, LLC ("PTF"). The Company has operations in Orlando, Florida, Yankton, South Dakota, Wakefield, Massachusetts and Noida, India. MtronPTI also has sales offices in Sacramento, California, Austin, Texas and Hong Kong.

***Principles of Consolidation***

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

***Uses of Estimates***

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

***Cash and Cash Equivalents***

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

***Marketable Securities***

Marketable equity securities are categorized as available-for-sale securities and are reported at fair value, with the change in fair value being recorded in the consolidated statement of operations.

### ***Accounts Receivable***

Accounts receivable, on a consolidated basis, consists principally of amounts due from both domestic and foreign customers. Credit is extended based on an evaluation of the customer's financial condition and collateral is not required. In relation to export sales, the Company requires letters of credit supporting a significant portion of the sales price prior to production to limit exposure to credit risk. Certain credit sales are made to industries that are subject to cyclical economic changes.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. These allowances are maintained at a level that management believes is sufficient to cover potential credit losses. Estimates are based on historical collection experience, current trends, credit policy and the relationship between accounts receivable and revenues. In determining these estimates, the Company examines historical write-offs of its receivables and reviews each customer's account to identify any specific customer collection issues. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances might be required.

### ***Inventories***

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

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

### ***Property, Plant and Equipment, Net***

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

Depreciation expense from operations was approximately \$417,000 for 2018 and \$567,000 for 2017.

### ***Warranties***

The Company offers a standard one-year warranty. The Company tests its products prior to shipment in order to ensure that they meet each customer's requirements based upon specifications received from each customer at the time its order is received and accepted. The Company's customers may request to return products for various reasons, including, but not limited to, the customers' belief that the products are not performing to specification. The Company's return policy states that it will accept product returns only with prior authorization and if the product does not meet customer specifications, in which case the product would be replaced or repaired. To accommodate the Company's customers, each request for return is reviewed, and if and when it is approved, a return materials authorization ("RMA") is issued to the customer.

Each month, the Company records a specific warranty reserve for approved RMAs covering products that have not yet been returned. The Company does not maintain a general warranty reserve because, historically, valid warranty returns resulting from a product not meeting specifications or being non-functional have been de minimis. As of December 31, 2018 and 2017, accrued warranty expense was \$28,000 and \$10,000, respectively.

### ***Intangible Assets***

Intangible assets are recorded at cost less accumulated amortization. Amortization is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets, which range up to 10 years. The intangible assets consist of intellectual property and goodwill. The net carrying value of the amortizable intangible assets was \$437,000 and \$512,000 as of December 31, 2018 and 2017, respectively. Goodwill, which is not amortizable, was \$40,000 as of December 31, 2018 and 2017.

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

2019 .....	\$	75
2020 .....		75
2021 .....		75
2022 .....		75
2023 .....		75
Thereafter .....		62
Total .....	\$	<u>437</u>

### ***Revenue Recognition***

Effective January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) 2014-09, "Revenue from Contracts with Customers," also known as the "New Revenue Standard" (“ASU 2014-09”), on a modified retrospective basis, with no cumulative effect of adoption to any of the financial statement line items. The Company’s revised policy is as follows:

The Company recognizes revenue from the sale of its products in accordance with the criteria in Accounting Standards Codification (“ASC”) 606, Revenue From Contracts with Customers, which are:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company meets these conditions upon the Company’s satisfaction of the performance obligation, usually at the time of shipment to the customer, because control passes to the customer at that time. Our standard terms for customers are net due within 30 days, with a few exceptions, none regularly exceeding 60 days.

The Company provides disaggregated revenue details by segment in Note K – Segment Information, and geographic markets in Note L – Domestic and Foreign Revenues.

The Company offers a limited right of return and/or authorized price protection provisions in its agreements with certain electronic component distributors who resell the Company's products to original equipment manufacturers or electronic manufacturing services companies. As a result, the Company estimates and records a reserve for future returns and other charges against revenue at the time of shipment consistent with the terms of sale. The reserve is estimated based on historical experience with each respective distributor. These reserves and charges are immaterial as the Company does not have a history of significant price protection adjustments or returns. The Company provides a standard assurance warranty that does not create a performance obligation.

