# LYNCH CORPORATION

## 1999 ANNUAL REPORT

# LGL

## (ASE:LGL)

*For further information about our company, we can be reached at:*

**www.lynchcorp.com**

## LYNCH—PAST HISTORY

- Lynch Glass Machinery Company, predecessor of Lynch Corporation, was organized in 1917. The Company emerged in the late twenties as a successful manufacturer of glass-forming machinery. In 1928, Lynch Corporation was incorporated in the State of Indiana.
- In 1946, Lynch was listed on the "New York Curb Exchange" the predecessor to the American Stock Exchange.
- In 1964, Curtiss-Wright Corporation purchased a controlling interest in Lynch.
- In 1976, M-tron Industries, Inc., a manufacturer of quartz crystals was acquired.

## LYNCH CORPORATION—1985 – 1998

- In 1985, companies affiliated with Gabelli Funds, Inc. acquired a majority interest in Lynch's Common Stock, including the entire interest of Curtiss-Wright Corporation. Mario J. Gabelli was elected Chairman of the Board and Chief Executive Officer in 1986.
- In July 1986, Lynch issued $23 million of 8% Convertible Subordinated Debentures as the first step in an acquisition program designed to broaden Lynch's business base.
- In 1987, Lynch expanded the scope of its operations into the financial services and entertainment industries with the start-up of Lynch Capital Corporation, a securities broker dealer, and Lynch Entertainment Corporation, a joint venture partner with a 20% interest in WHBF-TV, the CBS television network affiliate in Rock Island, Illinois. Later in the year, the Company acquired Tremont Partners, Inc., a Connecticut-based investment management-consulting firm. In December, Lynch added to its manufacturing sector with the acquisition of an 83% interest in Safety Railway Service Corporation.
- In 1988, Lynch entered the service sector with the acquisition of Morgan Drive Away.
- 1989 was highlighted by Lynch's entry into the telecommunications industry with the acquisition of Western New Mexico Telephone Company.
- Lynch's second telecommunications acquisition, Inter-Community Telephone Company of Nome, North Dakota, was completed in April 1991, followed in October of that year with the acquisitions of Cuba City Telephone Exchange Company and Belmont Telephone Company.
- During 1992, Lynch acquired Bretton Woods Telephone Company of New Hampshire; and completed a rights offering to its shareholders, which resulted in the Tremont investment advisory firm becoming a publicly traded company.
- 1993 saw the launching of The Morgan Group, Inc., as a public company with an initial public offering of 1.1 million Class A Common Shares. Lynch also acquired J.B.N. Telephone Company in Kansas from GTE Corporation.
- 1994 saw the rebirth of Safety Railway Service Corporation into Spinnaker Industries.
- In 1995 in multimedia, we partnered with CLR Video, a cable operator in Kansas, bought 340 telephone lines from Sprint and commercialized DirectTV.
- In 1996 on the telephony front, we consummated the affiliation with the Maytum family and Dunkirk & Fredonia and completed the purchase of 1,400 lines from U.S. West. Morgan closed on Transit Homes of America, Inc. We organized and bid on Personal Communications Services licenses in the so-called "C" block and "F" block auctions.
- In 1997, acquired Upper Peninsula Telephone Company. Spun-off East/West Communications, Inc., a F-Block PCS licensee with 20 million "POPs."

## LYNCH—1999

- Lynch acquired Central Scott Telephone Company, a 6,000 ILEC in Iowa, an area where we would like to grow significantly.
- Spinnaker refocused its efforts in adhesive-backed paper industry and sold its industrial tape operations, also significantly deleveraging itself.
- On September 1, 1999, Lynch Interactive Corporation was born via a tax-free spin-off from Lynch Corporation. Interactive consists of Lynch Corporation's cable, telecommunications, PCS and broadcasting operations as well as The Morgan Group, Inc.

## LYNCH CORPORATION—BACK TO THE FUTURE

- With the spin off of Interactive, Lynch Corporation is again focused on the manufacturing sector of the economy, which currently provides fertile opportunities for growing the intrinsic value of the enterprise.

## FINANCIAL HIGHLIGHTS

**Prior Years Restated to Reflect Spin Off of Lynch Interactive Corporation and Discontinued Operations**
**(In thousands, except for share amounts)**

| | December 31 | | | | |
|---|---|---|---|---|---|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| Sales and Revenue: | | | | | |
| M-tron | $ 26,484 | $ 22,798 | $ 22,828 | $ 18,433 | $ 20,118 |
| Lynch Systems | 5,656 | 5,711 | 18,670 | 26,095 | 36,895 |
| Spinnaker | 162,082 | 159,135 | 112,237 | 122,448 | 100,133 |
| Total | $194,222 | $187,644 | $153,735 | $166,976 | $157,146 |
| Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA): | | | | | |
| M-tron | $ 2,540 | $ 2,073 | $ 2,199 | $ 1,766 | $ 1,885 |
| Lynch Systems | (1,768) | (1,955) | 1,648 | 4,745 | 6,916 |
| Spinnaker | 6,588 | 9,488 | 6,490 | 5,409 | 5,122 |
| | 7,360 | 9,606 | 10,337 | 11,920 | 13,923 |
| Corporate Expenses | (1,152) | (367) | (391) | (599) | (732) |
| EBITDA | $ 6,208 | $ 9,239 | $ 9,946 | $ 11,321 | $ 13,191 |
| Depreciation and Amortization: | | | | | |
| M-tron | $ 740 | $ 645 | $ 589 | $ 554 | $ 408 |
| Lynch Systems | 376 | 237 | 176 | 246 | 358 |
| Spinnaker | 5,118 | 4,283 | 2,451 | 2,048 | 480 |
| Total | $ 6,234 | $ 5,165 | $ 3,216 | $ 2,848 | $ 1,246 |
| Capital Expenditures | $ 3,795 | $ 3,297 | $ 3,231 | $ 11,735 | $ 3,031 |
| Net Income (loss) from continuing operations | $ (4,252) | $ 287 | $ 1,333 | $ 4,689 | $ 4,513 |
| Income (loss) of Lynch Interactive distributed to shareholders | (7,493) | 4,929 | (3,349) | (818) | 535 |
| Income (loss) from discontinued operations | (572) | (1,859) | (862) | 173 | 97 |
| Gain on sale of industrial tape segment of Spinnaker | 10,431 | | | | |
| Extraordinary item | 303 | | | (1,348) | |
| Net Income (loss) - Total | $ (1,583) | $ 3,357 | $ (2,878) | $ 2,696 | $ 5,145 |
| - Per Share - Basic | $ (1.12) | $ 2.37 | $ (2.03) | $ 1.94 | $ 3.73 |
| - Diluted | (1.12) | 2.37 | (2.03) | 1.92 | 3.66 |
| Working Capital | $ 23,214 | $ 13,111 | $ 30,517 | $ 48,761 | $ 14,077 |
| Current Ratio | 1.4 to 1 | 1.1 to 1 | 2.0 to 1 | 2.3 to 1 | 1.2 to 1 |
| Total Assets | $211,192 | $251,658 | $183,720 | $178,849 | $140,642 |
| Shareholders' Equity | $ 15,991 | $ 11,441 | $ 14,464 | $ 14,787 | $ 6,802 |
| Per Share | $ 11.34 | $ 8.07 | $ 10.21 | $ 10.63 | $ 4.93 |
| Price Per Share - High | $ 87 | | | | |
| - Low | 18⅞ | | | | |
| At December 31 Stock Price | 25 13/16 | | | | |
| Shares Outstanding | 1,410,183 | 1,418,248 | 1,417,048 | 1,391,034 | 1,378,663 |

See Notes to Selected Financial Data page 32.

## CHAIRMAN'S LETTER

### TO OUR SHAREHOLDERS:

Many stock market pundits use the analogy of Charles Dickens' book, *A Tale of Two Cities*, to describe the stock market in 1999: "It was the best of times, it was the worst of times." Small cap stocks, as measured by the Russell 2000, were ignored by the market except for brief periods in the second and fourth quarters. Overall, that index was up 20%, about in line with the S&P and Dow Jones. The bright star was the NASDAQ, which surged close to 87%. Fortunately for your Chairman, the value of Lynch's shares and the shares of our most recent spin offs, which started the year at approximately $74 ($72½ for LGL and $1½ for East/West Communications, Inc.—you have to give me credit for that one!), surged to the equivalent of $164. As a result, you're stuck with me as Chairman for another year.

The better news. Lynch Corporation has now been trimmed down to focus on its three operations: ***M-tron***, which is a crown jewel and ready to be monetized; ***Lynch Systems***, which survived a long drought and is ready to benefit from a global recovery, particularly in Asia; and ***Spinnaker***, where we hope to harvest the seeds we planted over ten years ago. In this context, we also note that Spinnaker is moving ahead, albeit at glacial speed, to spin off Entoleter to its shareholders.

The stock of Lynch as a stand-alone company started the new millennium at just under $26. We believe this price materially understates the intrinsic value of the enterprise. To assist your Chairman grow the intrinsic value, we recently retained Lou Guzzetti to serve as President & CEO.

### DEJA VU

When I assumed the helm of Lynch in 1985, the stock was $11.50—about in line with its intrinsic value. Our long-term shareholders are comfortable with the statement that our goal is to grow the value by about 25% per year by creating synergistic transactions along the lines of a leveraged buyout firm. Well, to reflect the results from 1985 through 1998, let me repeat the information we provided in last year's letter:

> Since 1985, we have grown revenues at 35% CAGR and EBITDA at 56% CAGR. We accomplished this with limited financial resources and virtually no increase in shares outstanding. We also have spun off two companies to shareholders. Tremont (NASDAQ:TMAVB - $10) was spun off on January 6, 1992, at a price of $0.40 per share, and East/West Communications (Pink Sheets: EWCM—$1.75) was spun off on December 5, 1997 at $0.10.

| | 1985 | 1998 | CAGR |
|---|---|---|---|
| | (000) | (000) | |
| Revenues | $10,699 | $514,526 | 35% |
| EBITDA | $ 147 | $ 49,473 | 56% |
| Shareholders' Equity | $14,348 | $ 39,793 | 8% |
| Number of Shares | 1,364,110 | 1,418,248 | .3% |
| Intrinsic Value (Pre-tax) | $12 | $200 +/– | 24% |
| Stock Price | $11 | $70½ | 15% |

**Transactions Since 1985**

| | |
|---|---|
| 27 | Acquisitions |
| 9 | Dispositions |
| 2 | Spin-offs |

In 1999, prior to the September 1 spin off of our multimedia and service assets, we acquired Central Scott Telephone Company and the cable assets which are now part of a "diverted properties" lawsuit (see Lynch Interactive Annual Report for details). In a very timely change of direction, Spinnaker decided to sell its electrical tape business to Intertape and has since used the proceeds to delever. But, obviously, the highlight of 1999 was the spin off of Lynch Interactive (ASE:LIC). Incidentally, those that follow our efforts noticed that in December we sold a convert in Lynch Interactive to Cascade Investment, LLC. Cascade was willing to make that investment because of our new, more focused efforts.

So, updating the record through the end of 1999, if you had purchased 1,000 shares of Lynch Corporation in 1985 at $11.50 per share, and assuming you had subscribed to the rights offering at Tremont in 1994 (a $400 investment) and at East/West Communications in 1999 (a $375 investment), the aggregate value of your investment as of the market close on December 31, 1999, was as follows:

| | | |
|---|---|---|
| Lynch Corporation | | $ 25,813 |
| Spin Offs: | Lynch Interactive Corporation | 99,875 |
| | Tremont Advisors, Inc. | 12,500 |
| | East/West Communications, Inc. | 48,125 |
| | | $186,313 |

In total, the CAGR on the initial investment of $11,500 was 22%.

One final note—I eat my own cooking. Simply stated, I would like to remain as Chairman and restart the growth rate of Lynch Corporation, but I don't want to work for salary. My compensation has been reduced to $150,000 and, to further align my interest with shareholders, I asked the Board (and they agreed) to sell me 100,000 shares at $30 per share, at a time the market price was $26.125—a premium of 14.8%. In addition, the Company paid no fees or commission in connection with the sale. If you believe this transaction is not in the best interests of Lynch Corporation, please vote against it. In any event, your vote is important.

