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**SECURITIES & EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2003

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-106

**LYNCH CORPORATION**

(Exact name of Registrant as specified in its charter)

**Indiana**

**38-1799862**

(State or other jurisdiction of  
 incorporation or organization)

I.R.S. Employer  
 Identification No.)

**50 Kennedy Plaza, Suite 1250, Providence, Rhode Island**

**02903**

(Address of principal executive offices)

(Zip Code)

**(401) 453-2007**

Registrant's telephone number, including area code

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

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_ No

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practical date.

Class	Outstanding at August 1, 2003
Common Stock, \$0.01 par value	1,497,883

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**Part 1 — FINANCIAL INFORMATION**

**Item 1 — Financial Statements**

**LYNCH CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In Thousands except share amounts)

	<b>June 30, 2003 (unaudited)</b>	<b>December 31, 2002 (A)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,417	\$ 5,986
Restricted cash (Note D)	1,125	1,125
Investments – Marketable Securities (Note E)	983	861
Trade accounts receivables, less allowances of \$98 and \$91, respectively	2,784	2,820
Unbillable accounts receivable (Note H)	1,456	704
Inventories (Note F)	6,755	5,624
Recoverable income taxes	532	532
Deferred income taxes	207	207
Prepaid expenses	283	324
	<hr/>	<hr/>
<b>TOTAL CURRENT ASSETS</b>	<b>19,542</b>	<b>18,183</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	291	291
Buildings and improvements	4,198	4,198
Machinery and equipment	11,949	11,841
	<hr/>	<hr/>
	16,438	16,330
Less: accumulated depreciation	11,987	11,504
	<hr/>	<hr/>
	4,451	4,826
<b>OTHER ASSETS</b>	287	421
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$24,280</b>	<b>\$23,430</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable to banks (Note G)	\$ 2,605	\$ 2,228
Trade accounts payable	1,411	927
Accrued warranty expense (Note H)	1,387	1,595
Accrued compensation expense	1,031	921
Accrued income taxes	671	1,053
Accrued professional fees	214	327
Accrued commissions	177	214
Margin liability on marketable securities	223	251
Other accrued expenses	418	659
Customer advances	2,901	1,147
Current maturities of long-term debt (Note G)	385	832
	<hr/>	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,423</b>	<b>10,154</b>
<b>LONG-TERM DEBT (Note G)</b>	<b>1,723</b>	<b>1,089</b>
<b>OTHER LONG TERM LIABILITIES</b>	<b>1,103</b>	<b>1,253</b>
	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>14,249</b>	<b>12,496</b>
<b>COMMITMENTS AND CONTINGENCIES (Note L)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value – 10,000,000 shares authorized; 1,513,191 shares issued; 1,497,883 shares outstanding	15	15
Additional paid-in capital	15,645	15,645
Accumulated deficit	(5,481)	(4,570)
Accumulated other comprehensive Income (Note J)	310	302
Treasury stock of 15,308 shares at cost	(458)	(458)
	<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>10,031</b>	<b>10,934</b>
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$24,280</b>	<b>\$23,430</b>

(A) The Balance Sheet at December 31, 2002 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying notes

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**PART I – FINANCIAL INFORMATION**

**Item 1 — Financial Statements**

**LYNCH CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In Thousands, except share amounts)

	Three Months Ended June 30 (unaudited)		Six Months Ended June 30 (unaudited)	
	2003	2002	2003	2002
SALES AND REVENUES	\$ 6,714	\$ 9,691	\$ 11,458	\$ 16,694
Cost and expenses:				
Manufacturing cost of sales	4,982	6,871	8,933	11,725
Selling and administrative	2,010	3,013	3,843	5,562
OPERATING LOSS	(278)	(193)	(1,318)	(593)
Other income (expense):				
Investment Income	155	24	177	63
Interest expense	(93)	(52)	(162)	(92)
	62	(28)	15	(29)
LOSS BEFORE INCOME TAXES	(216)	(221)	(1,303)	(622)
Benefit from income taxes	43	113	392	222
NET LOSS	\$ (173)	\$ (108)	\$ (911)	\$ (400)
Weighted average shares outstanding	1,497,900	1,497,900	1,497,900	1,497,900
BASIC AND DILUTED LOSS PER SHARE:	\$ (0.12)	\$ (0.07)	\$ (0.61)	\$ (0.27)

See accompanying notes

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**PART I – FINANCIAL INFORMATION**

**ITEM 1 – Financial Statements**

**LYNCH CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
(In Thousands)

	Six Months Ended June 30, (unaudited)	
	2003	2002
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (911)	\$ (400)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Restricted operating cash	—	4,703
Depreciation	483	518
Amortization of definite-lived intangible assets	134	101
Gain realized on sale of marketable securities	(134)	—
Changes in operating assets and liabilities:		
Receivables	(716)	1,266
Inventories	(1,131)	270
Accounts payable and accrued liabilities	1,363	(1,064)
Other assets/liabilities	(109)	181
Net cash provided by (used in) operating activities	(1,021)	5,575
<b>INVESTING ACTIVITIES</b>		
Acquisition of minority interest	—	(220)
Capital expenditures	(108)	(142)
Proceeds from sale of marketable securities	252	—
Purchase of marketable securities	(113)	(262)
Payment on margin liability on marketable securities	(143)	—
Cash used in investing activities	(112)	(624)
<b>FINANCING ACTIVITIES</b>		
Net borrowings of notes payable	377	248
Repayment of long-term debt	(109)	(293)
Proceeds from long-term debt	296	—
Cash provided by (used in) financing activities	564	(45)
Increase (decrease) in cash and cash equivalents	(569)	4,906
Cash and cash equivalents at beginning of period	5,986	4,247
Cash and cash equivalents at end of period	\$ 5,417	\$ 9,153

See accompanying notes

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Subsidiaries of the Registrant

Lynch Corporation dissolved its 100 percent owned, inactive subsidiaries, Lynch International Holding Corporation and Lynch-AMAV in Delaware, their State of incorporation on March 31, 2003.

As of June 30, 2003, the Subsidiaries of the Registrant are as follows:

	Owned By Lynch
Lynch Systems, Inc.	100.0%
M-tron Industries, Inc.	100.0%
M-tron Industries, Ltd.	100.0%

B. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month and six month period ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003.

The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

On September 23, 2002, Lynch disposed of its remaining interest in Spinnaker Industries, Inc. (“Spinnaker”) for nominal consideration and completed the deconsolidation that commenced on September 30, 2001. As a result, the financial statements for the periods ending June 30, 2002, December 31, 2002, and June 30, 2003 exclude Spinnaker. The net result of the deconsolidation was the recording of a non-cash gain of \$19.4 million in the third quarter of 2002 and \$27.4 million in the third quarter of 2001.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant Company and Subsidiaries’ annual report on Form 10-K for the year ended December 31, 2002.

C. Adoption of Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Indebtedness of Others*.

The Company presently guarantees (unsecured) the SunTrust Bank loans of its subsidiary, Lynch Systems, and has guaranteed a Letter of Credit issued to the First National Bank of Omaha on behalf of its subsidiary, M-tron Industries, Inc. These guarantees are subject to FIN 45’s disclosure requirement only. As of June 30, 2003, there were no obligations to SunTrust Bank. As of June 30, 2003, the \$1,000,000 Letter of Credit issued by Fleet Bank to The First National Bank of Omaha was secured by a \$1,125,000 deposit in a Fleet Bank Treasury Fixed Income Fund.

There are no other financial, performance, indirect guarantees or indemnification agreements.

In July 2002, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” (“SFAS 146”), which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” The provisions of SFAS 146



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are effective for exit or disposal activities that are initiated after December 31, 2002; the Company does not have any exit or disposal activities underway.

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"), which amends the disclosure provisions of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) and APBN opinion No. 28, "Interim Financial Reporting" ("APB 28"). See Note I to the Consolidated Financial Statements – "Earnings Per Share and Stockholders Equity".

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company does not have any interests in variable interest entities.

**D. Restricted Cash**

At both June 30, 2003 and December 31, 2002, the Company had \$1.1 million of Restricted Cash that secures a Letter of Credit issued by Fleet Bank to the First National Bank of Omaha as collateral for its M-tron subsidiary's loans.

**E. Investments**

The following is a summary of marketable securities held by the Company (in Thousands):

Equity Securities	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2003	\$671	\$312	—	\$983
December 31, 2002	\$557	\$304	—	\$861

The Company has a margin liability against this investment of \$223,000 at June 30, 2003 and of \$251,000 at December 31, 2002 which must be settled upon the disposition of the related securities whose fair value is based on quoted market prices. The Company has designated these investments as available for sale pursuant to Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

**F. Inventories**

Inventories are stated at the lower of cost or market value. At June 30, 2003, inventories were valued by two methods: last-in, first-out (LIFO) 59%, and first-in, first-out (FIFO) 41%. At December 31, 2002, inventories were valued by the same two methods: LIFO – 63%, and FIFO -37%.

	June 30, 2003	December 31, 2002
(In Thousands)		
Raw materials	\$1,879	\$1,436
Work in process	3,265	2,376
Finished goods	1,611	1,812
Total Inventories	\$6,755	\$5,624

Current costs exceed LIFO value of inventories by \$1,202,000 and \$1,212,000 at June 30, 2003 and December 31, 2002 respectively.

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**G. Indebtedness**

Lynch Systems, Inc. and M-tron Industries, Inc. maintain their own credit facilities. The Lynch Systems facility includes an unsecured parent Company guarantee. M-tron’s revolving credit agreement is supported by a \$1.0 million Letter of Credit that is secured by a \$1.1 million deposit in a Fleet Bank Treasury Fixed Income Fund (see Note D — “Restricted Cash”).

In general, the credit facilities are secured by property, plant and equipment, inventory, receivables and common stock of certain subsidiaries and contain certain covenants restricting distributions to the Company.

Notes payable to banks and long-term debt consists of:

	June 30,	December 31,
	2003	2002
(In Thousands)		
Notes payable:		
M-tron bank revolving loan at variable interest rates (4.75% at June 30, 2003), due May 2004	\$2,605	\$2,228
Lynch Systems bank revolving loan at variable interest rates, due June, 2004	—	—
	<u>\$2,605</u>	<u>\$2,228</u>
Long-term debt:		
M-tron commercial bank term loan at variable interest rates (4.5% at June 30, 2003), due September, 2004	\$ 916	\$1,001
Yankton Area Progressive Growth loan at 0.0% interest, due April 2005	250	250
South Dakota Board of Economic Development at a fixed rate of 3%, due December , 2007	290	—
Yankton Areawide Business Council loan at a fixed interest rate of 5.5%, due November 2007	95	98
Lynch Systems term loan at a fixed interest rate of 8.0%, due August 2003	557	572
(see Subsequent Events footnote regarding refinancing this Lynch Systems Term Loan)	<u>2,108</u>	<u>1,921</u>
Current maturities	(385)	(832)
	<u>\$1,723</u>	<u>\$1,089</u>

**H. Long-Term Contracts and Warranty Expense**

Lynch Systems, a 100% wholly owned subsidiary of the Company, is engaged in the manufacture and marketing of glass-forming machines and specialized manufacturing machines. Certain sales contracts require an advance payment (usually 30% of the contract price) which is accounted for as a customer advance. The contractual sales prices are paid either (i) as the manufacturing process reaches specified levels of completion or (ii) based on the shipment date. Guarantees by letter of credit from a qualifying financial institution are required for most sales contracts. Because of the specialized nature of these machines and the period of time needed to complete production and shipping, Lynch Systems accounts for these contracts using the percentage-of-completion accounting method as costs are incurred compared to total estimated project costs (cost to cost basis). At June 30, 2003 and December 31, 2002, unbilled accounts receivable were \$1.5 million and \$0.7 million, respectively.

Lynch Systems provides a full warranty to world-wide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year or thirteen months. Based upon experience, the warranty accrual is based upon three to five percent of the selling price of the machine. The Company periodically assesses the adequacy of the reserve and adjusts the amounts as necessary.

Balance, December 31, 2002	\$1,595
Warranties issued during the period	118
Settlements made during the period	(326)
Changes in liabilities for pre-existing warranties during the period, including expirations	—
Balance, June 30, 2003	<u>\$1,387</u>

**I. Earnings Per Share and Stockholders’ Equity**

The Company’s basic and diluted earnings per share are equivalent as the options issued in May 2002 to purchase 228,000 shares of the Company’s common stock were anti-dilutive throughout 2002 and throughout the first half of 2003.

On December 10, 2001, the Board of Directors approved, subject to shareholder approval at the May 2002 Annual Meeting, the 2001 Equity Incentive Plan and the issuance of up to 300,000 options to purchase shares of Company common stock to certain employees of the Company, of which 228,000 options were granted (subject to

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shareholder approval) at \$17.50 per share on December 10, 2001. Although the grants were approved by the shareholders on May 2, 2002, the shares are not considered issued until exercised or in the money, neither event having transpired to-date. 204,000 of these options are fully vested, with the remaining options vesting quarterly over the next six quarters.