#### ***Practical Expedients:***

- The Company applies the practical expedient for shipping and handling as fulfillment costs.
- The Company expenses sales commissions as sales and marketing expenses in the period they are incurred.

### ***Shipping Costs***

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

### ***Research and Development Costs***

Research and development costs are charged to operations as incurred. Such costs were approximately \$1,947,000 and \$1,827,000 in 2018 and 2017, respectively, and are included within engineering, selling and administrative expenses.

### ***Advertising Expense***

Advertising costs are charged to operations as incurred. Such costs were approximately \$24,000 in 2018, compared with \$18,000 in 2017, and are included within engineering, selling and administrative expenses.

### ***Stock-Based Compensation***

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

The Company estimates the fair value of stock options on the grant date using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton option-pricing model requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. There is no expected dividend rate. Historical Company information was the basis for the expected volatility assumption as the Company believes that the historical volatility over the life of the option is indicative of expected volatility in the future. The risk-free interest rate is based on the U.S. Treasury zero-coupon rates with a remaining term equal to the expected term of the option. The Company records any forfeitures in the period that the shares are forfeited.

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

### ***Earnings Per Share***

The Company computes earnings per share in accordance with ASC 260, *Earnings Per Share*. Basic earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share adjusts basic earnings per share for the effects of stock options and other potentially dilutive financial instruments, only in the periods in which the effects are dilutive.

For the years ended December 31, 2018 and 2017, there were options to purchase 15,608 shares and 42,676 shares, respectively, of common stock and for the year ended December 31, 2017, there were warrants to purchase 519,241 shares of common stock that were excluded from the diluted earnings per share computation because the impact of the assumed exercise of such stock options or warrants would have been anti-dilutive.

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Weighted average shares outstanding - basic .....	4,748,609	2,929,641
Effect of diluted securities .....	126,422	105,463
Weighted average shares outstanding - diluted .....	<u>4,875,031</u>	<u>3,035,104</u>

### ***Income Taxes***

The Company's deferred income tax assets represent (a) temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, and (b) the tax effects of net operating loss carry-forwards. In assessing the realizability of deferred tax assets in accordance with the provisions of ASC 740, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will or will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become realizable.



The Company has determined the results of future operations of one of its foreign subsidiaries will generate enough taxable income that it is more likely than not that deferred tax assets of \$127,000 generated from net operating losses ("NOL's") in a foreign subsidiary, can be utilized in the foreseeable future. The Company has also determined that a full valuation against the remaining net deferred tax assets is required and has recorded a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. Should a change in circumstances lead to a change in judgment about the ability to realize deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income. The Company recognizes interest and/or penalties, if any, related to income tax matters in income tax expense.

### ***Concentration Risk***

In 2018, the Company's largest customer, an electronics contract manufacturing company in the aerospace and defense markets, accounted for \$4,436,000, or 17.8% of the Company's total revenues, compared to \$3,744,000, or 16.7%, in 2017.

A significant portion of the Company's accounts receivable is concentrated with a relatively small number of customers. As of December 31, 2018, four of the Company's largest customers accounted for approximately \$1,043,000, or 30% of accounts receivable. As of December 31, 2017, four of the Company's largest customers accounted for approximately \$1,100,000, or 32% of accounts receivable. The Company carefully evaluates the creditworthiness of its customers in deciding to extend credit, and utilizes letters of credit to further limit credit risk for export sales. As a result of these policies, the Company has experienced very low historical bad debt expense and believes the related risk to be minimal.

At various times throughout the year and at December 31, 2018, some deposits held at financial institutions were in excess of federally insured limits. The Company has not experienced any losses related to these balances and believes the related risk to be minimal.

### ***Segment Information***

The Company reports segment information in accordance with ASC 280, *Segment Information* ("ASC 280"). ASC 280 requires companies to report financial and descriptive information for each identified operating segment based on management's internal organizational decision-making structure. Management has identified the Company's two segments as electronic components and electronic instruments.