Early in 2000, Marty Kiousis retired as President of M-tron, after more than 20 years of dedicated service. We thank Marty for his outstanding contributions and wish him a long and healthy retirement. We also welcome Bob Zylstra as Marty's replacement and Avrum Gray as a new director of Lynch Corporation.

We encourage you to remain united in our common goal.

Mario J. Gabelli
Chairman of the Board

## REPORT BY THE CHIEF FINANCIAL OFFICER

The continuing goal of Lynch Corporation is to grow intrinsic value by 25% per year. Last year's spin off of Lynch Interactive Corporation, the vehicle in which we chose to place our higher growth multimedia and service assets, will obviously make it a greater challenge for us to reach our goal. One of our remaining businesses, M-tron Industries, as an important supplier to the rapidly growing communications segment of the new economy, clearly has the ability to increase in value at more than 25% per year. While our other two businesses, Spinnaker Industries and Lynch Systems, are participants in more mature sectors of our economy, they will play an important role in helping us meet our goal, by providing the cash flow and liquidity that will help drive a key part of our growth strategy—acquisitions.

Acquisitions, both strategic and opportunistic, have always been an important vehicle for value creation at Lynch. We seek to optimize growth through acquisitions by structuring transactions in the most tax efficient manner and by utilizing creative financial engineering skills. To minimize our net investment and to maximize returns, we employ an appropriate level of financial leverage.

The kinds of companies we are looking for are those that are strategically positioned for long-term growth and appreciation in value. Specifically, we are looking for businesses that meet most of the following criteria:

- Basic businesses we can understand
- No turnarounds or start-up companies
- Strong management team in place that is willing to continue with the business and to work with us to build value—hence, no unfriendly deals
- Dependable and growing free cash flow
- A strong franchise with a defensible market position and a competitive edge
- A clear strategy for future growth

We are very interested in hearing from principals or their representatives regarding businesses that meet our criteria and are prepared to move quickly.

Roger J. Dexter
Chief Financial Officer

# M-TRON INDUSTRIES, INC.

## HIGHLIGHTS

Unlike 1998, which was an up and down year, 1999 started off with a significant increase in new order activity, which, for the most part, continued throughout the year. This increase was the result of new product introductions in the latter part of 1998, primarily directed to the telecommunications marketplace. To meet the increased demand, it was necessary for us to increase production levels, which we accomplished by improving our manufacturing processes and automating our production lines.

## FINANCIAL PERFORMANCE

New orders for 1999 were $29.8 million, compared to $21.1 million the prior year, an increase of 41%. Sales were $26.5 million, compared to $22.8 million in 1998, an increase of 16%, while EBITDA was $2.6 million, representing a 21% increase over the prior year's $2.2 million. Overall, M-tron's financial results in 1999 represented a substantial improvement over the prior year. In addition, we entered 2000 with a backlog of $6.9 million, compared to a $3.4 million backlog going into 1999.

## OPERATIONAL INITIATIVES

During the course of 1999, M-tron's senior management was realigned to meet the growth in demand we are experiencing. Three Vice Presidents were appointed, with responsibility for Operations, Finance and Marketing/Sales. This will allow for more focused leadership of the various disciplines involved in M-tron's growing operation. An automated assembly line was added at the Yankton facility for a major new oscillator product, and we upgraded or replaced several pieces of capital equipment used for high precision production. We also qualified a new, low cost, offshore contract supplier for purchased oscillators, which greatly enhances our capacity and competitiveness. In addition, M-tron assisted in the duplication of a major product line with a partner supplier in Korea, significantly increasing the availability of this product.

To meet the high technology demands of our core telecommunications and wireless markets, which increased by 73% in 1999 over 1998, we have developed a technology roadmap and expect to increase our research and development capabilities.

## PRODUCT DEVELOPMENT

M-tron derived its growth in 1999 from products developed in 1998. In the same vein, we are currently in the marketplace with several new leading edge products that we believe will significantly enhance our growth in 2000 and beyond.

M-tron would like to take this opportunity to thank its valued customers, its employees, its suppliers and the Yankton community for the loyalty and support that will enable us to address and to meet the challenges and exciting opportunities available to us in the marketplace. We also want to express our deepest thanks and appreciation to Marty Kiousis, who recently retired as President, for his invaluable leadership and dedication over the last twenty years. We are pleased and fortunate that Marty has agreed to continue to serve M-tron as a Director.

Robert R. Zylstra
President

## LYNCH SYSTEMS, INC.

Lynch Systems designs, develops and manufactures a broad range of capital equipment for the electronic display and consumer tableware industries. The company's technology serves two primary markets: manufacturers of cathode ray tube (CRT) displays for television and computer monitors; and, producers of consumer glass items, such as tableware and ovenware.

Over the last decade, more than 80% of Lynch Systems' shipments have been to international markets, principally those located in the Pacific Rim. Consequently, the Asian economic crisis (which, fortunately, now appears to be subsiding) has severely impacted our performance in recent years. Faced with this extremely difficult challenge, we have taken several important steps not only to cope with the immediate problem, but also to improve our prospects into the future. Thus, in addition to cutting costs and conserving capital, we have begun to broaden our base. Through both product development and product acquisition, we have begun to secure a meaningful position in the consumer glassware equipment market. While the expected financial return from our joint venture with Amav GmbH is yet unrealized, we remain confident that this combination will significantly strengthen our expansion into the consumer market. This market continues to become more sophisticated and demanding with respect to customization and delivery, particularly for pressing equipment, and Lynch Systems intends to make the management commitment and to invest the resources necessary to attain a leadership role in this market. Success will require technical competence, marketing focus and the development of strong relationships in the industry. Recent bookings and strong quoting activity confirm that we are making significant progress.

With respect to our traditional CRT market, things are finally looking up. Over the past six months, we have seen a significant increase in quoting activity and the actual placement of orders for CRT glass manufacturing equipment. In both the television and computer markets, the consumer has spoken: "bigger is better." Not too long ago, the standard TV screen size was 19 inches. Over time, this grew to 21, then 25, then 27 inches, and today it is larger than 32 inches. Manufacturers are now evaluating the possibility of skipping the in-between steps and supplying CRT screens in the range of 50 inches. Fortunately for Lynch Systems, for a variety of reasons relating to mold size, article weight, handling requirements, force required to drive equipment, etc., our customers can not simply make larger screen sizes on existing equipment. This bodes well for future business. The Flat Panel market, on the other hand, presents both a challenge and an opportunity for Lynch Systems. While currently only half the size of the CRT market, it is growing twice as rapidly and, consequently, Lynch Systems will ultimately need to complement current operations at this higher end of the display market.

One question that will need to be resolved before we can do so on a profitable basis is for the market to decide which of the several different types of flat glass production technologies will prevail.

As a participant in the market for large, durable capital goods, Lynch Systems business results will invariably be subjected to cyclical fluctuations tied to the plans our customers have for expansion or replacement of production facilities. At the present time, we are coming out of a trough and our prospects are strong. Lynch Systems has a healthy backlog of over $17 million and we are actively working on several additional projects associated with expansion or development of glass plant production facilities around the world. To build value for the Lynch shareholders, as well as for our employees, it is our intention and objective to maximize the opportunities presented to us by our traditional CRT marketplace at this moment in time, while we continue to broaden our base by careful and strategically sound expansion into the consumer tableware markets.

Arnold Bowling
President

## SPINNAKER INDUSTRIES, INC.

1999 was a pivotal year for Spinnaker Industries.

We successfully sold our two adhesives-backed industrial tape units, which produced 43 percent of the company's sales in 1998. For tax purposes, we offset a pretax profit of some $27 million with 1999 operating losses and available net operating loss carry-forwards.

We undertook several strategic moves designed to sharpen the Company's competitive edge in its major marketplaces: adhesive-backed stock for labels and pressure sensitive U.S. postage stamps.

Our first step was to use some of the sales proceeds to acquire $56.9 million face amount of Spinnaker's Senior Notes in the open market ($6.4 in 1999), resulting in an extraordinary gain net of tax of approximately $5.7 million on our books, $.6 million of which was reflected in 1999's results. Under the terms of the indenture, the Company is obligated to utilize approximately $21 million more of the proceeds by May 5, 2000, toward retirement of additional Senior Notes or other indebtedness, unless Spinnaker elects to invest the proceed to improve or expand its primary business. We are evaluating all alternatives.

Second, our Spinnaker Coating subsidiary is taking key steps to better differentiate itself in a label stock industry with excess production capacity. For example, Spinnaker Coating's excellent research and development group has produced several new products, including a premium pressure sensitive stock offering superior label converting and excellent laser and ink jet printing.

In August 1999, we announced that Spinnaker Coating had formed a strategic alliance with Ivex Packaging Corporation (NYSE: IXX) to create a single source supplier for water activated and heat activated adhesive backed products. Spinnaker markets and sells the specified products of both companies. Illinois-based Ivex has a plant in Spinnaker Coating's hometown of Troy, Ohio, which is handling production, inventory control and shipping.

In February 2000, we announced that Spinnaker Coating had entered into a strategic alliance with Dunsirn Industries, a company renowned for consistency and service in slitting and distributing adhesive-backed materials. Here, our marketing and sales efforts will be aided by Dunsirn's advanced systems, with the result that products will reach customers much more quickly.

The Company's third strategic undertaking began in November 1999 when we announced the contemplated split off of our Entoleter subsidiary to Spinnaker Industries shareholders. A manufacturer of industrial process equipment, Entoleter had sales of $7 million in 1999. Any transaction would be subject to certain conditions, including compliance with applicable securities laws.

Following the split off of Entoleter, the organization would be able to focus its full attention on Spinnaker Coating. We believe the steps described above, and other options being considered, will make Spinnaker Coating a more formidable competitor in the industry's currently difficult times, and will give it material advantages when demand for adhesive-backed label stock again catches up with production capacity.

In order to improve operational efficiencies, Spinnaker Coating recently restructured operations at its Maine unit. Also, in view of the narrowed scope of our business as a result of the sale of the industrial tape business, we are reducing corporate overhead by transferring the functions performed by our Dallas headquarters to the main Spinnaker Coating office in Ohio. We expect to recognize charges of approximately $500,000 associated with the restructuring efforts in our results for 2000's first quarter.

Our goal, as ever, is to enhance shareholder value. We appreciate the support of all our constituencies in pursuit of that goal.

Ned N. Fleming, III
President

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS

### YEAR 1999 COMPARED TO 1998

The accompanying audited consolidated financial statements reflect the Spin Off of Lynch Interactive Corporation (Interactive) from Lynch Corporation (Lynch) that occurred in the third quarter of 1999 and also the sale by Spinnaker Industries, Inc. (Spinnaker), a consolidated subsidiary of the Company, of its two industrial tape units, Central Products Company and Spinnaker Electrical, that also occurred in the third quarter of 1999. Accordingly, the operating results of both Interactive and the industrial tape segment have been segregated from continuing operations of the Company and are reported as separate line items on the financial statements as discontinued operations. The comparative amounts for 1998 have also been restated to reflect the above transactions. The ensuing narrative considers these changes and only includes discussions of the Company as it is currently composed. 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.

Revenues for the year ended December 31, 1999 were $194.2 million, an increase of $6.6 million from the comparable 1998 period. Spinnaker's 1999 net sales were $162.1 million, compared to $159.1 million in 1998. The growth in net sales for 1999 is attributed to approximately $7.6 million in net sales from the acquisition of Coating-Maine and higher unit sales of certain label stocks from 1998, which were offset by increased domestic capacity and the disruption of business at Entoleter from a mid-summer labor dispute. Revenues at M-tron increased by $3.7 million due to increased demand from the telecommunications industry and increased sales of new products. Lynch Systems' revenues were essentially flat.

Operating profit for 1999 declined by $4.0 million from the operating profit in the prior year. Spinnaker's operating profit declined by $3.7 million principally due to lower gross margins as a result of the lower pricing and the impact of the Entoleter labor dispute, partially offset by gains on sale of fixed assets and lower selling, general and administrative expenses. M-tron's operating profit increased by $.4 million due to increased volume.

Subsequent to the spin off of Interactive, the Company, with the concurrence of the holders of all outstanding SAR units, terminated its SAR program for corporate management, including all outstanding units, thus eliminating possible future profit and loss and cash flow distortions associated with the program. As a result of the termination, the Company recorded approximately $700,000 of related corporate expense.

