



The LGL Group, Inc.

(NYSE MKT: LGL)

Q4 2013 Earnings Report
March 25, 2014 – 10:00 a.m. ET



Safe Harbor Statement

This document includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management’s current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations. These risks and uncertainties are described in more detail in The LGL Group’s filings with the Securities and Exchange Commission.

In addition, non-GAAP financial measures may be presented. Management believes the non-GAAP financial information provided is useful to investors’ understanding and assessment of our ongoing core operations and prospects for the future. The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for results prepared in accordance with GAAP. Management uses both GAAP and non-GAAP information in evaluating and operating the business internally and as such has determined that it is important to provide this information to investors.

Publicly traded global corporation

Formed in 1917

IPO in 1946

MtronPTI subsidiary 1965



\$26 million

2013 annual revenue

Revenue mix

47% outside the U.S.

\$5.21

Stock price Mar 21, 2014

\$6.52

52-week high

\$14.9 million

market capitalization

\$8.7 million

cash and cash equivalents Dec 31, 2013

\$2.1 billion

total annual worldwide market

LGL's subsidiary – **MtronPTI**, serves large B2B OEM clients that provide solutions to:
Internet Communications Technology, and Aerospace and Defense

**Balanced
Demand**

- **65% Aerospace and Defense (Aero/Defense)**
- **35% Internet Communications Technology (ICT)**

High Value IP

- **Crystal technology remains core** to precision timing
- Low noise oscillator technology
- **High frequency filter capability** – RF and Microwave

**Enabling
Platform**

- **Global footprint** – multiple US sites, international sales and supply support
- **India manufacturing** provides low cost, even for high performance product

**Strong
Margins**

- **Margin protection** – high performance/high value/high reliability/harsh environment applications
- **Long product life cycles** with repeat revenue streams
- **Experienced supplier management** drives lower cost structure

**Growth
Opportunities**

- Long-standing relationships with **industry leaders** (across all markets)
- **Share gain opportunities with new product development and OEM supply base consolidation**

Strategic Review Process – *completed*

Implemented restructuring plan during Q4 2013 – *completed*
recognized \$0.6M charge as expected

