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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTIONS 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

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

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2005

OR

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

For the transition period from _______________ to _____________

COMMISSION FILE NUMBER: 1-106

LYNCH CORPORATION
(Exact name of Registrant as Specified in Its Charter)

INDIANA	38-1799862
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
140 GREENWICH AVE, 4TH FL, GREENWICH, CONNECTICUT	06830
(Address of Principal Executive Offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (203) 622-1150

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $0.01 Par Value	American Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [ ] No [X]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer___ Accelerated filer___ Non-accelerated filer X

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant (based upon the closing price of the Registrant's Common Stock on the American Stock Exchange on June 30, 2005 of $8.30 per share) was $8.3 million. (In determining this figure, the Registrant has assumed that all of the Registrant's directors and officers are affiliates. This assumption should not be deemed a determination or an admission by the Registrant that such individuals are, in fact, affiliates of the Registrant.

The number of outstanding shares of the registrant's common stock was 2,154,702 as of March 21, 2006.

DOCUMENTS INCORPORATED BY REFERENCE: Certain portions of the registrant's definitive Proxy Statement for the 2006 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than May 1, 2006, are incorporated by reference in Part III of this Report.

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ITEM 1. BUSINESS

Lynch Corporation (the "Company"), incorporated in 1928 under the laws of the State of Indiana, is a diversified holding company with subsidiaries engaged in manufacturing. The Company's executive offices are located at 140 Greenwich Ave, 4th Floor, Greenwich, Connecticut 06830. Its telephone number is (203) 622-1150.

The Company has three principal operating subsidiaries, M-tron Industries, Inc. ("Mtron"), Piezo Technology, Inc. ("PTI") and Lynch Systems, Inc. ("Lynch Systems"). The combined operations of Mtron and PTI are referred to herein as "Mtron/PTI."

The Company's business development strategy is to expand its existing operations through internal growth and merger and acquisition opportunities. It may also, from time to time, consider the acquisition of other assets or businesses that are not related to its present businesses. As used herein, the Company includes subsidiary corporations.

Mtron/PTI

OVERVIEW

Mtron/PTI, the result of the acquisition of PTI by Mtron effective September 30, 2004, is a designer, manufacturer and marketer of custom designed electronic components that are used primarily to control the frequency or timing of signals in electronic circuits. Its devices, which are commonly called frequency control devices, crystals, crystal oscillators or electronic filters, are used extensively in infrastructure equipment for the telecommunications and network equipment industries. Its devices are also used in electronic systems for military applications, avionics, medical devices, instrumentation, industrial devices and global positioning systems.

Mtron/PTI's frequency control devices consist of packaged quartz crystals, crystal oscillators and electronic filters. Our products produce an electrical signal that has the following attributes:

- accuracy -- the frequency of the signal does not change significantly over a period of time;
- stability -- the frequency of the signal does not vary significantly when our product is subjected to a range of operating environments; and
- low electronic noise -- the signal does not add interfering signals that can degrade the performance of electronic systems.

Mtron/PTI has more than 40 years of experience designing, manufacturing and marketing crystal based frequency control products. Its customers rely on the skills of Mtron/PTI's engineering and design team to help them solve frequency control problems during all phases of their products' life cycles, including product design, prototyping, manufacturing and subsequent product improvements.

SELECTED FINANCIAL INFORMATION

For financial reporting purposes, Mtron/PTI comprises the Company's "frequency control devices" segment. For information about this segment's revenues, profit or loss, and total assets for each of the last three fiscal years, please see Note 12 "Segment Information" to the Company's Consolidated Financial Statements.

Mtron/PTI'S OBJECTIVES

Mtron/PTI's intends to build on the strength of its core expertise in packaged quartz crystal oscillator technologies and electronic filter technologies to become the supplier of choice to original equipment manufacturers that supply equipment with high-performance timing needs.

Mtron/PTI intends to increase its investment in technical resources, including design and engineering personnel, to enable it to provide a higher level of design and engineering support to its customers and potential customers. It believes that technical participation with its original equipment manufacturer customers in the early stages of their design process will lead to Mtron/PTI's frequency control devices being designed into their products more regularly.

Mtron/PTI has a long-standing relationship with offshore contract manufacturers who have added capacity on its behalf. Mtron/PTI's near term objective is to reduce the time it takes to manufacture its products, which will result in better service to its customers.

Mtron/PTI intends to design, manufacture and sell devices that offer higher frequencies or greater precision than its current products. It also plans to expand its offering of integrated timing systems to offer complete timing subsystems to its customers. It intends to achieve this through a combination of focused research and development and strategic acquisitions, if they are appropriate.

