SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1998

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.)

401 Theodore Fremd Avenue, Rye, New York	10580
(Address of principal executive offices)	(Zip Code)

(914) 921-7601
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 X 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 October 30, 1998
Common Stock, no par value	1,418,248

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LYNCH CORPORATION AND SUBSIDIARIES

Part 1- FINANCIAL INFORMATION

Item 1- Financial Statements

LYNCH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
(In Thousands)

	June 30 1998 (Unaudited)	December 31 1997 (A)
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 21,549	$ 33,557
Marketable Securities and short-term Investments	1,135	985
Receivables, Less Allowances of $1496 and $1448	59,512	54,480
Inventories	48,334	35,685
Deferred Income Tax Benefits	17,993	17,993
Other Current Assets	11,278	10,059
Total Current Assets	159,801	152,759
PROPERTY, PLANT AND EQUIPMENT:		
Land	2,742	1,742
Buildings and Improvements	27,490	25,272
Machinery and Equipment	216,371	190,579
	246,603	217,593
Less Accumulated Depreciation	69,240	60,064
Net Property, Plant and Equipment	177,363	157,529
INVESTMENTS IN AND ADVANCES TO PCS ENTITIES	26,594	25,448
INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES	1,196	1,222
EXCESS OF COSTS OVER FAIR VALUE OF NET ASSETS ACQUIRED	91,860	73,257
OTHER ASSETS	16,124	13,423
Total Assets	$ 472,938	$ 423,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes Payable to Banks	$ 62,052	$ 29,021
Trade Accounts Payable	32,654	21,381
Accrued Liabilities	33,872	37,104
Current Maturities of Long - Term Debt	10,867	9,302
Total Current Liabilities	139,445	96,808
LONG-TERM DEBT	244,272	242,776
DEFERRED INCOME TAXES	34,070	33,764
PENSION LIABILITIES AND OTHER POST-RETIREMENT BENEFITS	3,007	0
MINORITY INTERESTS	14,300	13,839
SHAREHOLDERS' EQUITY		
COMMON STOCK, NO PAR VALUE-10,000,000 SHARES AUTHORIZED; 1,471,191 shares issued (at stated value)	5,139	5,139
ADDITIONAL PAID - IN CAPITAL	8,710	8,644
RETAINED EARNINGS	24,302	23,414
ACCUMULATED OTHER COMPREHENSIVE INCOME	423	0
TREASURY STOCK OF 52,943 AND 54,143 SHARES, AT COST	(730)	(746)
Total Shareholders' Equity	37,844	36,451
Total Liabilities and Shareholders' Equity	$ 472,938	$ 423,638

(A) The Balance Sheet at December 31,1997 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.

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LYNCH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)
(In thousands, except share amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	1998	1997	1998	1997
SALES AND REVENUES				
Multimedia	$ 13,392	$ 12,095	$ 26,324	$ 22,162
Services	41,523	39,211	75,494	72,844
Manufacturing	78,101	70,120	146,415	135,199
	133,016	121,426	248,233	230,205
Costs and Expenses:				
Multimedia	9,231	8,985	18,452	16,792
Services	37,411	35,884	69,361	66,853
Manufacturing	67,928	57,763	126,619	113,205
Selling and Administrative	10,246	10,678	21,214	21,003
OPERATING PROFIT	8,200	8,116	12,587	12,352
Other income (Expense):				
Investment Income	1,098	424	1,767	857
Interest Expense	(7,186)	(5,808)	(13,534)	(11,277)
Share of Operations of Affiliated Companies	52	57	125	71
Gain (Loss) on Sale of Subsidiary Stock ...	13	260	(45)	260
	(6,023)	(5,067)	(11,687)	(10,089)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTERESTS	2,177	3,049	900	2,263
Provision for Income Taxes	(914)	(1,217)	(378)	(902)
Minority Interests	61	(582)	366	(623)
NET INCOME	$ 1,324	$ 1,250	$ 888	$ 738
Weighted Average Shares Outstanding	1,418,000	1,417,000	1,418,000	1,413,000
INCOME PER COMMON SHARE:				
NET INCOME	$ 0.93	$ 0.88	$ 0.63	$ 0.52