Positive book to bill, improved backlog compared to Q3 2013

Positioning business for improved results in 2014

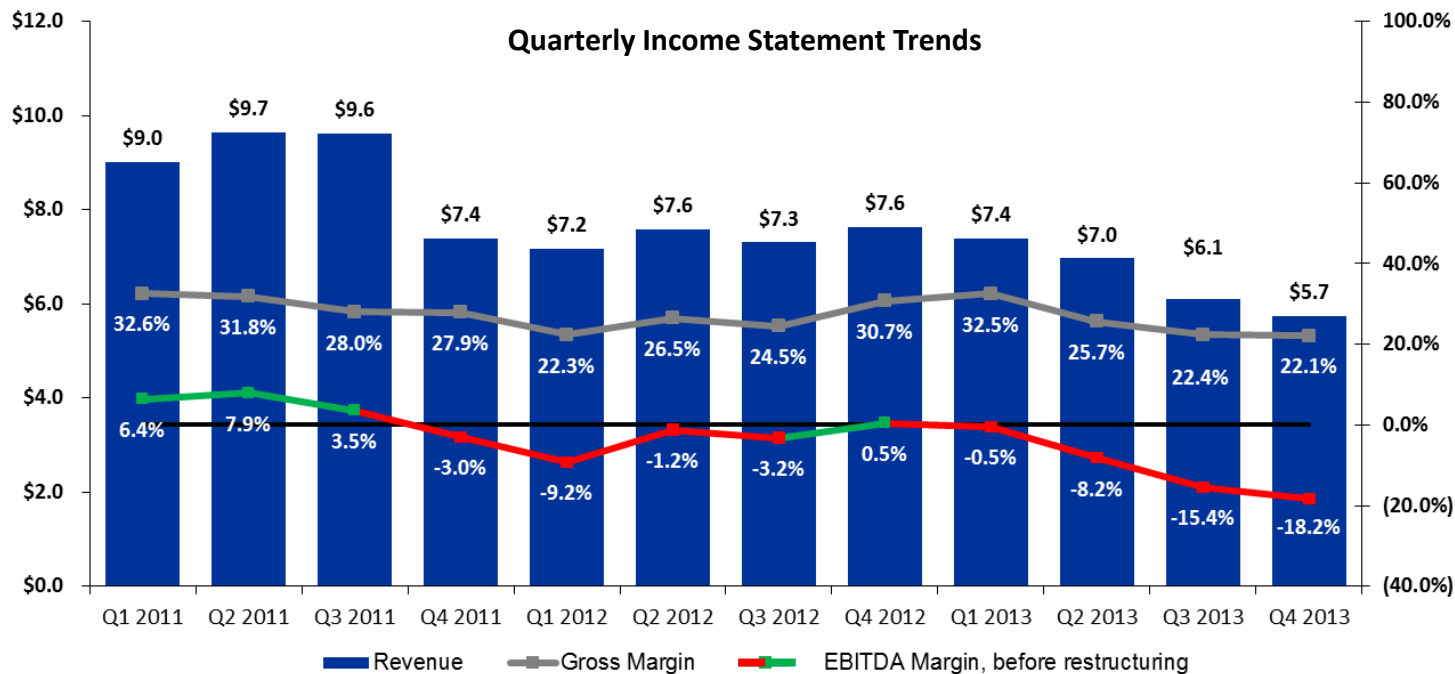
- \$5.7M revenue
*sequentially **down 5.9%** vs. Q3 2013*
down 24.5% vs. Q4 2012
- 22.1% gross margin
*sequentially **flat** (0.3% points) vs. Q3 2013 on reduced revenue*
down 8.6% points vs. Q4 2012
- (\$0.50) adjusted pre-tax loss per share *(excludes restructuring charge)*
*sequentially **higher** vs. (\$0.46) at Q3 2013*
higher vs. (\$0.08) at Q4 2012
- \$8.6M backlog at end of Q4 2013
*sequentially **up 2.4%** vs. Q3 2013*
- (17.8%) adjusted EBITDA for Q4 2013 as a percent of revenue

\$26.2M revenues
down 11.8% compared to FY 2012

26.1% gross margin
flat vs. FY 2012 on reduced revenues, some operational gains

(\$1.40) adjusted pre-tax loss per share vs. (\$0.71) for 2012
excludes restructuring charge of \$0.6M

(9.8%) adjusted EBITDA for FY 2013 vs. (3.2%) for 2012



Capital Position as of:

	12/31/2013	9/30/2013
Total Assets	\$ 21.3M	\$ 22.6M
Net Working Capital	12.4M	13.9M
Cash-Adjusted Working Capital	5.9M	6.6M
Cash and Cash Equivalents	8.7M	9.4M
Total Debt	1.2M	1.1M
Shareholders' Equity	16.8M	18.7M

- Cash and cash equivalents of **\$3.35 per share** at 12/31/2013
- Cash-adjusted working capital of **\$2.29 per share** at 12/31/2013
- Book value of **\$6.48 per share** at 12/31/2013

Capital position strong

organic investments (client service, new IP, capacity and capabilities)
joint venture/M&A