The Company has a stock-based employee compensation plan. The Company accounts for the plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to or above the market value of the underlying common stock on the date of grant. The Company provides pro forma disclosures of the compensation expense determined under the fair value provisions of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net loss as reported	\$ (173)	\$ (108)	\$ (911)	\$ (400)
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(38)	(1,182)	(77)	(1,182)
Pro forma net loss	\$ (211)	\$ (1,292)	\$ (988)	\$ (1,582)
Basic and diluted loss per share:				
As reported	\$(0.12)	\$ (0.07)	\$(0.61)	\$ (0.27)
Pro forma	\$(0.14)	\$ (0.86)	\$(0.66)	\$ (1.06)

The net loss as reported in each period did not include any stock-based compensation.

The weighted average fair value of options granted in 2002 is \$17.50.

**J. Accumulated Other Comprehensive Income (Loss)**

Total comprehensive loss was \$140,000 in the three months ended June 30, 2003, as opposed to a total comprehensive loss of \$22,000 in the second quarter of 2002. "Other" comprehensive income, resulting from gains on available for sale securities, included in the total comprehensive loss was \$33,000 in the second quarter of 2003 and \$86,000 in the quarter ending June 30, 2002.

Total comprehensive loss was \$903,000 and \$282,000 for the six months ended 6/30/03 and 6/30/02 respectively, including other comprehensive income of \$8,000 in the first half of 2003 and other comprehensive income of \$118,000 in the first half of 2002 resulting from gains on available for sale securities.

**K. Segment Information**

The Company has two reportable business segments. The first segment is Lynch Systems' glass manufacturing equipment business. Frequency control devices (quartz crystals and oscillators) manufactured and sold by M-tron is the other segment. Both businesses are located domestically.

Operating loss is equal to revenues less operating expenses, excluding investment income, interest expense and income taxes. The Company allocates a negligible portion of its general corporate expenses to its operating segments.

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	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30	
	2003	2002	2003	2002
	(In Thousands)		(In Thousands)	
<b>Revenues</b>				
Glass manufacturing equipment — USA	\$2,077	\$ 380	\$ 2,693	\$ 770
Glass manufacturing equipment — Europe	386	4,803	797	5,876
Glass manufacturing equipment — Far East	657	1,543	1,065	4,317
Glass manufacturing equipment — Canada	—	3	4	3
Glass manufacturing equipment — All Other	62	5	106	83
Total Glass manufacturing equipment — Foreign	1,105	6,354	1,972	10,279
Total Glass manufacturing equipment	3,182	6,734	4,665	11,049
Frequency control devices — USA	1,753	1,715	3,267	2,960
Frequency control devices — Europe	337	145	647	266
Frequency control devices — Far East	885	549	1,548	1,033
Frequency control devices — Canada	398	351	681	1,044
Frequency control devices — All Other	159	197	650	342
Total Frequency control devices — Foreign	1,779	1,242	3,526	2,685
Total Frequency control devices	3,532	2,957	6,793	5,645
Consolidated Total	\$6,714	\$9,691	\$11,458	\$16,694
<b>Operating Profit (Loss)</b>				
Glass manufacturing equipment	\$ 146	\$ 854	\$ (337)	\$ 1,580
Frequency control devices	(6)	(700)	(229)	(1,499)
Total manufacturing	140	154	(566)	81
Unallocated Corporate expenses	(418)	(347)	(752)	(674)
Consolidated Total	\$ (278)	\$ (193)	\$ (1,318)	\$ (593)
<b>Capital Expenditures</b>				
Glass manufacturing equipment	\$ 28	\$ 32	\$ 56	\$ 41
Frequency control devices	47	74	52	101
Consolidated Total	\$ 75	\$ 106	\$ 108	\$ 142
<b>Total Assets</b>				
Glass manufacturing equipment			\$12,481	\$22,181
Frequency control devices			8,383	7,233
General Corporate			3,416	1,477
Consolidated Total			\$24,280	\$30,891
Total operating loss of reporting segments	\$ (278)	\$ (193)	\$ (1,318)	\$ (593)
<b>Other profit or loss:</b>				
Investment income	155	24	177	63
Interest expense	(93)	(52)	(162)	(92)
Loss before income taxes	\$ (216)	\$ (221)	\$ (1,303)	\$ (622)

L. Commitments and Contingencies

In the normal course of business, subsidiaries of the Registrant are defendants in certain product liability, worker claims and other litigation in which the amounts being sought may exceed insurance coverage levels. The

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resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or operations. In addition, Registrant and/or one or more of its subsidiaries are parties to the following additional legal proceedings:

In the normal course of business, subsidiaries of the Registrant are defendants in certain product liability, worker claims and other litigation in which the amounts being sought may exceed insurance coverage levels. The resolution of these matters is not expected to have a material adverse effect on the Registrant's consolidated financial condition or operations. In addition, Registrant and/or one or more of its subsidiaries are parties to the following additional legal proceedings:

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

On or about June 26, 2001, in anticipation of the July 15, 2001 closure of Spinnaker's Westbrook, Maine facility, Plaintiff PACE Local 1-1069 ("PACE") filed a three count complaint in Cumberland County Superior Court, CV-2001-00352 naming the following defendants: Spinnaker Industries, Inc., Spinnaker Coating, Inc., and Spinnaker Coating-Maine, Inc. (collectively, the "Spinnaker Entities") and Lynch. The complaint alleged that under Maine's Severance Pay Act both the Spinnaker Entities and Lynch would be liable to pay approximately \$1,166,000 severance pay under Maine's Severance Pay Act in connection with the plant closure. The Defendants filed a notice of removal, thereby creating United States District Court Civil Action case was remanded to state court. The Spinnaker Entities also filed a separate complaint challenging the constitutionality of the Maine Severance Pay Act, United States District Court Civil Action No. 01-232 which later was dismissed by stipulation of the Spinnaker Entities. PACE also filed three separate Motions for Ex-Parte Attachment against the Spinnaker Entities and Lynch. PACE filed the First Motion for Attachment with its original Complaint. PACE sought to attach \$1,166,483.44, an amount large enough to cover the claims of all PACE's members seeking severance. The Court denied that Motion as being premature. PACE then filed a Second Motion against the Spinnaker Entities and Lynch for an attachment large enough to cover the claims of eight individual employees seeking severance pay in the amount of \$120,736.27. On August 20, 2001, the Court granted that Motion in the amount of \$118,500. On April 4, 2002, PACE subsequently recorded this attachment through UCC-1 filings with the Maine Secretary of State against Lynch Manufacturing and Lynch Corporation. PACE filed a Third Motion for Ex-Parte Attachment on August 29, 2001. This Motion sought an attachment large enough to cover the severance pay claimed by the remaining PACE members, \$1,048,003. The Court denied this Motion but permitted PACE the opportunity to obtain an attachment after all defendants had an opportunity to respond and after hearing.

Before any further action was taken with respect to PACE's Third Motion for Attachment, the Spinnaker Defendants filed for relief under Chapter 11 of the Bankruptcy Code. Following a series of filings in the United States District Court for the District of Maine and the United States Bankruptcy Court for the District of Maine which, like United States District Court Case No. 01-236, later were dismissed by the parties with prejudice and without costs, PACE's case continues to proceed against Lynch in Cumberland County Superior Court in Maine on the issue of whether Lynch has liability to PACE's members under the Maine Severance Pay Act.

On September 30, 2002, PACE requested a ruling from the Superior Court on its Third Motion for Attachment. On October 21, 2002, Lynch filed a Motion for Summary Judgment which incorporated its prior objection to any attachment. PACE filed an Opposition to Lynch's Motion for Summary Judgment, which included a request for summary judgment in its favor, and a Motion for Leave to Further Amend the Complaint on November 12, 2002. Lynch thereafter filed a Reply Memorandum in Support of its Motion for Summary Judgment on November 26, 2002 and an opposition to PACE's Motion for Leave to Further Amend the Complaint on December 3, 2002. On December 31, 2002, the Superior Court held a hearing on all pending Motions. The Superior Court requested that arguments focus on Lynch's Motion for Summary Judgment since the granting of that Motion would render PACE's Third Motion for Attachment and Motion to Further Amend the Complaint moot.

On July 28, 2003, the Superior Court issued an Order deciding both Lynch's and PACE's Motions for Summary Judgment. The Court denied Lynch's Motion for Summary Judgment, finding that there remained a disputed issue of material fact regarding one of Lynch's primary defenses. The Court granted partial summary judgment in favor of PACE to the extent that the Court found Lynch was an "employer" subject to potential liability under Maine's Severance Pay Act. The Court held, however, that PACE must still prove its entitlement to

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severance pay under the Act. In a separate ruling also issued on July 28, 2003, the Court denied PACE's Third Motion for Attachment.

Lynch believes that, in addition to other defenses, it is not subject to the Maine Severance Pay Act, as now in effect. Management does not believe that the resolution of this case will have a material adverse effect on the Registrant's consolidated financial condition and operations.

The Company does not believe that it has any other contingent liabilities related to Spinnaker.

**2. Qui Tam Lawsuit**

There has been no material change in the status of this lawsuit as last reported in Registrant's Form 10-K for its fiscal year ended December 31, 2002.

**3. Spinnaker Chapter 11 Reorganization Proceeding**

The Spinnaker Chapter 11 reorganization and joint plan of liquidation are not reported herein because, on September 23, 2002, Lynch disposed of its entire remaining interest in Spinnaker and no longer has any economic interest in or affiliation with Spinnaker.

**M. Reclassifications**

Certain amounts in the 2002 financial statements and segment information (Note K) have been eliminated or reclassified to conform to the 2003 presentation. These deletions and reclassifications are immaterial to the consolidated financial statements and segment information taken as a whole.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Critical Accounting Policies**

The Company has identified the accounting policies listed below that we believe are most critical to our financial condition and results of operations, and that require management's most difficult, subjective and complex judgements in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 1 to the consolidated financial statements, included in the Company's Annual Report on Form 10K for the year ended December 31, 2002, which includes other significant accounting policies.

***Accounts Receivable***

Accounts receivable on a consolidated basis consist principally of amounts due from both domestic and foreign customers. Credit is extended based on an evaluation of the customer's financial condition and collateral is not generally required except at Lynch Systems. The Company considers concentrations of credit risk to be minimal due to the Company's diverse customer base. In relation to export sales, the Company requires letters of credit supporting a significant portion of the sales price prior to production to limit exposure to credit risk. Certain subsidiaries and business segments have credit sales to industries that are subject to cyclical economic changes. The Company maintains an allowance for doubtful accounts at a level that management believes is sufficient to cover potential credit losses.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. We base our estimates on our historical collection experience, current trends, credit policy and relationship of our accounts receivable and revenues. In determining these estimates, we examine historical write-offs of our receivables and review each client's account to identify any specific customer collection issues. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Our failure to estimate accurately the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition, and results of operations.



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### *Inventory Valuation*

Inventories are stated at the lower of cost or market value. Inventories valued using the last-in, first-out (LIFO) method comprised approximately 63% and 58% of consolidated inventories at December 31, 2002 and 2001, respectively. The balance of inventories at December 31, 2002 and 2001 are valued using the first-in-first-out (FIFO) method. If actual market conditions are more or less favorable than those projected by management, including the demand for our products, changes in technology, internal labor costs and the costs of materials, adjustments may be required.

### *Revenue Recognition and Accounting for Long-Term Contracts*

Revenues, with the exception of certain long-term contracts discussed below, are recognized upon shipment when title passes. Shipping costs are included in manufacturing cost of sales.

Lynch Systems, a 100% owned subsidiary of the Company, is engaged in the manufacture and marketing of glass-forming machines and specialized manufacturing machines. Certain sales contracts require an advance payment (usually 30% of the contract price) which is accounted for as a customer advance. The contractual sales prices are paid either (i) as the manufacturing process reaches specified levels of completion or (ii) based on the shipment date. Guarantees by letter of credit from a qualifying financial institution are required for most sales contracts. Because of the specialized nature of these machines and the period of time needed to complete production and shipping, Lynch Systems accounts for these contracts using the percentage-of-completion accounting method as costs are incurred compared to total estimated project costs (cost to cost basis).

The percentage of completion method is used since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made, based on historical experience and milestones set in the contract. These estimates include current customer contract specifications, related engineering requirements and the achievement of project milestones. Financial management maintains contact with project managers to discuss the status of the projects and, for fixed-price engagements, financial management is updated on the budgeted costs and required resources to complete the project. These budgets are then used to calculate revenue recognition and to estimate the anticipated income or loss on the project. In the past, we have occasionally been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated profitability or losses on those contracts. Favorable changes in estimates result in additional profit recognition, while unfavorable changes in estimates result in the reversal of previously recognized earnings to the extent of the error of the estimate. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

### *Warranty Expense*

Lynch Systems provides a full warranty to world-wide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year or thirteen months. Based upon experience, the warranty accrual is based upon three to five percent of the selling price of the machine. The Company periodically assesses the adequacy of the reserve and adjusts the amounts as necessary. Estimates used in determining the adequacy of the reserve include the number and nature of product failures and the level of returns of product, the cost of internal labor to address these warranty issues and the costs of materials in repairing or replacing inventory covered under our warranty programs. Should these estimates change, our original estimates of warranty could increase or decrease.

