LGL GROUP INC
Form 10-K
March 29, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2016

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

2525 Shader Road, Orlando, Florida	32804
(Address of Principal Executive Offices)	(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	Name of each exchange on which registered
Common Stock, $0.01 Par Value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: Warrants to purchase Common Stock (expiring August 6, 2018)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No ý

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 ý

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 ý No

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 ý No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 Accelerated filer

Non-accelerated filer Smaller reporting company ý

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of the registrant's common stock on the last business day of the registrant's most recently completed second fiscal quarter of $3.28, was $7,147,940. 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 2,675,466 as of March 21, 2017.

THE LGL GROUP, INC.

PART I

Caution Concerning Forward-Looking Statements

This annual report on Form 10-K (this "Report") and the Company's 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 MKT under the symbol "LGL." Our warrants to purchase common stock, expiring August 6, 2018, are available for trading on the over-the-counter market under the symbol "LGLPW."

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.

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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 their 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 its production facilities are ISO 9001:2008 certified, ITAR registered and 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 RF, microwave and millimeter wave filters and diplexers 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 round 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 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 2016, our largest customer, an electronics contract manufacturing company in the aerospace and defense markets, accounted for $3,275,000, or 15.7%, of the Company's total revenues, compared to $2,627,000, or 12.7%, in 2015.

As of December 31, 2016, four of our largest customers accounted for approximately $1,242,000, or 35.1%, of accounts receivable. As of December 31, 2015, three of our largest customers accounted for approximately $819,000, or 31.4%, at the end of 2015. The insolvency of any of these customers could have a material adverse impact on our liquidity.

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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 $1,906,000 and $1,964,000 in 2016 and 2015, respectively, and will remain a significant part of the Company's efforts to revitalize our IP 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 $14,893,000 in 2016, or 71.3% of total consolidated revenues, compared to $15,260,000, or 73.7% of total consolidated revenues, in 2015.

International Revenues

Our international revenues were $5,998,000 in 2016, or 28.7% of total consolidated revenues, compared to $5,453,000, or 26.3% of total consolidated revenues, in 2015. In each of 2016 and 2015, these revenues were derived mainly from customers in Asia, with significant sales in Malaysia and China. We avoid significant currency exchange risk by transacting and settling substantially all international sales in United States dollars.

Order Backlog

Our order backlog was $10,549,000 and $8,799,000 as of December 31, 2016 and 2015, 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 2016 order backlog in 2017, 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 their ability to customize to meet difficult specifications, as well as proprietary know-how and information.

Employees

As of December 31, 2016, we employed 142 people (full-time equivalents): two within corporate headquarters and 139 within its subsidiary, MtronPTI, which includes 32 in Yankton, South Dakota, 96 in Orlando, Florida, three in Hong Kong and eight in Noida, India, and three within its subsidiary PTF. 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, 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 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 product line or develop or acquire additional product lines we will remain dependent on our electronic components line of business. Virtually all of our 2016 and 2015 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 2017.

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, 2016 and 2015, we had net income (loss) of approximately $148,000 and ($711,000), 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 their demand for our products, could have a material adverse effect on our results.

In 2016, our largest customer, an electronics contract manufacturing company, accounted for $3,275,000, or 15.7%, of the Company's total revenues, compared to $2,627,000, or 12.7%, in 2015. The loss of this customer, or a decrease in their 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, 2016, four of our largest customers accounted for approximately $1,242,000, or 35.1%, of accounts receivable. As of December 31, 2015, three of our largest customers accounted for approximately $819,000, or 31.4%, at the end of 2015. 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 2016 and 2015, the majority of our revenues were derived from sales to manufacturers of equipment for the communications, networking, defense, aerospace, instrumentation and industrial markets for frequency and spectrum control devices, including indirect sales through distributors and contract manufacturers. During 2017, 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 ability to borrow under our credit facility may be limited by available collateral.

Our credit facility includes a revolving loan that requires cash equal to any amounts outstanding to be held as collateral in a deposit account with the lender. Should we not have sufficient cash to be held as collateral, the total amount available to borrow under the revolving loan may be reduced or not available.

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 Restriction of Hazardous Substances ("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. 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 ("DCAA") and Defense Contract Management Agency ("DCMA"). 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 2016 and 2015 (primarily to Malaysia and China) accounted for 28.7% and 26.3% of our 2016 and 2015 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:

Political and economic instability in countries in which our products are manufactured and sold;

Expropriation or the imposition of government controls;

Sanctions or restrictions on trade imposed by the United States government;

Export license requirements;

Trade restrictions;

Currency controls or fluctuations in exchange rates;

High levels of inflation or deflation;

Greater difficulty in collecting 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.

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, 2016 through March 21, 2017, the high and low closing sales prices for our common stock were $5.39 and $3.15, respectively, and the average daily trading volume in our common stock during that time period was approximately 2,400 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 warrants expiring August 6, 2018 may not have any value and there is a limited public market for our warrants.

On August 6, 2013, we distributed warrants to purchase shares of our common stock (expiring August 6, 2018) as a dividend to holders of our common stock on July 29, 2013, the record date for the dividend. Stockholders received five warrants for each share of our common stock owned on the record date. When exercisable, 25 warrants will entitle their holder to purchase one share of our common stock at an exercise price of $7.50 per share (subject to adjustment).

There is a limited public market for our warrants, and we cannot provide assurances that an active trading market will develop or be sustained. The warrants are quoted on the over-the-counter market under the symbol "LGLPW." Securities traded on the over-the-counter markets are typically less liquid than securities that trade on a national securities exchange, such as the NYSE MKT. Trading on the over-the-counter market may negatively affect the trading price and liquidity of the warrants and could result in larger spreads in the bid and ask prices for the warrants. Warrant holders may find it difficult to resell their warrants due to very limited trading volume.

The warrants are "European style warrants" and will only become exercisable on the earlier of (i) the expiration date, August 6, 2018, and (ii) such date that the 30-day volume weighted average price per share, or VWAP, of our common stock is greater than or equal to $15.00. Once the warrants become exercisable, they may be exercised in accordance with the terms of the warrant agreement until their expiration at 5:00 p.m., Eastern Time, on the expiration date.