LYNCH CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Six Months Ended June 30 1998	1997
OPERATING ACTIVITIES		
Net Income	$ 888	$ 738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,377	10,375
Net effect of purchases and sales of trading securities	(150)	474
Share of operations of affiliated companies	(125)	(71)
Minority interests	(366)	623
Loss on sale of stock by subsidiaries	45	0
Changes in operating assets and liabilities:		
Receivables	(433)	1,895
Inventories	(3,379)	(1,567)
Accounts payable and accrued liabilities	9,471	8,510
Other	(4,566)	(1,426)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,762	19,551
INVESTING ACTIVITIES		
Capital Expenditures	(9,965)	(8,467)
Investment in Coronet Communications Company	0	2,995
Investment in Upper Peninsula Telephone Company	0	(25,235)
Investment in Spinnaker Coating - Maine	(44,770)	0
Investment in Personal Communications Services Partnerships	0	3,925
Other	(22)	(102)
NET CASH USED IN INVESTING ACTIVITIES	(54,757)	(26,884)
FINANCING ACTIVITIES		
Issuance (Repayments) of debt, net	29,092	(2,226)
Treasury stock transactions	90	657
Minority interest transactions	(195)	(491)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	28,987	(2,060)
Net decrease in cash and cash equivalents	(12,008)	(9,393)
Cash and cash equivalents at beginning of period	33,557	33,946
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 21,549	$ 24,553

See Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Subsidiaries of the Registrant

Subsidiary	Owned by Lynch
Brighton Communications Corporation	100.0%
Lynch Telephone Corporation IV	100.0%
Bretton Woods Telephone Company	100.0%
World Surfer, Inc.	100.0%
Lynch Kansas Telephone Corporation	100.0%
Lynch Telephone Corporation VI	98.0%
JBN Telephone Company, Inc.	98.0%
JBN Finance Corporation	98.0%
Giant Communications, Inc.	100.0%
Lynch Telephone Corporation VII	100.0%
USTC Kansas, Inc.	100.0%
Haviland Telephone Company, Inc.	100.0%
Haviland Finance Corporation	100.0%
DFT Communications Corporation	100.0%
Dunkirk & Fredonia Telephone Company	100.0%
Cassadaga Telephone Company	100.0%
Macom, Inc.	100.0%
Comantel, Inc.	100.0%
D&F Cellular Telephone, Inc.	100.0%
DFT Long Distance Corporation	100.0%
DFT Local Service Corporation	100.0%
Erie Shore Communications, Inc.	100.0%
LMT Holding Corporation	100.0%
Lynch Michigan Telephone Holding Corporation	100.0%
Upper Peninsula Telephone Company	100.0%
Alpha Enterprises Limited	100.0%
Upper Peninsula Cellular North, Inc.	100.0%
Upper Peninsula Cellular South, Inc.	100.0%
Global Television, Inc.	100.0%
Inter-Community Acquisition Corporation	100.0%
Home Transport Service, Inc.	100.0%
Lynch Capital Corporation	100.0%
Lynch Entertainment Corporation	100.0%
Lynch Entertainment Corporation II	100.0%
Lynch International Exports, Inc.	100.0%

Lynch Manufacturing Corporation	100.0%
Lynch Display Technologies, Inc.	100.0%
Lynch Systems, Inc.	91.0%
M-tron Industries, Inc.	91.0%
M-tron Industries, Ltd.	91.0%
Spinnaker Industries, Inc.	61.2%
Entoleter, Inc.	61.2%
Spinnaker Coating, Inc.	61.2%
Spinnaker Coating-Maine, Inc.	61.2%
Central Products Company	61.2%
Spinnaker Electrical Tape Company	61.2%
Lynch Multimedia Corporation	100.0%
CLR Video, L.L.C.	60.0%
The Morgan Group, Inc.	68.06%(V)/53.06%(O)
Morgan Drive Away, Inc.	68.06%(V)/53.06%(O)
Transport Services Unlimited, Inc.	68.06%(V)/53.06%(O)
Interstate Indemnity Company	68.06%(V)/53.06%(O)
Morgan Finance, Inc.	68.06%(V)/53.06%(O)
TDI, Inc.	68.06%(V)/53.06%(O)
Home Transport Corporation	68.06%(V)/53.06%(O)
MDA Corporation	68.06%(V)/53.06%(O)
Lynch PCS Communications Corporation	100.0%
Lynch PCS Corporation A	100.0%
Lynch PCS Corporation F	100.0%
Lynch PCS Corporation G	100.0%
Lynch Interactive Corporation	100.0%
Lynch Telecommunications Corporation	100.0%
Lynch Telephone Corporation	83.1%
Western New Mexico Telephone Company, Inc.	83.1%
WNM Communications Corporation	83.1%
Wescel Cellular, Inc.	83.1%
Wescel Cellular of New Mexico, L.P.	42.4%
Wescel Cellular, Inc. II	83.1%
Northwest New Mexico Cellular, Inc.	40.6%
Northwest New Mexico Cellular of New Mexico, L.P.	20.7%
Enchantment Cable Corporation	83.1%
Lynch Telephone Corporation II	83.0%
Inter-Community Telephone Company	83.0%
Inter-Community Telephone Company II	83.0%
Lynch Telephone Corporation III	81.0%
Cuba City Telephone Exchange Company	81.0%
Belmont Telephone Company	81.0%

