LGL GROUP INC
Form 10-Q
May 15, 2013

UNITED STATES
SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2013
OR	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File No. 1-106
THE LGL GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

Yes o No x

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

Class	Outstanding at May 13, 2013
Common Stock, $0.01 par value	2,607,738

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THE LGL GROUP, INC.

PART I
FINANCIAL INFORMATION
Item 1. Financial Statements.
THE LGL GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

(Dollars in Thousands)

ASSETS	March 31, 2013	December 31, 2012
Current Assets:		
Cash and cash equivalents	$7,824	$8,625
Restricted cash (Note D)	1,500	1,500
Accounts receivable, less allowances of $57 and $79, respectively	4,479	4,350
Inventories, net (Note C)	5,460	5,349
Deferred income taxes	1,114	1,114
Prepaid expenses and other current assets	541	665
Total Current Assets	20,918	21,603
Property, Plant and Equipment:		
Land	640	640
Buildings and improvements	3,793	3,785
Machinery and equipment	15,787	15,655
Gross property, plant and equipment	20,220	20,080
Less: accumulated depreciation	(15,590)	(15,373)
Net property, plant and equipment	4,630	4,707
Deferred income taxes, net	3,021	2,808
Other assets, net	367	475
Total Assets	$28,936	$29,593
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Note payable to bank (Note D)	$1,382	$1,249
Accounts payable	1,737	2,452
Accrued compensation and commissions expense	944	1,011
	226	209

Other accrued expenses		
Current maturities of long-term debt (Note D)	—	58
Total Current Liabilities	4,289	4,979
Long-term debt, net of current portion (Note D)	—	—
Total Liabilities	4,289	4,979
Commitments and Contingencies (Note J)		
Stockholders' Equity		
Common stock, $0.01 par value - 10,000,000 shares authorized; 2,656,173 shares issued and 2,605,730 shares outstanding at March 31, 2013, and 2,648,059 shares issued and 2,597,605 shares outstanding at December 31, 2012	26	26
Additional paid-in capital	28,194	28,084
Accumulated deficit	(3,202)	(3,119)
Treasury stock: 50,443 and 50,454 shares held in treasury at cost at March 31, 2013 and December 31, 2012, respectively	(405)	(405)
Accumulated other comprehensive income	34	28
Total Stockholders' Equity	24,647	24,614
Total Liabilities and Stockholders' Equity	$28,936	$29,593

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Dollars in Thousands, Except Per Share Amounts)

	Three Months Ended March 31, 2013	2012
REVENUES	$7,398	$7,174
Costs and Expenses:		
Manufacturing cost of sales	4,996	5,577
Engineering, selling and administrative	2,680	2,398
OPERATING LOSS	(278)	(801)
Other Income (Expense):		
Interest expense, net	(19)	(27)
Other income (expense), net	1	(31)
Total Other Expense	(18)	(58)
LOSS BEFORE INCOME TAXES	(296)	(859)
Income tax benefit	213	266
NET LOSS	$(83)	$(593)
Weighted average number of shares used in basic and diluted EPS calculation	2,598,144	2,595,242
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$(0.03)	$(0.23)

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Dollars in Thousands)

	Three Months Ended March 31, 2013	2012
NET LOSS	$(83)	$(593)
Other Comprehensive Income:		
Unrealized gain on available-for-sale securi	6	3
TOTAL OTHER COMPREHENSIVE INCOME	6	3
COMPREHENSIVE LOSS	$(77)	$(590)

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(Dollars in Thousands)

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance at December 31, 2012	2,597,605	$ 26	$ 28,084	$ (3,119)	$ (405)	$ 28	$ 24,614
Net loss	—	—	—	(83)	—	—	(83)
Other comprehensive income	—	—	—	—	—	6	6
Stock-based compensation	8,125	—	110	—	—	—	110
Balance at March 31, 2013	2,605,730	$ 26	$ 28,194	$ (3,202)	$ (405)	$ 34	$ 24,647

See Accompanying Notes to Condensed Consolidated Financial Statements.
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THE LGL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED

(Dollars in Thousands)

	Three Months Ended March 31, 2013	2012
OPERATING ACTIVITIES		
Net loss	$(83)	$(593)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	217	160
Amortization of finite-lived intangible assets	23	21
Write-down of note receivable	5	—
Stock-based compensation	110	89
Deferred income tax benefit	(213)	(266)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(129)	502
Increase in inventories, net	(111)	(164)
Decrease in other assets	210	—
(Decrease) increase in trade accounts payable, accrued compensation and commissions expense and other accrued liabilities	(765)	382
Net cash (used in) provided by operating activities	(736)	131
INVESTING ACTIVITIES		
Capital expenditures	(140)	(294)
Net cash used in investing activities	(140)	(294)
FINANCING ACTIVITIES		
Net borrowings (repayments) on note payable to bank	133	(70)
Principal payments of long-term debt	(58)	(84)
Net cash provided by (used in) financing activities	75	(154)
Decrease in cash and cash equivalents	(801)	(317)
Cash and cash equivalents at beginning of period	8,625	13,709
Cash and cash equivalents at end of period	$7,824	$13,392
Supplemental Disclosure:		
Cash paid for interest	$11	$5
Cash paid for income taxes	$—	$32

See Accompanying Notes to Condensed Consolidated Financial Statements.