The warrants have an exercise price of $7.50 per share. This exercise price does not necessarily bear any relationship to established criteria for valuation of our common stock, such as book value per share, cash flows, or earnings, and you should not consider this exercise price as an indication of the current or future market price of our common stock. There can be no assurance that the market price of our common stock will exceed $7.50 per share at any time on the expiration date of the warrants, August 6, 2018, or at any other time the warrants may be exercised. If the warrants only become exercisable on the expiration date and the market price of our common stock on such date does not exceed $7.50 per share, the warrants will be of no value.

There can be no assurance that the 30-day VWAP of our common stock will be greater than or equal to $15.00 at any time prior to the expiration date of the warrants, August 6, 2018. As a result, the warrants may become exercisable only on the expiration date. If the warrants may be exercised only on the expiration date and their holder does not exercise their warrants on that date, their warrants will expire and be of no value.

No warrants will be exercisable unless at the time of exercise a prospectus relating to our common stock issuable upon exercise of the warrants is current and the common stock has been registered or qualified or deemed to be exempt under the securities laws of the state of residence of the holder of the warrants. Under the terms of the warrant agreement, we have agreed to meet these conditions and use our best efforts to maintain a current prospectus relating to common stock issuable upon exercise of the warrants until the expiration of the warrants. However, we cannot assure you that we will be able to do so, and if we do not maintain a current prospectus related to the common stock issuable upon exercise of the warrants, holders will be unable to exercise their warrants and we will not be required to settle any such warrant exercise. If the prospectus relating to the common stock issuable upon the exercise of the warrants is not current or if the common stock is not qualified or exempt from qualification in the jurisdictions in which the holders of the warrants reside, we will not be required to net cash settle or cash settle the warrant exercise, the warrants may have no value, the market for the warrants may be limited and the warrants may expire worthless.

Holders of our warrants will have no rights as a common stockholder until such holders exercise their warrants and acquire shares of our common stock.

Until warrant holders acquire shares of our common stock upon exercise of the warrants, warrant holders will have no rights with respect to the shares of our common stock underlying such warrants. Upon the acquisition of shares of our common stock upon exercise of the warrants, the holders thereof will be entitled to exercise the rights of a common stockholder only as to matters for which the record date for the matter occurs after the exercise date of the warrants.

Adjustments to the exercise price of the warrants, or the number of shares of common stock for which the warrants are exercisable, following certain corporate events may not fully compensate warrant holders for the value they would have received if they held the common stock underlying the warrants at the time of such events.

The warrants provide for adjustments to the exercise price of the warrants following a number of corporate events, including (i) our issuance of a stock dividend or the subdivision or combination of our common stock, (ii) our issuance of rights, options or warrants to purchase our common stock at a price below the 10-day VWAP of our common stock, (iii) a distribution of capital stock of the Company or any subsidiary other than our common stock, rights to acquire such capital stock, evidences of indebtedness or assets, (iv) our issuance of a cash dividend on our common stock, and (v) certain tender offers for our common stock by the Company or one or more of our wholly-owned subsidiaries. The warrants also provide for adjustments to the number of shares of common stock for which the warrants are exercisable following our issuance of a stock dividend or the subdivision or combination of our common stock. Any adjustment made to the exercise price of the warrants or the number of shares of common stock for which the warrants are exercisable following a corporate event in accordance with these provisions may not fully compensate warrant holders for the value they would have received if they held the common stock underlying the warrants at the time of the event.

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 34.9% of the voting power represented by our outstanding shares of common stock as of March 21, 2017. 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 seven 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 MKT, under the symbol "LGL." Based upon information furnished by our transfer agent, at March 21, 2017, we had 461 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 MKT:

Fiscal Year 2017	High	Low
First Quarter (1)	$5.49	$4.40

Fiscal Year 2016	High	Low
First Quarter	$4.09	$2.86
Second Quarter	3.83	3.05
Third Quarter	4.36	3.12
Fourth Quarter	5.83	3.62

Fiscal Year 2015	High	Low
First Quarter	$4.30	$3.53
Second Quarter	5.47	3.82
Third Quarter	5.11	3.42
Fourth Quarter	4.15	3.51

(1) From January 1, 2017 through March 21, 2017.

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, 2016, 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.

The following table presents information related to our repurchases of our common stock during the quarter ended December 31, 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Programs
October 1, 2016 to October 31, 2016	500	$ 4.15	500	458,966
November 1, 2016 to November 30, 2016	550	3.86	550	458,416
December 1, 2016 to December 31, 2016	—	—	—	458,416
	1,050	$ 4.00	1,050	—

(1) All of the shares purchased during the quarter ended December 31, 2016, were purchased under our publicly announced repurchase program described above.

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 statement of operations data for the years ended December 31, 2016 and 2015, and the selected balance sheet data as of December 31, 2016 and 2015, are derived from our audited financial statements included elsewhere in this report. The selected statement of operations data for the years ended December 31, 2014, 2013 and 2012, and the selected balance sheet data as of December 31, 2014, 2013 and 2012, are derived from our audited financial statements not included in this report. These 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)				
	2016	2015	2014	2013	2012
Revenues	$20,891	$20,713	$23,013	$26,201	$29,706
Operating loss (a)	(161)	(788)	(2,829)	(4,164)	(1,782)
Loss before income taxes	(17)	(703)	(2,829)	(4,271)	(1,844)
Benefit (provision) for income taxes	165	(8)	4	(3,948)	524
Net income (loss)	$148	$(711)	$(2,825)	$(8,219)	$(1,320)
Weighted average number of shares use basic EPS calculation	2,665,043	2,640,803	2,595,988	2,595,362	2,593,741
Weighted average number of shares used in the diluted EPS calculation	2,665,730	2,640,803	2,595,988	2,595,362	2,593,741
Per common share:					
Basic and diluted net income (loss) per common share	$0.06	$(0.27)	$(1.09)	$(3.17)	$(0.51)

	December 31, (in thousands)				
	2016	2015	2014	2013	2012
Cash and cash equivalents	$2,778	$5,553	$5,192	$7,183	$8,625
Working capital	10,135	9,876	9,909	12,446	16,624
Total assets	16,646	15,803	17,262	21,263	29,593
Total long-term debt (including curren portion)	—	—	—	—	58
Stockholders' equity (b)	$13,891	$13,727	$14,237	$16,755	$24,614

(a) Operating 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. Included areimpairment 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

2016 Compared to 2015

Consolidated Revenues, Gross Margin and Backlog

Total revenues for the year ended December 31, 2016, were $20,891,000, an increase of $178,000, or 0.9% from revenues of $20,713,000 in 2015. The increase is due primarily to the acquisition of PTF.