Notes: (V)=Percentage voting control; (O)=Percentage of equity ownership

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 the management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentations have been included. Operating results for the three and nine month periods ended September 30, 1998 are not necessarily indicative of the results that may be expected for the year ended December 31, 1998. For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1997.

C. Acquisitions

On July 31, 1998, Registrant's subsidiary, Spinnaker Industries, Inc. acquired tesa tape, inc.'s pressure sensitive electrical tape product line and its Carbondale, IL manufacturing plant. The purchase price totaled $10.7 million, comprising 200,000 shares of Spinnaker common stock, cash and a seller note. The newly acquired plant produces electrical tape for insulating motors, coils and transformers for customers in Europe, Canada and the U.S. Sales in 1997 totaled approximately $20 million.

On March 17, 1998, Spinnaker Coating-Maine, Inc. acquired the pressure sensitive adhesive-backed label stock business of S.D. Warren. The purchase price was approximately $52.0 million, plus the assumption of certain liabilities and was funded by issuing the seller a convertible subordinated note of $7.0 million with the remainder funded by Spinnaker’s revolving credit facility. As a result of this transaction, the Registrant recorded approximately $19.6 million in goodwill which is being amortized over 30 years.

On March 18, 1997, Lynch Michigan Telephone Holding Company, a wholly-owned subsidiary of the Registrant, acquired approximately 60% of the outstanding shares of Upper Peninsula Telephone Company for $15.2 million. The Registrant completed the acquisition of the remaining 40% on May 23, 1997. The total cost of the acquisition was $26.5 million. As a result of this transaction, the Registrant recorded approximately $7.4 million in goodwill, which is being amortized over 25 years.

All of the above acquisitions were accounted for as purchases, and accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair market values.

The operating results of the acquired companies are included in the Consolidated Statement of Operations from their respective acquisition dates. The following unaudited proforma information shows the results of the Registrant’s operations as though the acquisitions of tesa tape, inc.'s pressure sensitive tape product line, S.D. Warren’s adhesive-backed label stock business and Upper Peninsula Telephone Company were made at the beginning of 1997.

(In thousands, except per share data)	Three Months Ended September 30		Nine months Ended September 30	
	1998	1997	1998	1997
Sales and Revenues	$135,887	$139,420	$403,772	$413,167
Operating Profit	7,862	8,569	23,000	26,684
Income from Continuing Operations Before Income Taxes and Minority Interest	3,664	(4,789)	5,903	618
Net Income	2,225	(3,743)	3,497	(1,956)
Net Income Per Share	1.57	(2.65)	2.47	(1.38)

D. Inventories

Inventories are stated at the lower of cost or market value. At September 30, 1998, inventories were valued by three methods: last-in, first-out (LIFO) - 48%, specific identification - 50%, and first-in, first-out (FIFO) - 2%. At December 31, 1997, the respective percentages were 48%, 43%, and 9%.