In order to improve operational efficiencies, Spinnaker Coating restructured operations at its Maine unit in early 2000. Also, in view of the narrowed scope of the Spinnaker business as a result of the sale of the industrial tape business, steps are being taken to reduce Spinnaker corporate overhead by transferring functions from the Dallas headquarters to the main Spinnaker Coatings office in Ohio. As a result, Spinnaker has announced it expects to record a charge of approximately $500,000 in the first quarter of 2000.

Investment income increased due to the investment in short term securities of approximately $75 million in proceeds remaining, after payment of certain debt obligations, from the sale by Spinnaker of its Central Products and Electrical Tape businesses.

Interest expense was $11.9 million and increased from the prior year due to the allocation of a portion of the interest associated with the Spinnaker 10.75% Senior Secured Notes Due 2006 (the Senior Notes) to the discontinued industrial tape segment that ceased at the time of their sale in the third quarter of 1999. Interest expense also increased due to higher debt levels resulting from Spinnaker's acquisition of the Warren assets.

Interest expense from continuing operations is subject to certain matters associated with the use of the net proceeds from the sales of the industrial tape units of Spinnaker, including retirement of senior debt or "permitted investments" as defined under the Indenture.

The income tax benefit includes federal, as well as state and local taxes. The tax benefit for the year ended December 31, 1999, and 1998, represents effective tax rates of 27% for 1999 and 63% for 1998. The differences from the federal statutory rate are principally due to the effect of state income taxes, operating losses of subsidiaries and amortization of non-deductible goodwill.

Minority interests contribution to the net income (loss) increased by $1.5 million for the year from the prior year due to the increased losses from continuing operations at Spinnaker and the January 1, 1999, repurchase of M-tron minority interest.

On August 12, 1999, the Board of Directors approved a plan to distribute the stock of Lynch Interactive Corporation on a one for one basis to the shareholders of Lynch Corporation (the spin off). Lynch completed the spin off of Lynch Interactive Corporation on September 1, 1999, to stockholders of record on August 23, 1999. Pursuant to the spin off, each Lynch shareholder received one share of Interactive stock for each share of Lynch owned. Lynch had received a private letter ruling from the Internal Revenue Service that the spin off would be tax free to Lynch shareholders. Interactive has listed its stock on the American Stock Exchange. (LIC)

Interactive owns all of what was Lynch's multimedia and service businesses while Lynch retains the manufacturing businesses. Interactive owns the telephone companies, television interests and PCS interests, as well as the 55% equity interest of the Morgan Group, Inc. In addition, Interactive owns a 13.6% equity interest in Spinnaker Industries, Inc. Lynch owns a 48% equity interest in Spinnaker after the spin off, as well as M-tron Industries, Inc. and Lynch Systems, Inc.

As a result of the spin off, the Company's multimedia and services segments are being reported as operations distributed to shareholders in the accompanying consolidated financial statements. Accordingly, operating results of Lynch Interactive Corporation have been segregated from continuing operations and reported as a separate line item on the statement of operations. Lynch has restated its prior year financial statements to present the operating results of Lynch Interactive on a comparable basis. Interactive's net sales were $204.6 million for the year ended December 31, 1999, and $205.1 million and $194.1 million for the fiscal years ended December 31, 1998 and 1997, respectively.

Prior to the spin off, Lynch Interactive recorded a $15.4 million valuation reserve due to the decline in market value of its investment in personal communications licenses. As a result, Lynch Interactive reported an operating loss for the first eight months of 1999.

In the third quarter of 1999, Spinnaker sold its two industrial tape units, Central Products Company and Spinnaker Electrical, which comprise its industrial tape segment. Accordingly, operating results of the industrial tape segment have been segregated from continuing operations and reported separately in the statement of operations. Lynch has restated its prior years financial statements to present the operating results of the industrial tape segment as a discontinued operation. The industrial tape segment's net sales, up to the point of its sale, were $69.5 million for the year ended December 31, 1999, and $121.8 million and $119.7 million for the fiscal years ended December 31, 1998 and 1997, respectively.

Net loss for the year ended December 31, 1999, was $1.6 million, or ($1.12) per share, which compares to the net income of $3.4 million, or 2.37 per share, for the same period of 1998 due primarily to the operating losses mentioned above and the loss incurred by Interactive, offset by Spinnaker's gain on sale of its industrial tape units ($10.4 million after income taxes and minority interest).

Total backlog of manufactured products at December 31, 1999 was $35.3 million, which represents an increase of $25.5 million from the backlog of $9.8 million at December 31, 1998. All operating units contributed significantly to the increase in backlog at December 31, 1999. Included in this backlog for both periods is a $2.4 million payment from a customer for an earlier glass press order at Lynch Systems which was subsequently cancelled. The customer can use this amount for future orders and, if not utilized, will be forfeited to Lynch Systems. Included in the backlog at December 31, 1999, is a $14 million order for large glass press machines at Lynch Systems. In connection with this order, Lynch Systems has obtained a substantial credit facility to protect advances by the customer and for working capital.

**YEAR 1998 COMPARED TO 1997**

Revenues increased to $187.6 million in 1998 from $153.7 million in 1997, a 22% increase. The acquisition made during 1998 by Spinnaker Industries, Inc. was the most significant contributor to this increase. On March 17, 1998, Spinnaker acquired from S. D. Warren its assets in Westbrook, Maine utilized to manufacture pressure sensitive label stock. This operation contributed $47.0 million to Spinnaker's revenue increase. Spinnaker Coating, Inc. (Ohio) reported small revenue decreases during 1998 as a result of higher unit volume, but at overall lower prices, while Spinnaker's Entoleter subsidiary had a 39% increase. Lynch Systems' revenues decreased by $13 million from

1997 to 1998 due to lack of order activity for CRT glass press machines. During 1998 and early 1999, Lynch Systems added several new consumer glass press machines to its product offerings in an effort to be less dependent on orders for CRT glass press machines in the future.

Operating profits for 1998 were $4.1 million, down from $6.7 million in 1997. Operating profits fell by $2.6 million due to the EBITDA increase offset by increased depreciation and amortization of $1.7 million associated with the S. D. Warren acquisition.

Effective September 30, 1998, the Company amended its SAR (stock appreciation rights) Program so that the SARs become exercisable only in the event the price for the Company's shares double from the SAR grant price within five years from the original issuance. The grant prices of the 42,700 SARs outstanding at December 31, 1998 range from $63.03 to $84.63. On December 31, 1998, the closing price of the Company's common shares in trading on the American Stock Exchange was $70.50. This amendment eliminated the recording of the profit and loss effect from changes in the market price in the Company's common stock until it is probable that the SARs will become exercisable. During 1997, the Company recorded $0.4 million SAR expense and in 1998, prior to the amendment of the program, $0.2 million in SAR income.

Investment income was approximately $.2 million in 1998 and $.3 million in 1997.

Interest expense increased by $3.4 million in 1998 compared to 1997. The increase is due primarily to the effect of financing the Spinnaker acquisition of the Warren assets.

On July 31, 1998, Spinnaker Industries, Inc. completed the acquisition of the electrical tape division of tesa tape, inc. A portion of the purchase price was satisfied by the issuance of 200,000 shares, subject to certain adjustments, of Spinnaker's Class A common stock. As a result of this issuance, the Company recorded a gain on sale of subsidiary stock of $2.1 million, or $1.2 million ($0.87 per share) after income taxes.

The 1998 tax benefit of $1.4 million, includes federal, state and local taxes and represents an effective rate of 63% versus 17.2% effective tax rate in 1997. The difference in the effective rates is primarily due to the effects of the amortization of goodwill, the state and local income taxes and losses of subsidiaries.

During 1998, minority interest was income of $1.1 million versus $.1 million expense in 1997. The variance was primarily associated with additional losses recorded by Spinnaker (61% owned subsidiary by the Company at December 31, 1998) during 1998.

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1999, the Company had current assets of $79.7 million and current liabilities of $56.5 million. Working capital was therefore $23.2 million as compared to $18.8 million at December 31, 1998. The increase was primarily due to the increase in cash and reduction of short term working capital debt at Spinnaker resulting from the sale of its industrial tape segment.

Capital expenditures were $3.8 million in 1999 and $3.3 million in 1998. Overall 2000 capital expenditures are expected to be approximately 25% higher than the 1999 level.

At December 31, 1999, total debt was $141.6 million, which was $47.1 million less than the $188.7 million at the end of 1998. Debt at year end 1999 included $118.4 million of fixed interest rate debt, at an average interest rate of 10.7%, and $23.2 million of variable interest rate debt at an average interest rate of 8.1%. Additionally, the Company had $12.3 million in unused lines of credit at December 31, 1999, of which $11.5 million was attributed to Spinnaker.

Since 1987, the Board of Directors of Lynch has authorized the repurchase of 400,000 common shares. At December 31, 1999, Lynch's remaining authorization is to repurchase an additional 161,000 shares of common stock. In 1999, 8,130 shares were purchased for treasury at a cost of $523,000.

The Board of Directors has adopted a policy of not paying cash dividends, a policy which is reviewed annually. This policy takes into account the long term growth objectives of the Company, especially its acquisition program, shareholders' desire for capital appreciation of their holdings and the current tax law disincentives for corporate dividend distributions. Accordingly, no cash dividends have been paid since January 30, 1989 and none are expected to be paid in 2000.

In March, 2000 Lynch Systems completed a project specific line of credit totaling $7.1 million related to a contract to deliver equipment in 2000. Substantially all assets of Lynch Systems are pledged in support of the credit facility. In addition, the Company has guaranteed the full amount of the credit facility and has pledged $4 million of its Spinnaker Class A Common Stock as additional collateral.

Lynch Corporation maintains an active acquisition program and generally finances each acquisition with a significant component of debt. This acquisition debt contains restrictions on the amount of readily available funds that can be transferred to the parent company from its subsidiaries. As the result of acquisitions, Lynch consolidated, Spinnaker and certain acquisition subsidiaries have relatively high debt to equity ratios.

The Company has a significant need for resources to fund the operations of the holding company and future growth. There currently is no credit facility in place at the Lynch corporate level, and the Company is currently considering various long and short term financing arrangements. One alternative could be to sell a portion or all of certain investments in operating entities either directly or through an exchangeable debt instrument. Additional debt and/or equity financing vehicles at corporate and/or subsidiaries are also being considered. While management expects to obtain adequate financing resources to enable the company to meet its obligations, there is no assurance that such can be readily obtained or at reasonable costs.

The Company is exploring all options with respect to Spinnaker, including liquifying and monetizing its investment, and searching for ways to provide the Company with a more financially visible investment with respect to M-tron. There is no assurance that any transaction will be implemented.

In March, 2000, the Company completed the previously announced sale of 100,000 shares of its common stock to its Chairman at $30 per share, or $3 million. This transaction is subject to shareholder ratification at the Company's 2000 annual meeting. These funds will be available for general corporate purposes.

## YEAR 2000

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

The assessment phase for the Company's manufacturing businesses was completed by the 4th quarter of 1999. Based upon its identification and assessment efforts, the Company determined that certain of its computer and software used in manufacturing and accounting systems required replacement or modification. Such replacements and modifications were completed in the 4th quarter of 1999. The total cost of Year 2000 remediation was $0.2 million. A comprehensive contingency plan had been completed in the 4th quarter of 1999.

The assessment, implementation and contingency plans for the Company's Year 2000 program were based on management's estimates and were developed using numerous assumptions of future events, some of which were beyond the Company's control. The Company believed that with modifications to existing software and the conversion to new software, the Year 2000 issue would not pose significant operational problems for the Company as a whole.

The Company experienced no significant occurrences related to the Year 2000 issue.

## 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 and restricted cash. 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 either by borrowing on a fixed long-term basis or, on a limited basis, entering into interest rate swap agreements.

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.

At December 31, 1999, approximately $23.2 million, or 16% of the Company's long-term debt and notes payable bears interest at variable rates. Accordingly, the Company's earnings and cash flows are affected by changes in interest rates. Assuming the current level of borrowings for variable rate debt and assuming a one percentage point change in the 1999 average interest rate under these borrowings, it is estimated that the Company's 1999 and 1998 interest expense would have changed by $.2 million and $.5 million, respectively. In the event of an adverse change in interest rates, management would likely take actions to further mitigate its exposure. However, due to the uncertainty of the actions that would be taken and their possible effects, the analysis assumes no such actions. Further, the analysis does not consider the effects of the change in the level of overall economic activity that could exist in such an environment.