Consolidated gross margin, which is consolidated revenues less manufacturing cost of sales, as a percentage of revenues increased slightly to 33.7% from 33.1% for the year ended December 31, 2016, 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 Aero/Defense market segment.

As of December 31, 2016, our order backlog was $10,549,000, an increase of 19.9% compared to a backlog of $8,799,000 as of December 31, 2015. 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, 2016 in 2017, but cannot provide assurances as to what portion of the order backlog will be fulfilled in a given year.

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Operating Loss

Operating loss of ($161,000) for the year ended December 31, 2016, was an improvement of $627,000 from an operating loss for the year ended December 31, 2015 of ($788,000). The improvement represented a reduction in engineering, selling and administrative expenses which were 34.4% of revenue for the year ended December 31, 2016, compared to 36.9% of revenue for the year ended December 31, 2015, coupled with the 0.6 percentage point improvement in gross margin.

Interest Expense, Net

Interest expense, net, was $22,000 for the year ended December 31, 2016, which was a decrease of $10,000 from $32,000 for the year ended December 31, 2015. The decrease was primarily due to an increase in interest income generated from our U.S. Treasury securities.

Other Income, Net

For the years ended December 31, 2016 and 2015, other income, net was $166,000 and $117,000, respectively. The current period consists of approximately $118,000 of net insurance proceeds received for damaged equipment and inventory, $62,000 of dividends received on marketable securities and a $4,000 bargain purchase gain resulting from the acquisiton of certain assets and assumption of certain liabilities of Precise Time and Frequency, Inc. ("PTF Acquisition"), offset by other expenses. The prior year consists of approximately $132,000 of net insurance proceeds received for damaged equipment and inventory and $35,000 of foreign currency transaction gains offset by an impairment loss of $38,000 and legal settlement of $15,000.

Income Taxes

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 ASC 740, Income Taxes, 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.

During the year ended December 31, 2016, based upon the weighting of positive and negative evidence, we determined the results of future operations of one of our foreign subsidiaries will generate enough taxable income that it is more likely than not that deferred tax assets of $214,000, generated from foreign NOLs, can be utilized in the foreseeable future. Accordingly, a valuation allowance previously established for this tax benefit has been reversed. We have also determined that a full valuation against the remaining net deferred tax assets is required and have 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, we 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 benefit (provision) for the years ended December 31, 2016 and 2015 of $165,000 and ($8,000), respectively. The valuation allowance was $7,305,000 as of December 31, 2016, which reflects a net decrease of $325,000 from December 31, 2015, partially due to the valuation allowance reversal of $214,000 related to our foreign NOLs as explained above.

As of December 31, 2016, we have not provided for U.S. federal and state income taxes on approximately $628,000 of undistributed earnings of Piezo Technology India Private Ltd. in India since such earnings are considered permanently reinvested outside the U.S. If in the future, we decide to repatriate earnings from Piezo Technology India Private Ltd., we would incur incremental U.S. federal and state income taxes. However, our intent is to keep these funds permanently reinvested outside of the U.S. and current plans do not demonstrate a need to repatriate them to fund U.S. operations.

Net Income (Loss)

Net income for the year ended December 31, 2016, was $148,000 compared with a net loss of ($711,000) for the year ended December 31, 2015. Basic and diluted net income (loss) per share for the years ended December 31, 2016 and 2015 was $0.06 and ($0.27), respectively.

Liquidity and Capital Resources

As of December 31, 2016 and 2015, cash and cash equivalents were $2,778,000 and $5,553,000, respectively. In December 2016, we transferred certain investments in U.S. Treasury securities (cash equivalents) to equity securities, which are classified as marketable securities on our consolidated balance sheets.

Cash provided by operating activities was $278,000 and $689,000 for the years ended December 31, 2016 and 2015, respectively. The $411,000 decrease was primarily due to a decrease in non-cash adjustments for depreciation and amortization, gain on disposal of assets, stock-based compensation, bargain purchase gain, a deferred income tax benefit and dividend from marketable securities totaling ($662,000), and net changes in working capital accounts of ($608,000), offset by an improvement in net income (loss) of $859,000.

Cash used in investing activities for the years ended December 31, 2016 and 2015 was ($3,045,000) and ($328,000), respectively. The increase was primarily due to the transfer of certain investments in U.S. Treasury securities to equity securities, which are classified as an investing activity on our consolidated statements of cash flows, and our $295,000 purchase of PTF, offset by a decline in 2016 capital expenditures of $250,000.

For the year ended December 31, 2016, we used $8,000 to purchase treasury stock. There were no financing activities for the year ended December 31, 2015.

As of December 31, 2016, our consolidated working capital was $10,135,000, compared to $9,876,000 as of December 31, 2015. As of December 31, 2016, we had current assets of $12,890,000, current liabilities of $2,755,000 and a ratio of current assets to current liabilities of 4.68 to 1.00. As of December 31, 2015, we had current assets of $11,952,000, current liabilities of $2,076,000 and a ratio of current assets to current liabilities of 5.76 to 1.00. Management continues to focus on efficiently managing working capital requirements to match operating activity levels.

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

In connection with the CNB Loan Agreement, MtronPTI also entered into a Cash Collateral Agreement with City National (the "CNB Cash Collateral Agreement") and delivered a Revolving Promissory Note in the principal amount of $3.0 million to City National (the "CNB Revolving Promissory Note").

The CNB Cash Collateral Agreement provides that MtronPTI will hold cash collateral equal to any amounts outstanding under the CNB Revolver in a non-interest bearing deposit account with City National. Provided that MtronPTI is not in default of any of its obligations under the CNB Loan Agreement, the CNB Revolving Promissory Note or the CNB Cash Collateral Agreement, the funds collateralizing the CNB Revolver are restricted only to the extent of the outstanding principal amount under the CNB Revolver. As of December 31, 2016 and 2015, there was no balance outstanding under the CNB Revolver and no associated restricted cash.