## **Results of Operations**

### *Second Quarter 2003 and Six Months 2003 Compared to 2002*

#### Sales and Revenues/Gross Margin

Revenues for the second quarter of 2003 decreased by \$3.0 million from second quarter 2002 to \$6.7 million due mainly to the low beginning backlog and the timing of deliveries for orders booked by Lynch Systems in February, March and April of 2003.

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Six months 2003 sales of \$11.5 million were \$5.2 million less than the \$16.7 million revenue recorded in the first six months of 2002 due mainly to the delivery schedules for glass press machines sold by Lynch Systems.

Second quarter 2003 gross margin as a percent of sales was 25.8% or 3.3 points less than the 29.1% gross margin achieved in the second quarter of 2002 due to the 31% volume reduction.

Six month 2003 gross margin as a percent of revenues of 22.0% was 7.8% below the first half of 2002 due mainly to the low level of sales.

Revenues at M-tron increased by \$0.6 million, or 19.4%, to \$3.5 million for the second quarter of 2003 and by \$1.1 million to \$6.8 million for the six month period ending June 2003 due primarily to the acquisition of Champion Technologies, Inc. ("Champion"). On October 18, 2002, M-tron acquired certain assets of an industry competitor, Champion Technologies, Inc., from U.S. Bank in a transaction accounted for as a purchase.

Lynch Systems' second quarter 2003 revenue of \$3.2 million was \$3.6 million, or 53%, below the same period of 2002. Lynch Systems' revenues for the first six months of 2003 declined by \$6.4 million from the corresponding 2002 period to \$4.7 million due mainly to depressed bookings for glass press machines throughout 2002. However, order backlog of \$10.0 million at June 30, 2003 represented an improvement of \$6.0 million since December 31, 2002 and was \$5.9 million, or 144% above last June.

M-tron's gross margin as a percentage of net sales for the second quarter of 2003 improved over the same period of 2002 by 13.1% to 24.3%. M-tron's gross margin of 22.2% for the six month period ending June 30, 2003 represented a 12.6% improvement over the 9.6% gross margin achieved in the first half of 2002. The sales improvement in the second quarter and six month period ending June 30, 2003 of 19.4% and 20.3% respectively more than offset the costs incurred in manufacturing the more sophisticated Champion parts.

Lynch Systems' gross margin as a percentage of net sales for the second quarter of 2003 declined 9.6% to 27.4% compared to the same period of 2002. Lynch Systems' gross margin of 21.8% for the six month period ending June, 2003 was 18.2% below the first half 2002 gross margin of 40.0 percent. These reductions were the result of a 52.7% sales decline in the second quarter and 57.8% less volume in the first half.

## Operating Loss

Operating loss for the second quarter 2003 was \$0.3 million compared to the second quarter 2002 operating loss of \$0.2 million, representing an unfavorable variance of \$0.1 million on \$3.0 million less revenue.

Six months 2003 operating loss of \$1.3 million was \$0.7 million above the first half 2002 loss of \$0.6 million due to \$5.2 million less revenue. For the second quarter of 2003, M-tron had an operating loss of \$6,000, an improvement of \$694,000 over the \$700,000 million loss in the second quarter of 2002. M-tron's six month 2003 operating loss of \$229,000 represented a major improvement of \$1,270,000 when compared to M-tron's \$1,499,000 operating loss in the six month period ending June 30, 2002. The second quarter and year-to-date improvements were due mainly to the additional sales mentioned above and better product mix.

For the 2003 second quarter, Lynch Systems had an operating profit of \$146,000 compared to an operating profit of \$854,000 in the second quarter of 2002. Lynch Systems' first half 2003 operating loss of \$337,000 was \$1,917,000 unfavorable to the six month 2002 operating profit of \$1,580,000. Although Lynch Systems second quarter and six months 2003 operating costs were reduced by \$0.6 million and \$1.2 million respectively from 2002, the company could not compensate for the volume decline mentioned above and poor product mix.

Lynch's corporate headquarters incurred unallocated expenses of \$418,000 in the second quarter of 2003, bringing the six months 2003 headquarters expense to \$752,000. The second quarter and six month 2003 headquarters expenses exceeded the prior year by \$71,000 and \$78,000 respectively due to accrued professional fees.



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### Other Income (Expense), Net

Second quarter and first half 2003 investment income were \$131,000 and \$114,000 respectively more than last year due to realized gains of \$134,000 on the sale of marketable securities in the second quarter of 2003.

Second quarter interest expense of \$93,000 exceeded 2002 by \$41,000 due to Letter of Credit fees and higher average borrowing to fund losses and to finance the "Champion" acquisition.

Interest expense of \$162,000 for the first six months of 2003 was \$70,000 higher than the \$92,000 incurred in the first half of 2002 due to Letter of Credit fees and higher average borrowing to fund losses and to finance the "Champion" acquisition.

### Tax Benefit

The income tax benefit includes federal, as well as state, local, and foreign taxes. The second quarter 2003 and six months 2003 net tax benefit of \$43,000 and \$392,000 respectively are the result of operating losses incurred which are expected to be realized during the remainder of the year. Should third quarter 2003 income fail to materialize, it may be necessary for the Company to reverse all or part of the tax benefit recorded through June 2003.

### Net Loss

Net loss for the second quarter of 2003 was \$0.2 million compared to a net loss of \$0.1 million in the quarter ending June 30, 2002. Six month 2003 net loss of \$0.9 million was unfavorable to the \$0.4 million net loss in the first six months of 2002 by \$0.5 million. The \$0.1 million additional loss in the second quarter is primarily due to the \$1.1 million reduction in gross profit caused by less volume that was almost offset by the \$1.0 million reduction in selling and administration expenses. As a result, fully diluted second quarter 2003 loss per share was \$0.12 compared to a loss of \$0.07 per share in the second quarter 2002.

First half 2003 fully diluted loss per share of \$0.61 was \$0.34 per share worse than the \$0.27 per share loss in the first half of 2002 due mainly to lower sales of \$5.2 million; the resultant \$2.4 million reduction in 2003 gross profit could not be fully offset by the \$1.7 reduction in selling and administration expenses.

### Backlog/New Orders

Total backlog of manufactured products at June 30, 2003 was \$12.5 million, a \$6.3 million improvement over the backlog at December 31, 2002, and \$6.4 million more than the backlog at June 30, 2002.

M-tron's backlog improved by \$0.5 million since last June, due mainly to the acquisition of Champion Technology, Inc. in October, 2002.

Lynch Systems backlog has improved by \$6.0 million since December 31, 2002 as a result of three significant orders for glass press machines. First half 2003 bookings of \$11.3 million exceeded first half 2002 orders by \$8.5 million; Lynch Systems continues to submit a large number of quotes, predominantly to tableware manufacturers.

### Financial Condition

At June 30, 2003, the Company has current assets of \$19.5 million and current liabilities of \$11.4 million. Working capital was therefore \$8.1 million as compared to \$8.0 million at December 31, 2002 and \$9.6 million at June 30, 2002. The ratio of current assets to current liabilities was 1.71 to 1.00 at June 30, 2003; 1.79 to 1.00 at December 31, 2002; and 1.61 to 1.00 ratio at June 30, 2002.

Cash used in operating activities was approximately \$1.0 million in the first half of 2003 compared to cash provided of approximately \$5.6 million in the first half of 2002. The year over year unfavorable change in operating cash flow of \$6.6 million was mainly the result of (a) \$0.5 million additional net loss, (b) \$1.2 million more cash used in operating assets, and (c) \$4.7 million of restricted cash that was "released" for use in operations in the second quarter of 2002. Capital expenditures were \$108,000 in first half of 2003 compared to \$142,000 in the period ending June 30, 2002.

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Total debt of \$4.7 million at June 30, 2003 was \$0.6 million greater than the amount outstanding at December 31, 2002 and \$1.7 million more than the debt at June 30, 2002. The year over year increase in debt is primarily due to increases in M-tron's loans to finance operating losses and acquire "Champion" in October 2002. Debt outstanding at June 30, 2003 included \$1.2 million of fixed rate debt at an average interest rate of 4.9%, and \$3.5 million of variable rate debt at a June 30, 2003 average interest rate of 4.7%.

Restrictions on dividends under the M-tron loan with First National Bank of Omaha disallow distributions to the parent company without consent of the bank. Lynch Systems, under its loan with Sun Trust Bank, may pay a cash dividend to the parent company equal to 50% of LS's net income for the prior fiscal year, subject to the minimum net worth covenant in the loan agreement. Under the M-tron loan agreement, advances to the parent company are disallowed without the prior written consent of the lending bank. Under its loan agreement, LS may pay an annual management fee to the parent company in an amount not to exceed \$250,000. In addition, LS may reimburse the parent company for expenses and taxes paid by the parent on behalf of LS.

At June 30, 2003, the Company's total cash, cash equivalents and investments in marketable securities total \$7.5 million (including \$1.1 million of restricted cash). In addition, the Company had a consolidated borrowing capacity of \$4.8 million under M-tron's and LS's revolving line of credit. Therefore, gross cash and securities and availability under the revolving credit loans total \$12.3 million and exceed the combined outstanding debt and margin liability on securities of \$4.9 million by \$7.4 million. In addition, pursuant to the Company's June 16, 2003 filing, Lynch received a \$532,319 cash refund on July 24, 2003 through carry-backs for prior periods operating losses.

On May 30, 2003, Lynch Systems renewed its SunTrust Bank loan with a maturity date of May 29, 2004. This long-time lender has provided a \$7 million line-of-credit which can be used entirely for stand-by Letters of Credit or up to \$2 million for domestic revolving credit within the credit line. This loan, as well as the previous loan, includes an unsecured parent company guarantee. At June 30, 2003, there were outstanding Letters of Credit of \$2.2 million and no borrowings under the working capital line.

On April 30, 2003, M-tron's long-time lending bank, First National Bank of Omaha, has renewed the revolving credit loan that now matures on April 30, 2004. The renewed loan includes the following conditions:

- (a) Effective May 20, 2002, the Company subordinates its October 3, 2002, \$200,000 loan to M-tron to the bank, bringing the subordinated total to \$700,000;
- (b) The bank reduces the minimum net worth and subordinated debt limit from \$3.1 million to \$2.9 million. In return, the Company has committed to fund any shortfall with an equity or subordinated debt cash infusion within 45 days of the quarter end. Since M-tron's subordinated debt and equity total \$2,961,000 as of June 30, 2003, no additional cash infusion is currently required.

In addition, the Company's outstanding Letter of Credit in the amount of \$1.0 million for the benefit of the bank can be reduced to \$500,000 when M-tron is profitable for 5 of 6 consecutive months and the cumulative after tax profit equals or exceeds \$500,000. The remaining \$500,000 Letter of Credit will be released when the earning parameters are met for a second time.

The Company does not at present have credit facilities at the parent company level. The Company believes that existing cash and cash equivalents, cash generated from operations and available borrowings under its subsidiaries lines of credit will be sufficient to meet its on-going working capital and capital expenditure requirements for the foreseeable future.

See Subsequent Events regarding the August 4, 2003 refinancing of the Lynch Systems First Port City Bank Loan.

## Adoption of Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Indebtedness of Others*.

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The Company presently guarantees (unsecured) the SunTrust Bank loans of its subsidiary, Lynch Systems, and has guaranteed a Letter of Credit issued to the First National Bank of Omaha on behalf of its subsidiary, M-tron Industries, Inc. These guarantees are subject to FIN 45's disclosure requirement only. As of June 30, 2003, there were no parent company obligations to the SunTrust Bank. As of June 30, 2003, the \$1,000,000 Letter of Credit issued by Fleet Bank to The First National Bank of Omaha was secured by a \$1,125,000 deposit in a Fleet Bank Treasury Fixed Income Fund.

There are no other financial, performance, indirect guarantees or indemnification agreements.

In July 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002; the Company does not have any exit or disposal activities underway.

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"), which amends the disclosure provisions of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and APBN opinion No. 28, "Interim Financial Reporting" ("APB 28"). See Note I to the Consolidated Financial Statements – "Earnings Per Share and Stockholders Equity".

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Company does not have any variable interest entities.

## Market Risk

The Company is exposed to market risk relating to changes in the general level of U.S. interest rates. Changes in interest rates affect the amount of interest earned on the Company's cash equivalents and short-term investments (approximately \$6.5 million at June 30, 2003). The Company generally finances the debt portion of the acquisition of long-term assets with fixed rate, long-term debt. The Company generally maintains the majority of its debt in nature by borrowing on a fixed long-term basis. The Company does not use derivative financial instruments for trading or speculative purposes. Management does not foresee any significant changes in the strategies used to manage interest rate risk in the near future, although the strategies may be reevaluated as market conditions dictate. There has been no significant change in market risk since June 30, 2003.