THE LGL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Subsidiaries of the Registrant

The LGL Group, Inc. (the "Company"), incorporated in 1928 under the laws of the State of Indiana and reincorporated under the laws of the State of Delaware in 2007, is a holding company with subsidiaries engaged in manufacturing custom-designed, highly engineered electronic components.

As of March 31, 2013, the subsidiaries of the Company are as follows:

	Owned By The LGL Group, Inc.
M-tron Industries, Inc.	100.0 %
M-tron Industries, Ltd.	99.9 %
Piezo Technology, Inc.	100.0 %
Piezo Technology India Private Ltd.	99.0 %
Lynch Systems, Inc.	100.0 %

The Company operates through its principal subsidiary, M-tron Industries, Inc., which includes the operations of M-tron Industries, Ltd. ("Mtron") and Piezo Technology, Inc. ("PTI"). The combined operations of Mtron and PTI are referred to herein as "MtronPTI." MtronPTI has operations in Orlando, Florida, Yankton, South Dakota, Yantai, China, and Noida, India. In addition, MtronPTI has sales offices in Hong Kong and Shanghai, China.

B. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2013, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

C. Inventories

The Company reduces the value of its inventories to market value when the market value is believed to be less than the cost of the item. The inventory reserve for obsolescence as of March 31, 2013 and December 31, 2012 was $2,412,000 and $2,318,000, respectively.

	March 31, 2013	December 31, 2012
	(in thousands)	

Raw materials	$2,374	$ 2,468
Work in process	1,696	1,604
Finished goods	1,390	1,277
Total Inventories, net	$5,460	$ 5,349

D. Note Payable to Bank and Long-Term Debt

	March 31, 2013	December 31, 2012
Note Payable:	(in thousands)	
MtronPTI revolving loan with J.P. Morgan Chase Bank, N.A. ("Chase") due June 30, 2013. The loan bears interest at the greater of Chase's prime rate or the one-month LIBOR rate plus 2.50% per annum (3.25% at March 31, 2013), which is due and payable monthly.	$1,382	$ 1,249
Long-Term Debt:		
MtronPTI term loan with Chase paid February 7, 2013.	—	58
Less: Current maturities	—	58
Long-Term Debt	$—	$ —

On June 30, 2011, MtronPTI entered into a loan agreement with Chase (the "Chase Loan Agreement"). The Chase Loan Agreement currently provides for a revolving line of credit in the amount of $1,500,000, to be used solely for working capital needs (the "Chase Revolving Loan").

At March 31, 2013, MtronPTI had approximately $1,382,000 outstanding under the Chase Revolving Loan and available borrowing capacity of approximately $118,000 under the Chase Revolving Loan.

All outstanding obligations of MtronPTI under the Chase Loan Agreement are collateralized by a first priority security interest in all of the assets of MtronPTI, excluding real property. Additionally, in connection with the Chase Loan Agreement, PTI entered into a separate agreement with Chase providing that PTI would not mortgage or otherwise encumber certain real property it owns in Florida while any credit facility is outstanding under the Chase Loan Agreement.

The Chase Loan Agreement also contains a variety of affirmative and negative covenants, including, but not limited to, a financial covenant that MtronPTI maintain tangible net worth not less than $8,000,000.

As additional security for MtronPTI's obligations under the Chase Loan Agreement, MtronPTI has made a cash collateral deposit of $1,500,000 with Chase and entered into an Assignment of Deposit agreement with Chase providing Chase with a security interest in the account holding the deposit. The amount of cash collateral deposit with Chase is included in restricted cash in the accompanying condensed consolidated balance sheet as of March 31, 2013. The related Assignment of Deposit agreement restricts MtronPTI's ability to withdraw any portion of the deposit and does not allow MtronPTI to assign the deposit or any part thereof.

As of March 31, 2013, MtronPTI was in compliance with all covenants under the Chase Loan Agreement.

E. Stock-Based Compensation

The Company estimates the fair value of stock options on the grant date using the Black-Scholes-Merton option-pricing model. The Black-Scholes-Merton option-pricing model requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. There is no expected dividend rate. Historical Company information was the basis for the expected volatility assumption. The fair value of grants was calculated using historical volatility as the Company believes that the historical volatility over the life of the option is indicative of expected volatility in the future. The risk-free interest rate is based on the U.S. Treasury zero-coupon rates with a remaining term equal to the expected term of the option. Accounting Standards Codification ("ASC") 718, Stock Compensation, also requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on past history of actual performance, a zero forfeiture rate has been assumed.

On March 26, 2013, the Board of Directors granted a total of 8,135 restricted shares of the Company's common stock to members of executive management. The shares vest as follows: 30% on the first anniversary of the grant

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date; an additional 30% on the second anniversary of the grant date; and the remaining 40% on the third anniversary of the grant date.

Further, on March 26, 2013, the Board of Directors granted optio