## FORWARD LOOKING INFORMATION

This Annual Report contains certain forward looking information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including without limitation, information in the Chairman's Letter, the Report by the Chief Financial Officer, the summary reports of the Company's various businesses, Management's Discussion and Analysis of Financial Condition and Results of Operations, particularly Liquidity and Capital Resources, Year 2000 and Market Risk and Notes to Financial Statements. It should be recognized that such information are estimates or forecasts based upon various assumptions, including the matters referred to therein and the risk factors and cautionary statements set forth in documents filed by the Company and Spinnaker Industries, Inc. with the Securities and Exchange Commission, as well as meeting the Company's internal performance assumptions regarding expected operating performance and the expected performance of the economy and financial markets as it impacts the Company's businesses. As a result, such information is subject to uncertainties, risks and inaccuracies, which could be material.

## STOCK MARKET PRICE INFORMATION AND COMMON STOCK OWNERSHIP

The Common Stock of Lynch Corporation is traded on the American Stock Exchange under the symbol "LGL." The market price highs and lows in consolidated trading of the Common Stock during the two years ended December 31, 1999 are as follows:

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| **1999** | **March 31** | **June 30** | **Sept 30 7/1-9/1** | **Sept 30 9/2-9/30** | **Dec 31** |
| High | 85½ | 84 | 87 | 34¾ | 26½ |
| Low | 70½ | 69 | 78 | 26½ | 18⅞ |

| **1998** | **March 31** | **June 30** | **Sept 30** | **Dec 31** |
|---|---|---|---|---|
| High | 109 | 113 | 100½ | 82 |
| Low | 77¼ | 88 | 76 | 69½ |

At March 15, 2000, the Company had 901 shareholders of record.

On September 1, 1999, the Company spun off the shares of Lynch Interactive Corporation to its shareholders. As a result, stock prices before and after that date are not comparable. The high and low sales prices of Lynch Interactive from September 1, 1999 to December 31, 1999, were $120 and $42, respectively, and the closing price at December 31, 1999, was $99 7/8.

The Board of Directors has adopted a policy of not paying cash dividends, a policy which is reviewed annually. This policy takes into account the long term growth objectives of the Company, especially its acquisition program, shareholders' desire for capital appreciation of their holdings and the current tax law disincentives for corporate dividend distributions. Accordingly, no cash dividends have been paid since January 30, 1989 and none are expected to be paid in 2000.

## LYNCH CORPORATION AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

**(In Thousands)**

| | December 31 1999 | December 31 1998 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 13,106 | $ 1,132 |
| Trade accounts receivables, less allowances of $361 and $395 | 24,642 | 25,320 |
| Inventories | 31,680 | 28,396 |
| Deferred income taxes | 8,943 | 11,714 |
| Other current assets | 1,303 | 1,787 |
| Net current assets of subsidiaries distributed to shareholders | — | 58,047 |
| Net current assets of discontinued operations | — | 36,226 |
| TOTAL CURRENT ASSETS | 79,674 | 162,622 |
| Restricted Cash | 56,026 | — |
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Land | 672 | 672 |
| Buildings and improvements | 11,015 | 12,585 |
| Machinery and equipment | 54,529 | 51,306 |
| | 66,216 | 64,563 |
| Accumulated depreciation | (22,137) | (17,534) |
| | 44,079 | 47,029 |
| EXCESS OF COST OVER FAIR VALUE OF NET ASSETS ACQUIRED, NET | 22,020 | 21,075 |
| OTHER ASSETS | 9,393 | 7,328 |
| NET NON-CURRENT ASSETS OF SUBSIDIARIES DISTRIBUTED TO SHAREHOLDERS | — | 170,295 |
| NET NON-CURRENT ASSETS OF DISCONTINUED OPERATIONS | — | 71,651 |
| TOTAL ASSETS | $211,192 | $480,000 |

See accompanying notes.

## LYNCH CORPORATION AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS (continued)

**(In Thousands, Except Share Amounts)**

| | December 31 1999 | December 31 1998 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Notes payable to banks | $ 23,178 | $ 59,686 |
| Trade accounts payable | 14,404 | 18,178 |
| Accrued interest payable | 2,426 | 2,575 |
| Accrued liabilities | 13,956 | 3,580 |
| Customer advances | 860 | 2,406 |
| Current maturities of long-term debt | 1,636 | 2,027 |
| Net current liabilities of subsidiaries distributed to shareholders | — | 37,240 |
| Net current liabilities of discontinued operations | — | 18,162 |
| TOTAL CURRENT LIABILITIES | 56,460 | 143,854 |
| LONG-TERM DEBT | 116,765 | 126,976 |
| DEFERRED INCOME TAXES | 6,225 | 11,715 |
| OTHER LONG-TERM LIABILITIES | 4,866 | 2,182 |
| MINORITY INTERESTS | 10,885 | 3,999 |
| NET NON-CURRENT LIABILITIES OF SUBSIDIARIES DISTRIBUTED TO SHAREHOLDERS | — | 147,600 |
| NET NON-CURRENT LIABILITIES OF DISCONTINUED OPERATIONS | — | 3,881 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Common Stock, no par or stated value—10,000,000 shares authorized; 1,471,191 shares issued and outstanding of 1,410,183 and 1,418,248 shares | 5,139 | 5,139 |
| Additional paid-in capital | 8,302 | 8,554 |
| Retained earnings | 3,843 | 26,771 |
| Accumulated other comprehensive income (loss) | (40) | 59 |
| Treasury stock of 61,008 and 52,943 shares at cost | (1,253) | (730) |
| TOTAL SHAREHOLDERS' EQUITY | 15,991 | 39,793 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $211,192 | $480,000 |

See accompanying notes.

## LYNCH CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF OPERATIONS

**(In Thousands, Except per Share Amounts)**

| | Year ended December 31 1999 | 1998 | 1997 |
|---|---|---|---|
| SALES AND REVENUES | $ 194,222 | $ 187,644 | $ 153,735 |
| Costs and Expenses: | | | |
| Manufacturing | 172,567 | 162,735 | 126,570 |
| Selling and administrative | 21,570 | 20,835 | 20,435 |
| OPERATING PROFIT | 85 | 4,074 | 6,730 |
| Other income (expense): | | | |
| Investment income | 2,354 | 199 | 305 |
| Interest expense | (11,882) | (8,591) | (5,189) |
| Gain on sale of stock by subsidiary | — | 2,090 | (91) |
| | (9,528) | (6,302) | (4,975) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTERESTS, DISCONTINUED OPERATIONS AND EXTRAORDINARY ITEM | (9,443) | (2,228) | 1,755 |
| Benefit (provision) for income taxes | 2,544 | 1,408 | (301) |
| Minority interests | 2,647 | 1,107 | (121) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS AND EXTRAORDINARY ITEM | (4,252) | 287 | 1,333 |
| DISCONTINUED OPERATIONS: | | | |
| Income (loss) from operations of Lynch Interactive Corporation distributed to shareholders (less income tax (provision) benefit of $3,068, ($5,012), and $736 and minority interests of $578, $1,226, and $714) | (7,493) | 4,929 | (3,349) |
| (Loss) from discontinued operations of Industrial tape segment (less income tax benefit of $308, $2,192, and $226 and minority interests of $558, $1,429, and $239) | (572) | (1,859) | (862) |
| Gain on sale of Industrial tape segment (less income tax provision of $6,495 and minority interest of $7,013) | 10,431 | — | — |
| EXTRAORDINARY ITEM: | | | |
| Gain on early extinguishment of debt (less income tax provision of $355 and minority interest of $300) | 303 | — | — |
| NET INCOME (LOSS) | $ (1,583) | $ 3,357 | $ (2,878) |
| Weighted average shares outstanding | 1,415,000 | 1,418,000 | 1,415,000 |
| Basic and diluted earnings (loss) per share: | | | |
| Income (loss) from continuing operations before discontinued operations | $ (3.00) | $ 0.20 | $ 0.94 |
| Income (loss) from operations of Lynch Interactive Corporation | (5.30) | 3.48 | (2.36) |
| Income (loss) from gain on sale and operations of Industrial tape segment | 6.97 | (1.31) | (0.61) |
| Extraordinary item | 0.21 | — | — |
| NET INCOME (LOSS) | $ (1.12) | $ 2.37 | $ (2.03) |

See accompanying notes.

## LYNCH CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

**(In Thousands Except for Shares of Common Stock)**

For the Three Years ended December 31, 1999

| | Shares of Common Stock Outstanding | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Compre-hensive Income | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 1996 | 1,391,034 | $5,139 | $8,417 | $ 26,472 | $ — | $(1,105) | $ 38,923 |
| Issuance of Treasury Stock | 26,014 | — | 313 | — | — | 359 | 672 |
| Capital transactions of The Morgan Group, Inc. | — | — | (86) | — | — | — | (86) |
| Dividend of East/West Communications, Inc. | — | — | — | (180) | — | — | (180) |
| Net loss (loss) for the year | — | — | — | (2,878) | — | — | (2,878) |
| Balance at December 31, 1997 | 1,417,048 | 5,139 | 8,644 | 23,414 | — | (746) | 36,451 |
| Issuance of Treasury Stock | 1,200 | — | 74 | — | — | 16 | 90 |
| Capital transactions of The Morgan Group, Inc. | — | — | (164) | — | — | — | (164) |
| Net income (loss) for year | — | — | — | 3,357 | — | — | 3,357 |
| Other comprehensive income | — | — | — | — | 59 | — | 59 |
| Balance at December 31, 1998 | 1,418,248 | 5,139 | 8,554 | 26,771 | 59 | (730) | 39,793 |
| Purchase of Treasury Stock | (8,065) | — | — | — | — | (523) | (523) |
| Capital transactions of The Morgan Group Inc. | — | — | (252) | — | — | — | (252) |
| Dividend of Lynch Interactive Corporation | — | — | — | (21,345) | (59) | — | (21,404) |
| Net income (loss) for year | — | — | — | (1,583) | — | — | (1,583) |
| Other comprehensive income | — | — | — | — | (40) | — | (40) |
| Balance at December 31, 1999 | 1,410,183 | $5,139 | $8,302 | $ 3,843 | $(40) | $(1,253) | $ 15,991 |

See accompanying notes.

## LYNCH CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(In Thousands)**

| | Year ended December 31 | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| **OPERATING ACTIVITIES** | | | |
| Net income (loss) | $ (1,583) | $ 3,357 | $(2,878) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities of continuing operations: | | | |
| Adjustment from discontinued operations: | | | |
| (Income) loss from operations of Lynch Interactive Corporation | 7,493 | (4,929) | 3,349 |
| Loss from operations of industrial tape segment | 572 | 1,859 | 862 |
| Gain on sale of industrial tape segment | (10,431) | — | — |
| Extraordinary item | (303) | — | — |
| Depreciation and amortization | 6,234 | 5,165 | 3,216 |
| Amortization of deferred financing charges | 786 | 771 | 632 |
| Gain on sale of stock by subsidiary corporation | — | (4,778) | (169) |
| Deferred taxes | (2,719) | (1,488) | (1,279) |
| Minority interests | (2,636) | (2,536) | (367) |
| Gain on sale of fixed assets | (854) | — | — |
| Changes in operating assets and liabilities: | | | |
| Receivables | 678 | 2,560 | 1,959 |
| Inventories | (3,284) | 2,270 | 22 |
| Accounts payable and accrued liabilities | (3,949) | 8,317 | (3,450) |
| Other | 864 | (728) | (479) |
| CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS | (9,132) | 9,840 | 1,418 |
| **INVESTING ACTIVITIES** | | | |
| Capital expenditures | (3,795) | (3,297) | (3,231) |
| Investment in Spinnaker Coating—Maine | — | (47,933) | — |
| Proceeds from sale of industrial tape segment | 104,450 | — | — |
| Proceeds from sale of fixed assets | 2,403 | 2,696 | — |
| Other | 509 | (128) | (1,339) |
| CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES OF CONTINUING OPERATIONS | 103,567 | (48,662) | (4,570) |

See accompanying notes.

