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, 2001

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_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 November 1, 2001
Common Stock, no par value	1,497,883

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LYNCH CORPORATION AND SUBSIDIARIES

Part 1 - FINANCIAL INFORMATION -
Item 1 - Financial Statements

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

	September 30, 2001 (unaudited)	December 31, 2000 (A)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$7,621	$ 10,543
Restricted cash	--	6,500
Receivables, less allowances of $135 and $1,582	5,449	35,019
Inventories	6,823	35,139
Deferred income taxes	617	7,624
Other current assets	732	1,807
TOTAL CURRENT ASSETS	21,242	96,632
PROPERTY, PLANT AND EQUIPMENT		
Land	291	797
Buildings and improvements	4,156	11,076
Machinery and equipment	12,293	56,951
	16,740	68,824
Accumulated Depreciation	(11,008)	(27,713)
	5,732	41,111
EXCESS OF COST OVER FAIR VALUE OF NET ASSETS ACQUIRED, NET	--	21,589
OTHER ASSETS	619	3,488
TOTAL ASSETS	$27,593	$162,820
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Notes payable to banks	$2,190	$ 30,288
Trade accounts payable	2,394	19,251
Accrued interest payable	14	1,185
Accrued liabilities	4,572	15,234
Customer advances	2,379	3,916
Current maturities of long-term debt	274	1,376
TOTAL CURRENT LIABILITIES	11,823	71,250
LONG TERM DEBT	772	61,350
DEFERRED INCOME TAXES	261	6,752
OTHER LONG TERM LIABILITIES	1,561	4,223
MINORITY INTERESTS	--	3,813
TOTAL LIABILITIES	14,417	147,388
LOSS IN EXCESS OF INVESTMENT	19,420	--
SHAREHOLDERS' EQUITY (DEFICIT)		
COMMON STOCK NO PAR OR STATED VALUE – 10,000,000 SHARES AUTHORIZED 1,513,191 SHARES ISSUED	5,139	5,139
ADDITIONAL PAID-IN CAPITAL	10,403	10,403
(ACCUMULATED DEFICIT) RETAINED EARNINGS	(21,257)	405
OFFICER'S NOTE RECEIVABLE	--	(382)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(71)	(71)
TREASURY STOCK OF 15,308 AND 3,008 SHARES, AT COST	(458)	(62)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(6,244)	15,432
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$27,593	$162,820

(A) The Balance Sheet at December 31, 2000 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

On September 30, 2001, the Company's ownership and voting interest of Spinnaker Industries, Inc. was reduced to 41.8% and 49.5%, respectively, due to the disposition of shares of Spinnaker. As a result, effective September 30, 2001, the Company relinquished control of Spinnaker and has deconsolidated Spinnaker and will prospectively account for its ownership of Spinnaker using the equity method of accounting. See Note B – "Basis of Presentation".

LYNCH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
SALES AND REVENUES	$31,982	$56,192	$130,883	$161,674
Costs and expenses:				
Manufacturing cost of sales	29,321	47,926	122,535	139,701
Selling and administrative	5,477	7,758	16,066	19,554
Asset impairment and restructuring charges	211	--	38,272	527
Gain on deconsolidation (Note B)	27,406	--	27,406	--
OPERATING PROFIT (LOSS)	24,379	508	(18,584)	1,892
Other income (expense):				
Investment Income	83	335	400	1,296
Interest expense	(2,353)	(2,471)	(7,590)	(8,412)
	(2,270)	(2,136)	(7,190)	(7,116)
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES, MINORITY INTERESTS AND EXTRAORDINARY ITEM	22,109	(1,628)	(25,774)	(5,224)
Benefit from income taxes	950	796	82	1,875
Minority interests	23	1,058	4,031	2,951
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	23,082	226	(21,661)	(398)
EXTRAORDINARY ITEM				
Gain on early extinguishment of debt (less income tax provision of $1,577 and minority interest of $1,381)	--	--	--	2,245
NET INCOME (LOSS)	$23,082	$226	($21,661)	$1,847
Weighted average shares outstanding	1,503,000	1,510,000	1,508,000	1,485,000
Basic and diluted earnings per share:				
Income (loss) before extraordinary item	$15.36	$0.15	($14.36)	($0.27)
Extraordinary item	--	--	--	1.51
NET INCOME (LOSS)	$15.36	$0.15	($14.36)	$1.24