Mtron/PTI believes that it can significantly enhance its business opportunities by acquiring technology, product portfolios and/or customer bases. Some of these may offer immediate sales opportunities, while others may meet longer term objectives. It plans to pursue these opportunities by making strategic acquisitions or by acquiring or licensing technology.

PRODUCTS

Mtron/PTI's products are high quality, reliable, technically advanced frequency control devices, including packaged quartz crystals, oscillators incorporating those crystals and electronic filter products. The October 2002 acquisition of "Champion" provided Mtron/PTI an entry to the timing modules market. The September 2004 acquisition of PTI provided Mtron/PTI with its families of very high precision oven-controlled crystal oscillators and its electronic filter products.

Mtron/PTI designs and produces a wide range of packaged quartz crystals, quartz crystal based oscillators and electronic filter products. There is a variety of features in its product family. The Packaged Crystal is a single crystal in a hermetically sealed package and is used by electronic equipment manufacturers, along with their own electronic circuitry, to build oscillators for frequency control in their electronic devices. The Clock Oscillator is the simplest of its oscillators. It is a self-contained package with a crystal and electronic circuitry that is used as a subsystem by electronic equipment manufacturers to provide frequency control for their devices. The Voltage Controlled Crystal Oscillator (VCXO) is a variable frequency oscillator whose frequency can be changed by varying the control voltage to the oscillator. The Temperature Compensated Crystal Oscillator (TCXO) is a stable oscillator designed for use over a range of temperatures. Oven-Controlled Crystal Oscillators are designed to produce a much higher level of stability over a wide range of operating conditions with very low phase noise. The Electronic Filters use either crystal technology or precise manufacturing of inductive/capacitive circuits to provide filters with carefully defined capabilities to filter out unwanted portions of a timing signal. This variety of features in Mtron/PTI's product family offers the designers at electronic equipment manufacturers a range of options as they create the needed performance in their products.

Currently, Mtron/PTI's oscillator products operate at frequencies ranging from 2 kilohertz to over 2.5 gigahertz, which constitute most of the oscillator frequencies that are now in use in its target markets. It offers crystal and inductive/capacitive filters with central frequencies from a Direct Current to 15 gigahertz. However, many of its products, through amplification or other means, are ultimately incorporated into products that operate at higher frequencies.

Mtron/PTI's products are employed in numerous applications within the communications industry, including computer and telephone network switches, high-speed gigabit Ethernet, modems, wireless transmitters/receivers, multiplexers, data recovery/regeneration devices, fiber channel networks, repeaters, data transceivers, line interface devices and base station controllers. Its products are incorporated into end products that serve all elements of the communications industry.

The crystals, oscillators and filters intended for non-communications applications are found in military applications for communications and armaments. Avionics applications include ground and flight control systems. Industrial applications are in security systems, metering systems, electronic test instruments and industrial control systems. Mtron/PTI's products are also

used in medical instrumentation applications, as well as in various computer peripheral equipment such as storage devices, printers, modems, monitors, video cards and sound cards.

Mtron/PTI's timing module, an electronic subsystem, is a pre-assembled circuit that integrates several different functions into a small, single, self-contained module for control of timing in a circuit. Today, timing modules are frequently used for the synchronization of timing signals in digital circuits, particularly in wireless and optical carrier network systems.

MANUFACTURING

Mtron/PTI has manufacturing facilities in Yankton, South Dakota, Orlando, Florida and Noida, India. It has established long-term relationships with several contract manufacturers in Asia. Approximately 14% of Mtron/PTI's revenues in 2005 were attributable to one such contract manufacturer located in both Korea and China. While Mtron/PTI does not have written long-term agreements with this contract manufacturer, Mtron/PTI believes that it occasionally receives preferential treatment on production scheduling matters. Mtron/PTI maintains a rigorous quality control system and is an ISO 9001/2000 qualified manufacturer. Mtron/PTI's Hong Kong subsidiary (Mtron Industries, Limited) does not manufacture, but acts as a buying agent, regional warehouse, quality control and sales representative for its parent company.

RESEARCH AND DEVELOPMENT

At December 31, 2005, Mtron/PTI employed 30 engineers and technicians primarily in South Dakota and Florida who devote most of their time to research and development. Its research and development expense was approximately $2,408,000, $1,089,000 and $600,000 in 2005, 2004 and 2003, respectively. Mtron/PTI expects to increase its spending on research and development by up to 15% during 2006.