	Sept.30 1998	Dec. 31 1997
Raw Material and Supplies	$15,016	$10,493
Work in Progress	7,011	3,544
Finished Goods	28,939	21,648
Total Inventories	$50,966	$35,685

E. Indebtedness

On a consolidated basis, at September 30, 1998, the Registrant maintains short-term and long-term lines of credit facilities totaling $118.1 million, of which $40.7 million was available. The Registrant (Parent Company) maintains two short-term lines of credit facilities totaling $22.0 million, of which $11.3 million was available at September 30, 1998. The facilities will expire on December 29, 1998 ($10.0 million) and December 31, 1998 ($12.0 million), respectively. Spinnaker Industries, Inc. maintains lines of credit at its subsidiaries which total $65.0 million, of which $12.2 million was available at September 30, 1998. The Morgan Group maintains lines and letters of credit totaling $23.0 million, of which $14.5 million was available at September 30, 1998. These facilities, as well as facilities at other subsidiaries of the Registrant, generally limit the credit available under the lines of credit to certain variables, such as inventories and receivables, and are secured by the operating assets of the subsidiary, and include various financial covenants. Due to certain of these restrictive covenants and working capital requirements of the subsidiaries, cash distributions from the subsidiaries are limited. At September 30, 1998, $38.1 million of these total facilities expire within one year.

In general, the long-term debt 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 Registrant.

Long term debt consists of:	9-30-98	12-31-97
Spinnaker Industries Inc. 10.75% Senior Secured Note Due 2006	$115,000	$115,000

Rural Electrification Administration and Rural Telephone Bank notes payable in equal quarterly installments through 2027 at fixed interest rates ranging from 2% to 7.5% weighted average)	**45,729**	**47,109**
Bank credit facilities utilized by certain telephone and telephone holding companies through 2009, $33.2 million at a fixed interest rate averaging 9.0% and $18.5 million at variable interest rates averaging 8.6%	**51,683**	**54,633**
Unsecured notes issued in connection with acquisitions at fixed interest rates averaging 9.2% with maturities through 2006	**35,557**	**28,049**
Other	**10,420**	**7,287**
	258,389	**252,078**
Current maturities	**(11,579)**	**(9,302)**
Total	**$246,810**	**$242,776**

F. Earnings Per Share

In December 1997, the Registrant adopted Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share which changed the methodology of calculating earnings per share. Basic earnings per common share amounts are based on the average number of common shares outstanding during each period, excluding the dilutive effects of options, warrants, and convertible securities. Diluted earnings per share reflect the effect, where dilutive, of the exercise of all stock options having an exercise price less than the greater of the average or closing market price at the end of the period of the Common Stock of the Registrant using the treasury stock method. All earnings per share amounts have been presented in accordance with, and where appropriate, restated to conform to the SFAS No. 128 requirements.

G. Comprehensive Income

Effective January 1, 1998, the Registrant adopted SFAS No. 130, **R**eporting Comprehensive Income. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components; however, the adoption of SFAS No. 130 had no impact on the Company’s net income. SFAS No. 130 requires unrealized gains or losses on the Registrant’s available-for-sale securities, which prior to adoption were reported separately in shareholders equity to be included in other comprehensive income.

The components of comprehensive income, net of tax, for the nine months ended September 30, 1998 and 1997 are as follows:

	1998	**1997**
Net income (loss)	**$3,037**	**$(3,536)**
Unrealized gain on securities	**98**	**--**
Comprehensive income (loss)	**$3,135**	**$(3,536)**

The components of accumulated other comprehensive income, net of related tax, at September 30, 1998 and December 31, 1997 are as follows:

	1998	1997
Unrealized gains on securities	$ 98	$ -
Accumulated comprehensive income	$ 98	$ -

8. Gain on Sale of Subsidiary Stock

On July 31, 1998, Spinnaker Industries, Inc. completed the acquisition of the electrical tape division of tesa tape, inc. Part of the purchase price was the issuance of 200,000 shares, subject to certain adjustments of Spinnaker's Class A Common Stock. As a result of this issuance, the Registrant recorded a gain on sale of subsidiary stock of $2.1 million in the third quarter of 1998, or $1.2 million ($0.87 per share) after tax.

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Sales and Revenues

Revenues for the third quarter of 1998 increased by $15.9 million, or 13%, from the comparable period in the prior year. The percentage contribution to the overall increase by each operating segment is as follows: multimedia - 9% ($1.5 million), The Morgan Group, Inc. - 5% ($0.8 million), and manufacturing - 86% ($13.6 million). Multimedia's revenues increased due to growth in access lines, additional revenue streams, such as Internet services and improved recovery of costs under the regulatory model. The Morgan Group, Inc. recorded increases in the Specialized Transport Business offset by lower Manufactured Housing revenues. Within the manufacturing group, Spinnaker Industries, Inc. revenues increased $19.1 million. In March 1998, Spinnaker acquired the adhesive-back division of S.D. Warren Company. The operation contributed approximately $15.2 million to Spinnaker's revenue increase. On July 31, 1998, Registrant's subsidiary, Spinnaker acquired tesa tape, inc.'s pressure sensitive electrical tape product line. This business contributed $1.2 million to Spinnaker's revenue increase. Spinnaker's other operations recorded 5% revenue increase. Revenues at Lynch Systems, Inc. decreased by $4.6 million between the two quarters due to lack of orders for extra large glass press machines. M-tron Industries, Inc. revenues were below prior year by $0.8 million reflecting an overall decline in industry shipments.