R&D investments in target markets

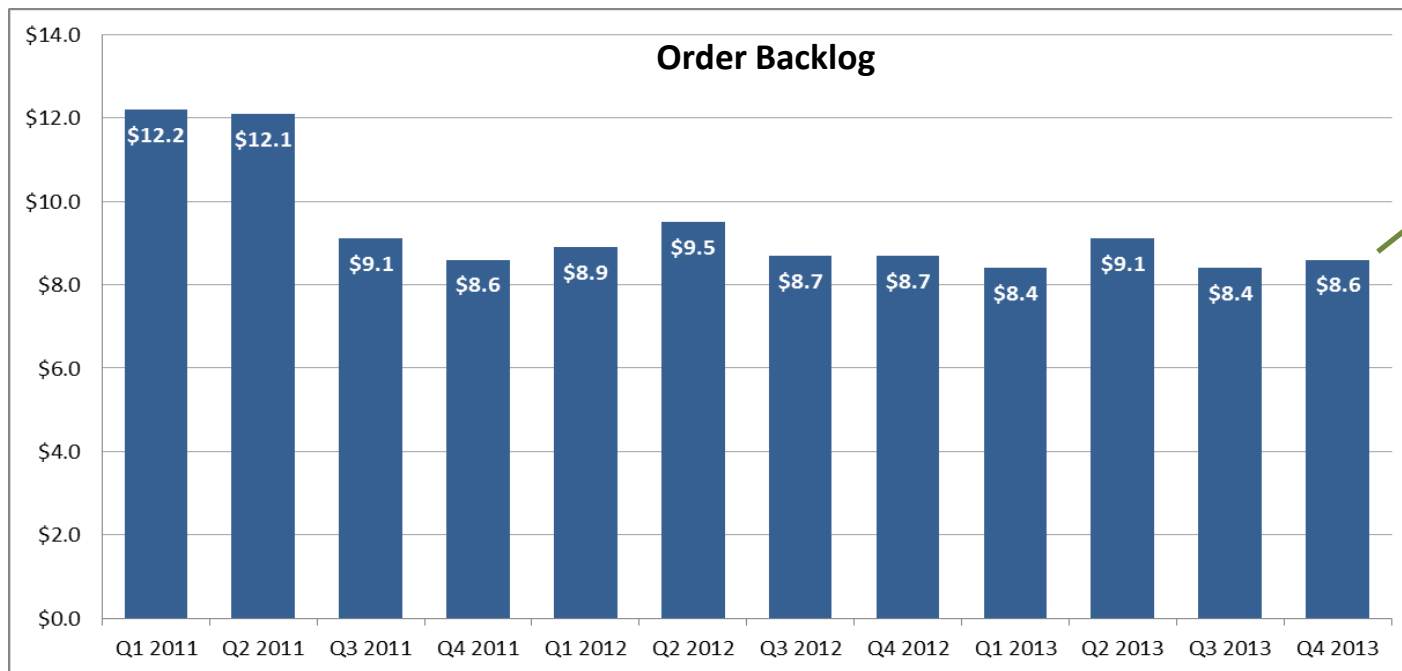
software-defined radio, low noise radar, harsh environment timing

Key components in major clients' systems

very "sticky" with high switching costs

Strong position in Commercial Avionics

Industry experiencing double digit growth



+2.4%



GAAP to Non-GAAP Reconciliation

Reconciliation of earnings before taxes (GAAP) to Adjusted EBITDA (non-GAAP)

(000's except percentages)	<u>Q1 2011</u>	<u>Q2 2011</u>	<u>Q3 2011</u>	<u>Q4 2011</u>	<u>Q1 2012</u>	<u>Q2 2012</u>	<u>Q3 2012</u>	<u>Q4 2012</u>	<u>Q1 2013</u>	<u>Q2 2013</u>	<u>Q3 2013</u>	<u>Q4 2013</u>
Revenue	\$ 9,020	\$ 9,646	\$ 9,629	\$ 7,387	\$ 7,174	\$ 7,582	\$ 7,307	\$ 7,643	\$ 7,398	\$ 6,965	\$ 6,098	\$ 5,740
Earnings (loss) before taxes (GAAP)	380	540	91	(444)	(859)	(326)	(461)	(198)	(296)	(829)	(1,199)	(1,947)
Add: interest expense (income)	12	29	41	27	27	28	23	11	19	10	4	31
Add: depreciation and amortization	187	190	208	199	169	204	203	229	240	248	254	248
Add: restructuring charges												648
Adjusted EBITDA (Non-GAAP)	\$ 579	\$ 759	\$ 340	\$ (218)	\$ (663)	\$ (94)	\$ (235)	\$ 42	\$ (37)	\$ (571)	\$ (941)	\$ (1,020)
Adjusted EBITDA as % of revenue	6.4%	7.9%	3.5%	-3.0%	-9.2%	-1.2%	-3.2%	0.5%	-0.5%	-8.2%	-15.4%	-17.8%