CUSTOMERS

Mtron/PTI markets and sells its frequency control devices primarily to:

- original equipment manufacturers of communications, networking, military, avionics, instrumentation and medical equipment;
- contract manufacturers for original equipment manufacturers; and
- distributors who sell to original equipment manufacturers and contract manufacturers.

In 2005, an electronics manufacturing services company accounted for approximately 14% of Mtron/PTI's revenues, compared to approximately 18% and 12% for Mtron/PTI's largest customer in 2004 and 2003, respectively. No other customer accounted for more than 10% of its 2005 revenues. Revenues from its ten largest customers accounted for approximately 63% of revenues in 2005, compared to approximately 48% and 40% of revenues for 2004 and 2003, respectively.

DOMESTIC REVENUES

Mtron/PTI's domestic revenues were $19,078,000, $12,096,000 and $7,282,000 for 2005, 2004 and 2003, respectively.

INTERNATIONAL REVENUES

Mtron/PTI's international revenues were $15,973,000, $11,317,000 and $7,901,000 for 2005, 2004 and 2003, representing approximately 46%, 48% and 52% of its revenues for 2005, 2004 and 2003, respectively. In 2005, these revenues included approximately 9% from customers in Canada, 24% from customers in Asia, 7% from customers in Western Europe and 5% from customers in Mexico. Mtron/PTI has increased its international sales efforts by adding distributors and manufacturers' representatives in Western Europe and Asia. The Company avoids currency exchange risk by transacting substantially all international revenues in United States dollars.

BACKLOG

Mtron/PTI had backlog orders of $8,906,000 at December 31, 2005 compared to $7,647,000 at December 31, 2004. Mtron/PTI's backlog may not be indicative of future revenues, because of its customers' ability to cancel orders.

COMPETITION

Frequency control devices are sold in a highly competitive industry. There are numerous domestic and international manufacturers who are capable of providing custom designed quartz crystals, oscillators and electronic filters comparable in quality and performance to Mtron/PTI's products. Competitors include Vectron International (a division of Dover Corporation), CTS Corporation, K&L (a division of Dover Corporation) and Saronix (a division of Pericom Semiconductor Corporation). Mtron/PTI does not operate in the same markets as high volume manufacturers of standard products; rather it focuses on manufacturing lower volumes of more precise, custom designed frequency control devices. Many of its competitors and potential competitors have substantially greater financial, engineering, manufacturing and marketing resources than it does. Mtron/PTI seeks to manufacture custom designed, high performance crystals and oscillators, which it believes it can sell competitively based upon performance, quality, order response time and a high level of engineering support.

INTELLECTUAL PROPERTY

Mtron/PTI has no patents, trademarks or licenses that are considered to be important to Mtron/PTI's business or operations. Rather, Mtron/PTI believes that its technological position depends primarily on the technical competence and creative ability of its engineering and technical staff in areas of product design and manufacturing processes as well as proprietary know-how and information.

LYNCH SYSTEMS

OVERVIEW

Lynch Systems designs, develops, manufactures and markets a broad range of manufacturing equipment for the electronic display and consumer glass industries. Lynch Systems also produces replacement parts for various types of packaging and glass container-making machines that Lynch Systems does not manufacture. Lynch Systems is concentrating its efforts on developing its glass forming machinery business segment. While Lynch Systems' cathode-ray tube business segment remains an important component of its business, Lynch Systems anticipates declining demand for products based on such technology.

SELECTED FINANCIAL INFORMATION

For financial reporting purposes, Lynch Systems comprises the Company's "glass manufacturing equipment" segment. For information about this segment's revenues, profit or loss, and total assets for each of the last three fiscal years, please see Note 12 "Segment Information" to the Company's Consolidated Financial Statements.

LYNCH SYSTEMS OBJECTIVES

Lynch Systems expects to continue to build on its name recognition and reputation as one of the world's leading manufacturers of glass forming machinery. Lynch Systems is the oldest glass-forming supplier to the consumer (daily use) glass industry. Lynch Systems is the only independent supplier in the CRT (cathode ray tube) glass forming field and it is Lynch Systems' intention to use this strength to form closer partnerships with its customers in their pursuit of innovative glass making machinery. In addition, Lynch Systems will use its expertise to provide technical assistance to other glass product manufacturers.

Lynch Systems' long term intentions are to monitor the market direction and to be at the forefront of technology in order to respond to market demand for new and innovative types of machinery needed to produce glass. Lynch Systems anticipates that it will continue to research and develop state-of-the-art

machinery within its core competence, and also to seek new markets, such as container ware, where its experience and proven success can be utilized to develop new products and increase its growth.