For the nine months ended September 30, 1998, revenues increased from the prior year period by $33.9 million, or 10%. The percentage contribution to the increase by each business segment is as follow: multimedia - 17% ($5.6 million), The Morgan Group, Inc. - 10% ($3.5 million) and manufacturing - 73% ($24.8 million). Aside from the factors noted above, the acquisition of Upper Peninsula Telephone Company in March 1997, incrementally increased the revenues $2.3 million in multimedia on a year-to-date basis. Spinnaker's acquisition of the adhesive-backed business of S.D. Warren contributed $32.4 million to the manufacturing revenue increases.

Operating Profit

Operating profit for the third quarter of 1998 increased by $1.3 million. Operating profit in the multimedia segment increased by $0.9 million. Primary factors contributing to the growth were: increase in access lines, increased revenues associated with non-traditional telephone services, improved recovery of costs under the regulatory model, and lower costs at certain operations. Morgan's operating profit decreased by $0.6 million between the two quarters as a result of increased claims costs. Operating profit in the manufacturing group increased by $0.1 million as an increase at Spinnaker was offset by declines at Lynch Systems and M-tron. Spinnaker's results, whose operating profit increased by $1.1 million, increased due to the inclusion of S.D. Warren acquisition offset by increased depreciation and amortization relating to the S.D. Warren acquisition. Lynch Systems' and M-tron's operating profit decreased by $0.9 million and $0.2 million, respectively. Net corporate expenses during the third quarter of 1998 decreased by $0.8 million from the prior year, primarily attributable to the reversal of non-cash charge relating to stock appreciation rights ("SARs"). In the third quarter of 1998 the Registrant reversed a previously recorded SAR accrual of $0.6 million. A $0.3 million charge was recorded in the third quarter of 1997.

Effective September 30, 1998, the Registrant amended the SAR (stock appreciation rights) Program so that the SARs become exercisable only in the event the market price for the Registrant's shares double from the SAR exercise price within five years from original issuance. The exercise prices of the 42,700 SARs currently outstanding range from $63.03 to $84.63. On September 30, 1998, the closing price of the Registrant's Common shares in trading on the American Stock Exchange was $76.50. This amendment will eliminate the recording of the profit and loss effect from changes in the market price in the Registrant's common stock until it is probable that the SARs will become exercisable.

Operating profit for the first nine months ended September 30, 1998 increased by $1.5 million from the nine months ended September 30, 1997. Operating profit of multimedia segment increased by $3.4 million reflecting the growth in continuing operations plus the acquisition of Upper Peninsula Telephone Company in March 1997. Operating profit at The Morgan Group, Inc. fell by $1.4 million between the two periods due to high claims costs plus increased data processing and administrative costs in the Specialized Transport Group. In the manufacturing segment operating profit fell $1.5 million. Lynch Systems' operating profit (loss) decreased overall operating profit by $1.7 million between the two nine-month periods. Spinnaker's operating profit increased by $0.4 million, offsetting M-tron's $0.4 million decline. Within corporate operations, the SAR accrual for the nine months ended September 30, 1998, decreased expenses by a $0.2 million as compared to a SAR expense of $0.7 million in the comparable 1997 period.

Other Income (Expense), Net

Investment income in the third quarter of 1998 increased by $0.2 million from the third quarter of 1997. Realized and unrealized gains from the Company's investment in marketable securities and accrued interest from the Registrant's investment in East/West Communications, Inc. Redeemable Preferred Stock were the primary causes of the increase. These factors also caused year-to-date investment income to be greater than the previous year by $1.1 million.