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. However, we may seek additional capital to fund future growth in its business, to provide flexibility to respond to dynamic market conditions, or to fund its strategic growth objectives.

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 its 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 27.

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.

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As required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act, an evaluation as of December 31, 2016 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, 2016, 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, 2016, 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, 2016.

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, 2016, 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 and Executive Officers and Corporate Governance.

The information required by this Item 10 is incorporated herein by reference to our definitive Proxy Statement with respect to our 2017 Annual Meeting of Stockholders to be filed with
the SEC not later than 120 days after the end of the fiscal year ended December 31, 2016 (the "2017 Proxy Statement").

Item 11. Executive Compensation.

The information required by this Item 11 is incorporated herein by reference to our 2017 Proxy Statement.

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

The information required by this Item 12 is incorporated herein by reference to our 2017 Proxy Statement.

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

The information required by this Item 13 is incorporated herein by reference our 2017 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by this Item 14 is incorporated herein by reference to our 2017 Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.
(a) List of documents filed as part of this report:
1. Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets: December 31, 2016 and 2015

Consolidated Statements of Operations: Years ended December 31, 2016 and 2015

Consolidated Statements of Comprehensive Income (Loss): Years ended December 31, 2016 and 2015

Consolidated Statements of Stockholders' Equity: Years ended December 31, 2016 and 2015

Consolidated Statements of Cash Flows: Years ended December 31, 2016 and 2015

Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

None.

3. Exhibit Index

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

Exhibit No.	Description
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).
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).

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 10.2 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).
21.1	Subsidiaries of The LGL Group, Inc.*
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 29, 2017 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:

SIGNATURE	CAPACITY	DATE
/s/ Michael J. Ferrantino, Sr. MICHAEL J. FERRANTINO, SR.	President and Chief Executive Officer (Principal Executive Officer)	March 29, 2017
/s/ Patti A. Smith PATTI A. SMITH	Chief Financial Officer (Principal Financial Officer)	March 29, 2017
/s/ Marc J. Gabelli MARC J. GABELLI	Director	March 29, 2017
/s/ Timothy Foufas TIMOTHY FOUFAS	Director	March 29, 2017
/s/ Donald H. Hunter DONALD H. HUNTER	Director	March 29, 2017
/s/ Manjit Kalha MANJIT KALHA	Director	March 29, 2017
/s/ Frederic V. Salerno FREDERIC V. SALERNO	Director	March 29, 2017
/s/ Hendi Susanto HENDI SUSANTO	Director	March 29, 2017
/s/ Antonio Visconti ANTONIO VISCONTI	Director	March 29, 2017

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of The LGL Group, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The LGL Group, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP
Orlando, Florida
March 29, 2017

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

	December 31,	
ASSETS	2016	2015
Current Assets:		
Cash and cash equivalents	$2,778	$5,553
Marketable securities	2,770	56
Accounts receivable, net of allowances of $31 and $34, respectively	3,504	2,606
Inventories, net	3,638	3,546
Prepaid expenses and other current assets	200	191
Total Current Assets	12,890	11,952
Property, Plant and Equipment		
Land	633	633
Buildings and improvements	3,966	3,938
Machinery and equipment	16,849	16,633
Gross property, plant and equipment	21,448	21,204
Less: accumulated depreciation	(18,737)	(18,039)
Net property, plant, and equipment	2,711	3,165
Intangible assets, net	628	475
Deferred income taxes, net	214	—
Other assets	203	211
Total Assets	$16,646	$15,803
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$1,525	$987
Accrued compensation and commissions expense	942	769
Other accrued expenses	288	320
Total Current Liabilities	2,755	2,076
Commitments and Contingencies (Note K)		
Stockholders' Equity		
Common stock, $0.01 par value - 10,000,000 shares authorized; 2,757,050 shares issued and 2,675,466 shares outstanding at December 31, 2016, and 2,745,098 shares issued and 2,665,434 shares outstanding at December 31, 2015	27	27
Additional paid-in capital	29,173	29,106
Accumulated deficit	(14,726)	(14,874)
Treasury stock, 81,584 and 79,664 shares held in treasury at cost at December 31, 2016 and 2015, respectively	(580)	(572)
Accumulated other comprehensive (loss) income	(3)	40
Total Stockholders' Equity	13,891	13,727
Total Liabilities and Stockholders' Equity	$16,646	$15,803

See Accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,	
	2016	2015
REVENUES	$20,891	$20,713
Costs and expenses:		
Manufacturing cost of sales	13,858	13,863
Engineering, selling and administrative	7,194	7,638
OPERATING LOSS	(161)	(788)
Other Income (Expense):		
Interest expense, net	(22)	(32)
Other income, net	166	117
Total Other Income, Net	144	85
LOSS BEFORE INCOME TAXES	(17)	(703)
Income tax benefit (provision)	165	(8)
NET INCOME (LOSS)	$148	$(711)
Basic per share information:		
Weighted average number of shares used in basic EPS calculation	2,665,043	2,640,803
Net income (loss)	$0.06	$(0.27)
Diluted per share information:		
Weighted average number of shares used in diluted EPS calculation	2,665,730	2,640,803
Net income (loss)	$0.06	$(0.27)

See Accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,	
	2016	2015
NET INCOME (LOSS)	$148	$(711)
Other comprehensive loss:		
Unrealized loss on available-for-sale securities, net	(43)	(4)
TOTAL OTHER COMPREHENSIVE LOSS	(43)	(4)
COMPREHENSIVE INCOME (LOSS)	$105	$(715)

See Accompanying Notes to Consolidated Financial Statements.
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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, 2014	2,616,485	$ 27	$ 28,901	$ (14,163)	$ (572)	$ 44	$ 14,237
Net loss	—	—	—	(711)	—	—	(711)
Other comprehensive loss	—	—	—	—	—	(4)	(4)
Stock-based compensation	48,949	—	265	—	—	—	265
Warrant dividend issuance costs	—	—	(60)	—	—	—	(60)
Balance at December 31, 2015	2,665,434	27	29,106	(14,874)	(572)	40	13,727
Net income	—	—	—	148	—	—	148
Other comprehensive loss	—	—	—	—	—	(43)	(43)
Stock-based compensation	11,952	—	67	—	—	—	67
Purchase of treasury stock	(1,920)	—	—	—	(8)	—	(8)
Balance at December 31, 2016	2,675,466	$ 27	$ 29,173	$ (14,726)	$ (580)	$ (3)	$ 13,891

See Accompanying Notes to Consolidated Financial Statements.