Within the consumer glass industry, Lynch has defined the market into three distinct groups having potential for our equipment as follows: 1) customers with growth potential (sales driven), 2) customers in a "stagnant" market (cost driven) and 3) new customer base (i.e. container market).

Lynch Systems is currently developing and marketing products to appeal to these three groups, which include a new low-cost feeder and shear; a new machine designed to produce press and blow glass articles with an in-line modular concept; and gob weight controls and inspection systems.

PRODUCTS AND MANUFACTURING

Lynch Systems manufactures and installs forming equipment that sizes, cuts, and forms tableware such as glass tumblers, plates, cups, saucers, pitchers, architectural glass block, industrial lighting, commercial optical glass and automobile lenses. Lynch Systems also manufactures glass-forming presses and electronic controls to provide high-speed automated systems to form different sizes of face panels and CRT display tubes for television screens and computer monitors, including presses to build large screen televisions for the HDTV (high definition television) market. Additionally, Lynch Systems manufactures and installs, electronic controls and retrofit systems for CRT display and consumer glass presses.

Lynch Systems' worldwide customers require capital equipment that produces a wide variety of Tableware products to remain competitive. In support of this market demand, Lynch Systems has invested in Research & Development (R&D) programs to manufacture new lines of capital equipment such as Stretch Machines for one-piece Stemware, Firepolishers for high quality Tableware and Spinning Machines for high speed, high quality Dishware. The production of glassware entails the use of machines, which heat glass and, using great pressure, form an item by pressing it into a desired shape. Because of the high cost of bringing the machine and materials up to temperature, a machine for producing glassware must be capable of running continuously.

To further expand Lynch Systems' Tableware product lines, additional product lines have been acquired through royalty partnerships with leading industry concerns. In 1999, Lynch Systems acquired the H-28 Press and Blow machine from Emhart Glass SA. This high production machine produces both round and geometric design Tumblers and is now marketed by Lynch Systems as the LH-28 with numerous Electronic Control improvements. In accordance with the terms of the agreement, Lynch Systems is obligated to pay Emhart a royalty of 13% on parts sales up to $2,000,000 a year, a 5% royalty rate on all parts sales in excess of $2,000,000, and 5% on all machine sales through 2008. In 2000, the Eldred product line of Burnoff Machines, used to fire finish the rims of the H-28 Tumblers, and four-color Decorating Machines were acquired by Lynch Systems. In accordance with the terms of the agreement, Lynch Systems is obligated to pay Eldred a royalty of 10% on sales up to $300,000 per year and 8% royalty on sales over $300,000 per year until 2010. All Tableware capital equipment requires moulds in the production of any article. In 2002, agreement was reached with Merkad Glassware Mould, Ltd., a producer of high quality moulds, to represent and distribute moulds throughout North and South America. Lynch Systems has no contractual obligations to Merkad.

RESEARCH AND DEVELOPMENT

Research and development expense was $97,000, $104,000 and $180,000 in 2005, 2004 and 2003, respectively. Lynch Systems expects to increase its spending on research and development by up to 50% during 2006.

CUSTOMERS

Lynch Systems has historically had a small number of customers. One customer (though not the same one in each year) accounted for 46%, 36% and 27% of Lynch Systems' revenues for 2005, 2004 and 2003, respectively.

DOMESTIC REVENUES

Lynch Systems' domestic revenues were $1,992,000, $1,114,000 and $3,677,000 for 2005, 2004 and 2003, respectively.

INTERNATIONAL REVENUES

Lynch Systems' international revenues were $9,140,000, $9,307,000 and $9,109,000 for 2005, 2004 and 2003, respectively, representing approximately 82%, 89% and 71% of its revenues for those years. International revenues in the past three years mainly derived from customers in Indonesia, China, South Korea, Lithuania and the Netherlands. The profitability of international revenues is approximately equivalent to that of domestic revenues. As many international orders require partial advance deposits, with the balance often secured by irrevocable letters of credit from banks in the foreign country, the Company believes that most of the credit risks commonly associated with doing business in international markets are minimized. The Company avoids currency exchange risk by transacting substantially all international sales in United States dollars.

BACKLOG

Lynch Systems had an order backlog of $4,954,000 at December 31, 2005, compared to $9,927,000 at December 31, 2004. Backlog decreased due to shipment of large CRT machines in 2005. Most of Lynch Systems' $4,954,000 backlog as of December 31, 2005 is scheduled to be delivered in 2006. Lynch Systems includes as backlog only those orders that are subject to written contract or written purchase orders.