## LYNCH CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

**(In Thousands)**

| | Year ended December 31 | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| **FINANCING ACTIVITIES** | | | |
| Net borrowings (repayments) of notes payable | (36,127) | 42,268 | 1,121 |
| Issuance of long-term debt | — | 6,025 | 1,262 |
| Repayment of long-term debt | (10,937) | (1,954) | (1,991) |
| Deferred financing costs | (580) | (726) | — |
| (Purchase) sale of treasury stock | (523) | 90 | 672 |
| Other | — | (841) | 755 |
| CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES OF CONTINUING OPERATIONS | (48,167) | 44,862 | 1,819 |
| Net increase (decrease) in cash and cash equivalents | 46,268 | 6,040 | (1,333) |
| Cash provided by (used by) Lynch Interactive Corporation | 15,987 | (1,880) | (557) |
| Cash provided by (used by) industrial tape segment | 5,745 | (7,025) | 864 |
| Increase (decrease) in cash and cash equivalents | 68,000 | (2,865) | (1,026) |
| Cash and cash equivalents at beginning of period | 1,132 | 3,997 | 5,023 |
| Cash and cash equivalents at end of period, including $56,026 of Restricted Cash at December 31, 1999 | $ 69,132 | $ 1,132 | $ 3,997 |

See accompanying notes.

# LYNCH CORPORATION AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## DECEMBER 31, 1999

### 1. Accounting and Reporting Policies

*Principles of Consolidation* The consolidated financial statements include the accounts of Lynch Corporation (the "Company" or "Lynch") and entities in which it has majority voting control. All material intercompany transactions and accounts have been eliminated in consolidation. See Note 4 for details of the spin off of Lynch Interactive Corporation which occurred on September 1, 1999.

*Uses of Estimates* The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash Equivalents* Cash equivalents consist of highly liquid investments with a maturity of less than three months when purchased.

At December 31, 1999 and 1998, assets of $1.1 million and $1.3 million, which are classified as cash and cash equivalents, are invested in United States Treasury money market funds for which affiliates of the Company serve as investment managers to the respective funds.

*Restricted Cash* At December 31, 1999 the Company had $56 million of Restricted Cash. See discussion of Restricted Cash in Note 6 — Notes Payable and Long-Term Debt.

*Property, Plant and Equipment* Property, plant and equipment are recorded at cost and include expenditures for additions and major improvements. Maintenance and repairs are charged to operations as incurred. Depreciation is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets, which range from 3 years to 35 years. For income tax purposes, accelerated depreciation methods are used.

*Excess of Cost over Fair Value of Net Assets of Companies Acquired* Excess of cost over fair value of net assets of companies acquired (goodwill) is being amortized on a straight-line basis over periods ranging from twenty to forty years. The Company periodically reviews goodwill to assess recoverability, and impairments would be recognized in operating results if a permanent diminution in value were to occur. The Company measures the potential impairment of recorded goodwill by the undiscounted value of expected future cash flows in relation to its net capital investment in the subsidiary. Based on its review, the Company does not believe that an impairment of its goodwill has occurred. Excess of cost over fair value of net assets acquired include acquisition intangibles of $23.4 million and $21.6 million, net of accumulated amortization of $1,391,000 and $574,000 at December 31, 1999 and 1998, respectively.

*Revenue Recognition* Revenues, with the exception of certain long-term contracts discussed below, are recognized on shipment.

*Research and Development Costs* Research and development costs are charged to operations as incurred. Such costs were $571,000, $1,030,000, and $1,022,000 in 1999, 1998, and 1997, respectively.

*Earnings Per Share* In 1997, the Company adopted Financial Accounting Standards Board Statement ("SFAS") No. 128, "Earnings Per Share". SFAS No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share are very similar to the previously reported fully diluted earnings per share. The Company's basic and diluted earnings per share are equivalent as the Company has no dilutive securities.

*Segment Information* Effective December 1998, the Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". SFAS No. 131 superseded SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise". SFAS No. 131 establishes new standards for reporting information about operating segments. SFAS No. 131 requires disclosure of selected financial and descriptive information for each operating segment based on management's internal organizational decision-making structure. Additional information is required on a company-wide basis for revenues by product or service, revenues and identifiable assets by geographic location and information about significant customers. The adoption of SFAS No. 131 did not affect results of operations or financial position, but did affect the disclosure of segment information. Prior year amounts have been reclassified to conform to the requirements of SFAS No. 131. See Note 14.

*Pension and Other Post-Retirement Benefits* In February 1998, the FASB issued SFAS No. 132, "Employers Disclosures About Pensions and Other Post-Retirement Benefits", which is an amendment to SFAS No.'s 87, 88, and 106. This SFAS revises employers' disclosures about pension and other post-retirement benefits plans. It does not change the measurement or recognition of those plans. The adoption of SFAS No. 132 in 1998 did not have a significant impact on the Company's consolidated financial statements as the Company's benefit plans are not material.

*Accounting for Long-Term Contracts* Lynch Systems, Inc., a 91% 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 15% 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. At December 31, 1999 and 1998, costs in excess of billings were $95,000 and $0, respectively.

*Impairments* The Company accounts for impairments of long-lived assets in accordance with the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of". The Company periodically assesses the net realizable value of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held and used, impairment is determined to exist if estimated undiscounted future cash flows are less than the carrying amount. For assets to be disposed of, impairment is determined to exist if the estimated net realizable value is less than the carrying amount.

*Stock Based Compensation* The Company accounts for stock based compensation in accordance with the provisions of SFAS No. 123, "Accounting for Stock Based Compensation". SFAS No. 123 establishes a fair value method of accounting and reporting standards for stock based compensation plans. However as permitted by SFAS No. 123, the Company has elected to continue to apply the provisions of Accounting Principles Board Opinion ("APB") No. 25, if the exercise price of the Company's employee stock options was not less than the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company is required to disclose the pro forma net income (loss) and net income (loss) per share as if the fair value method defined in SFAS No. 123 had been applied to all grants made on or after January 1, 1995. See Note 8 for pro forma disclosures.

*Fair Value of Financial Instruments* Cash and cash equivalents, trade accounts receivable, short-term borrowings, trade accounts payable and accrued liabilities are carried at cost which approximates fair value due to the short-term maturity of these instruments. The carrying account of the Company's borrowings under its revolving lines of credit approximates fair value, as the obligations bear interest at a floating rate. The fair value of other long-term obligations approximates cost based on borrowing rates for similar instruments, excluding the Spinnaker Industries, Inc. ("Spinnaker") senior-secured debt with a carrying value of $109 million at December 31, 1999 and $115 million at December 31, 1998 and a fair value of between $87.8 million and $92.3 million, and $100.1 million, respectively, at December 31, 1999 and 1998, based on quoted market prices.

*Issuance of Stock by Subsidiaries and Investees* Changes in the Company's equity in a subsidiary or an investee caused by issuance of the subsidiary's or investees' stock are accounted for as gains or losses where such issuance is not part of a broader reorganization (see Note 9).

*Reclassifications* The consolidated financial statements reflect the spin off of Lynch Interactive Corporation (Interactive) from Lynch Corporation that occurred in the third quarter of 1999 and also the sale by Spinnaker Industries, Inc. (Spinnaker), of its two industrial tape units, Central Products Company and Spinnaker Electrical that also occurred in the third quarter of 1999. Accordingly, the operating results of both Interactive and the industrial tape segment have been segregated from continuing operations of the Company and are reported as separate line items on the financial statements as discontinued operations. The comparative amounts for 1998 and 1997 have also been restated to reflect the above transactions.

Certain other amounts in the 1998 and 1997 financial statements have been reclassified to conform to the 1999 presentation. These other reclassifications are immaterial to the consolidated financial statements taken as a whole.

*Recent Accounting Pronouncements* In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which is required to be adopted in years beginning after June 15, 2000. SFAS No. 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in fair value are either offset against the changes in fair value of assets and liabilities through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Because of the Company's minimal use of derivatives, management does not anticipate that the adoption of SFAS No. 133 will have a significant effect on its earnings or financial position.

## 2. Acquisitions

On July 31, 1998, the Company's subsidiary, Spinnaker, acquired tesa tape, inc.'s pressure-sensitive electrical tape product line and its Carbondale, IL manufacturing plant (the "Spinnaker Electrical Acquisition"). The purchase price totaled $10.7 million, comprised of 200,000 shares of Spinnaker common stock (subject to adjustment) valued at $3.7 million, $4.5 million in term debt, $2.0 million in cash, and a $0.5 million subordinated note. The acquired business produces electrical tape for insulating motors, coils and transformers for customers in Europe, Canada and the U.S. This company was subsequently sold within the industrial tape segment. See Note 3 — Discontinued Operations.

On March 17, 1998, Spinnaker Coating-Maine, Inc., a wholly owned subsidiary of Spinnaker, acquired the assets of the pressure-sensitive adhesive-backed label stock business of S. D. Warren (the "S.D. Warren Acquisition"). The purchase price was approximately $51.8 million, plus the assumption of certain liabilities and transaction costs, and was funded by issuing the seller a convertible subordinated note of $7.0 million with the remainder funded by Spinnaker's revolving credit facility. As a result of this transaction, the Company recorded approximately $23.1 million in goodwill which is being amortized over 30 years.

All of the above acquisitions were accounted for as purchases, and accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair market values on their respective dates of acquisition. The operating results of the acquired companies are included in the Consolidated Statements of Operations from their respective acquisition dates except for the tesa tape acquisition, which is included in discontinued operations.

The following unaudited pro forma information shows the results of the Company's operations presented as if the S. D. Warren Acquisition was made at the beginning of 1997. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been made at that date nor is it necessarily indicative of future results of operations.

| | For the years ended December 31 | |
|---|---|---|
| | 1998 | 1997 |
| | (In thousands, except per share amounts) | |
| Sales | $199,758 | $217,614 |
| Income (loss) from continuing operations | $ (3,053) | $ 2,274 |
| Net income (loss) | $ 3,197 | $ (1,937) |
| Basic and diluted earnings per share: | | |
| Income (loss) from continuing operations | $ (2.15) | $ 1.61 |
| Net income (loss) | $ 2.25 | $ (1.37) |

## 3. Discontinued Operations

On April 9, 1999, Spinnaker entered into a definitive agreement to sell its industrial tape segment to Intertape for approximately $105 million and five-year warrants to purchase 300,000 shares of Intertape common stock (New York Stock Exchange Symbol "ITP") at an exercise price of $29.50 per share. The warrants were valued at approximately $3.0 million using the Black-Scholes option pricing model and are reflected in other assets. Accordingly, operating results of the industrial tape segment have been segregated from continuing operations and reported as a separate line item on the statement of operations.

The sale of the two industrial tape businesses closed on August 10, 1999 and July 30, 1999, respectively. The Company recorded gains totaling $17.4 million, net of applicable income taxes of approximately $6.5 million. Spinnaker offset the cash tax liability by utilizing net operating loss carry forwards.

The Company has restated its prior financial statements to present the operating results of the industrial tape segment as a discontinued operation. The industrial tape segment net sales were $69.5 million, $121.8 million and $119.7 million for the periods ended December 31, 1999 (through the date of sale), 1998 and 1997, respectively.

General corporate office expenses related to finance and administrative functions including public company compliance reporting, bank and investor relations, taxes other than income taxes and holding company payroll, historically allocated and charged to the industrial tape segment were reversed and allocated back to continuing operations. These expenses were not considered to be directly attributed to discontinued operations. Historical expenses allocated back to continuing operations totaled $1.0 million, $1.5 million and $0.9 million in the periods ended December 31, 1999, 1998 and 1997, respectively.

Interest expense attributed to the Senior Notes and related deferred financing has historically been allocated based on the pro rata share of subsidiary debt obligations retired with the proceeds from the issuance of the Senior Notes, to total debt obligations retired. The Senior Note proceeds were used to extinguish certain outstanding term and revolver obligations in October 1996. Interest expenses charged to the discontinued industrial tape segment totaled $5.2 million for the period ended December 31, 1999 and $8.5 million in the periods ended December 31, 1998 and 1997.