Computation of adjusted working capital

Computation of adjusted pre-tax loss

(000's)	<u>9/30/2013</u>	<u>12/31/2013</u>	(000's)	<u>Q1 2012</u>	<u>Q2 2012</u>	<u>Q3 2012</u>	<u>Q4 2012</u>	<u>Q1 2013</u>	<u>Q2 2013</u>	<u>Q3 2013</u>	<u>Q4 2013</u>
Accounts receivable, net	\$ 3,278	\$ 3,237	Net loss	\$ (593)	\$ (215)	\$ (314)	\$ (198)	\$ (83)	\$ (4,964)	\$ (1,199)	\$ (1,973)
Inventory, net	4,825	4,629	Add: income tax provision	(266)	(111)	(147)	-	(213)	4,135	-	26
Less: accounts payable	(1,538)	(1,978)	Add: restructuring charges								648
Adjusted working capital	\$ 6,565	\$ 5,888	Adjusted pre-tax loss	\$ (859)	\$ (326)	\$ (461)	\$ (198)	\$ (296)	\$ (829)	\$ (1,199)	\$ (1,299)
			Weighted avg. shares OS	2,595,242	2,599,866	2,593,760	2,586,181	2,598,144	2,600,329	2,595,385	2,585,729
			Adjusted pre-tax loss/sh	\$ (0.33)	\$ (0.13)	\$ (0.18)	\$ (0.08)	\$ (0.11)	\$ (0.32)	\$ (0.46)	\$ (0.50)

The Company uses non-GAAP additional measures of operating results, net earnings and earnings per share adjusted to exclude certain costs, expenses, gains and losses we believe appropriate to enhance an overall understanding of our past financial performance and also our prospects for the future. These adjustments to our GAAP results are made with the intent of providing both management and investors a more complete understanding of the underlying operational results and trends and our marketplace performance. For example, the non-GAAP results are an indication of our baseline performance before gains, losses or other charges that are considered by management to be outside of our core business segment operational results. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net earnings or diluted earnings per share prepared in accordance with generally accepted accounting principles in the United States.

- Reduced demand and price compression in ICT market segment
- U.S. government spending still down, continued signs of uncertainty
- + **Strong new product revenue stream across core business**
- + **Solid working capital position**
- + **Improving margins and operating efficiencies post-restructuring**

Growth Drivers

- ⇒ **Organic growth from new products:** software-defined radio, avionics
- ⇒ **Share gains with Aero/Defense clients**
- ⇒ **India sales opportunities/operations investments**
- ⇒ IP investments leading toward **capability integration in RF and microwave**
- ⇒ Acquisitions/joint ventures

Results of Board's strategic review:

pursue organic growth led by changes to capital allocation

Several significant actions have been taken to date:

- | | |
|------------|----------------------------------------------------------------------------------------------------------------------|
| 8/6/2013 | Distribution of warrants to Company's stockholders in order to return portion of Company's future value |
| 10/1/2013 | Michael Ferrantino, Sr., 40-year industry veteran, joins Board as LGL Vice Chairman, and MtronPTI Executive Chairman |
| 10/17/2013 | Company initiates restructuring plan to realign client support functions, completed during Q4 2013 |
| 1/31/2014 | MtronPTI acquires filter assets from Trilithic, Inc., gains new intellectual property and aerospace clients |
| 3/6/2014 | MtronPTI announces appointment of Conrad Jordan as VP – Timing Products Division, 20-year RF and microwave veteran |

Our strategy is clear:

- Reinvigorate*** *our intellectual property and product roadmap through organic development and acquisitions/joint ventures*
- Leverage*** *our core strength as an engineering leader to expand client access, add new capabilities, diversify product offerings*
- Focus*** *investments to differentiate and broaden MtronPTI's RF/microwave portfolio*

We're transforming our product portfolio towards:

longer life cycles

higher competitive barriers

better margins

Update on acquisition of filter assets from Trilithic:

- Purchase price of \$0.7M
- Active business with backlog at acquisition, converted open orders to MtronPTI
- New product IP, including tunable filters, tubular filters, others
- New top tier clients in UAV market
- Minimal structural cost additions
- Integration on plan, shipping from MtronPTI today
- Favorable impact to 2014 results

New IP, new clients, limited structural cost adds



Investment Considerations



Strong capital position
Experienced management team
JV/M&A opportunities



~50 years experience
Blue chip clients
Diverse markets
World-class team

Quality certified, low cost worldwide manufacturing
Industry leading technology, reliability, convenience, support



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