COMPETITION

Lynch Systems believes that in the worldwide press ware market it is one of the largest suppliers of consumer ware forming machines to glass companies that do not manufacture their own press ware machines. Competition is based on service, performance and technology. Competitors include various companies in Italy, Japan, Korea and Germany. Several of the largest domestic and international producers of glass press ware frequently build their own glass-forming machines and produce spare parts in-house.

RAW MATERIALS

Raw materials are generally available to Lynch Systems in adequate supply from a number of suppliers. The price of steel, a major component of glass forming machinery, has increased due to high demand. Lynch Systems has been required to absorb a portion of that price increase with little ability to pass price increases along to our customers.

INTELLECTUAL PROPERTY

Lynch Systems owns patents and proprietary know-how that are important to its business and the maintenance of its competitive position. Its most important patent is for a rotary glass-molding press with cushioned trunnion mounted hydraulic drive, expiring October, 2012.

EMPLOYEES

As of December 31, 2005, the Company employed 355 people, including 6 in Hong Kong, 2 in Germany and 9 in India. None of its employees is represented by a labor union and the Company considers its employee relations to be good.

SPINNAKER INDUSTRIES, INC.

Prior to September 30, 2001, the Company owned 48% and 60%, respectively, of the equity and voting power of Spinnaker Industries, Inc. ("Spinnaker"). Under accounting principles generally accepted in the United States, the Company consolidated the results of Spinnaker and was required to record all of the

losses of Spinnaker. On September 26, 2001, the Company made a charitable disposition of 430,000 shares, as a result of which: (a) the Company's equity interest and voting power in Spinnaker were reduced to 41.8% and 49.5%, respectively, (b) the Company deconsolidated Spinnaker for financial reporting purposes, effective September 30, 2001, (c) the Company recorded a non-cash gain of $27,406,000 on September 30, 2001, (d) from September 30, 2001 until September 23, 2002, the Company accounted for its ownership of Spinnaker using the equity method of accounting and (e) the Company did not record any additional losses from Spinnaker, as it had no obligation to further fund such losses.

On September 23, 2002, the Company sold its remaining interest in Spinnaker to an independent party for nominal consideration, because the Company determined that the Spinnaker shares had no value as a result of Spinnaker's ongoing reorganization under Chapter 11 of the Bankruptcy Code. As a result of this transfer, the Company recorded a $19,420,000 non-cash gain and consequently an increase in shareholders' equity of $19,420,000 in the third quarter of 2002. This action increased the Company's total shareholders' equity of the Company to approximately $11,644,000 at September 30, 2002 from a deficit of $7,615,000 on June 30, 2002.

ENVIRONMENTAL

The European Union recently issued its Restriction of Hazardous Substances Directive (the "RHSD"). Mtron/PTI has began to make appropriate adjustments in its materials and manufacturing, and expects to be fully compliant within the time frame provided. As a result of the RHSD, Mtron/PTI has experienced increased costs, mainly in the form of managing the transition.

The capital expenditures, earnings and competitive position of the Company have not been materially affected to date by compliance with current federal, state, and local laws and regulations relating to the protection of the environment; however, the Company cannot predict the effect of future laws and regulations. The Company has not experienced difficulties relative to fuel or energy shortages.

SEASONALITY

No portion of the business of the Company is regarded as seasonal.

CUSTOMERS

In 2005, the largest single customer accounted for 11.2% of consolidated revenues, while the next largest customer represented 11.0%. In 2004, the largest single customer accounted for 12.2% of consolidated revenues, while the next largest customer represented 10.9%. In 2003, the largest single customer accounted for 12% of consolidated revenues, while the next largest customer represented 10%.

LONG-LIVED ASSETS

Long-lived assets, including intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount thereof may not be recoverable. Management assesses the recoverability of the cost of the assets based on a review of projected undiscounted cash flows. In the event an impairment loss is identified, it is recognized based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. If an asset is held for sale, management reviews its estimated fair value less cost to sell. Fair value is determined using pertinent market information, including appraisals or broker's estimates, and/or projected discounted cash flows.

EXECUTIVE OFFICERS OF THE COMPANY

Pursuant to General Instruction G (3) of Form 10-K, the following list of executive officers of the Company is included in Part I of this Annual Report on Form 10-K in lieu of being included in the Proxy Statement for the 2006 Annual Meeting of Shareholders. Such list sets forth the names and ages of all executive officers of the Company indicating all positions and offices with the Company held by each such person and each such person's principal occupations or employment during the past five years.