At June 30, 2003, approximately \$3.5 million of the Company's debt bears interest at variable rates. Accordingly, the Company's earnings and cash flows are only slightly affected by changes in interest rates. Assuming the current level of borrowings for variable rate debt, and assuming a two percentage point increase in the 2003 average interest rate under these borrowings, it is estimated that the Company's interest expense would change by less than \$0.1 million.

## Risk Factors

Certain subsidiaries and business segments of the Company sell to industries that are subject to cyclical economic changes. Any downturns in the economic environment would have a financial impact on the Company and its consolidated subsidiaries and may cause the reported financial information herein not to be indicative of future operating results, financial condition or cash flows.

Future activities and operating results may be adversely affected by fluctuating demand for capital goods such as large glass presses, delay in the recovery of demand for components used by telecommunications infrastructure manufacturers, and disruption of foreign economies.

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Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments, and trade accounts receivable.

The Company maintains cash and cash equivalents and short-term investments with various financial institutions. These financial institutions are located throughout the country and the Company's policy is designed to limit exposure to any one institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. Other than certain accounts receivable, the Company does not require collateral on these financial instruments. In relation to export sales, the Company requires letters of credit supporting a significant portion of the sales price prior to production to limit exposure to credit risk. The Company maintains an allowance for doubtful accounts at a level that management believes is sufficient to cover potential credit losses.

## Subsequent Events

On August 4, 2003, Lynch Systems refinanced its loan with First Port City Bank by entering into a new term loan agreement with its lead bank, SunTrust. The new loan is in the amount of \$498,000 and is secured by a lien on Lynch Systems real estate (SunTrust Bank previously had a subordinated position on the real estate). The new loan has a 10-year term with interest at 5.5%. Principal payments will be \$4,150 per month for 120 months commencing August 2003.

The loan proceeds will be used to retire the First Port City loan that is due in its entirety on August 5, 2003 in the amount of \$554,000.

## Forward Looking Information

Included in this Management Discussion and Analysis of Financial Condition and Results of Operations are certain forward looking financial and other information, including without limitation matters relating to "Risks". It should be recognized that such information are projections, estimates or forecasts based on various assumptions, including without limitation, meeting its assumptions regarding expected operating performance and other matters specifically set forth, as well as the expected performance of the economy as it impacts the Company's businesses, government and regulatory actions and approvals, and tax consequences, and the risk factors and cautionary statements set forth in reports filed by the Company with the Securities and Exchange Commission. As a result, such information is subject to uncertainties, risks and inaccuracies, which could be material.

The Registrant makes available, free of charge, its annual report on Form 10-K, Quarterly Reports on Form 10-Q, and current reports, if any, on Form 8-K.

The Registrant also makes this information available on its website, who's internet address is [www.lynchcorp.com](http://www.lynchcorp.com).

## **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

See "Market Risk" under Item 2 above.

## **Item 4. Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report based on the evaluation of these controls and procedures required by Exchange Act Rule 13a-15.

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

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

On or about June 26, 2001, in anticipation of the July 15, 2001 closure of Spinnaker's Westbrook, Maine facility, Plaintiff PACE Local 1-1069 ("PACE") filed a three count complaint in Cumberland County Superior Court, CV-2001-00352 naming the following defendants: Spinnaker Industries, Inc., Spinnaker Coating, Inc., and Spinnaker Coating-Maine, Inc. (collectively, the "Spinnaker Entities") and Lynch. The complaint alleged that under Maine's Severance Pay Act both the Spinnaker Entities and Lynch would be liable to pay approximately \$1,166,000 severance pay under Maine's Severance Pay Act in connection with the plant closure. The Defendants filed a notice of removal, thereby creating United States District Court Civil Action case was remanded to state court. The Spinnaker Entities also filed a separate complaint challenging the constitutionality of the Maine Severance Pay Act, United States District Court Civil Action No. 01-232 which later was dismissed by stipulation of the Spinnaker Entities. PACE also filed three separate Motions for Ex-Parte Attachment against the Spinnaker Entities and Lynch. PACE filed the First Motion for Attachment with its original Complaint. PACE sought to attach \$1,166,483.44, an amount large enough to cover the claims of all PACE's members seeking severance. The Court denied that Motion as being premature. PACE then filed a Second Motion against the Spinnaker Entities and Lynch for an attachment large enough to cover the claims of eight individual employees seeking severance pay in the amount of \$120,736.27. On August 20, 2001, the Court granted that Motion in the amount of \$118,500. On April 4, 2002, PACE subsequently recorded this attachment through UCC-1 filings with the Maine Secretary of State against Lynch Manufacturing and Lynch Corporation. PACE filed a Third Motion for Ex-Parte Attachment on August 29, 2001. This Motion sought an attachment large enough to cover the severance pay claimed by the remaining PACE members, \$1,048,003. The Court denied this Motion but permitted PACE the opportunity to obtain an attachment after all defendants had an opportunity to respond and after hearing.

Before any further action was taken with respect to PACE's Third Motion for Attachment, the Spinnaker Defendants filed for relief under Chapter 11 of the Bankruptcy Code. Following a series of filings in the United States District Court for the District of Maine and the United States Bankruptcy Court for the District of Maine which, like United States District Court Case No. 01-236, later were dismissed by the parties with prejudice and without costs, PACE's case continues to proceed against Lynch in Cumberland County Superior Court in Maine on the issue of whether Lynch has liability to PACE's members under the Maine Severance Pay Act.

On September 30, 2002, PACE requested a ruling from the Superior Court on its Third Motion for Attachment. On October 21, 2002, Lynch filed a Motion for Summary Judgment which incorporated its prior objection to any attachment. PACE filed an Opposition to Lynch's Motion for Summary Judgment, which included a request for summary judgment in its favor, and a Motion for Leave to Further Amend the Complaint on November 12, 2002. Lynch thereafter filed a Reply Memorandum in Support of its Motion for Summary Judgment on November 26, 2002 and an opposition to PACE's Motion for Leave to Further Amend the Complaint on December 3, 2002. On December 31, 2002, the Superior Court held a hearing on all pending Motions. The Superior Court requested that arguments focus on Lynch's Motion for Summary Judgment since the granting of that Motion would render PACE's Third Motion for Attachment and Motion to Further Amend the Complaint moot.

On July 28, 2003, the Superior Court issued an Order deciding both Lynch's and PACE's Motions for Summary Judgment. The Court denied Lynch's Motion for Summary Judgment, finding that there remained a disputed issue of material fact regarding one of Lynch's primary defenses. The Court granted partial summary judgment in favor of PACE to the extent that the Court found Lynch was an "employer" subject to potential liability under Maine's Severance Pay Act. The Court held, however, that PACE must still prove its entitlement to severance pay under the Act. In a separate ruling also issued on July 28, 2003, the Court denied PACE's Third Motion for Attachment.

Lynch believes that, in addition to other defenses, it is not subject to the Maine Severance Pay Act, as now in effect. Management does not believe that the resolution of this case will have a material adverse effect on the Registrant's consolidated financial condition and operations.

The Company does not believe that it has any other contingent liabilities related to Spinnaker.

**2. Qui Tam Lawsuit**

There has been no material change in the status of this lawsuit as last reported in Registrant's Form 10-K for its fiscal year ended December 31, 2002.





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**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
10(dd)	Second Amendment to Restated Loan and Security Agreement dated April 30, 2003 between M-tron Industries, Inc. and First National Bank of Omaha. ††
10(ee)	First Amendment and Waiver to Amended and Restated Credit Agreement between Lynch Systems, Inc. and SunTrust Bank dated May 30, 2003. ††
10(ff)	Term Loan Promissory Note between Lynch Systems, Inc. and SunTrust Bank dated August 4, 2003. ††
10(gg)	Second Amendment to Security Deed and Agreement dated August 4, 2003 between Lynch Systems, Inc. and SunTrust Bank. ††
31	Certifications of Registrant's principal executive and principal financial officers required by Exchange Act Rule 13a-14(a). ††
32	Section 1350 Certifications of Registrant's principal executive and principal financial officers required by Exchange Act Rule 13a-14(b). ††
99.1	Amended and Restated Audit Committee Charter. ††

†† Filed herewith.

The Exhibits listed above have been filed separately with the Securities and Exchange Commission in conjunction with this Quarterly Report on Form 10-Q or have been incorporated by reference into this Quarterly Report on Form 10-Q. Upon request, Lynch Corporation will furnish to each of its shareholders a copy of any such Exhibit. Requests should be addressed to the Office of the Secretary, Lynch Corporation, 50 Kennedy Plaza, Suite 1250, Providence, RI 02903.



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<DESCRIPTION> EX-10(dd) Second Amend to Restated Loan  
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<PAGE> 1

EXHIBIT 10(dd)

SECOND AMENDMENT TO RESTATED LOAN  
AND SECURITY AGREEMENT

This Agreement made this 30th day of April, 2003, by and between M-Tron Industries, Inc., ("BORROWER"), a Delaware corporation, and First National Bank of Omaha, a national banking association with principal business offices in Omaha, Nebraska. ("BANK").

Whereas, BANK and BORROWER executed a written Restated Loan and Security Agreement dated August 31, 2001, (the "AGREEMENT"); and

WHEREAS, THE PARTIES NOW DESIRE TO AMEND THE LOAN AGREEMENT.

NOW, THEREFORE, IN CONSIDERATION OF THE AGREEMENT, AND THEIR MUTUAL PROMISES MADE HEREIN, THE PARTIES AGREE AS FOLLOWS:

Terms which are typed herein as all capitalized words and are not defined herein shall have the same meanings as when described in the AGREEMENT.

1. SECTION I. PARAGRAPH 5.A & B IS HEREBY AMENDED TO READ, EFFECTIVE IMMEDIATELY:
  - A. \$3,000,000.00 or
  - B. (i) Eighty (80%) of ELIGIBLE ACCOUNTS of the BORROWER, (ii) plus fifty percent (50%) of the Inventory of BORROWER at cost; provided however, no amount in excess of \$1,400,000.00 attributable to INVENTORY shall be included in Borrowing Base Certificate.
2. Section I. Paragraph 6 is hereby amended to read, effective immediately:
  6. "BORROWING BASE CERTIFICATE" means a fully completed certificate in the form of Exhibit 1.6 to this AGREEMENT certified by the chief financial officer of the BORROWER to be correct and delivered to, and accepted by, the BANK.
3. Section I. Paragraph 18 is hereby amended to read, effective immediately:
  18. "LOAN TERMINATION DATE" means the earliest to occur of the following: (i) as to the REVOLVING LOAN April 30, 2004, as to the TERM LOAN September 30, 2004, (ii) and the date the OBLIGATIONS are accelerated pursuant to this AGREEMENT, and (iii) the date BANK receives (a) notice in writing from BORROWER of BORROWER'S election to terminate this AGREEMENT and b) indefeasible payment in full of the OBLIGATIONS, or such other date or dates as may later be agreed to by BANK and BORROWER in a written amendment to this AGREEMENT.
4. Section n. Paragraph 3 is hereby amended to read, effective immediately:
  3. REVOLVING LOAN. BANK agrees to lend \$3,000,000.00 to BORROWER pursuant to this facility. BANK will credit proceeds of this revolving loan ("REVOLVING LOAN") to BORROWER'S deposit account with the BANK, bearing number 26712880.
    - A. Subject to the terms hereof the BANK will lend the BORROWER, from time to time until the LOAN TERMINATION DATE such sums as the BORROWER may request by reasonable same day notice to the BANK, received by the BANK not later than 11:00 A.M. of such day, but which shall not exceed in the aggregate

<PAGE> 2

principal amount at any one time outstanding, \$3,000,000.00 (the "LOAN COMMITMENT"). The BORROWER may borrow, repay without penalty or premium and reborrow hereunder, from the date of this AGREEMENT until the LOAN TERMINATION DATE either the full amount of the LOAN COMMITMENT or any lesser sum. It is the intention of the parties that the outstanding principal amount of the REVOLVING LOAN shall at no time exceed the amount of the then existing BORROWING BASE and if, at any time, an excess shall for any reasons exist, the full amount of such excess, together with accrued and unpaid interest thereon as herein provided, shall be immediately due and payable in full.

B. THE NOTE. The LOAN COMMITMENT shall be evidenced by a NOTE having stated maturity on the LOAN TERMINATION DATE, in the form attached hereto as Exhibit II.3.B. The NOTE shall specify the manner of principal and interest payments and rate of interest accrual.

5. Section VI. Paragraph 1.G. is hereby added to include subsection 2 effective immediately:

2. A MINIMUM TANGIBLE NET WORTH OF \$2,900,000.00.

6. BORROWER certifies by its execution hereof that all the representations and warranties set forth in Section v. of the AGREEMENT are true as of this date, and that no EVENT OF DEFAULT under the AGREEMENT, and no event which, with the giving of notice or passage of time or both, would become such an EVENT OF DEFAULT, has occurred as of this date, except for matters disclosed to BANK.