See accompanying notes

On September 30, 2001, the Company's ownership and voting interest of Spinnaker Industries, Inc. was reduced to 41.8% and 49.5%, respectively, due to the disposition of shares of Spinnaker. As a result, effective September 30, 2001, the Company relinquished control of Spinnaker and has deconsolidated Spinnaker and will prospectively account for its ownership of Spinnaker using the equity method of accounting. See Note B – "Basis of Presentation".

LYNCH CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
OPERATING ACTIVITIES		
Net income (loss)	$(21,661)	$1,847
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Net loss of Spinnaker	53,929	--
Gain on deconsolidation	(27,406)	--
Extraordinary item	--	(2,245)
Depreciation and amortization	1,037	4,968
Amortization of deferred financing costs	--	1,168
Deferred taxes	516	(615)
Minority interests	(4,031)	(480)
Changes in operating assets and liabilities:		
Receivables	10,262	(12,274)
Inventories	2,901	(5,600)
Accounts payable and accrued liabilities	(7,916)	(15,318)
Other	140	208
Cash provided by operating activities	7,771	2,295
INVESTING ACTIVITIES		
Capital expenditures	(626)	(2,317)
Restricted cash	--	56,026
Other	(20)	75
Cash provided by (used in) investing activities	(646)	53,784
FINANCING ACTIVITIES		
Change in notes payable	(1,651)	1,353
Repayment & repurchases of long-term debt	(721)	(53,986)
Deferred financing costs	--	(69)
Sale of common stock	--	3,000
Other	(516)	(256)
Cash used in financing activities	(2,888)	(49,958)
Net increase in cash and cash equivalents	4,237	6,121
Cash and cash equivalents at beginning of period (excluding Spinnaker in 2001)	3,384	13,106
Cash and cash equivalents at end of period	$7,621	$19,227

See accompanying notes

On September 30, 2001, the Company's ownership and voting interest of Spinnaker Industries, Inc. was reduced to 41.8% and 49.5%, respectively, due to the disposition of shares of Spinnaker. As a result, effective September 30, 2001, the Company relinquished control of Spinnaker and has deconsolidated Spinnaker and will prospectively account for its ownership of Spinnaker using the equity method of accounting. See Note B – "Basis of Presentation".

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Subsidiaries of the Registrant

As of September 30, 2001, the Subsidiaries of the Registrant are as follows:

	Owned By Lynch
Lynch Display Technologies, Inc.	100.0%
Lynch Systems, Inc.	100.0%
Lynch International Holding Corporation	100.0%
Lynch-AMAV LLC	75.0%
M-tron Industries, Inc.	100.0%
M-tron Industries, Ltd.	100.0%
Spinnaker Industries, Inc.	41.8%(O)/49.5%(V)
Entoleter, Inc.	41.8%(O)/49.5%(V)
Spinnaker Coating, Inc.	41.8%(O)/49.5%(V)
Spinnaker Coating-Maine, Inc.	41.8%(O)/49.5%(V)
Spinnaker Electrical Tape Company	41.8%(O)/49.5%(V)

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

B. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 and those required to record deconsolidation of Spinnaker Industries, Inc.) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and footnotes included in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.

Prior to September 30, 2001, the Company owned 48% of the equity of Spinnaker (60% voting control); as such, under accounting principles generally accepted in the United States, the Company was required to record all of the losses of Spinnaker since the non-Company interests were not required to absorb their share of the losses (52%) after their investment was fully absorbed by losses.

