**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 March 31, 2004

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

Yes___ No_X_

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 April 30, 2004 |
|---|---|
| Common Stock, $0.01 par value | 1,495,483 |

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LYNCH CORPORATION AND SUBSIDIARIES

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## Part 1 – FINANCIAL INFORMATION –

### Item 1 – Financial Statements

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

| | March 31, 2004 | December 31, 2003 (A) |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 4,914 | $ 3,981 |
| Restricted cash (Note D) | 1,125 | 1,125 |
| Investments – Marketable Securities (Note E) | 3,122 | 2,311 |
| Trade accounts receivables, less allowances of $95 and $91, respectively | 2,731 | 3,366 |
| Unbilled accounts receivable | — | 2,431 |
| Inventories (Note F) | 4,975 | 4,911 |
| Deferred income taxes | 57 | 57 |
| Prepaid expenses | 429 | 456 |
| TOTAL CURRENT ASSETS | 17,353 | 18,638 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 291 | 291 |
| Buildings and improvements | 4,198 | 4,198 |
| Machinery and equipment | 11,446 | 11,377 |
| | 15,935 | 15,866 |
| Less: accumulated depreciation | 11,901 | 11,689 |
| | 4,034 | 4,177 |
| OTHER ASSETS | 142 | 204 |
| **TOTAL ASSETS** | **$ 21,529** | **$ 23,019** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Notes payable to banks (Note G) | $ 1,875 | $ 1,976 |
| Trade accounts payable | 1,975 | 2,054 |
| Accrued warranty expense (Note H) | 516 | 585 |
| Accrued compensation expense | 1,168 | 1,219 |
| Accrued income taxes | 788 | 716 |
| Accrued professional fees | 212 | 273 |
| Accrued commissions | 450 | 429 |
| Margin liability on marketable securities | 996 | 1,033 |
| Other accrued expenses | 566 | 664 |
| Customer advances | 434 | 1,206 |
| Current maturities of long-term debt (Note G) | 954 | 998 |
| TOTAL CURRENT LIABILITIES | 9,934 | 11,153 |
| LONG-TERM DEBT (Note G) | 816 | 833 |
| TOTAL LIABILITIES | 10,750 | 11,986 |

| | | |
|---|---|---|
| COMMITMENTS AND CONTINGENCIES (Note L) | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, $0.01 par value – 10,000,000 shares authorized; 1,513,191 shares issued; 1,495,483 shares outstanding at March 31, 2004, 1,497,883 shares outstanding at December 31, 2003. | 15 | 15 |
| Additional paid-in capital | 15,645 | 15,645 |
| Accumulated deficit | (5,268) | (4,460) |
| Accumulated other comprehensive Income (Note J) | 877 | 291 |
| Treasury stock, at cost, of 17,708 shares at March 31, 2004 and 15,308 shares at December 31, 2003 | (490) | (458) |
| TOTAL SHAREHOLDERS' EQUITY | 10,779 | 11,033 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **$ 21,529** | **$ 23,019** |

(A) The Balance Sheet at December 31, 2003 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 – UNAUDITED**
**(In Thousands, except share amounts)**

| | Three Months Ended March 31, 2004 | Three Months Ended March 31, 2003 |
|---|---|---|
| SALES AND REVENUES | $ 6,812 | $ 4,744 |
| Cost and expenses: | | |
| Manufacturing cost of sales | 5,300 | 3,951 |
| Selling and administrative | 2,275 | 1,833 |
| OPERATING LOSS | (763) | (1,040) |
| Other income (expense): | | |
| Investment Income | 4 | 22 |
| Interest expense | (51) | (69) |
| Other income | 27 | — |
| | (20) | (47) |
| LOSS BEFORE INCOME TAXES | (783) | (1,087) |
| (Provision for) benefit from income taxes | (25) | 349 |
| NET LOSS | ($808) | ($738) |
| Weighted average shares outstanding. | 1,497,150 | 1,497,900 |
| BASIC AND DILUTED LOSS PER SHARE: | $ (0.54) | $ (0.49) |