7. EXCEPT AS AMENDED HEREBY THE PARTIES RATIFY AND CONFIRM AS BINDING UPON THEM ALL OF THE TERMS OF THE AGREEMENT.

IN WITNESS THEREOF, the parties have set their hands on the date first written above.

FIRST NATIONAL BANK OF OMAHA

M-TRON INDUSTRIES, INC.

By: /s/ Mark M. Mell

By: /s/

-----  
Its: Vice President

-----  
Its: Y(Y:..--

</TEXT>

</DOCUMENT>



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<FILENAME> b47168lcexv10wxey.txt  
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<PAGE> 1

EXHIBIT 10 (ee)

EXECUTION COPY

FIRST AMENDMENT AND WAIVER TO AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "AMENDMENT") made and entered into as of May 30, 2003 (the "EFFECTIVE DATE"), by and among LYNCH SYSTEMS, INC., a South Dakota corporation (the "BORROWER"), and SUNTRUST BANK, a Georgia banking corporation (the "LENDER").

W I T N E S S E T H:

WHEREAS, the Borrower and the Lender are parties to a certain Amended and Restated Credit Agreement, dated as of June 10, 2002 (as the same may be further amended from time to time, the "CREDIT AGREEMENT"; capitalized terms used herein and not otherwise defined herein shall have the meanings given such terms in the Credit Agreement as amended by this Amendment), whereby the Lender has agreed to make certain loans to the Borrower, subject to the terms, covenants and conditions contained in the Credit Agreement; and

WHEREAS, the Borrower has requested that the Lender amend the Credit Agreement as set forth in this Amendment, and the Lender is willing to agree to such modifications subject to the terms and conditions of this Amendment.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. WAIVER OF DEFAULT. Subject to the terms and conditions hereof, Lender hereby waives any Default or Event of Default under the Credit Agreement which may have resulted from the failure of the Borrower to comply with the minimum Consolidated Tangible Net Worth covenant set forth in Section 7.09(b) of the Credit Agreement for all periods prior to the Effective Date. The foregoing waiver relates solely to the specific provisions, covenants and time periods described in the preceding sentence, and nothing in this Amendment is intended (or shall be construed) to constitute a waiver by Lender of any other Default or Event of Default which may now or hereafter exist under the Credit Agreement.

2. AMENDMENTS TO CREDIT AGREEMENT. Subject to the terms and conditions of this Amendment, the Credit Agreement is hereby amended as follows:

(a) by deleting the definition of the term "Maturity Date" from Section 1.01 thereof, and by substituting, in lieu thereof, the following new definition of such term:

"Maturity Date" shall mean May 29, 2004, as such date may be extended, accelerated or amended from time to time pursuant to this Agreement.

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(b) by deleting Section 7.09(b) thereof and by substituting, in lieu thereof, the following new Section 7.09(b):

Borrower shall at all times after August 30, 2003 maintain a Consolidated Tangible Net Worth of at least \$4,400,000.

3. NO OTHER WAIVERS OR AMENDMENTS; CONDITIONS SUBSEQUENT. Except for the amendment expressly set forth and referred to in Section 2 above, the Credit Agreement shall remain unchanged and in full force and effect. Nothing in this Amendment is intended, or shall be construed, to constitute a novation or an accord and satisfaction of any of the Borrower's Obligations under or in connection with the Credit Agreement or to modify, affect or impair the perfection or continuity of Lender's security interests in, security titles to or other liens on any Collateral for the Obligations.

4. CONDITIONS TO EFFECTIVENESS. This Amendment shall become effective, upon the Effective Date, subject to the satisfaction of the following conditions on or prior to such date:

(1) the receipt by the Lender of this Amendment, duly executed, completed and delivered by the Lender and the Borrower;

(2) the receipt by the Lender of the fully-executed promissory note, in the form of Exhibit A attached hereto (the "NEW NOTE"), to replace the promissory note previously delivered under the Credit Agreement;

(3) the receipt by Lender of a non-refundable extension fee in the amount of \$8,750 (representing 0.125% of the Non-Guaranteed Loan Maximum Availability), which extension fee shall be deemed fully earned upon the parties' execution and delivery of this Amendment; and

(4) the receipt by the Lender of such other documents, certificates, lien searches and instruments as the Lender may reasonably request.

5. REPRESENTATIONS AND WARRANTIES. The Borrower hereby represents and warrants to the Lender that (a) this Amendment and the New Note have been duly authorized, executed and delivered by it, (b) no Default or Event of Default has occurred and is continuing as of this date after giving effect to the waiver granted in Section 1 hereof, and (c) all of the representations and warranties made by it in the Credit Agreement are true and correct in all material respects on and as of the date of this Amendment (except to the extent that any such representations or warranties expressly referred to a specific prior date). Any breach the Borrower of its representations and warranties contained in this Section 5 shall be an Event of Default for all purposes of the Credit Agreement.

6. RATIFICATION. The Borrower hereby ratifies and reaffirms each and every term, covenant and condition set forth in the Credit Agreement and all other documents delivered by the Borrower in connection therewith (including without limitation the other Credit Documents to which the Borrower is a party), effective as of the date hereof.

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7. ESTOPPEL. To induce the Lender to enter into this Amendment, the Borrower hereby acknowledges and agrees that, as of the date hereof, there exists no right of offset, defense or counterclaim in favor of the Borrower as against the Lender with respect to the obligations of the Borrower to the Lender under the Credit Agreement or the other Credit Documents, either with or without giving effect to this Amendment.

8. REIMBURSEMENT OF EXPENSES. The Borrower hereby agrees that it shall reimburse the Lender on demand for all costs and expenses (including without limitation reasonable attorney's fees) actually incurred by such parties in connection with the negotiation, documentation and consummation of this Amendment and the other documents executed in connection herewith and therewith and the transactions contemplated hereby and thereby.

9. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF GEORGIA FOR CONTRACTS TO BE PERFORMED ENTIRELY WITHIN SAID STATE.

10. SEVERABILITY OF PROVISIONS. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. To the extent permitted by applicable law, the Borrower hereby waives any provision of law that renders any provision hereof prohibited or unenforceable in any respect.

11. COUNTERPARTS. This Amendment may be executed in any number of counterparts, all of which shall be deemed to constitute but one original and shall be binding upon all parties, their successors and permitted assigns.

12. ENTIRE AGREEMENT. The Credit Agreement as amended by this Agreement embodies the entire agreement between the parties hereto relating to the subject matter hereof and supersedes all prior agreements, representations and understandings, if any, relating to the subject matter hereof.

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[E/O]



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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered on their behalf and the Borrower has caused its corporate seal to be hereunto affixed, all as of the date first above stated.

(CORPORATE SEAL)

BORROWER:

LYNCH SYSTEMS, INC.

Attest:

By: /s/ [ILLEGIBLE]

-----  
Title: President

/s/ [ILLEGIBLE]

-----  
Title: Secretary

LENDER:

SUNTRUST BANK

By: /s/ [ILLEGIBLE]

-----  
Title: Vice President

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PARENT GUARANTOR ACKNOWLEDGMENT AND CONSENT

The undersigned hereby acknowledges and consents to, and agree to the terms of, the foregoing First Amendment to Credit Agreement, and ratifies and confirms its obligations under the Parent Guaranty.

This 30th day of May, 2003.

LYNCH CORPORATION

By: /s/ [ILLEGIBLE]

-----

Name: [ILLEGIBLE]

Title: VP/CFO



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EXHIBIT A  
FORM OF PROMISSORY NOTE  
PROMISSORY NOTE

U.S. \$7,000,000

MAY 30, 2003

FOR VALUE RECEIVED, the undersigned LYNCH SYSTEMS, INC., a South Dakota corporation (the "Borrower"), hereby promises to pay to the order of SUNTRUST BANK (herein, together with any subsequent holder hereof, called the "Lender"), the lesser of SEVEN MILLION AND NO/100 U.S. DOLLARS (U.S. \$7,000,000.00) or the aggregate outstanding principal amount of the Loans made to the Borrower by Lender pursuant to the terms of the Credit Agreement referred to below, which principal sum shall be payable on the earlier of (i) the Maturity Date specified in the Credit Agreement or (ii) the date on which all amounts outstanding under this Promissory Note (this "Note") have become due and payable pursuant to the provisions of Article IX of the Credit Agreement (as defined below). The Borrower likewise promises to pay interest on the outstanding principal balance of each Loan made by the Lender to the Borrower, at such interest rates, payable at such times, and computed in such manner, as are specified in the Credit Agreement in strict accordance with the terms thereof.

This Note is issued pursuant to, and is the "Note" referred to in, the Amended and Restated Credit Agreement dated as of June 10, 2002, between Borrower and Lender, as amended by that certain First Amendment to Amended and Restated Credit Agreement dated as of the date hereof (as the same may be further amended, modified or replaced from time to time, the "Credit Agreement"), and the Lender is and shall be entitled to all benefits thereof and of all the Credit Documents executed and delivered to the Lender in connection therewith. Terms defined in the Credit Agreement are used herein with the same meaning. The Credit Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain Events of Default, provisions relating to prepayments on account of principal hereof prior to the maturity hereof, and provisions for post-default interest rates.

This Note is issued in replacement of and substitution for that certain Renewal Promissory Note, dated as of June 10, 2002, issued by the Borrower in favor of the Lender (the "PRIOR NOTE"). This Note is not intended nor shall it be construed as a novation or an accord and satisfaction of the indebtedness evidenced by the Prior Note.

The Borrower agrees to make payments of principal and interest hereon on the dates and in the amounts specified in the Credit Agreement in strict accordance with the terms thereof.

In case an Event of Default shall occur and be continuing, the principal and all accrued interest of this Note may automatically become, or may be declared, immediately due and payable in the manner and with the effect provided in the Credit Agreement. The Borrower agrees to pay, and save the Lender harmless against any liability for the payment of, all costs and

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expenses, including reasonable attorneys' fees, in connection with the enforcement by the Lender of any of its rights or remedies under this Note or the Credit Agreement.

This Note has been delivered in Atlanta, Georgia, and the rights and obligations of the Lender and the Borrower hereunder shall be construed in accordance with and governed by the laws of the State of Georgia (without giving effect to its conflicts of law rules).

The Borrower expressly waives any presentment, demand, protest or notice in connection with this Note, whether now or hereafter required by applicable law. This Note is intended to be an instrument under seal.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed, sealed and delivered by its duly authorized officers as of the date first above written.

(CORPORATE SEAL)

LYNCH SYSTEMS, INC.

By: /s/ [ILLEGIBLE]

-----  
Title: President

Attest:

/s/ [ILLEGIBLE]

-----  
Secretary



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<PAGE> 1

EXHIBIT 10 (ff)

TERM LOAN PROMISSORY NOTE

August 4, 2003

\$498,000

FOR VALUE RECEIVED, the undersigned (hereinafter referred to as "Borrower") promises to pay to the order of SUNTRUST BANK (hereinafter, together with any subsequent holder hereof, referred to as "Lender") at Lender's office located in Atlanta, Georgia, or at such other place as the holder hereof may designate, the principal sum of FOUR HUNDRED NINETY-EIGHT THOUSAND DOLLARS AND NO/100 CENTS (\$ 498,000.00), together with interest on so much of the principal balance of this Term Loan Promissory Note (this "Note") as may be outstanding and unpaid from time to time, calculated on the basis of a 360-day year and actual days elapsed, at the rate or rates per annum indicated below.

The unpaid principal balance of this Note shall bear interest at a rate per annum equal to five and one-half percent (5.50%).

The principal balance of this Note shall be payable in one hundred twenty (120) consecutive monthly installments of Four Thousand One Hundred Fifty and no/100 Dollars (\$4,150.00) each, commencing on September 1, 2003 and continuing to be due on the first day of each succeeding month thereafter together with a final installment of principal in an amount equal to the entire remaining unpaid principal balance of this Note which shall be due on August 1, 2013 (the "Maturity Date"). Accrued and unpaid interest on this Note shall be due on the same date or dates as indicated above on which payments of principal are due hereunder. All remaining unpaid principal and accrued interest shall be due in full on the Maturity Date.

Notwithstanding any provision of this Note to the contrary, and regardless of whether or not an Event of Default under this Note shall have occurred and be then continuing, the Lender shall have the right, which may be exercised in its sole discretion, to require that the Borrower repay the entire outstanding principal and accrued interest balance of this Note in full upon the occurrence of the date on which all "Loans" under and as defined in that certain Amended and Restated Credit Agreement, dated as of June 10, 2002, by and between Borrower and Lender (as amended, restated, extended or replaced from time to time, the "Credit Agreement"), either are prepaid or become due and payable, whether at stated maturity, by acceleration or otherwise.