Effective September 30, 2001, the Company donated 430,000 shares of Class A common stock to a university on who's board several of the Company's executives serve as Trustees. This resulted in the reduction of the Company's ownership and voting interests in Spinnaker to 41.8% and 49.5%, respectively. As a result, effective September 30, 2001, the Company has deconsolidated Spinnaker and will prospectively account for its ownership of Spinnaker using the equity method of accounting.

Accordingly, the Company's results of operations include the operating results of Spinnaker through 9/30/01 (date of deconsolidation). The balance sheet at September 30, 2001 does not contain the assets and liabilities of Spinnaker due to the deconsolidation. This deconsolidation resulted in a non-cash gain of $27,406,000 being recorded on September 30, 2001 to reduce the Company's negative investment in Spinnaker to $19,420,000, which represents the Company's interest in Spinnaker's accumulated deficit at the date of deconsolidation. This remaining interest represents losses in excess of investment, which has been recorded as a deferred credit on the Company's balance sheet until such time as Spinnaker achieves profitability or the Company disposes of its remaining interests in Spinnaker. Note that the Company will not record any additional losses from Spinnaker as the company has no further obligations to Spinnaker.

C. Summarized Financial Information of Unconsolidated Investee

At September 30, 2001, the Company has a 41.8% interest in Spinnaker and accounts for its investment using the equity method. The Spinnaker results of operations are disclosed in Note G, Segment Information, and described as "Adhesive-Backed Label Stock." As a result of the deconsolidation of Spinnaker (see Note B), selected Spinnaker balance sheet information is presented as follows:

	September 30, 2001	**December 31, 2000**
Current Assets	$36,881	$59,496
Total Assets	54,902	119,031
Current Liabilities	38,759	49,409
Long-Term Debt	61,239	60,310
Shareholder's Deficit	(46,460)	(7,468)

D. Inventories

Inventories are stated at the lower of cost or market value. At September 30, 2001, inventories were valued by two methods: last-in, first-out (LIFO) - 76%, and first-in, first-out (FIFO) - 24%. At December 31, 2000, inventories were valued by three methods: LIFO – 28%, Specific Identification - 71%, and FIFO -1%.

	September 30, 2001	**December 31, 2000**
Raw materials	$1,550	$10,172
Work in process	1,116	2,796
Finished goods	4,157	22,171
Total Inventories	$6,823	$35,139

E. Indebtedness

Lynch Systems, Inc. and M-tron Industries, Inc. maintain their own credit facilities that are not guaranteed by the parent company.

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. Long term debt at:

	September 30, 2001	December 31, 2000
Spinnaker Industries, Inc. 10.75% Senior Secured Note due 2006	$--	$ 51,135
Spinnaker Industries, Inc. 14% Subordinated Note With PIK interest and principal due on January 31, 2003	--	9,172
Other	1,046	2,419
	1,046	62,726
Current Maturities	(274)	(1,376)
	$772	$61,350

F. 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 of which there were none.

G. Segment Information

Prior to September 30, 2001, the Company was engaged in the manufacture of adhesive-backed label stock, frequency control devices and other manufacturing. The Company measures performance of its segments primarily by revenues, operating profit and EBITDA (operating profit before income taxes, depreciation, amortization and allocated corporate expenses). Identifiable assets of each segment changed materially at September 30, 2001, as a result of the deconsolidation of Spinnaker Industries described in Section B, Basis of Presentation.

EBITDA for operating segments is equal to operating profit before interest, taxes, depreciation and amortization. EBITDA is presented because it is a widely accepted financial indicator of value and ability to incur and service debt. EBITDA is not a substitute for operating income or cash flows from operating activities in accordance with generally accepted accounting principles.