Interest expense in the third quarter of 1998 increased by $1.2 million from the third quarter of 1997. The increase was primarily due to the increased debt level resulting from the acquisitions by Spinnaker of S.D. Warren’s pressure sensitive adhesive-backed label stock business and tesa tape, inc.'s electrical tape division. On a year-to-date basis, interest expense increased by $3.4 million, $2.4 million was associated with Spinnaker's acquisitions. Additionally, in March 1997 the Registrant acquired Upper Peninsula Telephone Company; incrementally this acquisition added $0.3 million of interest expense to the current year-to-date versus the prior year-to-date. Also during 1998, the Registrant is capitalizing less interest with regard to a subsidiary's loan to Fortunet Communications, L.P. ("Fortunet"), a PCS license holder in which the subsidiary owns a 49.9% limited partnership, due to the write-off of a portion of the costs associated with the loan in the third quarter of 1997.

On July 31, 1998, Spinnaker Industries, Inc. completed the acquisition of the electrical tape division of tesa tape, inc. Part of the purchase price was the issuance of 200,000 shares, subject to certain adjustments of Spinnaker's Class A Common Stock. As a result of this issuance, the Registrant recorded a gain on sale of subsidiary stock of $2.1 million in the third quarter of 1998, or $1.2 million ($0.87 per share) after tax.

During the third quarter of 1997, the Registrant wrote off 30% of the investment in, loans to, and deferred costs associated with Fortunet, a partnership formed to acquire, construct and operate licenses for the provision of personal communications services in the PCS C-Block auction. Such write-off amounted to $7.0 million, or $4.6 million after tax benefit.

In May 1996, the FCC concluded the C-Block auction for 30 megahertz of broadband spectrum across the United States to be used for personal communications services ("PCS"). PCS is the second generation of low-cost digital wireless service utilized for voice, video and data devices. In the C-Block auction, certain qualified small business were afforded bidding credits as well as access to long-term government financing for the cost of the licenses acquired.

As a result of this auction, Fortunet acquired 31 licenses in 17 states, covering a population ("POPs") of 7.0 million. The total cost of these licenses was $216 million, or $30.76 per 30 megahertz POP, after the 25% bidding credit. Events during and subsequent to the auction, as well as other externally driven technological and market forces have made financing the build-out of these licenses through the capital markets much more difficult than previously anticipated.

As a result of a petition by Fortunet, as well as many of the license holders from this auction, the FCC afforded license holders a choice of four restructuring options, one of which was the resumption of current debt payments; which had been suspended earlier this year. The ramifications of choosing the other three courses of action could result in Fortunet ultimately forfeiting either 30%, 50%, or 100% of its down-payment in these licenses. As a result of the FCC proposal, the management of the Registrant provided for a 30% reserve of its investment at the that time, as this represented management's estimate of the impairment of this investment given the then current available alternatives.

On July, 8, 1998, Fortunet returned 28 of the 31 licenses it was awarded and returned half of the spectrum of the remaining three licenses. Fortunet currently is the licensee for 15 megahertz of spectrum in three Florida markets: Tallahassee, Panama City, and Ocala covering approximately 785,000 POPs at a cost of $20.09 per 15 MHZ POP (equal to $40.18 per 30MHz POP). It used the down payment from the licenses returned, after deducting the 30% forfeited, to repay all remaining Government debt. No further write-off have been recorded as a result of this restructure.

Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for the three and nine months ended September 30, 1998 and 1997, represents effective tax rates of (42%) and (40%), respectively. The differences from the federal statutory rate are principally due to the effect of state income taxes and amortization of non-deductible goodwill.

Minority Interest

Profit (loss) associated with minority interests, increased net income by $0.2 million in the third quarter of 1998 in comparison to the decrease in net income of $0.2 million in the third quarter of 1997. The variance was $1.3 million for the nine month periods ending September 30, 1998 and 1997. These were due to reduced profits at the Spinnaker Industries, Inc., a 61.2% owned subsidiary, and The Morgan Group, Inc., a 53% owned subsidiary offset by higher profitability at telephone operations.

Net Income (Loss)

Net income for the three months ended September 30, 1998 was $2.1 million, or $1.52 per share, as compared to a loss of $4.3 million, or $3.02 per share in the previous year’s quarter. Net income for the nine months ended September 30, 1998 was $3.0 million, or $2.14 per share, as compared to a loss of $3.5 million, or $2.50 per share.