NAME	OFFICES AND POSITIONS HELD	AGE
Marc Gabelli...............	Chairman (September 2004 to present) and Director (May 2003 to May 2004) of Lynch Corporation; Managing director (1996 to 2004) and President (2004 to present) of Gabelli Group Capital Partners, Inc., the parent company of Gabelli Asset Management, Inc., a private corporation which makes investments for its own account; President of Gemini Capital Management LLC; President of Venator Merchant Fund, LP.	38
John C. Ferrara............	President and Chief Executive Officer (October 2004 to present) of Lynch Corporation; Private investor from March 2002 to present; President and Chief Executive Officer (2001 to March 2002) and Chief Financial Officer (1999 to 2001) of Space Holding Corporation, a private multimedia company dedicated to space, science and technology; Executive Vice President and Chief Financial Officer (1998 to 1999) of Golden Books Family Entertainment, Inc., a NASDAQ listed publisher, licenser and marketer of entertainment products; Vice President and Chief Financial Officer (1989 to 1997) of Renaissance Communications Corp., a NYSE listed owner and operator of television stations; Director of Gabelli Asset Management Inc. and Lynch Interactive Corporation.	54
Eugene Hynes...............	Vice President of Finance (September 2004 to present) of Lynch Corporation; Vice President and Controller of Space Holding Corporation (1999 to September 2004); Manager Financial Planning and Analysis of Golden Books Family Entertainment, Inc. (1998-1999).	40

The executive officers of the Company are elected annually by the Board of Directors at its organizational meeting and hold office until the organizational meeting in the next year and until their respective successors are elected and qualify.

ITEM 1A. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE INVESTING IN OUR PUBLICLY TRADED SECURITY. THE RISKS DESCRIBED BELOW ARE NOT THE ONLY ONES FACING US. ADDITIONAL RISKS NOT CURRENTLY KNOWN TO US OR THAT WE CURRENTLY BELIEVE ARE IMMATERIAL ALSO MAY IMPAIR OUR BUSINESS OPERATIONS AND OUR LIQUIDITY.

WE HAVE INCURRED OPERATING LOSSES IN TWO OF THE PAST THREE YEARS AND FACE UNCERTAINTY IN OUR ABILITY TO SUSTAIN OPERATING PROFITS IN THE FUTURE.

We have incurred operating losses in two of the past three years. We suffered operating losses of $2,888,000 and $832,000 in 2004 and 2003, respectively. While we achieved an operating profit of $1,178,000 in 2005, we are uncertain whether we will be able to sustain operating profits in the future.

IF WE ARE UNABLE TO SECURE NECESSARY FINANCING, WE MAY NOT BE ABLE TO FUND OUR OPERATIONS OR STRATEGIC GROWTH.

In order to achieve our strategic business objectives, we may be required to seek additional financing. We may be unable to renew our existing credit facilities or obtain new financing on acceptable terms, or at all. Under certain of our existing credit facilities, we are required to obtain the lenders' consent for most additional debt financing and to comply with other covenants, including specific financial ratios. For example, we may require further capital to continue to develop our technology and infrastructure and for working capital purposes. In addition, future acquisitions would likely require additional equity and/or debt financing. Our failure to secure additional financing could have a material adverse effect on our continued development or growth.

AS A HOLDING COMPANY, WE DEPEND ON THE OPERATIONS OF OUR SUBSIDIARIES TO MEET OUR OBLIGATIONS.

We are a holding company that transacts all of our business through operating subsidiaries. Our primary assets are the shares of our operating subsidiaries. Our ability to meet our operating requirements and to make other payments depends on the surplus and earnings of our subsidiaries and their ability to pay dividends or to advance or repay funds. Payments of dividends and advances and repayments of inter-company debt by our subsidiaries are restricted by our credit agreements.

WE MAY MAKE ACQUISITIONS THAT ARE NOT SUCCESSFUL OR FAIL TO PROPERLY INTEGRATE ACQUIRED BUSINESSES INTO OUR OPERATIONS.

We intend to explore opportunities to buy other businesses or technologies that could complement, enhance or expand our current business or product lines or that might otherwise offer us growth opportunities. We may have difficulty finding such opportunities or, if we do identify such opportunities, we may not be able to complete such transactions for reasons including a failure to secure necessary financing.