Operating profit (loss) is equal to revenues less operating expenses, excluding interest and income taxes.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Revenues:				
Adhesive-backed label stock	$21,403	$35,756	$90,163	$113,374
Frequency control devices	2,999	10,900	18,803	29,384
Other Manufacturing	7,580	9,536	21,917	18,916
Consolidated Total	31,982	56,192	130,883	161,674
EBITDA				
Adhesive-backed label stock	(977)	609	(4,755)	4,577
Frequency control devices (a)	(769)	1,391	(386)	3,885
Deferred incentive compensation - Frequency control devices	--	(420)	--	(420)
Other manufacturing	972	1,296	3,913	1,911
Corporate manufacturing expenses	(308)	(313)	(1,065)	(1,454)
Total manufacturing	(1,082)	2,563	(2,293)	8,499
Corporate expenses	(183)	(356)	(818)	(1,112)
Restructuring charges – Spinnaker	(211)	--	(1,520)	(527)
Consolidated Total	(1,476)	$2,207	(4,631)	6,860
Operating Profit (Loss)				
Adhesive-backed label stock	(1,778)	(734)	(7,860)	682
Frequency control devices (a)	(988)	1,214	(1,028)	3,373
Deferred incentive compensation - Frequency control devices	--	(420)	--	(420)
Other manufacturing	809	1,161	3,425	1,510
Corporate manufacturing expenses	(308)	(282)	(1,065)	(1,389)
Total manufacturing	(2,265)	939	(6,528)	3,756
Unallocated corporate expenses	(551)	(431)	(1,190)	(1,337)
Asset impairment and Restructuring Charge – Spinnaker	(211)	--	(38,272)	(527)
Gain on deconsolidation	27,406	--	27,406	--
Consolidated Total	24,379	508	(18,584)	1,892
Total Operating Profit (Loss) of reportable segments	24,379	508	(18,584)	1,892
Other profit or loss				
Investment income	83	335	400	1,296
Interest expense	(2,353)	(2,471)	(7,590)	(8,412)
Loss from continuing operations Before income taxes, minority Interest and extraordinary items	$22,109	$(1,628)	$(25,774)	$(5,224)

Total Assets	September 30, 2001	December 31, 2000
Adhesive-backed label stock	$ --	$116,746
Frequency control devices	9,461	18,210
Other manufacturing	16,140	20,193
General Corporate	1,992	7,671
Consolidated Total	$27,593	$162,820

Note: a) Includes one-time write-offs and reversals, as follows:

	Three Months Ended September 30, 2001	Nine Months ended September 30, 2001
Write-off of Deferred Rights Offering Expense	--	$300
Reversal of Bonus Accrual	--	(367)
Severance Expenses	--	47
Inventory Write-Down	--	375
Total Cost	--	$355

H. Asset Impairment and Restructuring Charges

	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2001
Restructuring charges and asset impairment:		
Severance	$211	$ 1,520
Asset impairment	--	36,752
Total asset impairment and restructuring	211	$38,272
Inventory write-down	--	$ 3,482
Total Cost	$211	$41,754

As discussed in the Spinnaker Annual Report on Form 10-K for the year ended December 31, 2000, Spinnaker recognized certain restructuring charges, primarily affiliated with its Spinnaker Coating and Spinnaker Coating – Maine business. To better concentrate on Coating's strengths and market niche, a decision was made by its management to reorganize and realign the business in the fourth quarter of 2000 and going forward in 2001.

On May 15, 2001, Spinnaker announced that it intended to close its Spinnaker Coating – Maine, Inc. ("Coating – Maine") facility in Westbrook, Maine. The Company's decision to close this facility was made after reviewing the first quarter of 2001 operating losses at Maine and assessing the probability of returning the Maine operations to profitability in light of the substantial new capacity being added to the industry. As a result of the decision, Spinnaker will focus its entire efforts on the Spinnaker Coating operations in Troy, Ohio where it principally manufactures specialty-coated products. In connection with the closing, Spinnaker has recorded as of September 30, 2001, non-cash write-downs of $36.7 million to reflect the significantly reduced value of the related long-lived assets. Separately, Spinnaker announced it sold selected assets from its Maine facility to Fasson Roll North America, a division of Avery Dennison Corporation.