In consideration of the Lender's acceptance of this Note and making the loan evidenced hereby, Borrower shall pay to Lender a non-refundable origination fee on the date hereof in the amount of \$622.50, which fee shall be deemed fully earned upon the Borrower's execution and delivery of this Note.

During the existence of any Event of Default (as defined below) under this Note, the unpaid principal and accrued interest balance of this Note shall bear interest on each day until paid at the interest rate otherwise in effect under this Note plus, in Lender's discretion, up to an additional two percentage points (2.0%), but only to the extent that payment of such interest on such principal or interest is enforceable under applicable law. All payments or prepayments on this Note shall be applied, first, to interest accrued on this Note through the date of such payment or prepayment and then to principal (and, if principal is payable in installments, partial principal prepayments shall be applied to such installments in the inverse order of their maturity).

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Borrower hereby agrees and acknowledges that this Note and Borrower's indebtedness hereunder are secured by (1) that certain Amended and Restated Security Agreement, dated as of June 10, 2002, by and between the Borrower and the Lender (as the same may be amended, modified, extended or replaced from time to time, the "Security Agreement"), and (2) that certain Security Deed and Agreement, dated March 30, 2001, and recorded in Deed Book Z22, beginning at Page 21, in the Office of the Clerk of the Superior Court of Decatur County, Georgia (as the same may be amended, modified, extended or replaced from time to time, the "Security Deed").

Borrower may prepay the principal balance of this Note in whole or in part without premium or penalty.

The occurrence of any one or more of the following events will constitute a default by Borrower hereunder (hereinafter referred to as an "Event of Default"): (i) Borrower fails to pay when due any amount payable under this Note or otherwise fails to perform or breaches a covenant in this Note; (ii) any "Event of Default" (as such term is defined in the Credit Agreement) shall have occurred under the Credit Agreement; or (iii) the Lender shall at any time cease to have an effective and enforceable first priority lien in the real property covered by the Security Deed.

Upon the occurrence of an Event of Default, Lender, at its option, without demand or notice of any kind, may declare this Note immediately due and payable, whereupon all outstanding principal and accrued interest shall become immediately due and payable; provided, however, that (a) if this Note is payable on demand or on the earlier of demand or an alternative maturity date, then the occurrence of an Event of Default shall not be a condition precedent to Lender's exercise of its unqualified right to demand immediate payment in full of this Note at any time and (b) upon the occurrence of any Event of Default described in clause (vii) or (viii) above, this Note, without demand, notice or declaration by Lender of any kind, shall automatically and immediately become due and payable.

In case this Note is collected by or through an attorney-at-law, all costs of such collection incurred by the Lender, including reasonable attorney's fees actually incurred by Lender, shall be paid by Borrower.

Upon the occurrence of an Event of Default hereunder, Lender, without notice or demand of any kind, may hold and set off against any or all outstanding principal or interest owing under this Note as Lender may elect, any balance or amount to the credit of Borrower in any deposit, agency, reserve, holdback or other account of any nature whatsoever maintained by or on behalf of Borrower with Lender at any of its offices, regardless of whether such accounts are general or special and regardless of whether such accounts are individual or joint.

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In no event shall the amount or rate of interest due and payable under this Note exceed the maximum amount or rate of interest allowed by applicable law (including, without limitation, O.C.G.A. Section 7-4-18) and, in the event any such excess payment is made by Borrower or received by Lender, such excess sum shall be credited as a payment of principal (or if no principal shall remain outstanding, shall be refunded to Borrower). It is the express intent hereof that Borrower not pay and Lender not receive, directly or indirectly or in any manner, interest in excess of that which may be lawfully paid under applicable law. All interest (including all charges, fees or other amounts deemed to be interest) which is paid or charged under this Note shall, to the maximum extent permitted by applicable law, be amortized, allocated and spread on a pro rata basis throughout the actual term of this Note and any extension or renewal hereof.

Time is of the essence of this Note. Demand, presentment, notice, notice of demand, notice for payment, protest and notice of dishonor are hereby waived by each and every maker, guarantor, surety and other person or entity primarily or secondarily liable on this Note. Lender shall not be deemed to waive any of its rights under this Note unless such waiver be in writing and signed by Lender. No delay or omission by Lender in exercising any of its rights under this Note shall operate as a waiver of such rights and a waiver in writing on one occasion shall not be construed as a consent to or a waiver of any right or remedy on any future occasion.

This Note shall be governed by and construed and enforced in accordance with the laws of the State of Georgia (without giving effect to its conflicts of law rules). Whenever possible, each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note.

Words importing the singular number hereunder shall include the plural number and vice versa, and any pronoun used herein shall be deemed to cover all genders. Without limiting the generality of the foregoing, should more than one person execute this Note as maker, the word "Borrower" as used herein shall include all such persons collectively and each such person individually, and each Borrower shall be jointly and severally liable hereunder. "Person" as used herein means any individual, corporation, partnership, joint venture, limited liability company, association, joint stock company, trust or other entity, or any government or any agency or political subdivision thereof. The word "Lender" as used herein shall include transferees, successors and assigns of Lender, and all rights of Lender hereunder shall inure to the benefit of its transferees, successors and assigns. All obligations of Borrower hereunder shall bind such Person's heirs, legal representatives, successors and assigns.

BORROWER AND LENDER HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT BORROWER OR LENDER MAY HAVE UNDER ANY APPLICABLE LAW TO A TRIAL BY JURY WITH RESPECT TO ANY SUIT OR LEGAL ACTION WHICH MAY BE COMMENCED BY OR AGAINST BORROWER OR LENDER CONCERNING THE INTERPRETATION, CONSTRUCTION, VALIDITY, ENFORCEMENT OR PERFORMANCE OF THIS NOTE OR ANY OTHER AGREEMENT OR INSTRUMENT EXECUTED IN CONNECTION HERewith. IN THE EVENT ANY SUCH SUIT OR LEGAL ACTION IS COMMENCED BY BORROWER OR LENDER, BORROWER AND LENDER HEREBY EXPRESSLY AGREE, CONSENT AND SUBMIT TO THE PERSONAL JURISDICTION OF ANY STATE OR FEDERAL COURT SITTING IN THE COUNTY IN WHICH LENDER'S ADDRESS SHOWN ABOVE IS

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LOCATED WITH RESPECT TO SUCH SUIT OR LEGAL ACTION, AND THE BORROWER AND LENDER ALSO EXPRESSLY CONSENT AND SUBMIT TO AND AGREE THAT VENUE IN ANY SUCH SUIT OR LEGAL ACTION IS PROPER IN SAID COURTS AND COUNTY AND THE BORROWER AND LENDER HEREBY EXPRESSLY WAIVE ANY AND ALL PERSONAL RIGHTS UNDER APPLICABLE LAW OR IN EQUITY TO OBJECT TO THE JURISDICTION AND VENUE IN SAID COURTS AND COUNTY. THE JURISDICTION AND VENUE OF THE COURTS CONSENTED AND SUBMITTED TO AND AGREED UPON IN THIS PARAGRAPH ARE NOT EXCLUSIVE BUT ARE CUMULATIVE AND IN ADDITION TO THE JURISDICTION AND VENUE OF ANY OTHER COURT UNDER ANY APPLICABLE LAWS OR IN EQUITY.

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SIGNED, SEALED AND DELIVERED by the undersigned Borrower as of the day and year first above set forth.

(CORPORATE SEAL)

LYNCH SYSTEMS, INC.

By: /s/ [ILLEGIBLE]

-----  
Title: President

Attest:

/s/ [ILLEGIBLE]

-----  
Secretary



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CERTIFICATE OF BORROWER

The undersigned officers of LYNCH SYSTEMS, INC. (the "Corporation"), a South Dakota corporation, hereby certify and covenant in their respective capacities on behalf of the Corporation as follows:

1. The Corporation is a corporation duly organized, validly existing and in good standing under the laws of the State of South Dakota, with all requisite corporate power and authority to own, operate and lease its properties and to carry on its business, and is duly qualified to do business in every jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification necessary.

2. Attached hereto as Exhibit A is a true, correct and complete copy of resolutions of the Directors of the Corporation which were duly adopted on July 28, 2003 (the "Resolutions"). Attached hereto as Exhibit B and Exhibit C are true, correct and complete copies of the Corporation's certificate or articles of incorporation and the Corporation's by-laws respectively, including all amendments thereof through the date hereof (collectively, the "Corporate Documents"). A signed original of the Resolutions appears in the minute book of the Corporation. The Resolutions were adopted in accordance with law and in accordance with the certificate or articles of incorporation and the by-laws of the Corporation. The Resolutions and the Corporate Documents are in full force and effect as of this date and have not been amended, altered or repealed as of the date hereof except as expressly disclosed on the attached exhibits.

3. The Corporation has duly authorized, executed and delivered, and approved by all necessary corporate action, the following documents (hereinafter collectively referred to as the "Financing Documents") pursuant to, and in full compliance with, authority granted by the Directors of the Corporation in the Resolutions:

<TABLE> <CAPTION> Document -----	Date ----
<S> \$498,000 Term Loan Promissory Note from Borrower to Lender	<C> August 4, 2003
Second Amendment to Security Deed and Agreement	August 4, 2003

4. The Corporation hereby acknowledges receipt of an executed counterpart or photocopy (as executed) of each of the Financing Documents.

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5. The persons named below are on the date hereof the duly elected and qualified incumbents of the offices of the Corporation set forth below next to their respective names, and the signatures appearing at the right of their respective names below are the genuine signatures of such officers:

<TABLE> <CAPTION> NAME ----	TITLE -----	SIGNATURES -----
<S> Arnold Bowling	<C> President	<C> /s/ Arnold Bowling -----
Janet Grimsley	Secretary	/s/ Janet Grimsley -----

6. Each of the representations and warranties of the Corporation contained in the Financing Documents is accurate and complete in all respects as of the date of this certificate, and no Default or Event of Default (as such terms are defined in any of the Financing Documents) has occurred and is continuing as of this date.

7. The seal affixed to this certificate and the Financing Documents is the legally adopted, proper and only official corporate seal of the Corporation.

8. The Corporation's chief executive office and principal place of business are located in Decatur County, Georgia, and its principal executive office (within the meaning of Section 6323(f) of the Internal Revenue Code of 1954, as amended) is located in Decatur County, Georgia. The Corporation is incorporated in the State of South Dakota.

9. The federal taxpayer identification number of the Corporation is 46-0334545.

IN WITNESS WHEREOF, the undersigned have hereunto set their signatures and the seal of the Corporation as of the 4TH day of August, 2003.

(CORPORATE SEAL)

/s/ Arnold Bowling  
-----  
Arnold Bowling, President of Lynch Systems, Inc.

/s/ Janet Grimsley  
-----  
Janet Grimsley, Secretary of Lynch Systems, Inc.

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OWNER'S AFFIDAVIT

Before the undersigned attesting officer, duly authorized by law to administer oaths in the State of Georgia, personally appeared ARNOLD BOWLING (hereinafter referred to as "Affiant"), who, being first duly sworn according to law, deposes and says:

1. That Affiant has personal knowledge of the facts set forth herein.
2. That Affiant has the power and authority, without the consent of any other party, to execute and deliver this affidavit.
3. That Affiant is a representative of Lynch Systems, Inc., a South Dakota corporation ("Borrower"), which owns fee simple title to that certain real property situated in Decatur County, Georgia, more particularly described in EXHIBIT A attached hereto and made a part hereof by this reference (said real property, together with all improvements and fixtures thereon, hereinafter referred to as the "Property").
4. That the organizational documents for Borrower are attached hereto as EXHIBIT C and made a part hereof by this reference and such organizational documents attached hereto as EXHIBIT C are true, correct and complete, including all amendments and modifications of such organizational documents.
5. That since acquiring the Property, Borrower has been, and is now, in open and peaceable possession of the Property, that the Affiant knows of no adverse claims to Borrower's claim of title to the Property (including, without limitation, easement and occupancy rights which do not appear in the public real estate records) other than as referred to on EXHIBIT B attached hereto and made a part hereof by this reference.
6. If any improvements or repairs have been made to the Property, or services of architects, surveyors or engineers performed on or with respect to the Property, by or on behalf of Borrower, within ninety five (95) days prior to this date, the agreed price or the reasonable value of all labor, services and materials has been paid in full to all persons or parties who have provided such labor, services or materials
7. That there is no pending litigation or to the knowledge of Borrower any existing dispute regarding the lines and corners of the Property.
8. That, to the knowledge of Affiant, there are no pending suits, judgments, bankruptcies, executions, liens (other than ad valorem property taxes for the Property not yet due and payable), assessments, restrictions, encroachments, special assessments, special taxing districts, or other encumbrances that do, or could, affect the title to the Property, or constitute a lien thereon, except for the matters set forth in EXHIBIT B attached hereto and made a part hereof.

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9. That all charges for water, sewer and other utility services furnished to the Property which are currently due and payable have been paid in full or are being paid from the proceeds of the sale of the Property.