Any transactions that we are able to identify and complete may involve a number of risks, including:

- the diversion of our management's attention from our existing business to integrate the operations and personnel of the acquired or combined business or joint venture;
- possible adverse effects on our operating results during the integration process;
- substantial acquisition related expenses, which would reduce our net income in future years;
- the loss of key employees and customers as a result of changes in management; and
- our possible inability to achieve the intended objectives of the transaction.

In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees. We may not be able to maintain uniform standards, controls, procedures and policies, and this may lead to operational inefficiencies.

YOUR ABILITY TO INFLUENCE CORPORATE DECISIONS MAY BE LIMITED BECAUSE OUR PRINCIPAL SHAREHOLDERS OWN IN THE AGGREGATE 41% OF OUR COMMON STOCK.

Our principal shareholders currently own in the aggregate approximately 41% of our outstanding common stock. These shareholders may be able to determine who will be elected to our board of directors and to control substantially all matters requiring approval by our shareholders, including mergers, sales of assets and approval of other significant corporate transactions, in a manner with which you may not agree or that may not be in your best interest. This concentration of stock ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling shareholders.

PROVISIONS IN OUR CHARTER DOCUMENTS AND UNDER INDIANA LAW MAY PREVENT OR DELAY A CHANGE OF CONTROL OF US AND COULD ALSO LIMIT THE MARKET PRICE OF OUR COMMON SHARES.

Provisions of our certificate of incorporation and bylaws, as well as provisions of Indiana corporate law, may discourage, delay or prevent a merger, acquisition or other change in control of our company, even if such a change in control would be beneficial to our shareholders. These provisions may also prevent or frustrate attempts by our shareholders to replace or remove our management. These provisions include those:

- prohibiting our shareholders from fixing the number of our directors;
- requiring advance notice for shareholder proposals and nominations; and
- prohibiting shareholders from acting by written consent, unless unanimous.

We are subject to certain provisions of the Indiana Business Corporation Law, or IBCL, that limit business combination transactions with 10% shareholders during the first five years of their ownership, absent approval of our board of directors. The IBCL also contains control share acquisition provisions that limit the ability of certain shareholders to vote their shares unless their control share acquisition was approved in advance by shareholders. These

provisions and other similar provisions make it more difficult for shareholders or potential acquirers to acquire us without negotiation and could limit the price that investors are willing to pay in the future for our common shares.

COMPLIANCE WITH CHANGING REGULATION OF CORPORATE GOVERNANCE AND PUBLIC DISCLOSURE WILL EITHER REQUIRE US TO INCUR ADDITIONAL EXPENSES OR CEASE TO BE A REPORTING COMPANY.

Keeping abreast of, and in compliance with, changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and American Stock Exchange rules, will require an increased amount of management attention and external resources. We would be required to invest additional resources to comply with evolving standards, which would result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Our Board of Directors may determine that it is in the best interests of shareholders to eliminate or reduce such expense by ceasing to be a reporting company for purposes of the Securities Exchange Act of 1934, as amended. One commonly used method, subject to shareholder approval, is to effect a reverse share split to reduce the number of shareholders to fewer than 300, permitting termination of registration. Under this method, shareholders who own less than one whole common share following the reverse split would cease to be shareholders and would receive a cash payment for their fractional shares. After a reverse split, there might be no established trading market for our common shares, although we expect that our common shares may then be quoted on the "pink sheets."

WE MAY BE EXPOSED TO LIABILITY AS A RESULT OF BEING NAMED AS A DEFENDANT IN A LAWSUIT BROUGHT UNDER THE SO-CALLED "QUI TAM" PROVISIONS OF THE FEDERAL FALSE CLAIMS ACT.

The Company, Lynch Interactive Corporation, which was formed via a tax-free spin-off from Lynch Corporation on September 1, 1999 ("Lynch Interactive") and various other parties are defendants in a lawsuit brought under the so-called "qui tam" provisions of the federal False Claims Act in the United States District Court for the District of Columbia. The main allegation in the case is that the defendants participated in the creation of "sham" bidding entities that allegedly defrauded the U.S. Treasury Department by improperly participating in Federal Communications Commission spectrum auctions restricted to small businesses, and obtained bidding credits in other spectrum auctions allocated to "small" and "very small" businesses. The lawsuit seeks to recover an unspecified amount of damages, which amount would be automatically tripled under the statute. Although Lynch Interactive is contractually bound to indemnify us for any losses or damages we may incur as a result of this lawsuit, Lynch Interactive may lack the capital resources to do so. As a result, we could be held liable and forced to pay a significant amount of damages without recourse.