**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 – UNAUDITED**
**(In Thousands)**

| | Three Months Ended March 31, 2004 | 2003 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | $ (808) | $ (738) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 212 | 243 |
| Amortization of definite-lived intangible assets | 62 | 53 |
| Changes in operating assets and liabilities: | | |
| Receivables | 3,066 | 329 |
| Inventories | (64) | (386) |
| Accounts payable and accrued liabilities | (774) | 970 |
| Other assets/liabilities | 27 | (72) |
| Net cash provided by operating activities | 1,721 | 399 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (69) | (33) |
| Purchase of marketable securities | (225) | — |
| Payment on margin liability on marketable securities | (300) | — |
| Cash used in investing activities | (594) | (33) |
| FINANCING ACTIVITIES | | |
| Net borrowings (repayment) of notes payable | (101) | 124 |
| Repayment of long-term debt | (61) | (52) |
| Proceeds from long-term debt | — | 296 |
| Purchase of treasury stock | (32) | — |
| Net cash (used in) provided by financing activities | (194) | 368 |
| Increase in cash and cash equivalents | 933 | 734 |
| Cash and cash equivalents at beginning of period | 3,981 | 5,986 |
| Cash and cash equivalents at end of period | $ 4,914 | $ 6,720 |

**See accompanying notes**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Subsidiaries of the Registrant

As of March 31, 2004, 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 period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

The balance sheet at December 31, 2003 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.

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, 2003.

C. Adoption of Accounting Pronouncements

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 consolidation requirements of FIN 46, as revised, are required for periods ending after December 15, 2003 for interests in structures that are commonly referred to as special-purpose entities, while the application of this Interpretation for all other types of variable interest entities is required for periods ending after March 15, 2004. The Company does not have any interests in variable interest entities.

D. Restricted Cash

At both March 31, 2004 and December 31, 2003, 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 (investments) held by the Company (in thousands):

| **Equity Securities** | **Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Estimated Fair Value** |
|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| March 31, 2004 | $ | 2,245 | $ | 877 | — | $ | 3,122 |
| December 31, 2003 | $ | 2,020 | $ | 291 | — | $ | 2,311 |

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The Company has a margin liability against this investment of $996,000 at March 31, 2004 and $1,033,000 as of December 31, 2003 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 March 31, 2004, inventories were valued by two methods: last-in, first-out (LIFO) – 80%, and first-in, first-out (FIFO) – 20%. At December 31, 2003, inventories were valued by the same two methods: LIFO – 73%, and FIFO – 27%.

| | March 31, 2004 | December 31, 2003 |
|---|---|---|
| | (In Thousands) | |
| Raw materials | $ 1,482 | $ 1,394 |
| Work in process | 1,225 | 1,641 |
| Finished goods | 2,268 | 1,876 |
| Total Inventories | $ 4,975 | $ 4,911 |

Current costs exceed LIFO value of inventories by $1,006,000 and $930,000 at March 31, 2004 and December 31, 2003 respectively.

G. Indebtedness

On a consolidated basis, at March 31, 2004, Lynch maintains short-term credit facilities totaling $10.0 million, of which $2.3 million was available for future borrowings, including up to $2.3 million for working capital and/or up to $1.6 million for Letters of Credit. These facilities 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 respective subsidiary borrower, and include various financial covenants, which currently restrict the transfer of substantially all the assets of the subsidiaries. Both M-tron and Lynch Systems intend to renew the credit agreements that expire on April 30, 2004 and May 30, 2004 respectively with the incumbent lenders. (See "Subsequent Events".)

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:

| | March 31, 2004 | December 31, 2003 |
|---|---|---|
| | **(In Thousands)** | |
| Notes payable: | | |
| M-tron bank revolving loan at variable interest rates (4.5% at March 31, 2004), due May 2004 | $ 1,875 | $ 1,976 |
| Lynch Systems bank revolving loan at variable interest rates, due June, 2004 | — | — |

| | | |
|---|---|---|
| | $ 1,875 | $ 1,976 |
| Long-term debt: | | |
| M-tron commercial bank term loan at variable interest rates (5.0% at March 31, 2004), due September, 2004 | $ 784 | $ 829 |
| Yankton Area Progressive Growth loan at 0.0% interest, due April 2005 | 150 | 150 |
| South Dakota Board of Economic Development at a fixed rate of 3%, due December, 2007 | 282 | 285 |
| Yankton Areawide Business Council loan at a fixed interest rate of 5.5%, due November 2007 | 89 | 90 |
| Lynch Systems term loan at a fixed interest rate of 5.5%, due August 2013 | 465 | 477 |
| | 1,770 | 1,831 |
| Current maturities | (954) | (998) |
| | $ 816 | $ 833 |