### ***Impairments of Long-Lived Assets***

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

### ***Financial Instruments***

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

### ***Foreign Currency Translation***

The assets and liabilities of international operations are re-measured at the exchange rates in effect at the balance sheet date for monetary assets and liabilities and at historical rates for non-monetary assets and liabilities, with the related re-measurement gains or losses reported within the consolidated statement of operations. The results of international operations are re-measured at the monthly average exchange rates. The Company's foreign subsidiaries and respective operations' functional currency is the U.S. dollar. The Company has determined this based upon the majority of transactions with customers as well as inter-company transactions and parental support being based in U.S. dollars. The Company has recognized a re-measurement loss of \$74,000 and a re-measurement gain of \$22,000, in 2018 and 2017, respectively, which is included within other income, net in the consolidated statements of operations.

### ***Recently Issued Accounting Pronouncements***

In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118," to provide guidance for companies that may not have completed their accounting for the income tax effects of the Tax Cuts and Jobs Act (the "Tax Act") in the period of enactment, which is the period that includes December 22, 2017. ASU 2018-05 provides for a provisional one year measurement period for entities to finalize their accounting for certain income tax effects related to the Tax Act. ASU 2018-05 requires disclosure of the reasons for incomplete accounting, additional information or analysis needed, among other relevant information. The Company finalized its provisional amounts during the fourth quarter of fiscal 2018 without recording any adjustment, completing its requirements under ASU 2018-05.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". The objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those annual periods and is to be applied utilizing a modified retrospective approach. The Company does not expect the adoption of ASU 2016-02 to have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities (Topic 825)". ASU 2016-01 revises the classification and measurement of investments in certain equity investments and the presentation of certain fair value changes for certain financial liabilities measured at fair value. ASU 2016-01 requires the change in fair value of many equity investments to be recognized in net income. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company adopted this guidance effective January 1, 2018 and made a cumulative effect adjustment to the Company's retained earnings of \$35,000.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers". ASU 2014-09 is the result of a collaborative effort by the FASB and the International Accounting Standards Board to simplify revenue recognition guidance, remove inconsistencies in the application of revenue recognition, and to improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to receive for those goods or services. For a public entity, this update is effective for annual and interim reporting periods beginning after December 15, 2017 with early adoption permitted. This standard can be applied on either a retrospective or modified retrospective approach. Since May, 2014, a number of ASU's have been issued which further refine the original guidance issued under ASU 2014-09 and are effective in conjunction with this original standard. ASU 2014-09 became effective for the Company on January 1, 2018 and was applied on a modified retrospective basis, with no cumulative effect of adoption to any of the financial statement line items.

No other new accounting pronouncements issued or effective during the fiscal year have had or are expected to have a material impact on the Company's consolidated financial statements.

## B. Inventories

The Company reduces the value of its inventories to net realizable value when the net realizable value is believed to be less than the cost of the item. The inventory reserve for obsolescence as of December 31, 2018 and 2017 was \$1,266,000 and \$1,213,000, respectively.

	December 31,	
	2018	2017
	(in thousands)	
Raw materials .....	\$ 1,719	\$ 1,526
Work in process .....	1,807	1,337
Finished goods .....	940	1,012
Total Inventories, net .....	<u>\$ 4,466</u>	<u>\$ 3,875</u>

## C. Related Party Transactions

Certain balances held and invested in various mutual funds are managed by a related entity (the "Fund Manager"), which is related through a director who is also a greater than 10% stockholder and currently serves as an executive officer of the Fund Manager. The brokerage and fund transactions in 2018 and 2017 were directed solely at the discretion of the Company's management.

As of December 31, 2018, the balance with the Fund Manager totaled \$16,270,000 , including \$12,506,000 which is classified within cash and cash equivalents on the accompanying consolidated balance sheet, and \$3,764,000 which is classified as marketable securities on the accompanying consolidated balance sheet. Amounts invested generated \$203,000 of realized and unrealized investment income during 2018 that is included within other income, net on the accompanying unaudited consolidated statement of operations.

As of December 31, 2017, the balance with the Fund Manager totaled \$14,842,000, including \$11,050,000 which is classified within cash and cash equivalents on the accompanying consolidated balance sheet, and \$3,792,000 which is classified as marketable securities on the accompanying consolidated balance sheet.