The asset impairments resulted from the write-down to estimated fair market value of fixed assets to be taken out of service and held for sale or disposal. The majority of this charge is related to the impairment of goodwill associated with the acquisition of Coating – Maine in 1998. In conjunction with the closing and included in restructuring charges, Spinnaker has incurred severance and related costs totaling $1.5 million for the nine months ended September 30, 2001.

I. <u>Equity Transactions</u>

Effective July 31, 2001, Louis A. Guzzetti, Jr. resigned from the Board of Directors of the Company. In connection with Mr. Guzzetti's resignation, on August 9, 2001, the Company purchased 12,300 shares of its Common Stock from Mr. Guzzetti for a purchase price of $396,204. Such purchase price was equal to the outstanding principal amount and unpaid interest on the loans made by the Company to Mr. Guzzetti on June 5, 2000 and September 20, 2000 to finance his original purchase of such Common Stock (the "Guzzetti Loans"). The Company surrendered the promissory note evidencing the Guzzetti Loans to Mr. Guzzetti in full payment of the outstanding principal amount and unpaid interest on the loans.

On August 17, 2001, Ralph R. Papitto replaced Mario J. Gabelli as Chairman and Chief Executive Officer of Lynch Corporation (the "Company") and Mr. Gabelli was appointed Vice Chairman. In connection with Mr. Papitto's appointment, the Board of Directors' approved, subject to shareholder ratification, the grant of an option to Mr. Papitto to purchase up to 374,471 shares of the Company's Common Stock at an exercise price of $30 per share (subject to customary anti-dilution adjustments) (the "Option").

As of November 13, 2001, no options have been granted under this plan.

J. <u>Subsequent Events</u>

On November 13, 2001, Spinnaker announced that it commenced voluntary proceedings under Chapter 11 of the U. S. Bankruptcy Code for the purpose of facilitating and accelerating the financial restructuring it previously was pursuing. Spinnaker filed its petition in the United States Bankruptcy Court for the Southern District of Ohio, Western Division, in Dayton. The Chapter 11 filing includes Spinnaker Coating, Inc. and certain other affiliates.

Spinnaker also announced that it reached agreement, subject to Court approval, with its existing lenders to provide up to $30 million in debtor-in possession (DIP) financing. This funding will allow Spinnaker to continue operating its Spinnaker Coating and other business units in their ordinary and customary manner.

As a result of Lynch's previously discussed deconsolidation of Spinnaker, these events are not expected to affect the Company's financial statements.

On October 15, 2001, the Lynch Corporation Board of Directors elected Richard E. McGrail and Raymond H. Keller to the Registrant's Board. Mr. McGrail and Mr. Keller were also named respectively to the positions of Chief Operating Officer and Chief Financial Officer.

Item 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.</u>

Sales and Revenues/Gross Margin

Revenues for the third quarter of 2001 decreased by $24.2 million or 43.1%, to $32.0 million, from the third quarter of 2000. Reflecting decreased order in-flow, revenues for the nine months ended September 30, 2001 were $130.9 million, $30.8 million or 19.0% below the comparable prior year period.

Spinnaker's net sales for the quarter ended September 30, 2001 were $22.6 million, compared to $37.3 million in the corresponding 2000 period. The decrease in net sales for 2001 is attributed to lower sales volumes and lower selling prices in most pressure-sensitive products. As a part of Spinnaker's restructuring program, the elimination of non-pressure sensitive product lines in 2000 caused volumes to be lower. Another contributing factor is the shutdown of Spinnaker's facility in Maine.

Spinnaker's gross margin as a percentage of net sales for the quarter ended September 30, 2001 was down 4.2% from the corresponding 2000 period. The primary reason for the lower margin in 2001 was continued price erosion within the pressure sensitive market due to competitive pressures, excess capacity in the industry, and overall sluggish economic conditions.

Spinnaker's net sales for the nine months ended September 30, 2001 were $93.4 million, compared to $117.6 million in the corresponding 2000 period. The decrease in net sales for 2001 is mainly attributable to lower selling prices due to excess capacity and depressed demand caused by the weakened general economy.