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 March 31, 2004 and December 31, 2003, unbilled accounts receivable were $0 and $2.4 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, 2003 | $ 585 |
| Warranties issued during the period | 55 |
| Settlements made during the period | (124) |
| Changes in liabilities for pre-existing warranties during the period, including expirations | — |
| Balance, March 31, 2004 | $ 516 |

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 2003 and the first quarter of 2004.

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 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. 216,000 of these options are fully vested, with the remaining options vesting quarterly over the next three 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 March 31, | |
|---|---|---|
| | **2004** | **2003** |
| Net loss as reported | $ (808) | $ (738) |
| Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effect | (39) | (39) |

| | | |
|---|---|---|
| Pro forma net loss | $ (847) | $ (777) |
| | | |
| Basic and diluted loss per share: | | |
| As reported | $ (0.54) | $ (0.49) |
| Pro forma | $ (0.57) | $ (0.52) |

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

J. Accumulated Other Comprehensive Income (Loss)

Total comprehensive loss was $222,000 and $763,000 for the three months ended 3/31/04 and 3/31/03 respectively, including other comprehensive income of $586,000 in the first quarter of 2004 resulting from gains on available for sale securities as compared to other comprehensive loss of $25,000 in the first quarter of 2003 resulting from losses on available for sale securities.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2004** | **2003** |
| Net loss as reported | $ (808) | $ (738) |
| Unrealized gain (loss) on available for sale securities | 586 | (25) |
| Total comprehensive loss | $ (222) | $ (763) |

The components of accumulated other comprehensive income (loss), net of related tax, at March 31, 2004 and December 31, 2003, and March 31, 2003 are as follows:

| | March 31, 2004 | December 31, 2003 | March 31, 2003 |
|---|---|---|---|
| Balance beginning of period | $ 291 | $ 302 | $ 302 |
| Unrealized gain (loss) on available for-sale securities | 586 | (11) | (25) |
| Accumulated other comprehensive income | $ 877 | $ 291 | $ 277 |

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. Except for M-tron's Hong Kong subsidiary which acts as a buying agent and sales representative, the 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 March 31 | |
|---|---|---|
| | 2004 | 2003 |
| | (In Thousands) | |
| Revenues | | |
| Glass manufacturing equipment – USA | $ 152 | $ 615 |
| Glass manufacturing equipment – Europe | 81 | 411 |
| Glass manufacturing equipment – Far East | 1,959 | 409 |
| Glass manufacturing equipment – Canada | — | 4 |
| Glass manufacturing equipment – All Other | 107 | 44 |
| Total Glass manufacturing equipment – Foreign | 2,147 | 868 |
| Total Glass manufacturing equipment | 2,299 | 1,483 |
| Frequency control devices – USA | 2,137 | 1,514 |
| Frequency control devices – Europe | 361 | 310 |
| Frequency control devices – Far East | 1,137 | 663 |
| Frequency control devices – Canada | 428 | 283 |
| Frequency control devices – All Other | 450 | 491 |
| Total Frequency control devices – Foreign | 2,376 | 1,747 |
| Total Frequency control devices | 4,513 | 3,261 |
| Consolidated Total | $ 6,812 | $ 4,744 |
| Operating Profit (Loss) | | |
| Glass manufacturing equipment | $ (392) | $ (483) |
| Frequency control devices | 62 | (223) |
| Total manufacturing | $ (330) | $ (706) |
| Unallocated Corporate expenses | (433) | (334) |
| Consolidated Total | $ (763) | $ (1,040) |
| Capital Expenditures | | |
| Glass manufacturing equipment | $ 3 | $ 28 |
| Frequency control devices | 66 | 5 |
| Consolidated Total | $ 69 | $ 33 |
| Total Assets | | |
| Glass manufacturing equipment | $ 10,317 | $ 12,423 |
| Frequency control devices | 8,176 | 8,222 |
| General Corporate | 3,018 | 3,223 |

| | | |
|---|---|---|
| Consolidated Total | $ 21,511 | $ 23,868 |
| | | |
| Total operating loss of reporting segments | $ (763) | $ (1,040) |
| Other profit or loss: | | |
| Investment income | 4 | 22 |
| Interest expense | (51) | (69) |
| Other income | 27 | — |
| | | |
| Loss before income taxes | $ (783) | $ (1,087) |

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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 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:

**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 C.V. No. 01-236. The 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.