Fund management fees earned by the Fund Manager are anticipated to average less than 0.25% of the asset balances under management on an annual basis.

## D. Stock-Based Compensation

On August 4, 2011, the Company's stockholders approved the 2011 Incentive Plan. 500,000 shares of common stock were authorized for issuance under the 2011 Incentive Plan. On June 16, 2016, the Company's stockholders approved the Amended and Restated 2011 Incentive Plan which increased the shares of common stock authorized for issuance to 750,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price either at or 10% above the market price of the Company's stock at the date of grant; those option awards generally have 5-year contractual terms and generally vest over three years. Restricted stock awards are granted at a value equal to the market price of the Company's common stock on the date of grant.

The following table summarizes the inputs to the option valuation model for the options granted during the years ended December 31, 2018 and 2017:

	2018	2017
Expected volatility.....	31%	27%
Dividend rate .....	0%	0%
Expected term (in years) .....	3.55	3.55
Risk-free rate .....	2.65%	2.01%

The Company bases expected volatility on the weighted average historical stock volatility of the Company's common stock. There is no dividend rate, as dividends are not expected to be paid. The expected term utilizes historical data to estimate the period of time that the options are expected to remain unexercised. The Company bases risk-free rates on the U.S. Treasury zero-coupon rates with a remaining term equal to the expected term of the option. The Company records any forfeitures in the period that the shares are forfeited.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2018:

	<b>Number of Shares Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Weighted Average Remaining Term (in years)</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Option Balances at December 31, 2017 .....	181,385	\$ 4.98	\$ 1.30	2.4	\$ 158
Options Granted .....	6,067	6.14	1.65		
Options Exercised .....	(9,376)	3.89	0.94		
Options Forfeited .....	(506)	4.34	0.87		
Options Expired .....	(23,693)	7.26	2.33		
Option Balances at December 31, 2018 .....	<u>153,877</u>	<u>\$ 4.75</u>	<u>\$ 1.18</u>	<u>2.0</u>	<u>\$ 208</u>
Options Exercisable at December 31, 2018 .....	<u>124,855</u>	<u>\$ 4.61</u>	<u>\$ 1.19</u>	<u>1.6</u>	<u>\$ 186</u>

The weighted-average grant-date fair value of options granted during the years 2018 and 2017 was \$1.65 and \$1.05, respectively. As of December 31, 2018, there was approximately \$31,000 of total unrecognized compensation expense related to unvested share-based compensation arrangements.

During the year ended December 31, 2018, the Company issued 6,516 shares with a weighted average grant date fair value of \$6.14 per share. These shares were fully vested on the date of issuance. As of December 31, 2018, there were no unvested restricted shares granted under the Amended and Restated 2011 Incentive Plan.

The Amended and Restated 2011 Incentive Plan had 428,468 shares remaining available for future issuance at December 31, 2018.

## E. Income Taxes

On December 22, 2017, the U.S. enacted the Tax Act. The Tax Act significantly changes U.S. corporate income tax law. Among other changes effective in 2017, the Tax Act requires companies to pay a one-time tax on certain unrepatriated earnings of foreign subsidiaries. The Company calculated the impact of the Tax Act in its income tax provision for the year ended December 31, 2018 in accordance with its understanding of the Tax Act and guidance available as of the date of its filing of its 2018 results.

The Company recognized tax expense of \$1,662,000 for the year ended December 31, 2017 related to the remeasurement of certain deferred tax assets and liabilities from 34% to 21%. The most material deferred taxes to be remeasured related to inventory reserves, net operating losses (after reduction for the one-time transition tax) and property, plant and equipment. This tax expense from remeasurement of deferred tax assets had no impact on our effective tax rate as it was completely offset by the Company's valuation allowance.