Backlog/New Orders

Total backlog of manufactured products at September 30, 1998 was $16.1 million, backlog was $30.9 million at December 31, 1997. Included in the backlog at December 31, 1997 was a $16 million glass press order at Lynch Systems from an international customer. The customer subsequently canceled this order. The purchase order associated with this order contained a cancellation provision pursuant to which the customer paid Lynch Systems $2.4 million which can be used by the customer as a discount for future orders. Aside from the cancellation at Lynch Systems referred to above, backlog increased by $1.2 million as an increase in backlog at Spinnaker of $4.1 million offset lower backlogs at Lynch Systems of $2.1 million and M-tron of $0.8 million.

Liquidity/Capital Resources

As of September 30, 1998, the Company had current assets of $165.3 million and current liabilities of $145.6 million. Working capital was therefore $19.7 million as compared to $56.0 million at December 31, 1997. The decrease is primarily due to the acquisition of S.D. Warren’s pressure sensitive adhesive backed label stock business, a majority of which was financed by the draw down on a working capital revolver, which is classified as a current liability. Nine months capital expenditures were $16.7 million in 1998 and $13.7 million in 1997.

At September 30, 1998, total debt was $314.0 million, which was $32.9 million more than the $281.1 million at the end of 1997, primarily due to the acquisitions of S.D. Warren and tesa tape inc.'s electrical tape division. Debt at September 30, 1998 included $234.2 million of fixed interest rate debt, at an average cash interest rate of 9.0% and $79.7 million of variable interest rate debt at an average interest rate of 9.4%. Additionally, at September 30, 1998 the Company had $40.7 million in unused lines of credit of which (i) $14.5 million was attributable to Morgan and (ii) $12.2 million was attributable to Spinnaker. Certain restrictive covenants within the debt facilities at both Spinnaker and Morgan limit their ability to provide the parent company with significant funding. As of September 30, 1998, the Parent Company had borrowed $10.7 million under short-term lines of credit facilities. The lines currently total $22.0 million. These funds were primarily used to fund loans by subsidiaries to partnerships in the PCS Auctions and fund a portion of the purchase price of Upper Peninsula Telephone Company. These short-term lines of credit expire by the end of December 1998. Management anticipates that these lines will be renewed for one year but there is no assurance that they will be.

Lynch Corporation maintains an active acquisition program and generally finances each acquisition with a significant component of debt. This acquisition debt contains restrictions on the amount of readily available funds that can be transferred to Lynch Corporation from its subsidiaries.

In December 1996, the Company's Board of Directors announced that it is examining the possibility of splitting, through a "spin-off," either its communications operations or its manufacturing operations. A spin-off could improve management focus, facilitate and enhance financings and set the stage for future growth, including acquisitions. A spin-off could also help surface the underlying values of the company as the different business segments appeal to differing "value" and "growth" cultures in the investment community. There are a number of matters to be examined in connection with a possible spin-off, including tax consequences, and there is no assurance that such a spin-off will be effected.

The Company has a significant need for resources to fund the operation of the parent company, meet its current funding commitments and fund future growth. Lynch is currently considering various alternative long and short-term financing arrangements, including the possible sale of certain assets. While management expects to obtain adequate financing resources to enable the company to meet its obligations, there is no assurance that such can be readily obtained or at reasonable costs.

The Company has initiated a comprehensive review of its computer systems to identify the systems that could be affected by the "Year 2000" issue and is developing and conducting an implementation plan to resolve the issue. The Year 2000 problem is the result of computer programs being written using two digits (rather than four) to define the applicable year. Any of the Company's programs or programs utilized by vendors to the Company that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a major system failure or miscalculation. The Company's year 2000 review is being performed primarily by internal staff, and in certain operations is supplemented by outside consultants. The principal Information Technology ("IT") systems that may be impacted by the Year 2000 for the Company's telecommunications operations are central office switching, billing and accounting. The principal IT systems for the Morgan Group are order entry dispatch and accounting. The principal IT systems for the Company's manufacturing companies are sales order entry, shop floor control, inventory control and accounting. The Year 2000 may also impact various non-IT systems, including among other things security systems, HVAC, elevator systems, and communications systems. In addition, each of Company businesses may be impacted by the Year 2000 readiness of third party vendor/suppliers.