On March 8, 2004, Lynch filed a Motion for Summary Judgment on the issue of an exemption under the Maine Severance Pay Act based upon the nexus between the plant closure in Westbrook, Maine and the Spinnaker Defendants'

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bankruptcy filing. PACE concurrently filed a Motion for Summary Judgment on Count II of the Complaint on March 8, 2004.

During a trial management conference on March 24, 2004, the parties agreed to submit a stipulation of facts to the Court in lieu of a trial on any factual issues related to damages. The Court will hear oral argument from the parties on June 17, 2004, related to the pending Motions for Summary Judgment and related to the appropriate measure of damages that may be due pursuant to the Maine Severance Pay Act.

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.

**1. Qui Tam Lawsuit**

There has been no change in the status of this lawsuit as last reported in Registrant's Form 10-K for its fiscal year ended December 31, 2003.

M. Income Taxes

The Company files consolidated federal income tax returns. The Company has a $2,735,000 net operating loss ("NOL") carry-forward as of December 31, 2003. This NOL expires in 2024 if not utilized prior to that date.

N. Reclassifications

Certain amounts in the 2003 financial statements and segment information (Note K) have been eliminated or reclassified to conform to the 2004 presentation. These deletions and reclassifications are immaterial to the consolidated financial statements and segment information taken as a whole.

O. Guarantees

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. (see Note G — "Indebtedness Debt"). As of March 31, 2004, there were no obligations to the SunTrust Bank. As of March 31, 2004, 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. (See Note D — "Restricted Cash".)

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

## 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 judgments 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, 2003, 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 loses resulting from the inability of our client as 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 operation.

***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 80%, 73%, and 63% of consolidated inventories at March 31, 2004, December 31, 2003 and 2002, respectively. The balance of inventories 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). At March 31, 2004, and December 31, 2003, unbilled accounts receivable were $0 and $2.4 million respectively.

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, relation 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 loses 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.

| | |
|---|---|
| Balance, December 31, 2003 | $ 585 |
| Warranties issued during the period | 55 |
| Settlements made during the period | (124) |
| Changes in liabilities for pre-existing warranties during the period, including expirations | — |
| Balance, March 31, 2004 | $ 516 |

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Results of Operations

***First Quarter 2004 Compared to First Quarter 2003***

Sales and Revenues/Gross Margin

Revenues for the first quarter of 2004 increased by $2.1 million from first quarter 2003 to $6.8 million due to (a) continuing improvements in M-tron's 2004 order flow; (b) Lynch Systems' low backlog at January 1, 2003 that depressed first quarter 2003 revenue; and (c) the timing of deliveries for orders booked late in the first quarter of 2003 by Lynch Systems.

First quarter 2004 gross margin as a percent of revenues of 22.2% was 5.5% above the first quarter of 2003 due mainly to the higher level of sales that enabled the company to improve the absorption of its fixed cost manufacturing. In addition, the company's manufacturing operations were more efficient this year than first quarter 2003 due mainly to overcoming difficulties incurred last year in manufacturing the "Champion" product line.

Revenues at M-tron increased by $1.3 million, or 38.4%, to $4.5 million for the first quarter of 2004 due primarily to improvements in the general economy and the infrastructure sector of the telecommunications market, and landing new business from targeted accounts.

Lynch Systems' revenues for the first quarter of 2004 increased by $0.8 million from the corresponding 2003 period to $2.3 million due mainly to the timing of deliveries for glass machines and spare parts. However, order backlog of $2.2 million at March 31, 2004 represented a reduction of $0.6 million since December 31, 2003 and was $6.5 million less than the backlog last March. (See "Subsequent Events" for recent orders trends).

M-tron's gross margin as a percentage of net sales for the three month period of 2004 was up 3.3% to 23.3% from the same period of 2003. The sales improvement of $1,252,000 (38.4%) in the quarter resulted in $401,000 additional gross profit. The benefits of additional volume and of overcoming last years difficulties in manufacturing "Champion" products were apparent in the 32.0% incremental gross margin rate.