The Company also recognized provisional tax expense of \$565,000 for the year ended December 31, 2017 related to the one-time transition tax on the deemed repatriation of foreign earnings. The calculation of the one-time tax is quite complex, requiring determinations of liquid asset balances over three years, determination of foreign earnings and profits ("E&P," a U.S. tax measure) at multiple dates, and multiple other computations. Our provisional calculated tax expense was impacted by cash and other liquid assets taxable at a 15.5% rate and the balance of non-cash E&P taxable at 8%. The one-time transition tax had no impact on our 2017 or 2018 effective tax rate as it was completely offset by the Company's valuation allowance. Upon gathering all necessary data and interpreting additional guidance from tax authorities to complete the analysis, our provisional amount for 2017 was finalized without adjustment in the fourth quarter of 2018.

Income tax provision for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
	(in thousands)	
Current:		
Federal.....	\$ (57)	\$ —
State and local .....	20	18
Foreign .....	156	43
Total Current.....	<u>119</u>	<u>61</u>
Deferred:		
Federal.....	616	1,637
State and local .....	(86)	42
Foreign .....	46	41
Total before change in valuation allowance .....	576	1,720
Change in Valuation Allowance .....	(530)	(1,679)
Net Deferred .....	46	41
Income tax provision .....	<u>\$ 165</u>	<u>\$ 102</u>

A reconciliation of the provision for income taxes and the amount computed by applying the statutory federal income tax rate to income before income taxes is detailed below:

	2018	2017
	(in thousands)	
Tax provision at expected statutory rate .....	\$ 330	\$ 75
State taxes, net of federal benefit.....	43	81
Permanent differences .....	122	450
Credits.....	(82)	(106)
Foreign tax expense, and other .....	420	(381)
Change in rate .....	(138)	1,662
Change in valuation allowance .....	(530)	(1,679)
Provision for income taxes .....	<u>\$ 165</u>	<u>\$ 102</u>

Income (loss) before income taxes from domestic operations was \$972,000 and (\$65,000) in 2018 and 2017, respectively. Income before income taxes from foreign operations was \$598,000 and \$284,000 in 2018 and 2017, respectively.

The Company has a total federal NOL carry-forward of \$9,429,000 as of December 31, 2018. This federal NOL carry-forward expires through 2038 if not utilized prior to that date. The Company has total state NOL carry-forwards of \$15,906,000 as of December 31, 2018. These state NOL carry-forwards expire through 2038 if not utilized prior to that date. The Company has research and development tax credit carry-forwards of approximately \$1,598,000 at December 31, 2018 that can be used to reduce future income tax liabilities and expire principally between 2020 and 2038. The Company has foreign tax credit carry-forwards of approximately \$368,000 at December 31, 2018 that are available to reduce future U.S. income tax liabilities subject to certain limitations. These foreign tax credit carry-forwards expire at various times between 2019 and 2020.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will or will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become realizable. Based upon the weighting of positive and negative evidence, the Company has determined the results of future operations of one of its foreign subsidiaries will generate enough taxable income that it is more likely than not that deferred tax assets of \$127,000 at December 31, 2018, generated from foreign NOLs, can be utilized in the foreseeable future. The Company has also determined that a full valuation against the remaining net deferred tax assets is required and has recorded a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. Should a change in circumstances lead to a change in judgment about the ability to realize deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income. The Company recognizes interest and/or penalties, if any, related to income tax matters in income tax expense.

Deferred income taxes for 2018 and 2017 were provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Tax effects of temporary differences and carry-forwards at December 31, 2018 and 2017 were as follows:

	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
	<b>Deferred Tax</b>		<b>Deferred Tax</b>	
	<b>Asset</b>	<b>Liability</b>	<b>Asset</b>	<b>Liability</b>
	<b>(in thousands)</b>			
Inventory reserve.....	\$ 301	\$ —	\$ 325	\$ —
Fixed assets .....	—	90	—	141
Other reserves and accruals.....	207	—	133	—
Stock-based compensation .....	23	—	18	—
Other.....	—	24	—	29
Tax credit carry-forwards.....	1,966	—	2,284	—
Federal tax loss carry-forwards.....	1,980	—	2,380	—
State tax loss carry-forwards.....	734	—	657	—
Foreign tax loss carry-forwards.....	127	—	173	—
Total deferred income taxes .....	5,338	<u>\$ 114</u>	5,970	<u>\$ 170</u>
Valuation allowance.....	(5,097)		(5,627)	
Net deferred tax assets.....	<u>\$ 127</u>		<u>\$ 173</u>	

The Company will recognize any interest and penalties related to unrecognized tax positions in income tax expense. At the date of adoption of ASC 740, the Company did not have a liability for unrecognized tax positions. In addition, the Company did not record any increases or decreases to its liability for unrecognized tax positions during the years ended December 31, 2018 or 2017. Accordingly, the Company has not accrued for any interest and penalties as of December 31, 2018 or 2017. The Company does not anticipate any change in its liability for unrecognized tax positions over the next fiscal year.