On a comparable basis, Spinnaker's gross margin as a percentage of revenues for the nine months ended September 30, 2001 was down 5.6% from the first nine months of 2000. Contributing to the decline in gross margin, were higher material costs along with continued selling price erosion and volume declines. Consistent with recent trends in the industry, over capacity and sluggish economic conditions have impaired Spinnaker's operating performance. Also contributing to the nine months 2001 decrease in gross margin was a one-time write-down to inventory of approximately $3.5 million recorded in the second quarter.

Revenues at M-tron decreased by $7.9 million or 72.5% to $3.0 million for the third quarter of 2001 due to the continuation of weak demand from the infrastructure segment of the telecommunications industry which is still working through the overcapacity caused by the Internet bubble. M-tron's revenues for the first nine months of 2001 decreased $10.6 million or 36.0% to $18.8 million due to the same factors.

Lynch Systems' revenues for the third quarter of 2001 declined by $1.6 million from the corresponding 2000 period to $6.4 million due mainly to customer delivery schedules for glass press machines. However, order backlog of $17.8 million at September 30, 2001 remains strong and was comparable to the backlog last September. Lynch Systems revenues for the first nine months of 2001 increased $4.0 million or 27.4% from the corresponding 2000 period to $18.6 million reflecting increased orders and sales of glass press machines.

M-tron's gross margin as a percentage of net sales for the three and nine month periods of 2001 were down 25.2% and 13.0% respectively from the same periods of 2000. The previously described sales decline of 72.5% in the quarter and 36.0% year-to-date caused the significant reduction in gross margin.

Lynch Systems gross margin as a percentage of net sales for the three and nine month periods of 2001 were up 2.2% and 5.2% respectively from the same periods of 2000. The year-to-date sales increase of 27.1% and better absorption of manufacturing overhead were the primary reasons for the margin improvements.

Operating Profit (Loss)

Operating profit for the third quarter 2001 was $24.4 million compared to the third quarter 2000 operating profit of $0.5 million or a positive swing of $23.9 million. For the first nine months of 2001 operating loss was $18.6 million compared to the corresponding 2000 period's operating profit of $1.9 million. The quarter and year-to-date operating profit includes a $27.4 million gain recorded in the deconsolidation of Spinnaker (see Note B to the condensed consolidated financial statements).

On September 30, 2001, the Company's ownership interest and voting control of Spinnaker Industries, Inc. (Spinnaker) was reduced to 41.8% and 49.5%, respectively, due to the disposition of shares of Spinnaker. As a result, effective September 30, 2001, the Company has deconsolidated Spinnaker and will prospectively account for its ownership of Spinnaker using the equity method of Accounting.

Accordingly, the Company's results of operations include the operating results of Spinnaker through September 30, 2001 (date of deconsolidation). This deconsolidation resulted in a non-cash gain of $27,406,000 being recorded on September 30, 2001 to reduce the Company's negative investment in Spinnaker to $19,420,000, which represents the Company's interest in Spinnaker's accumulated deficit at the date of deconsolidation. This remaining interest represents losses in excess of investment, which has been recorded as a deferred credit on the Company's balance sheet until such time as Spinnaker achieves profitability or the Company disposes of its remaining interests in Spinnaker. Note that the Company will not record any additional losses from Spinnaker as the Company has no further obligations to Spinnaker.

Spinnaker's loss from operations for the three months ended September 30, 2001 was $2.0 million excluding an impairment charge of approximately $0.2 million associated with the closing of the Coating – Maine facility as compared to a $.9 million loss from operations in the third quarter of 2000.

Spinnaker's loss from continuing operations excluding impairment and restructuring charges for the nine months ended September 30, 2001 was approximately $5.5 million, compared to a $.5 million loss in the corresponding 2000 period. Spinnaker's operating results reflect lower operating margins that were partially offset by reductions in selling and administrative costs that are primarily the result of the restructuring initiated late last year.