Lynch Systems' gross margin as a percentage of net sales for the three month period of 2004 improved 10.4% to 20.0% from the same period of 2003. The $318,000 increase in gross profit was the result of (a) the $816,000 (55.0%) sales increase in the first quarter; and (b) improved product mix, representing an incremental gross margin rate of 39.0%.

Operating Loss

Operating loss for the first quarter 2004 was $763,000 compared to the first quarter 2003 operating loss of $1,040,000, representing a favorable variance of $277,000 on $2,068,000 higher revenue.

For the first quarter of 2004, M-tron had an operating profit of $0.1 million, an improvement of $0.3 million over the $0.2 million loss in the first quarter of 2003 due mainly to increased revenue.

For the 2004 first quarter, Lynch Systems had an operating loss of $0.4 million compared to an operating loss of $0.5 million in the first quarter of 2003. Although Lynch Systems gross profit increased by $0.3 million, higher operating costs (mainly variable selling expenses) of $0.2 million reduced the net benefit of $0.8 additional revenue to $0.1 million.

For the first quarter of 2004, Lynch's corporate headquarters incurred unallocated expenses of $0.4 million that exceed first quarter 2003 by $0.1 million due mainly to higher professional services fees, liability insurance, and directors fees.

Other Income (Expense), Net

Investment income decreased $18,000 for the three months ended March 31, 2004 due to lower investment rates (mainly non-dividend paying marketable securities) and lower average cash balances.

Interest expense of $51,000 for the first quarter 2004 was $18,000 less than the first quarter of 2003 due to fewer Letter of Credit fees, lower average borrowing, and lower interest rates.

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First Quarter 2004 Other income of $27,000 was the result of selling excess equipment that was no longer on the Company's books.

Income Taxes

The Company files consolidated federal income tax returns, which includes all subsidiaries.

First Quarter 2004 income tax includes federal, state, local and foreign taxes. There was no state income tax benefit in first quarter 2004 because tax carry-back is not available to the Company's Georgia business. There was no federal tax benefit in first quarter 2004 as a result of net operating losses ("NOL's") because the Company had previously been refunded all taxes in its carry-back period and there is uncertainty regarding the utilization of the NOL carry-forward. The Company recorded a $25,000 tax provision in first quarter 2004 for foreign taxes at the Hong Kong tax rate on M-tron's foreign subsidiaries' earnings.

The first quarter 2003 income tax benefit included federal, as well as state, local, and foreign taxes. The first quarter 2003 net tax benefit of $349,000 was the result of operating losses incurred which were expected to be realized during the remainder of 2003.

Net Loss

Net loss for the first quarter of 2004 was $0.8 million compared to a net loss of $0.7 million in the quarter ending March 31, 2003. The $0.1 million additional loss is primarily due to unfavorable income taxes of $0.4 million that exceed the $0.3 million incremental operating profit that was the result of $2.1 million additional revenue. Fully diluted first quarter 2004 loss per share was $0.54 compared to a loss of $0.49 per share in the first quarter 2003.

Backlog/New Orders

Total backlog of manufactured products at March 31, 2004 was $6.1 million, a $0.5 million improvement over the backlog at December 31, 2003, and $5.2 million less than the backlog at March 31, 2003.

M-tron's backlog improved by $1.1 million since December 31, 2003 and $1.3 million since March 31, 2003, due mainly to increasing demand for telecommunications hardware.

Lynch Systems backlog has declined by $0.6 million since December 31 because there were no orders for glass press machines. First quarter 2004 orders of $1.6 million fell short of first quarter 2003 bookings by $3.8 million; Lynch Systems continues to submit a large number of quotes. (See "Subsequent Events" for recent orders trends).

Financial Condition

At March 31, 2004, the Company has current assets of $17.4 million and current liabilities of $9.9 million. Working capital was therefore $7.5 million as compared to $7.5 million at December 31, 2003 and $7.6 million at March 31, 2003. The ratio of current assets to current liabilities was 1.75 to 1.00 at March 31, 2004; 1.67 to 1.00 at December 31, 2003; and 1.68 to 1.00 ratio at March 31, 2003.