THE LGL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Years Ended December 31, 2016		2015	
OPERATING ACTIVITIES				
Net income (loss)	$	148	$	(711)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation		704		804
Amortization of finite-lived intangible assets		68		66
Gain on disposal of assets		(110)		(67)
Impairment of note receivable		—		43
Stock-based compensation		67		265
Bargain purchase gain		(4)		—
Deferred income tax benefit		(214)		—
Dividend from marketable securities		(62)		—
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable, net		(890)		660
(Increase) decrease in inventories, net		(62)		625
(Increase) decrease in prepaid expenses and other assets		(1)		13
Increase (decrease) in accounts payable, accrued compensation and commissions expense and other accrued liabilities				

22.75 12/14/2016

	80,000(10)		31.39	12/12/2017
	67,500(11)	22,500(11)	21.35	12/09/2018
	32,500(12)	32,500(12)	16.43	12/10/2019
	25,000(13)	75,000(13)	9.14	12/08/2020
		100,000(19)	7.10	11/30/2021
Akshay K. Vaishnaw, M.D., Ph.D.	40,625(16)		12.96	01/03/2016
	30,000(9)		22.75	12/14/2016
Senior Vice President and Chief Medical	32,750(10)		31.39	12/12/2017
	45,262(11)	15,088(11)	21.35	12/09/2018
	22,500(12)	22,500(12)	16.43	12/10/2019
Officer	7,500(13)	22,500(13)	9.14	12/08/2020
		100,000(20)	9.30	06/09/2021
		40,000(19)	7.10	11/30/2021
Laurence E. Reid, Ph.D.	65,625(17)	109,375(17)	15.99	06/11/2020
	6,898(13)	20,691(13)	9.14	12/08/2020
Senior Vice President and Chief Business				
Officer		40,000(19)	7.10	11/30/2021
Michael P. Mason	8,733(8)		13.12	12/07/2015
	15,000(9)		22.75	12/14/2016
Vice President of Finance and Treasurer	14,200(10)		31.39	12/12/2017
	9,000(11)	3,000(11)	21.35	12/09/2018
	8,000(12)	8,000(12)	16.43	12/10/2019
	4,375(13)	13,125(13)	9.14	12/08/2020
		25,000(21)	10.98	02/28/2021
		15,000(19)	7.10	11/30/2021
Patricia L. Allen(1)	33,947(18)		0.95	05/04/2014
	16,750(6)		6.78	12/07/2014
Former Vice President of Finance and				
Treasurer	32,000(8)		13.12	12/07/2015

20,000(9)		22.75	12/14/2016
32,625(10)		31.39	12/12/2017
23,747(11)	7,916(11)	21.35	12/09/2018
12,500(12)	12,500(12)	16.43	12/10/2019
6,250(13)	18,750(13)	9.14	12/08/2020

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(1) In February 2011, Ms. Allen resigned from her position as vice president of finance and treasurer. Following her resignation, Ms. Allen continued to serve as our consultant through March 21, 2012, during which time her stock options continued to vest. Upon expiration of her consulting agreement, all unvested stock options were cancelled. Ms. Allen has three months following the termination of her consulting agreement to exercise any vested stock options, after which time all such outstanding stock options will be cancelled.

(2) These options were granted on February 26, 2003. The options vested as to 25% of the shares on December 9, 2003, and as to an additional 6.25% at the end of each successive three-month period thereafter until December 9, 2006.

(3) These options were granted on February 26, 2003 and vested as to 50% of the shares upon us entering into our first significant strategic alliance, which occurred on September 8, 2003. The remaining 50% of these shares vested in equal installments on the last day of each quarterly period thereafter over four years.

(4) These options were granted on January 6, 2004. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until January 6, 2008.

(5) These options were granted on January 6, 2004 and vested in full upon our initial public offering in May 2004.

(6) These options were granted on December 7, 2004. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until December 7, 2008.

(7) These options were granted on December 21, 2004 and, pursuant to the terms of the grant, vested in full upon the effective date of the Novartis research collaboration and license agreement, described above under Related Person Transactions Agreements with Novartis.

(8) These options were granted on December 7, 2005. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until December 7, 2009.

(9) These options were granted on December 14, 2006. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until December 14, 2010.

(10) These options were granted on December 12, 2007. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until December 12, 2011.

(11) These options were granted on December 9, 2008. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(12) These options were granted on December 10, 2009. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(13) These options were granted on December 8, 2010. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(14) These options were granted on November 6, 2003. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until November 6, 2007.

(15) These options were granted on April 26, 2004. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until April 26, 2008.

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(16) These options were granted on January 3, 2006. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until January 3, 2010.

(17) These options were granted on June 11, 2010. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(18) These options were granted on May 4, 2004. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until May 4, 2008.

(19) These options were granted on November 30, 2011. The options vest as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(20) These options were granted on June 9, 2011. The options vest as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(21) These options were granted on February 28, 2011. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

The following table sets forth information concerning the exercise of stock options during 2010 for each of our named executive officers.

2011 Option Exercises and Stock Vested

	Option Awards	
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise(1) ($)**
John M. Maraganore, Ph.D. *Chief Executive Officer*		
Barry E. Greene *President and Chief Operating Officer*		
Akshay K. Vaishnaw, M.D., Ph.D. *Senior Vice President and Chief Medical Officer*		
Laurence E. Reid, Ph.D. *Senior Vice President and Chief Business Officer*		
Michael P. Mason *Vice President of Finance and Treasurer*		
Patricia L. Allen *Former Vice President of Finance and Treasurer*		

(1) The value realized on exercise is based on the sales price of the shares less the applicable option exercise price.

Potential Payments Upon Termination or Change-in-Control

We do not have agreements with any of our executive officers pursuant to which they are eligible for potential payments upon termination or change in control of Alnylam.