10. That this Affidavit is made with full understanding of the laws concerning the making of affidavits in the State of Georgia and full faith and credit may be given hereto.

11. That, except for those parties listed on EXHIBIT D attached hereto and made a part hereof by this reference no brokers have been engaged by Borrower, with regard to the management, sale, purchase, lease, option or other conveyance of any interest in the Property, and that no notices of lien for any such services has been received by Borrower, and no commission, fee, payment or other compensation except as set forth on the attached EXHIBIT D is owed to any broker (as such term is defined in O.C.G.A. ss.43-40-10) for any services rendered up to and including the date hereof in connection with the Property.

12. That this Affidavit is made for the purpose of inducing SunTrust Bank, a Georgia banking corporation ("Lender"), to make the loan to Borrower evidenced by that certain promissory note in the original principal amount of \$498,000.00 dated as of the date hereof, made and delivered by Borrower in favor of Lender (the "Loan"), and Chicago Title Insurance Company to issue a mortgagee policy of title insurance with respect to the Loan.

Sworn to and subscribed before me this [ILLEGIBLE] day of August, 2003.

[ILLEGIBLE]

[ILLEGIBLE] (SEAL)

-----  
[STAMP]

[NOTARIAL SEAL]

</TEXT>  
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<PAGE> 1

EXHIBIT 10 (gg)

SPACE ABOVE THIS LINE FOR RECORDER'S USE

After recording, please return to:  
M. Arthur Gambill, Esq.  
Kilpatrick Stockton LLP  
1100 Peachtree Street, Suite 2800  
Atlanta, Georgia 30309-4530

STATE OF GEORGIA

COUNTY OF DECATUR

STATE OF GEORGIA

COUNTY OF FULTON

CROSS REFERENCE

Deed Book Z22, Page 21  
Decatur County, Georgia Records

Deed Book A 26, Page 79  
Decatur County, Georgia Records

SECOND AMENDMENT TO  
SECURITY DEED AND AGREEMENT

THIS SECOND AMENDMENT TO SECURITY DEED AND AGREEMENT (this "SECOND AMENDMENT") is made effective as of the 4th day of August, 2003, by and between LYNCH SYSTEMS, INC., a South Dakota corporation ("GRANTOR"), and SUNTRUST BANK, a Georgia banking corporation ("GRANTEE").

WITNESSETH:

WHEREAS, Grantor executed and delivered to Grantee that certain Security Deed and Agreement dated as of March 30, 2001, and recorded in Deed Book Z22, beginning at Page 21, in the Office of the Clerk of the Superior Court of Decatur County, Georgia (the "SECURITY DEED"), covering and conveying all right, title and interest of Grantor in and to all that tract of land described on Exhibit "A" thereto located in Decatur County, Georgia (the "ORIGINAL

<PAGE> 2

ENCUMBERED PROPERTY") and securing Grantor's payment and performance of that certain promissory note dated March 30, 2001, made by Grantor in favor of Grantee, in the original principal amount of Ten Million and No/100 Dollars (\$10,000,000.00), bearing interest and being due and payable as therein provided, with a final payment being due thereunder on August 30, 2002 (hereinafter called the "2001 REVOLVER NOTE");

WHEREAS, Grantor also made and delivered to Grantee that certain promissory note dated June 10, 2002, in the original principal amount of Seven Million and No/100 Dollars (\$7,000,000.00), bearing interest and being due and payable as therein provided, which promissory note was issued in replacement of and substitution for the 2001 Revolver Note with a final payment being due thereunder on May 30, 2003 (the "2002 REVOLVER NOTE");

WHEREAS, in order to modify and amend the Security Deed to reflect that the indebtedness secured by the Security Deed was evidenced by the 2002 Revolver Note, Grantor and Grantee executed that certain First Amendment to Security Deed and Agreement dated June 10, 2002, which was recorded in Deed Book A-26, beginning at Page 79, in the Office of the Clerk of the Superior Court of Decatur County, Georgia (the "FIRST AMENDMENT");

WHEREAS, Grantor also made and delivered to Grantee that certain promissory note dated May 30, 2003, in the original principal amount of Seven Million and No/100 Dollars (\$7,000,000.00), bearing interest and being due and payable as therein provided, which promissory note was issued in replacement of and substitution for the 2002 Revolver Note with a final payment being due thereunder on May 29, 2004 (the "2003 REVOLVER NOTE");

WHEREAS, Grantor contemporaneously with the execution and delivery of this Second Amendment, has also made and delivered to Grantee that certain promissory note dated as of August 4, 2003, in favor of Grantee, in the original principal amount of Four Hundred Ninety-Eight Thousand And No/100 Dollars (\$498,000.00), bearing interest and being due and payable as therein provided, with a final payment being due thereunder on August 1, 2013 (the "TERM NOTE");

WHEREAS, after the recording of the First Amendment, Grantor and Grantee determined that certain tracts or parcels of land in the City of Bainbridge, Georgia lying in Land Lot 223 of the 15th Land District of Decatur County, Georgia were inadvertently omitted from Exhibit "A" attached to the Security Deed (such inadvertently omitted tracts or parcels of land are described in Exhibit "A" attached hereto and made a part hereof by reference and are hereinafter referred to as the "ADDITIONAL ENCUMBERED PROPERTY");

WHEREAS, Grantor and Grantee now desire to modify and amend the Security Deed in order to reflect that: (i) the lien and security title of the Security Deed shall also cover and convey the Additional Encumbered Property; and (ii) to reflect that the indebtedness secured by the Security Deed is now evidenced by the 2003 Revolver Note and the Term Note.

NOW THEREFORE, for and in consideration of the foregoing premises and the sum of Ten and No/100 Dollars (\$10.00) cash in hand paid by each party hereto to the other, and

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other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantor and Grantee hereby agree as follows:

1. AMENDMENT TO DEFINITION OF NOTE. The Security Deed, as previously modified and amended by the First Amendment, is hereby further modified and amended (i) by deleting the following from the third page thereof:

"THIS INSTRUMENT IS A DEED passing legal title pursuant to the laws of the State of Georgia governing deeds to secure debt, and is also a security agreement granting a present and continuing security interest and security title in the portion of the Premises constituting personal property or fixtures, pursuant to the Uniform Commercial Code of the State of Georgia, and it is not a mortgage. This security deed and agreement is made and intended to secure payment and performance of the following: (i) any indebtedness of Grantor to Grantee evidenced by that certain Promissory Note dated as of June 10, 2002, made by Grantor and payable to the order of Grantee, in the original principal amount of SEVEN MILLION AND NO/100 DOLLARS (\$7,000,000.00), bearing interest and being due and payable as therein provided, with a final payment being due thereunder on May 30, 2003 (hereinafter called the "Note"); (ii) any and all renewal or renewals, extension or extensions, replacement or replacements, modification or modifications thereof, and substitution or substitutions therefor, either in whole or in part; (iii) all advances, if any, made by Grantee pursuant to the terms of this security deed and agreement; (iv) all expenses incident to the collection of the indebtedness secured by this security deed and agreement; and (v) all duties and obligations of Grantor under this security deed and agreement. The obligations and indebtedness which this security deed and agreement is given to secure are hereinafter sometimes collectively called the "Indebtedness". This security deed and agreement is hereinafter sometimes called this "Security Deed".

and (ii) by simultaneously substituting in lieu thereof the following:

"THIS INSTRUMENT IS A DEED passing legal title pursuant to the laws of the State of Georgia governing deeds to secure debt, and is also a security agreement granting a present and continuing security interest and security title in the portion of the Premises constituting personal property or fixtures, pursuant to the Uniform Commercial Code of the State of Georgia, and it is not a mortgage. This security deed and agreement is made and intended to secure payment and performance of the following: (i) any indebtedness of Grantor to Grantee evidenced by (1) that certain promissory note dated as of May 30, 2003 in the principal amount of SEVEN MILLION AND NO/100 DOLLARS (\$7,000,000.00) bearing interest as provided therein, and providing, among other things, for final payment of principal and interest thereunder, if not sooner paid, to be due on or before May 29, 2004 (the "Revolver Note") and (2) and that certain promissory note dated August 4, 2003 in the principal amount of FOUR HUNDRED NINETY EIGHT THOUSAND AND NO/100 DOLLARS (\$498,000.00) bearing interest as



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provided therein, and providing, among other things, for final payment of principal and interest thereunder, if not sooner paid or payable as provided therein, to be due on or before August 1, 2013 (the "Term Note" ) (the Revolver Note and the Term Note, together with all notes issued and accepted in substitution or exchange therefor, and as any of the foregoing may from time to time be modified, extended, renewed, consolidated, restated or replaced, are hereinafter sometimes collectively referred to as the "Note"), the Note by this reference thereto being incorporated herein; (ii) any and all renewal or renewals, extension or extensions, replacement or replacements, modification or modifications thereof, and substitution or substitutions therefor, either in whole or in part; (iii) all advances, if any, made by Grantee pursuant to the terms of this security deed and agreement; (iv) all expenses incident to the collection of the indebtedness secured by this security deed and agreement; and (v) all duties and obligations of Grantor under this security deed and agreement. The obligations and indebtedness which this security deed and agreement is given to secure are hereinafter sometimes collectively called the "Indebtedness". This security deed and agreement is hereinafter sometimes called this "Security Deed".

2. ADDITIONAL ENCUMBERED PROPERTY.

(a) The security lien, security interest, security title and assignments created and conveyed by the Security Deed are hereby extended and spread to cover the Additional Encumbered Property described in EXHIBIT "A" attached hereto.

(b) The Security Deed is hereby modified and amended by (i) deleting in its entirety the description of the Original Encumbered Property contained in EXHIBIT "A" attached thereto, and (ii) substituting in lieu thereof the description of real property contained in EXHIBIT "B", attached hereto and incorporated herein by reference, which description includes the Original Encumbered Property and the Additional Encumbered Property.

(c) All references in the Security Deed to "Property" shall from and after the date hereof be deemed references to the Original Encumbered Property and the Additional Encumbered Property as described in EXHIBIT "B" attached hereto.

(d) Grantor hereby irrevocably and absolutely does by these presents GRANT, BARGAIN, CONVEY, TRANSFER, ASSIGN AND SELL to Grantee, its successors and assigns, with all powers of sale (if any) and all statutory rights under the laws of the State of Georgia, and grants to Grantee a security interest in, all of Grantor's present and hereafter acquired estate, right, title and interest in, to and under the Additional Encumbered Property, together with: (i) all buildings, structures and other improvements now or hereafter located on the Additional Encumbered Property or on any part or parcel of the Additional Encumbered Property, hereinafter called the "Additional Improvements"; (ii) all and singular the tenements, hereditaments, easements and appurtenances belonging to the Additional Encumbered Property or in anywise appertaining to the Additional Encumbered Property, and the reversion or reversions, remainder or remainders thereof; (iii) all leases, undertakings to lease, contracts to rent, usufructs and other agreements for use, occupancy or possession now or hereafter in force with respect to the

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Additional Encumbered Property or any part or parcel of the Additional Encumbered Property or any of the Additional Improvements, and any and all other agreements, contracts, licenses, permits and arrangements now or hereafter affecting the Additional Encumbered Property or any part or parcel of the Additional Encumbered Property or any of the Additional Improvements, whether written or oral and whether now or hereafter made or executed and delivered, hereinafter collectively called the "Additional Leases"; (iv) all rents, issues, income, revenues and profits now or hereafter accruing from, and all accounts and contract rights now or hereafter arising in connection with, the Additional Encumbered Property or any part or parcel of the Additional Encumbered Property or any of the Additional Improvements, including without limitation all rents, issues, income, revenues and profits accruing from, and all accounts and contract rights arising in connection with, the Additional Leases, together with all monies and proceeds now or hereafter due or payable with respect thereto or on account thereof, and all security deposits, damage deposits and other funds paid by any lessee, sublessee, tenant, subtenant, licensee, permittee or other obligee under any of the Additional Leases, whether paid in a lump sum or installments, all of which are hereinafter collectively called the "Additional Rents"; (v) all minerals, flowers, crops, trees, timber, shrubbery and other emblements now or hereafter located on the Additional Encumbered Property or under the Additional Encumbered Property or on or under any part or parcel of the Additional Encumbered Property; (vi) all estates, rights, title and interest in the Additional Encumbered Property, or in any part or parcel of the Additional Encumbered Property; (vii) all equipment, machinery, apparatus, fittings, furniture, furnishings and personal property of every kind or description whatsoever owned by Grantor or in which Grantor has an interest, now or hereafter located on the Additional Encumbered Property or on any part or parcel of the Additional Encumbered Property or in or on any of the Additional Improvements, and used in connection with the operation or maintenance of the Additional Encumbered Property or any of the Additional Improvements, all accessions and additions to and replacements of the foregoing and all proceeds (direct and remote) of the foregoing, including without limitation all plumbing, heating, lighting, ventilating, refrigerating, water-heating, incinerating, air-conditioning and heating, and sprinkling equipment and systems, and all screens, awnings and signs; (viii) all fixtures (including all trade, domestic and ornamental fixtures) owned by Grantor or in which Grantor has an interest, now or hereafter on the Additional Encumbered Property or on any part or parcel of the Additional Encumbered Property or in or on any of the Additional Improvements, whether actually or constructively attached or affixed, including without limitation all plumbing, heating, lighting, ventilating, refrigerating, water-heating, incinerating, air-conditioning and heating, and sprinkling fixtures, and all screens, awnings and signs which are fixtures; (ix) all building materials, supplies, goods, machinery and equipment delivered to the Additional Encumbered Property and placed on the Additional Encumbered Property for the purpose of being affixed to or installed or incorporated or otherwise used in or on the Additional Encumbered Property or any part or parcel of the Additional Encumbered Property or any of the Additional Improvements, and all accessions and additions to and replacements of the foregoing and all proceeds (direct or remote) of the foregoing; (x) all payments, awards, judgments and settlements (including interest thereon) to which Grantor may be or become entitled as a result of the exercise of the right of eminent domain with respect to the Additional Encumbered Property or any part or parcel of the Additional Encumbered Property or any of the Additional Improvements; and (xi) all policies of insurance which insure against loss or damage to any property described above and all proceeds from and payments under such

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policies. The Additional Encumbered Property and all of the foregoing are hereinafter sometimes collectively called the "Additional Premises".