Cash provided by operating activities was approximately $1.7 million in the first quarter 2004 compared to cash provided of approximately $0.4 million in the first quarter of 2003. The year over year favorable change in operating cash flow of $1.3 million was mainly the result of $1.3 million difference in cash provided in working capital. Capital expenditures were $69,000 in first quarter 2004 compared to $33,000 in the period ending March 31, 2003.

Total debt of \$3.6 million at March 31, 2004 was \$0.2 million less than the amount outstanding at December 31, 2003 and \$0.9 million less than the debt at March 31, 2003. The year over year reduction in debt was the result of M-tron's improved operating performance that enabled it to borrow \$0.5 million less on its revolving line of credit while at the same time paying \$0.3 million on its funded debt. Debt outstanding at March 31, 2004 included \$1.0 million of fixed rate debt at an average interest rate of 4.0%, and \$2.6 million of variable rate debt at a March 31, 2004 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. 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 March 31, 2004, the Company's total cash, cash equivalents and investments in marketable securities total $9.1 million (including $1.1 million of restricted cash). In addition, the Company had a consolidated borrowing capacity of $2.3 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 $11.4 million and exceed the combined outstanding debt and margin liability on securities of $4.6 million by $6.8 million. The Company presently does not guarantee M-tron's bank debt. The parent company has provided an unsecured guarantee of Lynch Systems debt to Sun Trust Bank.

Lynch Systems is finalizing negotiations to renew its SunTrust Bank loan that matures on May 31, 2004. This incumbent lender has committed to provide up to 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. At March 31, 2004, there were outstanding Letters of Credit of $96,000 and no borrowings under the working capital line.

M-tron's lending bank, First National Bank of Omaha, has agreed to renew the $3 million revolving credit loan which expired on April 30, 2004. (See "Subsequent Events".)

The Company has guaranteed a Letter of Credit issued to the First National Bank of Omaha on behalf of its subsidiary, M-tron Industries, Inc. As of March 31, 2004, 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. 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 earnings parameters are met for a second time. These thresholds were not met in 2003 or the first quarter of 2004 and there is no assurance they will be met in 2004.

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.

Adoption of Accounting Pronouncements

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 consolidation requirements of FIN 46, as revised, are required to be applied for periods ending after December 15, 2003 for interests in structures that are commonly referred to as special-purpose entities, while the application of this Interpretation for all other types of variable interest entities is required for periods ending after March 15, 2004. The Company does not have any interests in variable interest entities.

**Off-Balance Sheet Arrangements**

Aside from the Company's stand-by Letter of Credit in the amount of $1,000,000, the Company does not have any off-balance sheet arrangements.

**Aggregate Contractual Obligations**

Details of the Company's contractual obligations for short-term debt, long-term debt, leases, purchases and other long term obligations are as follows:

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| Contractual Obligations | Total | Payments Due by Period - Including Interest<br>Less Than 1 Year | 1 - 3 Years | 3 - 5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| Short-term Debt | $1,882,000 | $1,882,000 | — | — | — |
| Long-term Debt Obligations | 2,025,000 | 1,001,000 | $ 702,000 | 125,000 | 197,000 |
| Capital Lease Obligations | — | — | — | — | — |
| Operating Lease Obligations | 561,000 | 205,000 | 356,000 | — | — |
| Purchase Obligations | — | — | — | — | — |
| Other Long-term Liabilities Reflected on the Registrant's Balance Sheet under GAAP | — | — | — | — | — |
| TOTAL | $4,468,000 | $3,088,000 | $1,058,000 | $125,000 | $197,000 |

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 amounts of interest earned on the Company's cash equivalents and short-term investments (approximately $6.0 million at March 31, 2004). The Company generally finances the debt portion of the acquisition of long-term assets with fixed rate, long-term debt. 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 March 31, 2004.

Since the Company's international sales are in U.S. Dollars, there is no monetary risk.

At March 31, 2004, approximately $2.6 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 2004 average interest rate under these borrowings, it is estimated that the Company's interest expense would change by less than $0.1 million. In the event of an adverse change in interest rates, management would take actions to further mitigate its exposure.

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, disruption of foreign economies and the inability to renew or obtain new financing for expiring loans.