As described above in Related Person Transactions, in connection with Ms. Allen s resignation, we agreed to provide Ms. Allen with the following severance pay and benefits: (i) severance in the gross amount of $250,397 (an amount equal to 12 months of Ms. Allen s gross base salary); (ii) the full cost of any COBRA

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premiums until the earlier of March 21, 2012 and the date Ms. Allen became eligible for coverage under the group health plan of another employer; and (iii) a consulting agreement for a period of up to 12 months following her separation date under which she performed certain services at our request, the terms of which are described below. As contemplated by the separation agreement, we and Ms. Allen also entered into a consulting agreement. Under the consulting agreement, Ms. Allen provided consulting services to us through March 2012 with respect to general accounting, operating budget, public company financial reporting and treasury-related activities.

Employment Arrangements

Each executive officer has signed a nondisclosure, invention and non-competition agreement providing for the protection of our confidential information and ownership of intellectual property developed by such executive officer and a covenant not to compete with us for a period of eighteen months after termination of employment.

Pursuant to the terms of his letter of employment, we paid Dr. Reid a signing bonus of $50,000 in July 2010. In the event that Dr. Reid either voluntarily terminates his employment with us, other than for good reason, or is terminated by us for cause, within the first 24 months of his employment with us, he will be required to repay the full amount of this signing bonus. Under his letter of employment, Dr. Reid is also entitled to a supplemental signing bonus of $25,000 on each of the first, second, third and fourth anniversaries of his date of hire, provided he continues to be our employee on each such anniversary date.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2011 about the securities authorized for issuance under our equity compensation plans, consisting of our 2002 Employee, Director and Consultant Stock Option Plan (the 2002 Plan), our 2003 Employee, Director and Consultant Stock Option Plan (the 2003 Plan), our Amended and Restated 2004 Stock Incentive Plan, our 2009 Stock Incentive Plan and our 2004 Employee Stock Purchase Plan, as amended. All of our equity compensation plans were adopted with the approval of our stockholders.

Equity Compensation Plan Information

	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ($)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)
Equity compensation plans approved by stockholders	9,778,539	$ 15.53	1,354,011
Equity compensation plans not approved by stockholders			
Total	9,778,539	$ 15.53	1,354,011

(1) Consists of 87,272 shares of our common stock available for future issuance under our Amended and Restated 2004 Stock Incentive Plan, 919,039 shares of our common stock available for future issuance under our 2009 Stock Incentive Plan and 347,700 shares of our common stock available for future issuance under our 2004 Employee Stock Purchase Plan, as amended. No shares of our common stock were available for issuance under our 2002 Plan or our 2003 Plan as of December 31, 2011.

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Compensation of Directors

We compensate our non-employee directors for their service as directors. We do not pay directors who are also our employees any additional compensation for their service as a director. Accordingly, Dr. Maraganore does not receive any additional compensation for his service as a director.

Our compensation committee periodically reviews the compensation we pay our non-employee directors. Our compensation committee compares our board compensation to compensation paid to non-employee directors of similarly sized public companies at a similar stage of development in the biotechnology industry. Our compensation committee also considers the responsibilities we ask of our board members along with the amount of time required to perform those responsibilities.

Each non-employee director is entitled to receive a cash fee of $50,000 per year. In the event any non-employee director is not eligible to accept equity compensation due to the policies of his or her employment, he or she is entitled to receive a cash fee of $75,000 per year. The chairs of our board and our nominating and corporate governance committee are each entitled to receive an additional $5,000 per year, the chair of our compensation committee is entitled to receive an additional $10,000 per year, and the chairs of our audit committee and our science and technology committee are each entitled to receive an additional $15,000 per year.

Each non-employee director is also entitled to receive upon his or her initial election to our board a stock option award for 30,000 shares of common stock, vesting annually over three years, and an additional stock option award to purchase 15,000 shares of common stock at each year s annual meeting at which he or she served as a director, vesting in full on the first anniversary of the date of grant. In addition, the chair of our audit committee is entitled to an additional stock option award to purchase 10,000 shares of common stock per year and the chair of our science and technology committee is entitled to an additional stock option award to purchase 15,000 shares of common stock per year. Our board may, in its discretion, increase or decrease the size of the award made to a director upon election or in connection with the annual stock option award or make other option awards to our directors. The exercise price of these stock options is the fair market value of our common stock on the date of grant. We also reimburse our directors for reasonable travel and other related expenses incurred in connection with their service on our board.

The following table sets forth information concerning the compensation of our current and former non-employee directors in 2011.

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(3)(4)(5)	All Other Compensation ($)	Total ($)
Dennis A. Ausiello, M.D.(1)				
John K. Clarke	60,000	73,221		133,221
Victor J. Dzau, M.D.	50,000	73,221		123,221
Marsha H. Fanucci	50,000	73,221		123,221
Steven M. Paul, M.D.	57,500	73,221		130,721
Vicki L. Sato, Ph.D.(2)	20,000			20,000
Paul R. Schimmel, Ph.D.	50,000	73,221		123,221
Phillip A. Sharp, Ph.D.	58,407	146,442	29,583(6)	234,432
Kevin P. Starr	65,000	122,035		187,035

(1) Dr. Ausiello was elected to our board of directors in April 2012. Dr. Ausiello filled a vacancy created in 2011 upon the retirement of one of our directors. Under his employer s policy, Dr. Ausiello is currently subject to limitations on the amount of compensation he can receive from us and is not permitted to receive any equity compensation for serving as a director. In the event Dr. Ausiello becomes eligible to receive equity compensation in the future, his compensation will be adjusted to be consistent with the non-employee

director compensation described above. Dr. Ausiello will also serve as a member of our scientific advisory board. He will not receive any additional compensation for such service, but will be reimbursed for reasonable travel and other related expenses incurred in connection with his attendance at scientific advisory board meetings.

(2) Dr. Sato retired from our board of directors in April 2011.

(3) The amounts in this column reflect the aggregate grant date fair value for the fiscal year ended December 31, 2011, in accordance with FASB ASC Topic 718, of stock options granted under our equity plans for service on our board and treated for accounting purposes as employee awards. There can be no assurance that these amounts will ever be realized. The assumptions we used to calculate these amounts are included in Note 9 to our audited consolidated financial statements for the fiscal year ended December 31, 2011 included in our Annual Report on Form 10-K, filed with the SEC on February 13, 2012. See footnote 5 below for the compensation expense of stock options granted under our equity plans to a director for non-board services and treated for accounting purposes as non-employee awards.