The Company files income tax returns in the U.S. federal, various state, Hong Kong and India jurisdictions. The statute of limitations for assessment by the Internal Revenue Service ("IRS") and state tax authorities is open for tax years ended December 31, 2015, 2016 and 2017, although carry-forward attributes that were generated prior to tax year 2015, including NOL carry-forwards and tax credits, may still be adjusted upon examination by the IRS or state tax authorities if they either have been or will be used in a future period. The Company is generally subject to examinations by foreign tax authorities from 2013 to the present.

#### **F. CNB Loan**

On December 31, 2016, MtronPTI renewed its Loan Agreement (the "CNB Loan Agreement") with City National Bank of Florida ("City National"). The CNB Loan Agreement provided for a revolving line of credit in the amount of \$3.0 million (the "CNB Revolver"), bearing interest at a variable rate equal to 30-day LIBOR plus 200 basis points to be set on the first day of each month, expiring on September 30, 2018. The CNB Loan Agreement also provided that MtronPTI will pay City National a fee equal to 0.75% per year on the daily unused amount. The Company's obligations under the CNB Loan Agreement were secured only by cash collateral and did not require any other liens.

At December 31, 2017, there was no balance outstanding under the CNB Revolver. The CNB Revolver expired September 30, 2018.

#### **G. Stockholders' Equity**

##### *Share Repurchase Program*

On August 29, 2011, the Board authorized the Company to repurchase up to 100,000 shares of its common stock in accordance with applicable securities laws. This authorization increased the total number of shares authorized and available for repurchase under the Company's existing share repurchase program to 540,000 shares, at such times, amounts and prices as the Company shall deem appropriate. As of December 31, 2018, the Company had



repurchased a total of 81,584 shares of common stock at a cost of \$580,000, which shares are currently held in treasury.

#### *Warrants*

On August 6, 2013, the Company distributed 12,981,025 warrants to purchase shares of the Company's common stock as a dividend to holders of the Company's common stock on July 29, 2013, the record date for the dividend. Stockholders received five warrants for each share of the Company's common stock owned on the record date. When exercisable, 25 warrants will entitle their holder to purchase one share of the Company's common stock at an exercise price of \$7.50 per share (subject to adjustment). On August 6, 2018, on the expiration date, the Company received gross proceeds of \$926,948 and issued 123,593 shares as a result of exercises of its warrants.

### **H. Fair Value Measurements**

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

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

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

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

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

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



## Assets

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

(in thousands)	Level 1	Level 2	Level 3	Total December 31, 2018
Marketable Equity Security.....	\$ 11	\$ —	\$ —	\$ 11
Equity Mutual Fund .....	\$ —	\$ 3,764	\$ —	\$ 3,764
U.S. Treasury Mutual Fund.....	\$ 12,506	\$ —	\$ —	\$ 12,506

(in thousands)	Level 1	Level 2	Level 3	Total December 31, 2017
Marketable Equity Security.....	\$ 3,803	\$ —	\$ —	\$ 3,803
U.S. Treasury Mutual Fund.....	\$ 11,866	\$ —	\$ —	\$ 11,866

There were no transfers to or from level 2 to level 3 during the reporting periods. The Company also has assets that may be subject to measurement at fair value on a non-recurring basis, including goodwill and intangible assets, and other long-lived assets. There were no liabilities subject to fair value on a non-recurring or recurring basis as of December 31, 2018 or 2017.

As of December 31, 2018, The Company had investments in two mutual funds. The Equity Mutual Fund noted above is invested in the Gabelli ABC Fund, and the U.S. Treasury Mutual Fund is invested in the Gabelli US Treasury Money Market Fund.