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 April 27, 2004, Lynch Systems announced it had booked an order in the amount of $6.6 million for tableware manufacturing equipment, half of which will be delivered in 2004 and the remaining half delivered in 2005. This order, from one of the world's largest producers of tableware and other glass products, includes a variety of systems and components that were designed and developed by Lynch Systems.

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On April 28, 2004, M-tron's lending bank's (First National Bank's of Omaha) credit committee approved the renewal of the $3 million revolving line of credit that was to expire on April 30, 2004. The new credit line will expire on April 30, 2005. The bank also agreed to increase the company's existing term loan to $1.2 million. The new term loan will be at prime rate plus one-half percent for a period of three years with a five-year amortization schedule.

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.*

**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.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

2. **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 C.V. No. 01-236. The 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.

On March 8, 2004, Lynch filed a Motion for Summary Judgment on the issue of an exemption under the Maine Severance Pay Act based upon the nexus between the plant closure in Westbrook, Maine and the Spinnaker Defendants' bankruptcy filing. PACE concurrently filed a Motion for Summary Judgment on Count II of the Complaint on March 8, 2004.

During a trial management conference on March 24, 2004, the parties agreed to submit a stipulation of facts to the Court in lieu of a trial on any factual issues related to damages. The Court will hear oral argument from the parties on June 17, 2004, related to the pending Motions for Summary Judgment and related to the appropriate measure of damages that may be due pursuant to the Maine Severance Pay Act.

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.

3. **Qui Tam Lawsuit**

There has been no change in the status of this lawsuit as last reported in Registrant's Form 10-K for its fiscal year ended December 31, 2003.

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### Item 2. Issuer Purchase of Its Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| February 4, 2004 To February 29, 2004 | 400 | $12.5125 | 400 | 49,600 Shares |
| March 1, 2004 - March 31, 2004 | 2,000 | $13.5000 | 2,000 | 47,600 Shares |
| Total | 2,400 | $13.3770 | 2,400 | 47,600 Shares |

On February 4, 2004, Lynch announced that on January 23, 2004, the Board of Directors authorized the repurchase of up to 50,000 shares of the Company's outstanding common stock. The timing of the buy-back and the exact number of shares purchased will depend on market conditions; this program does not have an expiration date. The Company will buy back shares through both public and private channels at prices believed to be appropriate and in the best interest of shareholders.

As of March 31, 2004, the Company has repurchased 2,400 shares in the amount of $32,105, at an average price of $13.377 per share. 47,600 shares may yet be purchased under this program.

### Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Stockholders of the Registrant held on May 6, 2004:

The following persons were elected as Directors with the following votes:

| Name | Votes For | Votes Withheld |
|---|---|---|
| Val Cerutti | 1,399,589 | 5,291 |
| Mario J. Gabelli | 1,399,589 | 5,291 |
| Avrum Gray | 1,402,289 | 2,591 |
| Ralph R. Papitto | 1,401,637 | 3,243 |
| Anthony R. Pustorino | 1,399,589 | 5,291 |

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits filed herewith:

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).

(b) Report on Form 8-K:

1. Registrant's press release announcing its results of operations for the fourth quarter and fiscal year ending December 31, 2003 was filed with a Form 8-K on April 14, 2004.

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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:

May 11, 2004

/s/ RAYMOND H. KELLER
Raymond H. Keller
Chief Financial Officer

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## EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 31 | Certification of Registrant’s principal executive 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). †† |

†† 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. 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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EXHIBIT 31.1

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 quarterly 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 quarterly 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-15(e) 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 requirements 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 reasonably 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, 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 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 control over financial reporting.

Date: May 11, 2004

/s/ Ralph R. Papitto

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RALPH R. PAPITTO
Chairman and Chief Executive Officer

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EXHIBIT 31.2

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 quarterly 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 quarterly 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-15(e) 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

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 data 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 control over financial reporting.

Date: May 11, 2004

/s/ Raymond H. Keller
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RAYMOND H. KELLER
Chairman and Chief Financial Officer

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<TYPE>        EX-32
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<DESCRIPTION> EX-32 SEC 906 CERTIFICATION OF CEO & CFO
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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 March 31, 2004, 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:

(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
May 11, 2004

Raymond H. Keller
Chief Financial Officer
May 11, 2004

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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