(4) As of December 31, 2011, our non-employee directors held the following aggregate number of shares under outstanding stock options (representing unexercised option awards both exercisable and unexercisable):

Name	Number of Shares Underlying Outstanding Stock Options for Board Service	Number of Shares Underlying Outstanding Stock Options for Non-Board Service
Dennis A. Ausiello, M.D.	(a)	
John K. Clarke	95,000	
Victor J. Dzau, M.D.	90,000	
Marsha H. Fanucci	45,000	
Steven M. Paul, M.D.	45,000	
Vicki L. Sato, Ph.D.	(b)	
Paul R. Schimmel, Ph.D.	75,000	
Phillip A. Sharp, Ph.D.	110,000	205,000(c)
Kevin P. Starr	217,631	

(a) Dr. Ausiello was elected to our board of directors in April 2012. Under his employer s policy, Dr. Ausiello is currently not permitted to receive any equity compensation for serving as a director.

(b) Upon Dr. Sato s retirement in April 2011, all unvested stock options were cancelled. Dr. Sato had three months following her retirement date to exercise any vested stock options, after which time all such outstanding stock options were cancelled.

(c) Dr. Sharp received these stock options between 2005 and 2010 in connection with his service on our scientific advisory board.

(5) The number of shares underlying stock options granted to our non-employee directors for their service on our board during 2011 and the grant date fair value of such stock options are as follows:

Name	Date of Grant	Number of Shares Underlying Stock Option Grants in 2011	Grant Date Fair Value of Stock Option Grants in 2011(c) $
Dennis A. Ausiello, M.D.(a)			
John K. Clarke	06/09/2011	15,000	73,221
Victor J. Dzau, M.D.	06/09/2011	15,000	73,221
Marsha H. Fanucci	06/09/2011	15,000	73,221
Steven M. Paul, M.D.	06/09/2011	15,000	73,221

Vicki L. Sato, Ph.D.(b)			
Paul R. Schimmel, Ph.D.	06/09/2011	15,000	73,221
Phillip A. Sharp, Ph.D.	06/09/2011	30,000	146,442
Kevin P. Starr	06/09/2011	25,000	122,035

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(a) Dr. Ausiello was elected to our board of directors in April 2012. Under his employer s policy, Dr. Ausiello is currently not permitted to receive any equity compensation for serving as a director.
(b) Dr. Sato retired from our board of directors in April 2011.
(c) The Grant Date Fair Value computed in accordance with FASB ASC Topic 718 represents the value of stock options granted during 2011. The weighted-average grant date fair value per option was $4.88. There can be no assurance that the Grant Date Fair Value computed in accordance with FASB ASC Topic 718 will ever be realized.

(6) This amount reflects compensation paid to Dr. Sharp for service on our scientific advisory board during 2011.

Compensation Committee Interlocks and Insider Participation

During 2011, the members of our compensation committee were Drs. Paul and Schimmel and Mr. Starr, none of whom was a current or former officer or employee of Alnylam and none of whom had any related person transaction involving Alnylam.

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PROPOSAL 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION

We are providing our stockholders the opportunity to vote to approve, on an advisory, non-binding basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC s rules. This proposal, which is commonly referred to as say-on-pay, is required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which added Section 14A to the Exchange Act.

We encourage stockholders to read closely the Executive Compensation section of this proxy statement beginning with the Compensation Discussion and Analysis on page 26, which describes in detail our executive compensation programs and the decisions made by our compensation committee and our board with respect to the fiscal year ended December 31, 2011.

As we describe in the Compensation Discussion and Analysis, we maintain simple executive compensation programs that consist almost entirely of base salary, an annual cash incentive bonus and annual equity awards. These elements of compensation have been selected by our compensation committee because the committee believes that they effectively achieve the fundamental goals of our compensation program, which are to attract, motivate and retain qualified and talented executives, who are critical to our success, motivating them to achieve our business goals and rewarding them for superior short- and long-term performance. The goal of our compensation committee is to ensure that our compensation programs are aligned with the interests of our stockholders and our business goals in order to attain our ultimate objective of increasing stockholder value. We believe that, consistent with these goals, the total compensation paid to each of our named executive officers is fair, reasonable and competitive. Further, we believe our programs do not encourage excessive risk-taking by management.

With very limited exceptions, we do not provide any compensation or benefit plans to executive officers that are not also available to other employees. We differentiate among executive officers primarily based on size of annual cash incentive awards and annual equity awards and, to a lesser extent, base salary. Annual compensation decisions for executive officers are made by our compensation committee based on the achievement of specified corporate performance goals as described under Compensation Discussion and Analysis.

Our board of directors is asking stockholders to approve, on a non-binding advisory basis, the following resolution:

RESOLVED, that the compensation paid to the named executive officers of Alnylam Pharmaceuticals, Inc., as disclosed pursuant to the compensation disclosure rules of the SEC, including the compensation discussion and analysis, the compensation tables and any related material disclosed in the proxy statement of Alnylam Pharmaceuticals, Inc., is hereby approved.

As an advisory vote, this proposal is not binding. The outcome of this advisory vote will not overrule any decision by us or our board of directors (or any committee thereof). However, our compensation committee and board of directors value the opinions expressed by our stockholders in their vote on this proposal and will consider the outcome of the vote when making future compensation decisions for named executive officers.

Board Recommendation

Our board of directors recommends that you vote to approve the compensation of our named executive officers by voting FOR Proposal 2.

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PROPOSAL 3   RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

Our board has appointed the firm of PricewaterhouseCoopers LLP, an independent registered public accounting firm, as independent auditors for the fiscal year ending December 31, 2012. Although stockholder approval of our board s appointment of PricewaterhouseCoopers LLP is not required by law, our board believes that it is advisable to give stockholders an opportunity to ratify this appointment. If this proposal is not approved at the annual meeting, our board will reconsider its appointment of PricewaterhouseCoopers LLP. Representatives of PricewaterhouseCoopers LLP are expected to be present at the annual meeting and will have the opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions from our stockholders.