The Company reviews goodwill annually and the carrying value of long-lived assets whenever events and circumstances indicate that the carrying amounts of the assets may not be recoverable. If it is determined that the assets are impaired, the carrying value would be reduced to estimated recoverable value.

## I. Employee Benefit Plans

The Company offers a defined contribution plan for eligible employees, in which the Company makes discretionary contributions up to 50% of the first 6% of eligible compensation contributed by participants. The Company contributed approximately \$118,000 and \$116,000 in discretionary contributions during 2018 and 2017, respectively. Participants vest in employer contributions starting after their second year of service at 20% increments, vesting 100% in year six.

## J. Commitments and Contingencies

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

## Rent Expense

Rent expense under operating leases was \$393,000 and \$285,000 for the years ended December 31, 2018 and 2017, respectively. The Company leases certain property and equipment, including warehousing, and sales and distribution equipment, under operating leases that extend from one to two years. Certain of these leases have renewal options.

## K. Segment Information

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

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

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(in thousands)</b>	
<b>Revenues from Operations</b>		
Electronic components.....	\$ 23,793	\$ 21,516
Electronic instruments .....	1,077	886
Total consolidated revenues .....	<u>\$ 24,870</u>	<u>\$ 22,402</u>
<b>Operating Income from Operations</b>		
Electronic components.....	\$ 2,525	\$ 1,260
Electronic instruments .....	49	56
Unallocated corporate expense .....	(1,144)	(1,040)
Consolidated total operating income.....	<u>1,430</u>	<u>276</u>
Interest income (expense), net .....	2	(11)
Other income (expense), net .....	138	(46)
Total other income (expense).....	<u>140</u>	<u>(57)</u>
<b>Income Before Income Taxes</b> .....	<u>\$ 1,570</u>	<u>\$ 219</u>
<b>Capital Expenditures</b>		
Electronic components.....	\$ 324	\$ 131
Electronic instruments .....	—	—
General corporate.....	—	—
Total capital expenditures.....	<u>\$ 324</u>	<u>\$ 131</u>
<b>Total Assets</b>		
Electronic components.....	\$ 11,877	\$ 11,899
Electronic instruments .....	861	811
General corporate.....	17,337	14,845
Consolidated total assets.....	<u>\$ 30,075</u>	<u>\$ 27,555</u>

## L. Domestic and Foreign Revenues

Significant foreign revenues from operations (10% or more of foreign sales) were as follows (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(in thousands)</b>	
Malaysia.....	\$ 3,153	\$ 3,038
All other foreign countries .....	3,044	3,275
Total foreign revenues .....	<u>\$ 6,197</u>	<u>\$ 6,313</u>
Total domestic revenues .....	<u>\$ 18,673</u>	<u>\$ 16,089</u>

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

**THE LGL GROUP, INC.**

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**BOARD OF DIRECTORS**

**Michael J. Ferrantino, Sr.**

Executive Chairman of the Board

**Marc J. Gabelli**

Non-Executive Chairman of the Board

**Timothy Foufas**

**Donald H. Hunter**

**Manjit Kalha, FCA**

**Hendi Susanto**

**EXECUTIVE OFFICERS**

**Michael J. Ferrantino, Sr.**

Chief Executive Officer

**James W. Tivy, CPA**

Chief Financial Officer

**TRANSFER AGENT & REGISTRAR**

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**TRADING INFORMATION**

NYSE American

Common Stock

Symbol: **LGL**

**AUDITOR**

RSM US LLP

Orlando, FL

**INVESTOR RELATIONS CONTACT**

James W. Tivy, CPA

Chief Financial Officer

(407) 298-2000

[jtivy@lglgroup.com](mailto:jtivy@lglgroup.com)

**2018 ANNUAL MEETING**

Our 2019 Annual Meeting of Stockholders

will be held on November 7, 2019 at

9:00 a.m. local time at the following address:

The Corporate Center

401 Theodore Fremd Ave

Rye, NY 10580

# **The LGL Group, Inc.**

NYSE American: **LGL**

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Orlando, FL 32804

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