Spinnaker also recognized charges of $41.7 million in the first nine months of 2001. The charge relates to the continued restructuring efforts that began in the fourth quarter of 2000 and a write-down of assets affiliated with Coating – Maine. Spinnaker's restructuring and asset impairment charges were: (in thousands)

	Nine Months ended September 30, 2001
Restructuring charges:	
Severance	$ 1,520
Asset impairment	36,752
Total restructuring and asset impairment	38,272
Inventory write-down	3,482
TOTAL COST	$41,754

For the 2001 third quarter M-tron had an operating loss of $1.0 million compared to an operating profit of $1.2 million in the third quarter of 2000 due to dramatically decreased sales volumes mentioned above. For the first nine months of 2001, M-tron's operating loss was $1.0 million compared to an operating profit for the corresponding 2000 period of $3.4 million due mainly to the 36% reduction in revenue factors mentioned above. Included in M-tron's results for the nine month period of 2001 are the following one-time costs:

	Nine Months Ended September 30, 2001
Write-off of deferred rights offering expenses	$ 300
Reversal of bonus accrual	(367)
Severance expenses	47
Inventory write-down	375
Total	$ 355

For the 2001 third quarter, Lynch Systems had an operating profit of $0.8 million compared to an operating profit of $1.0 million in the third quarter of 2000. For the first nine month period of 2001 Lynch Systems had an operating profit of $3.4 million compared to an operating profit of $1.3 million in the comparable period in 2000. The significant $2.1 million nine month improvement at Lynch Systems is due to primarily the increased sales mentioned above and better absorption of overhead.

Other Income (Expense), Net

Investment income decreased for the three and nine months ended September 30, 2001 due to the buy back of debt with the net proceeds of the 2000 sale of Spinnaker's industrial tape units, which were invested in short term investments during the earlier 2000 periods, and lower market rates on invested funds.

Interest expense was $2.4 million for the third quarter 2001 which was comparable to the corresponding period in 2000. Nine-month 2001 interest expense of $7.6 million represented a $0.8 million reduction from the corresponding period in 2000. This reduction was primarily due to Spinnaker's repurchase of its Senior Notes in the later part of 2000 and lower cost of funds.

Tax Benefit (Provision)

The income tax benefit (provision) includes federal, as well as state, local, and foreign taxes. The quarter and nine month 2001 net tax benefit is the result of operating losses.

Minority Interest

Minority interests of $4.0 million contribution to nine months 2001 net income is the result of the absorption of Spinnaker losses in the first quarter of 2001 by minority interests to the extent of their investment. This benefit was reduced to a small extent by profits at a 75% owned foreign subsidiary of Lynch Systems.

Net Income (Loss)

Net income for the third quarter 2001 was $23.1 million compared to a net income of $0.2 million in the year earlier. The $22.9 million positive swing is primarily due to a $27.4 gain on deconsolidation that was reduced by operating losses at M-tron and Spinnaker. Fully diluted third quarter earnings per share were $15.36 compared to $0.15 per share in third quarter 2000. Net loss for the nine months ended September 30, 2001 was $21.7 million, or $(14.36) per share, as opposed to net income of $1.8 million, or $1.24 per share last year-to-date.

Backlog/New Orders

Total backlog of manufactured products of consolidated subsidiaries at September 30, 2001 was $19.9 million, a reduction of $6.0 million from the backlog at December 31, 2000, but an improvement of $1.8 million since June 30, 2001. Decreased purchases by infrastructure suppliers to the telecommunications industry caused a significant reduction of M-tron's backlog at September 30, 2001. Lynch Systems' backlog increased by $4.3 million from December 31, 2000 to September 30, 2001.

Financial Condition – Excluding Spinnaker

On September 30, 2001, the Company's ownership and voting interest of Spinnaker Industries, Inc. was reduced to 41.8% and 49.5%, respectively, due to the disposition of shares of Spinnaker. As a result, effective September 30, 2001, the Company relinquished control of Spinnaker and has deconsolidated Spinnaker and will prospectively account for its ownership of Spinnaker using the equity method of accounting. (See Note B - "Basis of Presentation".)