Board Recommendation

Our board of directors recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending December 31, 2012.

OTHER MATTERS

Our board of directors does not know of any other matters which may come before the meeting. However, if any other matters are properly presented to the meeting, it is the intention of the persons named in the accompanying proxy card to vote, or otherwise act, in accordance with their judgment on those matters.

STOCKHOLDER PROPOSALS

In order to be included in proxy material for the 2013 annual meeting of stockholders, stockholders proposals must be received by us at our principal executive offices, 300 Third Street, Cambridge, Massachusetts 02142 no later than December 28, 2012. We suggest that proponents submit their proposals by certified mail, return receipt requested, addressed to our Corporate Secretary.

In addition, our bylaws require that we be given advance notice of stockholder nominations for election to our board of directors and of other matters which stockholders wish to present for action at an annual meeting of stockholders, other than matters included in our proxy statement. The required notice must be in writing and received by our corporate secretary at our principal offices not later than March 23, 2013 (90 days prior to the first anniversary of our 2012 annual meeting of stockholders) and not before February 21, 2013 (120 days prior to the first anniversary of our 2012 annual meeting of stockholders). However, if the 2012 annual meeting of stockholders is advanced by more than 20 days, or delayed by more than 60 days, from the first anniversary of the 2012 annual meeting of stockholders, notice must be received not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of (1) the 90th day prior to such annual meeting and (2) the 10th day following the date on which notice of the date of such annual meeting was mailed or public disclosure of the date of such annual meeting was made, whichever occurs first. Our bylaws also specify requirements relating to the content of the notice which stockholders must provide, including a stockholder nomination for election to our board of directors, to be properly presented at the 2012 annual meeting of stockholders.

OUR BOARD OF DIRECTORS ENCOURAGES STOCKHOLDERS TO ATTEND THE ANNUAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND IN PERSON, YOU ARE URGED TO VOTE BY PROXY OVER THE INTERNET, BY TELEPHONE OR BY MAIL AS DESCRIBED IN THE ENCLOSED PROXY CARD. A PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE ANNUAL MEETING AND YOUR COOPERATION WILL BE APPRECIATED. STOCKHOLDERS WHO ATTEND THE ANNUAL MEETING MAY VOTE THEIR STOCK PERSONALLY EVEN THOUGH THEY HAVE SUBMITTED A PROXY PREVIOUSLY.

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Electronic Voting Instructions

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 11:59 p.m., Eastern Time, on June 20, 2012.

Vote by Internet

Go to **www.investorvote.com/ALNY**

Or scan the QR code with your smartphone

Follow the steps outlined on the secure website

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

X

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone

Follow the instructions provided by the recorded message q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

A Proposals The Board of Directors recommends you vote FOR each of the listed director nominees to serve for a term ending in 2015 and FOR Proposals 2 and 3.

1. To elect the following nominees as Class II directors of Alnylam:

+

	For	Withhold		For	Withhold		For	Withhold
01 - John K. Clarke	..	..	02 - Marsha H. Fanucci	..	..	03 - Dennis A. Ausiello, M.D.	..	..

	For	Against	Abstain		For	Against	Abstain
2. To approve, in a non-binding advisory vote, the compensation of Alnylam s named executive officers.	..	..	..	3. To ratify the appointment of PricewaterhouseCoopers LLP, an independent registered public accounting firm, as Alnylam s independent auditors for the fiscal year ending December 31, 2012.	..	..	..

In their discretion, the Proxies are authorized to vote upon any other business that may properly come before the annual meeting or at any adjournment(s) thereof.

B **Non-Voting Items**

Change of Address Please print new address below. **Comments** Please print your comments below.

C **Authorized Signatures** **This section must be completed for your vote to be counted.** **Date and Sign Below**

Please sign exactly as your name(s) appear(s) hereon. All holders must sign. When signing as attorney, executor, administrator or other fiduciary, please give your full title as such. Joint owners should each sign personally. If a corporation, please sign in full corporate name, by authorized officer. If a partnership, please sign in partnership name by authorized person.

Date (mm/dd/yyyy) Please print date below.	Signature 1 Please keep signature within the box.	Signature 2 Please keep signature within the box.
/ /		

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q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

Proxy ALNYLAM PHARMACEUTICALS, INC.

ANNUAL MEETING OF STOCKHOLDERS

To be held on June 21, 2012 at 9:00 a.m., Eastern Time

This Proxy is solicited on behalf of the Board of Directors of Alnylam Pharmaceuticals, Inc. (Alnylam).

The undersigned, having received notice of the annual meeting of stockholders and the proxy statement therefor and revoking all prior proxies, hereby appoints each of John M. Maraganore, Ph.D., Barry E. Greene and Michael P. Mason (each with full power of substitution), as Proxies of the undersigned, to attend the annual meeting of stockholders of Alnylam to be held at 9:00 a.m., Eastern Time, on Thursday, June 21, 2012, at the offices of Alnylam, 300 Third Street, Cambridge, Massachusetts 02142, and any adjourned or postponed session thereof, and there to vote and act as indicated upon the matters on the reverse side in respect of all shares of common stock which the undersigned would be entitled to vote or act upon, with all powers the undersigned would possess if personally present.

You can revoke your proxy at any time before it is voted at the annual meeting by (i) submitting another properly completed proxy bearing a later date; (ii) giving written notice of revocation to the Secretary of Alnylam; (iii) if you submitted a proxy through the Internet or by telephone, by submitting a proxy again through the Internet or by telephone prior to the close of the Internet voting facility or the telephone voting facility; or (iv) voting in person at the annual meeting. If you hold any of the shares of common stock in a fiduciary, custodial or joint capacity or capacities, this proxy is signed by you in every such capacity as well as individually.

The shares of common stock of Alnylam represented by this proxy will be voted as directed by you for the proposals herein proposed by Alnylam. If no direction is given with respect to any proposal specified herein, this proxy will be voted FOR the proposal. In their discretion, the Proxies are authorized to vote upon any other business that may properly come before the annual meeting or any adjournment(s) thereof.

Please vote, date and sign on reverse side and return promptly in the enclosed pre-paid envelope.

Your vote is important. Please vote immediately.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

SEE REVERSE SIDE