TO HAVE AND TO HOLD the Additional Premises with all rights, privileges and appurtenances thereunto belonging, and all income, rents, royalties, revenues, issues, profits and proceeds therefrom, unto Grantee, its successors and assigns, forever, for the uses and purposes herein expressed.

(e) All references in the Security Deed to "Improvements" shall from and after the date hereof be deemed references to the Improvements (as defined in the Security Deed) and the Additional Improvements, as defined herein.

(f) All references in the Security Deed to "Premises" shall from and after the date hereof be deemed references to the Premises (as defined in the Security Deed) and the Additional Premises, as defined herein.

(g) All references in the Security Deed to "Leases" shall from and after the date hereof be deemed references to the Leases (as defined in the Security Deed) and the Additional Leases, as defined herein.

(h) All references in the Security Deed to "Rents" shall from and after the date hereof be deemed references to the Rents (as defined in the Security Deed) and the Additional Rents, as defined herein.

(i) Grantor warrants that Grantor has fee simple title to the Additional Premises, that Grantor is lawfully seized and possessed of the Additional Premises, that Grantor has the right to convey the Additional Premises, that the Additional Premises are unencumbered except by the matters set forth in Exhibit "C" attached hereto and incorporated herein by reference and that Grantor shall forever warrant and defend the title to the Additional Premises unto Grantee against the claims of all persons whomsoever, other than claims arising under any matter set forth on Exhibit "C" hereof.

3. INTANGIBLE RECORDING TAX.

(a) The Revolver Note constitutes a "short-term note secured by real estate" as defined by O.C.G.A. Section 48-6-60(4). Accordingly, no State of Georgia intangible recording tax shall be payable with respect to the Revolver Note.

(b) The Term Note constitutes a "long term note secured by real estate" as defined by O.C.G.A. Section 48-6-60(3). Accordingly, a State of Georgia intangible recording tax shall be payable with respect to the Term Note at the rate of \$1.50 per \$500 of the principal amount of the Term Note. Upon the filing for recordation of this Second Amendment in Decatur County, Georgia, the State of Georgia intangible recording tax shall be payable to the Clerk of the Superior Court of Decatur County, Georgia in the amount of \$1,494.00.

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4. RATIFICATION. Except as expressly modified and amended by the First Amendment and this Second Amendment, the Security Deed is and shall remain in full force and effect. This Second Amendment is not intended to be nor shall it constitute a novation of the Security Deed or of the indebtedness secured thereby. Grantor hereby ratifies, confirms and approves the Security Deed as previously modified in the First Amendment, and as further modified herein and agrees that the same constitutes the valid and binding obligation of Grantor and is enforceable by Grantee in accordance with its terms.

5. GOVERNING LAW. This Second Amendment shall be governed by, construed, interpreted and enforced in accordance with the laws of the State of Georgia.

6. BINDING EFFECT. This Second Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.

7. DEFINITIONS. Each capitalized term used in this Second Amendment shall have the meaning ascribed to it in the Security Deed, as previously modified and amended by the First Amendment, unless such term is otherwise defined in this Second Amendment or the context requires otherwise.

8. COUNTERPARTS. This Second Amendment may be executed and acknowledged in counterparts, all of which executed and acknowledged counterparts shall together constitute a single document.

[Remainder of page intentionally left blank]

[E/O]



<PAGE> 8

IN WITNESS WHEREOF, Grantor and Grantee have executed and delivered this Second Amendment, and have affixed their seals hereto, all as of the day and year first written above.

GRANTOR:

Signed, sealed and delivered in the presence of:

LYNCH SYSTEMS, INC.,  
a South Dakota corporation

[ILLEGIBLE]

By: /s/ [ILLEGIBLE]

-----  
Unofficial Witness

-----  
President

[ILLEGIBLE]

-----  
Notary Public

Attest:

My Commission Expires:  
[STAMP]

[ILLEGIBLE]

-----  
Secretary

(NOTARIAL SEAL)

(CORPORATE SEAL)

[Signature Page to Second Amendment to Security Deed and Agreement]

<PAGE> 9

IN WITNESS WHEREOF, Grantor and Grantee have executed and delivered this Second Amendment, and have affixed their seals hereto, all as of the day and year first written above.

GRANTEE:

Signed, sealed and delivered in presence of:

LYNCH SYSTEMS, INC., a South Dakota corporation

\_\_\_\_\_  
Unofficial Witness

By: \_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Notary Public

(CORPORATE SEAL)

My Commission Expires:  
\_\_\_\_\_  
(NOTARIAL SEAL)

GRANTEE:

Signed, sealed and delivered in the presence of:

SUNTRUST BANK,

[ILLEGIBLE]  
-----  
Unofficial Witness

By: /s/ Valerie Whiteman  
-----  
Valerie Whiteman, Its Vice President

[ILLEGIBLE]  
-----  
Notary Public

My Commission Expires:  
[STAMP]  
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(NOTARIAL SEAL)

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EXHIBIT 31

CERTIFICATIONS

I, Ralph R. Papitto, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lynch Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e) and 15d-15(e)) (inapplicable language intentionally omitted) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) [Intentionally omitted]
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Date: August 14, 2003

/s/ Ralph R. Papitto

-----  
RALPH R. PAPITTO  
Chairman and Chief Executive Officer

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EXHIBIT 31

CERTIFICATIONS

I, Raymond H. Keller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lynch Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e) and 15d-15(e)) (inapplicable language intentionally omitted) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) [Intentionally omitted]
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

Date: August 14, 2003

/s/ Raymond H. Keller

-----  
RAYMOND H. KELLER  
Chairman and Chief Financial Officer

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Exhibit 32

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lynch Corporation (the "Company") on Form 10-Q for the period ending June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ralph R. Papitto, Chief Executive Officer of the Company, and I, Raymond H. Keller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ RALPH R. PAPITTO  
/s/ RAYMOND H. KELLER

Ralph R. Papitto  
Chief Executive Officer  
August 14, 2003

Raymond H. Keller  
Chief Financial Officer  
August 14, 2003

A signed original of this written statement required by Section 906 has been provided to Lynch Corporation and will be retained by Lynch Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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EXHIBIT 99.1

LYNCH CORPORATION

AUDIT COMMITTEE CHARTER  
(Amended and Restated as of May 9, 2003)

Organization

This Charter governs the operations of the Lynch Corporation (the "Company") Audit Committee (the "Committee"). The Committee shall be appointed by the Board of Directors and shall consist of at least three directors, each of whom are "independent" of management and the Company and are "financially literate" as those terms are used by the Securities and Exchange Commission.

Statement of Purpose

The Committee shall provide assistance to the Board in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community, and others, with respect to the Company's financial statements and financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements, and the legal compliance, conflict of interest and ethics programs as established by management and the Board. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee, independent auditors and management of the Company. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the power to retain outside counsel, or other experts for this purpose.

Responsibilities and Processes

The Committee's responsibility is oversight of the Company's financial reporting process. The Company's management is responsible for maintaining appropriate systems for accounting and internal control and for the preparation, presentation and

<PAGE> 2

integrity of the Company's financial statements. The independent auditors are responsible for auditing those financial statements and are ultimately responsible to the Board and the Committee as representatives of shareholders. The Committee recognizes that financial management and the independent auditors have more time, knowledge and detailed information on the Company than do Committee members; consequently, in carrying out its oversight responsibilities, the Committee does not provide any expert or special assurance as to the Company's financial statements or any professional certification as to the independent auditor's work.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order best to react to changing conditions and circumstances. The Committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practice, and ethical behavior. At least annually, it shall perform an evaluation of its performance to determine whether it is functioning effectively and shall review and reassess the adequacy of this Charter and obtain approval for its continued adoption by the full Board of Directors.

The Committee is authorized to investigate any matters within its scope of responsibilities or as delegated to it by the Board of Directors.

The following are the principal processes of the Committee in carrying out its oversight responsibilities. They are set forth as guides with the understanding that the Committee may amend or supplement them as appropriate.

- o The Committee is responsible for the appointment, retention, termination, compensation and evaluation of the independent auditors.
- o The Committee shall pre-approve all audit and non-audit services provided by the independent auditors and shall not engage the independent auditors to perform the specific non-audit services proscribed by law or regulation. The Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions

<PAGE> 3

of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.

- o The Committee is authorized to retain independent counsel and other advisors to assist it in carrying out its responsibilities under this Charter.
- o The Committee shall discuss with the independent auditors the overall scope and plans for their respective audits, including the adequacy of staffing. It shall discuss with management and the independent auditors, the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor business risk, and legal and ethical compliance programs. It shall meet separately with the independent auditors, with and without management present, to discuss the results of their examinations and any other matters required to be communicated to the Committee under generally accepted auditing standards.
- o At least annually, the Committee shall obtain and review formal written reports by the independent auditors describing:
  - o the firm's internal quality control procedures.
  - o any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities.
  - o all relationships between the independent auditors and the Company, consistent with Independence Standards Board Standard 1, to enable the Committee to evaluate the auditors' attestation of their independence.
  - o their reasoning in accepting or questioning sensitive accounting estimates by management.
  - o their conclusions regarding any serious disagreements with management encountered during the course of the audit.



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- o The Committee shall review management's assertion on its assessment of the effectiveness of internal accounting and financial controls as of the end of the most recent fiscal year and the independent auditors' report on management's assertions.
- o The Committee shall discuss with management, the internal auditors, and the independent auditors the adequacy and effectiveness of the Company's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs (e.g., Company's Business Conduct Policy).
- o The Committee shall receive regular reports from the independent auditors delineating the critical accounting policies and practices of the Company; all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management; and their reasoning for not recognizing material audit adjustments the auditors proposed.
- o The Committee shall resolve disagreements between management and the independent auditors regarding financial reporting.
- o The Committee shall adopt procedures for handling confidential, anonymous submissions by employees regarding accounting, internal accounting controls, or auditing matters. It shall receive corporate attorneys' reports of evidence of a material violation of securities laws or breaches of fiduciary duty.
- o The Committee shall set hiring policies for employees or former employees of the independent auditors that meet the SEC regulations and stock exchange listing standards.
- o The Committee shall review the interim financial statements with management and the independent auditors prior to any earnings release and prior to the filing of the Company's Quarterly Report on Form 10-Q. It shall discuss the results of the quarterly review and any other matters required to be communicated to the

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Committee by the independent auditors under generally accepted auditing standards. The chair of the Committee may represent the entire Committee for the purposes of its review.

- o The Committee shall meet separately with management, the internal auditors, and the independent auditors to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the internal auditors and the independent auditors to meet privately with the members of the Committee.
- o The Committee shall review with management and the independent auditors, prior to any press release and prior to filing, the financial statements to be included in the Company's annual report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K), including their judgment about the quality and appropriateness, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity and completeness of the disclosures in the financial statements. It shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.
- o The Committee shall review the management discussion and analysis of financial condition and results of operations included in the Company's annual report and oversee the CEO and CFO's certifications of periodic reports required under the Securities and Exchange Act of 1934.
- o The Committee shall prepare its report to be included in the Company's annual proxy statement, as required by SEC regulations.
- o The Company must provide appropriate funding for the Committee in order for the Committee to carry out its duties.
- o The Committee will report to the Board of Directors on a regular and timely basis.

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Limitation

Nothing in this Charter is intended to alter in any way the standard of conduct that applies to any of the directors of the Corporation under the Indiana Business Corporation Law, as amended, and this Charter does not impose, nor shall it be interpreted to impose, any duty on any director greater than, or in addition to, the duties or standards established by the Indiana Business Corporation Law.

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