The assets and liabilities of the industrial tape segment of Spinnaker included in the accompanying consolidated balance sheet at December 31, 1998 consist of the following *(in thousands)*:

| | |
|---|---|
| Accounts receivable, net | $14,815 |
| Inventories, net | 18,167 |
| Prepaids and other | 3,244 |
| Current assets of discontinued operations | $36,226 |
| Property, plant and equipment, net | $48,312 |
| Goodwill and other assets | 23,339 |
| Non-current assets of discontinued operations | $71,651 |
| Accounts Payable | $13,720 |
| Accrued liabilities | 4,442 |
| Current liabilities of discontinued operations | $18,162 |
| Non-current liabilities of discontinued operations | $ 3,881 |

### 4. Spin Off

On August 12, 1999, the Board of Directors approved a plan to distribute the stock of Lynch Interactive Corporation on a one for one basis to the shareholders of Lynch Corporation ("spin off"). Lynch completed the spin off of Lynch Interactive Corporation ("Interactive") on September 1, 1999, to stockholders of record on August 23, 1999. Pursuant to the spin off, each Lynch shareholder received one share of Interactive common stock for each share of Lynch owned. Lynch had received a private letter ruling from the Internal Revenue Service that the spin off would be tax free to Lynch shareholders. Interactive is listed on the American Stock Exchange under the symbol "LIC".

Interactive owns all of what were Lynch's multimedia and service businesses while Lynch retained the manufacturing businesses. Interactive owns the telephone companies, television interests and PCS interests, as well as the 55% equity interest of The Morgan Group, Inc. In addition, Interactive owns a 13.6% equity interest in Spinnaker Industries, Inc. Lynch owns a 47.6% equity interest in Spinnaker (60.4% of voting interest), as well as 100% of M-tron Industries, Inc. and 92% of Lynch Systems, Inc.

As a result, the Company's multimedia and services segments are being reported as operations distributed to shareholders in the accompanying consolidated financial statements. Accordingly, operating results of Lynch Interactive Corporation have been segregated from continuing operations and reported as a separate line item on the statements of operations.

Lynch has restated its prior year financial statements to present the operating results of the Company on a comparable basis. Interactive's net sales were $204.6 million, $205.2 million, and $194.1 million for the fiscal years ended December 31, 1999, 1998, and 1997, respectively.

In the third quarter of 1999, Lynch acquired by merger, all of the stock of Central Scott Telephone Company. This company became part of Lynch Interactive and was included in the spin off.

Lynch Interactive and Lynch have entered into certain agreements governing various ongoing relationships, including the provision of support services and a tax allocation agreement. The tax allocation agreement provides for the allocation of tax attributes to each company as if it had actually filed with the respective tax authority. At the spin off, the employees of the corporate office of Lynch Corporation became the employees of Lynch Interactive Corporation and Lynch Interactive Corporation began providing certain support services to Lynch. The Company was charged a management fee for these services amounting to approximately $200,000 in 1999.

The net assets of Interactive included in the accompanying audited consolidated balance sheet as of December 31, 1998 consist of the following *(in thousands):*

| | |
|---|---|
| Cash, cash equivalents and marketable securities | $ 27,988 |
| Accounts receivable, net | 18,853 |
| Deferred income taxes | 4,265 |
| Prepaid expenses and other | 6,941 |
| Current assets of subsidiaries distributed to shareholders | $ 58,047 |
| Property, plant and equipment, net | $ 91,183 |
| Goodwill | 47,740 |
| Investment in and advances to PCS license holders | 23,360 |
| Other assets | 8,012 |
| Non-current assets of subsidiaries distributed to shareholders | $170,295 |
| Notes payable | $ 2,037 |
| Accounts payable | 4,662 |
| Accrued liabilities | 21,902 |
| Current portion of long term debt | 8,639 |
| Current liabilities of subsidiaries distributed to shareholders | $ 37,240 |
| Long Term Debt | $119,024 |
| Deferred income tax | 13,062 |
| Other long term debt | 4,987 |
| Minority interest | 10,527 |
| Non-current liabilities and minority interest of subsidiaries distributed to shareholders | $147,600 |

The net assets distributed to Interactive were estimated to be $23.0 million at September 1, 1999. Such amount was subsequently decreased in the fourth quarter by $1.6 million to reflect revised estimates of liabilities distributed.

### 5. Inventories

Inventories are stated at the lower of cost or market value. Inventories valued using the last-in, first-out (LIFO) method comprised approximately 12% and 9% of consolidated inventories at December 31, 1999 and 1998, respectively. Inventories at Spinnaker Coating, 80% and 82% of inventories at December 31, 1999 and 1998, respectively, are valued using the specific identification method. The balance of inventories are valued using the first-in, first-out (FIFO) method.

| | December 31 | |
|---|---|---|
| | 1999 | 1998 |
| | (In Thousands) | |
| Raw materials and supplies | $10,407 | $ 7,711 |
| Work in progress | 2,114 | 1,273 |
| Finished goods | 19,159 | 19,412 |
| Total | $31,680 | $28,396 |

Current cost exceeded the LIFO value of inventories by $829,000 and $880,000 at December 31, 1999 and 1998, respectively.

### 6. Notes Payable and Long-term Debt

Long-term debt consists of (all interest rates are at December 31, 1999):

| | December 31 | |
|---|---|---|
| | 1999 | 1998 |
| | (In Thousands) | |
| Spinnaker Industries, Inc. 10.75% Senior Secured Notes due 2006 | $108,585 | $115,000 |
| Unsecured note issued in connection with acquisition at a fixed interest rate of 10% | 7,000 | 7,500 |
| Other | 2,816 | 6,503 |
| | 118,401 | 129,003 |
| Current maturities | (1,636) | (2,027) |
| | $116,765 | $126,976 |

On October 23, 1996, Spinnaker completed the issuance of $115,000,000 of 10.75% senior-secured debt due 2006. The debt proceeds were used to extinguish substantially all existing bank debt, bridge loans and lines of credit at Spinnaker and its two major operating subsidiaries, Central Products and Spinnaker Coating. Financing costs were incurred by Spinnaker in conjunction with the issuance of the 10.75% senior secured notes and other financing activities. These financing costs are deferred and amortized over the term of the related debt. Unamortized financing costs of $5.4 million and $5.7 million at December 31, 1999 and 1998, respectively, are included in other assets.

The notes are redeemable, in whole or in part, at the option of Spinnaker on or after October 15, 2001, at redemption prices beginning at 105.375% of the principal amount declining to 100% of the principal amount on October 15, 2005, plus accrued and unpaid interest. The notes are unconditionally guaranteed, jointly and severally, by Spinnaker's subsidiaries, Spinnaker Coating, Inc., and Entoleter, Inc.

Spinnaker completed the sale of Central Products on August 10, 1999 and $18.2 million of the proceeds were used to repay the working capital revolver debt. Any net cash proceeds from the sale of Central Products ("Restricted Proceeds") not invested in any business within 270 days after the sale of Central Products or not used within that time to permanently reduce indebtedness (other than subordinated debt) shall be deemed to be excess proceeds. At December 31, 1999, the amount of net cash proceeds, which are restricted in their future use, has been classified as Restricted Cash on the Company's balance sheet. If any excess proceeds exist 270 days after the sale of Central Products, Spinnaker is obligated to utilize those proceeds to make an offer to purchase the Senior Notes at par plus accrued interest.

During the third and fourth quarters of 1999, Spinnaker Electrical purchased a total of $6.4 million of the outstanding Senior Notes on the open market at an average price of 81.5% of par value. The Company has recorded a gain on the early extinguishment of debt of approximately $303,000, which amount has been reduced by the write-off of a proportional amount of deferred financing costs and after giving effect to taxes and minority interest.

The proceeds from the sale of Spinnaker Electrical, an unrestricted subsidiary under the Indenture, were used to repay approximately $6.9 million of certain term debt and working capital revolver debt collateralized by the assets of Spinnaker Electrical. The remaining net proceeds will be used for general corporate purposes, which may include purchasing Senior Notes in the open market. Other options include acquisitions, capital expenditures, and / or repurchase shares of Spinnaker common stock. Subsequent to December 31, 1999, Spinnaker utilizing the Restricted Proceeds, purchased $33.4 million (par value) of outstanding Senior Notes on the open market at an average price of 83.6%. In addition, Spinnaker purchased all of the Senior Note holdings of Spinnaker Electrical at 81.5% of par value, plus accrued interest, representing Spinnaker Electrical's cost basis.

At December 31, 1998 the Company had two lines of credit totaling $20.0 million of which $4.9 million was available. In conjunction with the spin off of Lynch Interactive, these credit facilities were transferred from the Company to Interactive.

On a consolidated basis, at December 31, 1999, Lynch maintains short-term and long-term line of credit facilities totaling $43.7 million (subject to limitations that reduce the availability to $35.4 million), of which $12.3 million was available for future borrowings. Spinnaker Industries, Inc. maintains lines of credit at its subsidiaries which in the aggregate total $40.0 million (subject to limitations that reduce the availability to $32.0 million), of which $11.5 million was available at December 31, 1999. These facilities, as well as facilities at other subsidiaries of Lynch, generally limit the credit available under the lines of credit to certain variables, such as inventories and receivables, and are secured by the operating assets of the subsidiary, and include various financial covenants. At December 31, 1999, $3.7 million of these total facilities expire within one year and subsequent to year-end were extended to March of 2001. The weighted average interest rate for short-term borrowings at December 31, 1999 was 8.05%. The Company pays fees ranging from 0% to 0.375% on its unused lines of credit.

In general, the long-term debt facilities are secured by substantially all of the Company's property, land and equipment, inventory, receivables and common stock of certain subsidiaries and contain certain covenants restricting distributions to Lynch. At December 31, 1999, and 1998, substantially all the subsidiaries' net assets are restricted.

Cash payments for interest were $10.6 million, $7.2 million and $4.8 million for the years ended December 31, 1999, 1998 and 1997, respectively.

Aggregate principal maturities of long-term debt for each of the next five years are as follows: 2000—$1.6 million; 2001—$.4 million; 2002—$.4 million; 2003—$7.6 million and 2004—$0 million.

### 7. Minority Interests and Related Party Transactions

On July 31, 1998, Spinnaker completed the acquisition of the electrical tape division of tesa tape, inc. (see Note 2). A portion of the purchase price was 200,000 newly issued shares of Spinnaker Class A common stock (subject to certain adjustments). In accordance with the Company's policy, as a result of this issuance, the Company recorded a pre-tax gain on the sale of subsidiary stock of $2.1 million in 1998.

On June 13, 1994, Spinnaker entered into a management agreement (the "Management Agreement") with Boyle, Fleming & Co., Inc. ("BF"), of which a former Director of the Company is a principal, to assume the management of Spinnaker. Effective August 31, 1996, the Management Agreement was terminated at which time Messrs. Boyle and Fleming became employees of Spinnaker. Spinnaker and BF also entered into a Warrant Purchase Agreement in 1994, pursuant to which BF received warrants to purchase common stock of Spinnaker (equating to a 20% ownership of Spinnaker at that time) at any time on or before June 30, 1999, subject to certain restrictions. The remaining warrants were exercised in January 1998. Mr. Boyle is currently a member of the Office of the Chairman and Mr. Fleming remains President.

On October 23, 1996, concurrent with the issuance of the $115 million Senior Notes (see Note 6), Spinnaker acquired the remaining 25% minority interest in its Spinnaker Coating subsidiary. The terms of the acquisition involved a cash payment of approximately $2.3 million and the issuance of 9,613 shares of Spinnaker Common Stock. In addition, as part of the consideration for the shares of capital stock of Spinnaker Coating, the minority shareholders received the right to a contingent payment, which is exercisable at any time during the period beginning October 1, 1998 and ending September 30, 2000. The contingent payment is based upon the percentage of the capital stock owned by the former Spinnaker Coating entity at the time of the merger multiplied by the fair market value of the capital stock of Spinnaker Coating, as determined in accordance with certain economic assumptions and including an adjustment for a minority ownership discount, as of the date such right is exercised, less the consideration received at closing. The contingent price is payable through the issuance of Common Stock of Spinnaker, unless Spinnaker elects to pay the contingent price in cash. If such payments are made in cash, they could give rise to a default under the Senior Notes, unless there is sufficient availability under provisions regarding restricted payments contained in the Senior Notes. The amount of the contingent payment is currently being determined. Any contingent consideration paid in the future will be allocated to goodwill.