Liquidity/Capital Resources

As of September 30, 2001, the consolidated companies had current assets of $21.2 million and current liabilities of $11.8 million. Working capital was therefore $9.4 million and the ratio of current assets to current liabilities was 1.80 to 1.00, in comparison to 1.34 to 1.00 at December 31, 2000.

First nine months capital expenditures were $0.6 million in 2001 and $1.6 million in full year 2000. The Company plans to spend approximately $0.8 million on capital expenditures for the year and anticipates that it will have sufficient cash flow from operations and borrowing availability under various credit facilities at its subsidiaries to fund such capital expenditure plans.

At September 30, 2001, total debt was $3.2 million, which was $2.4 million less than the $5.6 million at the end of 2000. The reduction is primarily due to principal repayments.

The Company does not at present have credit facilities at the parent company level and there is presently no parent guaranteed debt. 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.

The Company may from time to time make acquisitions which would probably be financed with a significant component of debt. This acquisition debt as well as current debt outstanding would contain restrictions on the amount of readily available funds that can be transferred to the Company from its subsidiaries.

Subsequent Events

On November 13, 2001, Spinnaker announced that it commenced voluntary proceedings under Chapter 11 of the U. S. Bankruptcy Code for the purpose of facilitating and accelerating the financial restructuring it previously was pursuing. Spinnaker filed its petition in the United States Bankruptcy Court for the Southern District of Ohio, Western Division, in Dayton. The Chapter 11 filing includes Spinnaker Coating, Inc. and certain other affiliates.

Spinnaker also announced that it reached agreement, subject to Court approval, with its existing lenders to provide up to $30 million in debtor-in possession (DIP) financing. This funding will allow Spinnaker to continue operating its Spinnaker Coating and other business units in their ordinary and customary manner.

As a result of Lynch's previously discussed deconsolidation of Spinnaker, these events are not expected to affect the Company's financial statements.

On October 15, 2001, the Lynch Corporation Board of Directors elected Richard E. McGrail and Raymond H. Keller to the Registrant's Board. Mr. McGrail and Mr. Keller were also named respectively to the positions of Chief Operating Officer and Chief Financial Officer.

Market Risk

There has been no significant change in market risk since December 31, 2000. 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 amounts of interest earned on the Company's cash equivalents and short-term investments (approximately $6.2 million at September 30, 2001). 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 as fixed rate 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.

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 Spinnaker and Market Risk. 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 and Spinnaker with the Securities and Exchange Commission. As a result, such information is subject to uncertainties, risks and inaccuracies, which could be material.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

See “Market Risk” under Item 2 above.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits – None

(b) Reports on Form 8-K

A report on Form 8-K was filed during the quarter ended September 30, 2001. The report that was filed on August 24 described the following events. No financial statements were filed.

On August 17, 2001, Ralph R. Papitto replaced Mario J. Gabelli as Chairman and Chief Executive Officer of Lynch Corporation (the "Company") and Mr. Gabelli was appointed Vice Chairman. In connection with Mr. Papitto's appointment, the Board of Directors' approved, subject to shareholder ratification, the grant of an option to Mr. Papitto to purchase up to 374,471 shares of the Company's Common Stock at an exercise price of $30 per share (subject to customary anti-dilution adjustments) (the "Option").

Also on August 17, 2001, Anthony T. Castor, III, and Robert E. Dolan resigned as directors. There are now three vacancies on the Board (Louis A. Guzzetti, Jr., resigned on July 31) and it is contemplated that three new directors who are acceptable to Mr. Papitto and the remaining Board will fill such vacancies. (See Note J – Item 1 – of the condensed consolidated financial statements.)

SIGNATURES

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

LYNCH CORPORATION
(Registrant)

By:

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Raymond H. Keller
Chief Financial Officer

November 14, 2001