Due to the integral nature of switching equipment and billing software to their operations, the telecommunications businesses are most effected by the Year 2000 issue. The majority of the telephone companies' switching and billing software is expected to be Year 2000 compliant by the end of 1998, with the remaining compliant by the end of first half of 1999. The telecommunications businesses rely on switching equipment and software provided by third party vendors. It is the Company's understanding that the vendors have completed testing of the software and that no additional action by the Company will be required after installation. The telecommunications businesses periodically upgrade switching software in order to remain current with respect to service features. The upgrades that provide Year 2000 readiness also provide other enhanced service features and have been capitalized. Other remediation costs, including internal costs have been charged to expense as incurred. The total cost of switching software upgrades is estimated to be approximately $0.8 million, of which approximately $0.3 million has been spent to date. The telecommunications businesses have not developed a contingency plan and are in the process of developing such a plan.

The Morgan Group, Inc. is in the process of remediating the Year 2000 issue, primarily through the replacement of a significant portion of its operating software. Implementation is expected to be completed by July 1999, with final testing completed by September 1999. The total cost of Year 2000 remediation is estimated to be approximately $0.4 million, of which less than $0.1 million has been spent to date. Costs specifically associated with modifying internal use software are charged to expense as incurred. At this time, The Morgan Group has not developed a comprehensive contingency plan.

The assessment phase for the Company's manufacturing businesses is substantially complete. Ongoing remediation efforts include the replacement of certain software as well as programming changes to certain existing software. An estimate of the total cost of remediation has not been determined. However, management believes that the cost will not materially affect results of operations. A comprehensive contingency plan has not been completed at this time.

The estimated costs and projected dates of completion for the Company's Year 2000 program are based on management's estimates and were developed using numerous assumptions of future events, some of which are beyond the Company's control. The Company presently believes that with modifications to existing software and converting to new software, the Year 2000 issue will not pose significant operational problems for the Company as a whole. However, if such modifications and conversions are not completed timely or are ineffective, the Year 2000 issue may materially and adversely impact the Company's financial condition, results of operations and cash flows.

The Registrant has recently initiated two programs which may effect future operating results and financial condition.

(9) Cost Cutting - The Registrant is taking a three step approach to cutting costs. First is a review to eliminate certain centralized overhead costs. Second, a review of Registrant's overall financial costs is being undertaken with an objective of achieving savings from refinancing and restructuring certain debt instruments. Third, the Registrant's operating entities will take advantage of cost savings opportunities without sacrificing quality of service.

(10) Harvesting - The second program is a concentrated effort to monetize the Registrant's assets, including selling a portion or all of certain investments in Registrant's operating entities. These may include Registrant's minority interests in network affiliated television stations, direct broadcast television service, and certain telephone operations where competitive local exchange carrier opportunities are not readily apparent. Registrant's approximately 61% owned subsidiary, Spinnaker, has retained Schroder & Co., Inc. to seek strategic alternatives, including a possible sale, merger or other combination of Spinnaker. Additionally, the Registrant is searching for a way to accelerate the growth with M-tron as well as provide the Registrant with a more

financially visible investment. There is no assurance that all or any part of this program can be effected or effected on acceptable terms.

Included in this Management Discussion and Analysis of Financial Condition and Results of Operations and Item 5 below are certain forward looking financial and other information, including without limitation matters relating to PCS, a possible spin-off, a refinancing/strategic initiative program, the anticipation that short-term lines of credit would be renewed, "Year 2000" matters, and the Registrant's cost cutting and harvesting initiatives. 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 herein, the ability to successfully implement cost cutting and harvesting initiatives, the expected performance of the economy and financial markets as they impact the Registrant’s businesses, financing needs and ability to harvest and monetize certain assets, competition, tax consequences relating to a possible spin-off, and ability of Registrant and, in certain cases, third parties to achieve their Year 2000 compliance. As a result, such information is subject to uncertainties, risks and inaccuracies.

Two subsidiaries of the Registrant, The Morgan Group, Inc. and Spinnaker Industries, Inc., file reports with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

PART II OTHER INFORMATION

Item 5. Other Information

Reference is made to Registrant's Harvesting initiative, discussed in Part I, Item 2, Management's Discussion and Analysis of Finance Condition and Results of Operations - Liquidity/Capital Resources, above.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

*10(p)	Amended Phantom Stock Plan
27 -	Financial Data Schedule

(b) No reports on Form 8-K were filed during the third quarter of 1998

* Management contract or compensatory arrangement.

SIGNATURES

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

LYNCH CORPORATION
(Registrant)

By: ___________________________
Robert E. Dolan
Chief Financial Officer

ember 16, 1998