In connection with the purchase of the Spinnaker Coating minority interest, all the Spinnaker Coating options were accelerated and in turn certain key executives of Spinnaker Coating management exercised those options to purchase 71,065 shares of Spinnaker Coating common stock at various prices between $7.16 and $14.69 per share, for a total of approximately $670,000. The options were originally granted in 1994 and were issued at not less than 100% of the fair market value of the common stock at the date of grant.

## 8. Stock Option Plans

In accordance with Spinnaker's directors stock option plan, Spinnaker may grant stock options to directors who are not employees of Spinnaker. In February 1996, Spinnaker granted 30,000 stock options for the purchase of one share each of Spinnaker Class A Common Stock and Spinnaker Common Stock at a total price of $40 per option exercised (adjusted for the stock dividend in August 1996) to qualifying directors. The options vest over a two-year period with 15,000 options becoming exercisable two years after the grant date. The options expire on the fifth anniversary after the grant date or 30 days after the director ceases to be a director. In January of 1997, under the same terms, Spinnaker issued 10,000 stock options for the purchase of one share of Common Stock at an exercise price of $27 per share. As permitted by SFAS No. 123, Spinnaker elected to account for these options under APB No. 25 and as such no compensation expense was recorded because the option exercise price was not less than the market price at the date of grant. All of these options are currently outstanding and exercisable.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if Spinnaker had accounted for its director stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 6.09%-5.58%; dividend yields of 0%, volatility factors of the expected market price of the Spinnaker's common stock of .50; and a weighted-average expected life of the options of 3 years. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period. The estimated weighted-average fair value per option is approximately $14.62 and $10.40 for the 1997 and 1996 options, respectively. The pro forma effect on Lynch's 1999, 1998 and 1997 operations is as follows (in thousands, except for per share amounts):

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| As reported: | | | |
| Net Income (loss) | $(1,583) | $3,357 | $(2,878) |
| Per share: | | | |
| Basic | $ (1.12) | $ 2.37 | $ (2.03) |
| Diluted | (1.12) | 2.37 | (2.03) |
| Pro forma: | | | |
| Net income (loss) | $(2,832) | $3,326 | $(2,950) |
| Per share: | | | |
| Basic | $ (2.00) | $ 2.35 | $ (2.08) |
| Diluted | (2.00) | 2.35 | (2.08) |

## 9. Shareholders' Equity

The Board of Directors has authorized the purchase of up to 400,000 shares of Common Stock. Through December 31, 1999, 238,991 shares had been purchased at an average cost of $14.88 per share.

In January 1994, an officer was granted stock options to purchase up to 24,516 shares of Lynch common stock at an exercise price of $23.125, the closing price on the date of grant. These options were exercised in January 1997 and shares were issued from Treasury.

On February 1, 1996, the Company adopted a plan to provide a portion of the compensation for its directors in common shares of the Company. The amount of common stock is based upon the market price at the end of the previous year. Through December 31, 1999, 4,126 shares have been awarded under this program.

On February 29, 1996, the Company adopted a Stock Appreciation Rights program for certain employees. To date, 43,000 of Stock Appreciation Rights ("SAR") have been granted at prices ranging from $63 to $85 per share (pre spin off prices). Upon the exercise of a SAR, the holder is entitled to receive an amount in cash equal to the amount by which the market value of the Company's common stock on the exercise date exceeds the grant price of the SAR. Effective September 30, 1998, the Company amended the SAR Program so that the SAR's became exercisable only if the market price for the Company's shares exceeds 200% of the SAR exercise price within five years from original grant date. This amendment eliminated the recording of the profit and loss effect of the SAR's for changes in the market price in the Company's common stock until it becomes probable that the SAR's will become exercisable. The net income (expense) relating to this program, prior to the time of the amendment, was $185,000 in income in 1998 and ($439,000) of expense in 1997.

Subsequent to the spin off of Interactive, the Company, with the concurrence of the holders of all outstanding SAR units, terminated its SAR program for corporate management, including all outstanding units, thus eliminating possible future profit and loss and cash flow distortions associated with the program. As a result of the termination, the Company recorded approximately $700,000 of related corporate expense in the fourth quarter.

## 10. Income Taxes

The Company files consolidated federal income tax returns which include all subsidiaries including Interactive through the date of the spin off, but excluding Spinnaker for all periods.

Deferred income taxes for 1999 and 1998 are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Cumulative temporary differences and carry forwards at December 31, 1999 and 1998 are as follows:

| | December 31,1999 Deferred Tax Asset | December 31,1999 Deferred Tax Liability | December 31,1998 Deferred Tax Asset | December 31,1998 Deferred Tax Liability |
|---|---|---|---|---|
| | (In Thousands) | | | |
| Inventory reserve | $1,493 | $ — | $ 451 | $ — |
| Fixed assets written up under purchase accounting and tax over book depreciation | — | 6,782 | — | 11,144 |
| Discount on long-term debt | — | — | — | (1,783) |
| Basis difference in subsidiary and affiliate stock | — | 1,105 | — | 1,123 |
| Net operating losses of subsidiaries | 850 | — | 7,166 | — |
| Other reserves and accruals | 6,600 | — | 1,622 | — |
| Other | — | (1,662) | 2,475 | 1,231 |
| Total deferred income taxes | $8,943 | $ 6,225 | $11,714 | $11,715 |

Spinnaker has net operating loss carryforwards of approximately $2.2 million at December 31, 1999 which expire in 2018.

The provision (benefit) for income taxes from continuing operations is summarized as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| | (In Thousands) | | |
| Current: | | | |
| Federal | $ (158) | $ 2,048 | $ 5,171 |
| State and local | — | 921 | 250 |
| | (158) | 2,969 | 5,421 |
| Deferred: | | | |
| Federal | (2,386) | (3,435) | (5,069) |
| State and local | — | (942) | (51) |
| | (2,386) | (4,377) | (5,120) |
| | $(2,544) | $(1,408) | $ 301 |

A reconciliation of the provision (benefit) for income taxes from continuing operations and the amount computed by applying the statutory federal income tax rate to income before income taxes, minority interest and extraordinary item:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| | (In Thousands) | | |
| Tax at statutory rate | $(3,211) | $ (757) | $ 597 |
| Increases (decreases): | | | |
| State and local taxes, net of federal benefit | — | (288) | 135 |
| Amortization of goodwill | 60 | 81 | 129 |
| Operating losses of subsidiaries | 164 | (546) | (126) |
| Additional tax provision | 338 | — | — |
| Other | 105 | 102 | (434) |
| | $(2,544) | $(1,408) | $ 301 |

## 11. Employee Benefit Plans

The Company, through its operating subsidiaries, has several and various employee retirement type plans including defined benefit, defined contribution, multi-employer, profit sharing, and 401 (k) plans. The following table sets forth the consolidated expenses for these plans:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| | (In Thousands) | | |
| Defined Contribution | $561 | $643 | $ 839 |
| Defined Benefit | 166 | 150 | 473 |
| Multi-Employer | 121 | 80 | 173 |
| Total | $848 | $873 | $1,485 |

The Company's most significant benefit plans are maintained by Spinnaker's Coating business. Following are details of those plans:

The net periodic pension cost for the year ended December 31, 1999 and 1998 included the following components:

| | 1999 Union | 1999 Non-Union | 1998 Union | 1998 Non-Union |
|---|---|---|---|---|
| | (In Thousands) | | | |
| Service cost—benefits earned during the period | $105 | $137 | $69 | $100 |
| Interest cost on projected benefit obligation | 21 | 51 | 11 | 50 |
| Expected return on assets | (6) | (9) | — | — |
| Recognized (gains) losses | 1 | (13) | — | — |
| Net periodic pension cost | $121 | $166 | $80 | $150 |

The foregoing measurement of net periodic pension cost is based on the following assumptions:

| | 1999 Union | 1999 Non-Union | 1998 Union | 1998 Non-Union |
|---|---|---|---|---|
| Weighted-average discount rate | 8.00% | 8.00% | 7.50% | 7.50% |
| Weighted-average rate of compensation increase | N/A | 4.00% | N/A | 4.00% |
| Weighted-average expected long-term rate of return on plan assets | 8.00% | 8.00% | 8.00% | 8.00% |

The following table sets forth the union and non-union plans' benefit obligation information as of December 31, 1999 and 1998:

| | 1999 Union | 1999 Non-Union | 1998 Union | 1998 Non-Union |
|---|---|---|---|---|
| | (In Thousands) | | | |
| Benefit obligation at acquisition date | $288 | $1,081 | $186 | $ 835 |
| Service cost—benefits earned during the period | 106 | 137 | 69 | 100 |
| Interest cost on projected benefit obligation | 21 | 51 | 11 | 50 |
| Actuarial (gains) losses | (44) | (504) | 22 | 96 |
| Benefits paid | (1) | (2) | — | — |
| Benefit obligation at end of year | $370 | $ 763 | $288 | $1,081 |

There were no plan assets for the union and non-union plans as of December 31, 1999 and 1998.

The following table sets forth the union and non-union plans' funded status as of December 31, 1999 and 1998:

| | 1999 Union | 1999 Non-Union | 1998 Union | 1998 Non-Union |
|---|---|---|---|---|
| | (In Thousands) | | | |
| Funded status | $(173) | $(481) | $(288) | $(1,081) |
| Unrecognized actuarial (gains) losses | (25) | (398) | 22 | 96 |
| Net amount recognized | $(198) | $(879) | $(266) | $ (985) |
| Amounts recognized in the balance sheet: | | | | |
| Net amount recognized | $(198) | $(879) | $(266) | $ (985) |

Spinnaker Coating has a defined contribution plan that covers substantially all of its employees. Under the plan, Spinnaker Coating can match, at its discretion, up to 50% of employee contributions not exceeding 8% of the employee's compensation. Amounts contributed to the plan by Spinnaker Coating are 20% vested each year for five years. On the acquisition date, employees of Spinnaker Coating who were previously employed by Kimberly-Clark Corporation received vesting rights based on the years of credited service with Kimberly-Clark Corporation. Spinnaker Coating recorded expense for its contributions under the plan of approximately $542,000, $559,000, and $442,000 in 1999, 1998 and 1997, respectively.

## 12. Commitments and Contingencies

In the normal course of business subsidiaries of the Company 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 effect on the Company's financial condition or operations.

Future minimum rental payments under long-term non-cancelable operating leases are as follows at December 31, 1999 (in thousands):

| | |
|---|---|
| 2000 | $ 278 |
| 2001 | 256 |
| 2002 | 256 |
| 2003 | 283 |
| 2004 | 281 |
| Thereafter | 200 |
| | $1,554 |

Rent expense under operating leases were $1,222,000, $952,000 and $416,000 for the years ended December 31, 1999, 1998 and 1997, respectively. The Company leases certain property and equipment, including warehousing and sales and distribution equipment, under operating leases that extend from one to ten years. Certain of these leases have renewal options and escalation provisions. The Company is party to a lease for its corporate office for an annual payment of approximately $30,000 with an affiliate of its Chairman.

## 13. Segment Information

The Company has two reportable business segments. The larger of the two is the manufacture and sale of adhesive backed label stock for labels and related applications. The other reportable segment is the manufacture and sale of frequency control devices (quartz crystals and oscillators). The Company is also engaged in the manufacture and sale of glass forming, impact milling and other equipment, and these results are combined and reported as Other Manufacturing. Each of the businesses is located domestically, and export sales were approximately $22.6 million in 1999, $21.2 million in 1998 and $26.2 million in 1997. For the years ended December 31, 1999, 1998 and 1997 one customer accounted for $18.3 million, $17.7 million, and $21.4 million, respectively, of the adhesive-backed label stock segment's net sales. The Company considers concentrations of credit risk to be minimal due to its diverse customer base.

EBITDA (before corporate allocation) for operating segments is equal to operating profit before depreciation, amortization and allocated corporate expenses. 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 unallocated general corporate expenses, interest and income taxes. The Company allocates a portion of its general corporate expenses to its operating segments. Such allocation was $300,000 per year during the years ended December 31, 1999, 1998 and 1997, respectively. Identifiable assets of each industry segment are the assets used by the segment in its operations excluding general corporate assets. General corporate assets are principally cash and cash equivalents, short-term investments and certain other investments and receivables.

| | Years ended December 31 | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| | (In Thousands) | | |
| REVENUES | | | |
| Adhesive-backed label stock.. | $155,112 | $151,561 | $106,787 |
| Frequency control devices...... | 26,484 | 22,798 | 22,828 |
| Other manufacturing............ | 12,626 | 13,285 | 24,120 |
| Consolidated total .............. | $194,222 | $187,644 | $153,735 |
| EBITDA (Before corporate allocation) | | | |
| Adhesive-backed label stock .. | $ 8,889 | $ 12,010 | $ 9,027 |
| Frequency control devices...... | 2,640 | 2,073 | 2,199 |
| Other manufacturing............ | (1,188) | (1,411) | 1,206 |
| Corporate manufacturing expenses...................... | (2,681) | (2,903) | (2,112) |
| Total manufacturing ............ | 7,660 | 9,769 | 10,320 |
| Corporate expenses, gross.... | (1,452) | (530) | (374) |
| Consolidated total .............. | $ 6,208 | $ 9,239 | $ 9,946 |
| OPERATING PROFIT | | | |
| Adhesive-backed label stock .. | $ 4,155 | $ 8,104 | $ 6,923 |
| Frequency control devices .... | 1,800 | 1,428 | 1,610 |
| Other manufacturing .......... | (1,821) | (1,922) | 850 |
| Corporate manufacturing expenses .................... | (2,894) | (3,006) | (2,279) |
| Total manufacturing ............ | 1,240 | 4,604 | 7,104 |
| Unallocated corporate expense ...................... | (1,155) | (530) | (374) |
| Consolidated total .............. | $ 85 | $ 4,074 | $ 6,730 |
| DEPRECIATION AND AMORTIZATON | | | |
| Adhesive-backed label stock .. | $ 4,785 | $ 3,906 | $ 2,104 |
| Frequency control devices .... | 740 | 645 | 589 |
| Other manufacturing .......... | 528 | 511 | 429 |
| Corporate manufacturing expenses...................... | 967 | 874 | 726 |
| Consolidated total .............. | $ 7,020 | $ 5,936 | $ 3,848 |

| | Years ended December 31 | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| | (In Thousands) | | |
| CAPITAL EXPENDITURES | | | |
| Adhesive-backed label stock .. | $ 2,625 | $ 2,219 | $ 1,854 |
| Frequency control devices .... | 804 | 878 | 688 |
| Other manufacturing .......... | 366 | 200 | 689 |
| Consolidated total .............. | $ 3,795 | $ 3,297 | $ 3,231 |
| TOTAL ASSETS | | | |
| Adhesive-backed label stock .. | $105,674 | $105,463 | $ 47,188 |
| Frequency control devices .... | 10,940 | 8,898 | 8,858 |
| Other manufacturing .......... | 86,699 | 19,688 | 27,892 |
| Discontinued Operations: | | | |
| Lynch Interactive ............ | — | 228,342 | 239,918 |
| Industrial tape business .... | — | 110,256 | 95,582 |
| General Corporate .......... | 7,879 | 7,353 | 4,198 |
| Consolidated total .............. | $211,192 | $480,000 | $423,636 |
| Total operating profit for reportable segments ........ | $ 85 | $ 4,074 | $ 6,730 |
| Other profit or loss: | | | |
| Investment income .......... | 2,354 | 199 | 305 |
| Interest expense ............ | (11,882) | (8,591) | (5,189) |
| Gain on sales of subsidiary stock .......... | — | 2,090 | (91) |
| Income (loss) from continuing operations before income taxes, minority interests and extraordinary item ...... | $ (9,443) | $ (2,228) | $ 1,755 |

## 14. Quarterly Results of Operations (unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 1999 and 1998 (in thousands, except per share amounts):

| | 1999—Three Months Ended | | | |
|---|---|---|---|---|
| | Mar. 31[(a)] | June 30 | Sep. 30[(b)] | Dec. 31[(b)] |
| Sales and revenues | $ 46,411 | $47,363 | $51,070 | $49,378 |
| Operating profit | (312) | 701 | 1,013 | (1,317) |
| Income (loss) from continuing operations | (975) | (500) | (617) | (2,160) |
| Net income (loss) | (10,991) | 427 | 7,892 | 1,089 |
| Basic and diluted earnings per share: | | | | |
| Income (loss) from continuing operations | (0.69) | (0.35) | (0.44) | (1.53) |
| Net income (loss) | (7.75) | 0.30 | 5.59 | 0.77 |

| | 1998—Three Months Ended | | | |
|---|---|---|---|---|
| | Mar. 31 | June 30 | Sep. 30[(c)] | Dec. 31 |
| Sales and revenues | $39,505 | $49,505 | $49,824 | $49,257 |
| Operating profit (loss) | 1,242 | 1,575 | 1,663 | (385) |
| Income (loss) from continuing operations | (98) | (358) | 1,070 | (3,507) |
| Net income (loss) | (436) | 1,324 | 2,149 | 320 |
| Basic and diluted earnings per share: | | | | |
| Income (loss) from continuing operations | (0.06) | (0.26) | 0.76 | (2.48) |
| Net income (loss) | (0.30) | 0.93 | 1.52 | 0.22 |

Note: (a) Includes write down of PCS licenses of $15.4 million of Lynch Interactive Corporation

(b) Includes gain on sale of Industrial Tape Segment of Spinnaker of $10.4 million after income taxes, and minority interest.

(c) Includes gain on sale of subsidiary stock of $2,127.

## 15. Subsequent Events

In March 2000 Lynch Systems completed a project specific line of credit totaling $7.1 million related to a contract to deliver equipment in 2000. Substantially all assets of Lynch Systems are pledged in support of the credit facility. In addition, the Company has guaranteed the full amount of the credit facility and has pledged $4 million of its Class A Common Stock of Spinnaker as additional collateral.

In March 2000 the Company completed the previously announced sale of 100,000 shares of its common stock to its Chairman at $30 per share, or $3 million. This transaction is subject to shareholder approval at the Company's 2000 annual meeting. These funds will be available for general corporate purposes.

# REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
Lynch Corporation

We have audited the accompanying consolidated balance sheets of Lynch Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lynch Corporation and subsidiaries at December 31, 1999 and 1998 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Stamford, Connecticut
March 28, 2000

# LYNCH CORPORATION
# FIVE YEAR SUMMARY
# SELECTED FINANCIAL DATA
### (Adjusted to Reflect Discontinued Operations and Spin Off of Lynch Interactive Corporation)
### (in Thousands Except per Share Amounts)

| | Year Ended December 31 (a) | | | | |
|---|---|---|---|---|---|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| Revenues | $194,222 | $187,644 | $153,735 | $166,976 | $157,146 |
| Operating profit (b) | 85 | 4,074 | 6,730 | 8,473 | 11,945 |
| Net financing activities | (9,528) | (8,392) | (4,884) | (5,166) | (3,463) |
| Gain on sale of subsidiary stock and other operating assets | — | 2,090 | (91) | 5,072 | — |
| Income (loss) from continuing operations before income taxes, minority interests, discontinued operations and extraordinary items | (9,443) | (2,228) | 1,755 | 8,379 | 8,482 |
| (Provision) benefit for income taxes | 2,544 | 1,408 | (301) | (3,571) | (3,267) |
| Minority interests | 2,647 | 1,107 | (121) | (119) | (634) |
| Income (loss) from continuing operations before discontinued operations and extraordinary items | (4,252) | 287 | 1,333 | 4,689 | 4,581 |
| Operations of Lynch Interactive Corporation (f) | (7,493) | 4,929 | (3,349) | (818) | 467 |
| Discontinued operations (c) | (572) | (1,859) | (862) | 173 | 97 |
| Gain (loss) on sale of Spinnaker's industrial tape segment | 10,431 | — | — | — | — |
| Extraordinary items (d) | 303 | — | — | (1,348) | — |
| Net income (loss) | $ (1,583) | $ 3,357 | $ (2,878) | $ 2,696 | $ 5,145 |
| Per common share (e) | | | | | |
| Income (loss) from continuing operations before discontinued operations and extraordinary items | | | | | |
| Basic | $ (3.00) | $ .20 | $ .94 | $ 3.38 | $ 3.32 |
| Diluted | (3.00) | .20 | .94 | 3.34 | 3.25 |
| Net income (loss): | | | | | |
| Basic | (1.12) | 2.37 | (2.03) | 1.94 | 3.73 |
| Diluted | (1.12) | 2.37 | (2.03) | 1.92 | 3.66 |
| Cash, securities and short-term investments | $ 13,106 | $ 1,132 | $ 6,499 | $ 10,561 | $ 5,405 |
| Restricted cash (h) | 56,026 | — | — | — | — |
| Total assets (net of assets distributed to shareholders) (f) | 211,192 | 251,658 | 183,720 | 144,417 | 144,984 |
| Long-term debt (g) | 116,765 | 126,976 | 115,159 | 96,577 | 62,557 |
| Shareholders' equity (deficit) (f) | 15,991 | 11,441 | 14,464 | (6,083) | 6,085 |

**Notes:**

(a) The data presented herein reflect the spin off of Lynch Interactive Corporation (Interactive) from the Company and the sale by Spinnaker Industries, Inc. (Spinnaker), a 47.6% owned consolidated subsidiary of the Company, of its industrial tape units, all of which transactions occurred in the third quarter of 1999. Accordingly, the operating results of both Interactive and the industrial tape segment have been segregated from continuing operations of the Company and are reported as separate line items. The data presented also includes results of the business acquired from S. D. Warren (name changed to Spinnaker Coating-Maine, Inc.) from March 17, 1998.

(b) Operating profit is sales and revenues less operating expenses, which excludes investment income, interest expense, share of operations of affiliated companies, minority interests and taxes.

(c) Discontinued operations of the industrial tape segment of Spinnaker Industries (See Note 3 to Financial Statements) and Lynch Tri-Can International in 1996 and 1995.

(d) Gain (loss) on early extinguishment of debt at Spinnaker in 1996 and 1999

(e) Based on weighted average number of common shares outstanding—restated to conform to SFAS #128 in 1996 and prior years.

(f) No cash dividends have been declared over the period. In 1999, for each share of Lynch Common Stock, shareholders received one share of Lynch Interactive Corporation in a Spin Off of the multimedia and transportation businesses. (See Note 4 to Financial Statements). In 1997, for each share of Lynch Common Stock, shareholders received one share of East/West Communications, Inc., an F-block PCS licensee with licenses covering a population of 20 million. For years prior to 1999, shareholders' equity has been restated to reflect the net assets of Lynch Interactive distributed to shareholders.

(g) Includes $115.6 million of long-term debt at December 31, 1999 of 47.6% owned Spinnaker Industries.

(h) See discussion of Restricted Cash in Note 6—Notes Payable and Long-Term Debt.

## BOARD OF DIRECTORS

**E. Val Cerutti**
Business Consultant
**Mario J. Gabelli**
Chairman of the Board of Lynch Corporation, Chairman of the Board and Chief Executive Officer of Lynch Interactive Corporation, and Chairman and Chief Executive Officer of Gabelli Asset Management Inc.
**Louis A. Guzzetti, Jr.**
President and Chief Executive Officer of Lynch Corporation

**Robert E. Dolan**
Chief Financial Officer of Lynch Interactive Corporation
**Avrum Gray**
Chairman and Chief Executive Officer of G-Bar Limited Partnership
**Ralph R. Papitto**
Chairman of AFC Cable Systems

## OFFICERS

**Mario J. Gabelli**
Chairman of the Board
**Louis A. Guzzetti, Jr.**
President and Chief Executive Officer

**Roger J. Dexter**
Controller and Chief Financial Officer
**George E. Fuehrer**
Vice President—Business Development

**CORPORATE STAFF**
**Wendy F. Hetherington**

## INVESTOR RELATIONS CONTACT
Louis A. Guzzetti, Jr.
(914) 921-7601

## TRANSFER AGENT & REGISTRAR FOR COMMON STOCK
Chase Mellon Shareholder Services
New York, New York

## TRADING INFORMATION
American Stock Exchange

| *Securities* | *Symbol* |
|---|---|
| Common Stock | LGL |

**FORM 10-K**

**Copies of the Corporation's Form 10-K for the year ended December 31, 1999, may be obtained, without charge, by writing to Lynch Corporation, 401 Theodore Fremd Avenue, Rye, New York 10580.**