WE DO NOT ANTICIPATE PAYING CASH DIVIDENDS ON OUR COMMON SHARES IN THE

FORESEEABLE FUTURE.

We anticipate that all of our earnings will be retained for the development of our business. The Board of Directors has adopted a policy of not paying cash dividends on our common shares. The Company also has restrictions under our debt agreements which limit our ability to pay dividends. We do not anticipate paying cash dividends on our common shares in the foreseeable future.

THERE IS A LIMITED MARKET FOR OUR COMMON SHARES. OUR SHARE PRICE IS LIKELY TO BE HIGHLY VOLATILE AND COULD DROP UNEXPECTEDLY.

There is a limited public market for our common shares, and we cannot assure you that an active trading market will develop. As a result of low trading volume in our common shares, the purchase or sale of a relatively small number of shares could result in significant share price fluctuations. Our share price may fluctuate significantly in response to a number of factors, including the following, several of which are beyond our control:

- changes in financial estimates or investment recommendations by securities analysts relating to our shares;

- loss of a major customer;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments; and
- changes in key personnel.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We could be the target of similar litigation in the future. Securities litigation, regardless of merit or ultimate outcome, would likely cause us to incur substantial costs, divert management's attention and resources, harm our reputation in the industry and the securities markets and reduce our profitability.

SECURITIES ANALYSTS MAY NOT INITIATE COVERAGE OF OUR COMMON SHARES OR MAY ISSUE NEGATIVE REPORTS, AND THIS MAY HAVE A NEGATIVE IMPACT ON THE MARKET PRICE OF OUR COMMON SHARES.

We cannot assure you that securities analysts will initiate coverage and publish research reports on us. It is difficult for companies with smaller market capitalizations, such as us, to attract independent financial analysts who will cover our common shares. If securities analysts do not, this lack of research coverage may adversely affect the market price of our common shares.

IF WE ARE UNABLE TO INTRODUCE INNOVATIVE PRODUCTS, DEMAND FOR OUR PRODUCTS MAY DECREASE.

Our future operating results are dependent on our ability to continually develop, introduce and market innovative products, to modify existing products, to respond to technological change and to customize some of our products to meet customer requirements. There are numerous risks inherent in this process, including the risks that we will be unable to anticipate the direction of technological change or that we will be unable to develop and market new products and applications in a timely or cost-effective manner to satisfy customer demand.

OUR OPERATING RESULTS AND FINANCIAL CONDITION COULD BE MATERIALLY ADVERSELY AFFECTED BY ECONOMIC, POLITICAL, HEALTH, REGULATORY AND OTHER FACTORS EXISTING IN FOREIGN COUNTRIES IN WHICH WE OPERATE.

As we have significant international operations, our operating results and financial condition could be materially adversely affected by economic, political, health, regulatory and other factors existing in foreign countries in which we operate. Our international operations are subject to inherent risks, which may materially adversely affect us, including:

- political and economic instability in countries in which our products are manufactured and sold;
- expropriation or the imposition of government controls;
- sanctions or restrictions on trade imposed by the United States government;
- export license requirements;
- trade restrictions;
- currency controls or fluctuations in exchange rates;
- high levels of inflation or deflation;
- greater difficulty in collecting our accounts receivable and longer payment cycles;
- changes in labor conditions and difficulties in staffing and

managing our international operations; and

o limitations on insurance coverage against geopolitical risks, natural disasters and business operations.

In addition, these same factors may also place us at a competitive disadvantage when compared to some of our foreign competitors. In response to competitive pressures and customer requirements, we may further expand internationally at lower cost locations. If we expand into these locations, we will be required to incur additional capital expenditures.

OUR BUSINESSES ARE CYCLICAL. A DECLINE IN DEMAND IN THE ELECTRONIC COMPONENT AND GLASS COMPONENT INDUSTRIES MAY RESULT IN ORDER CANCELLATIONS AND DEFERRALS AND LOWER AVERAGE SELLING PRICES FOR OUR PRODUCTS.

Our subsidiaries sell to industries that are subject to cyclical economic changes. The electronic component and glass component industries in general, and specifically the Company, could experience a decline in product demand on a global basis, resulting in order cancellations and deferrals and lower average selling prices. A slowing of growth in the demand for components used by telecommunications infrastructure manufacturers and newer technologies introduced in the glass display industry could lead to a decline. If a slowdown occurs, it may continue and may become more pronounced.

OUR MARKETS ARE HIGHLY COMPETITIVE, AND WE MAY LOSE BUSINESS TO LARGER AND BETTER-FINANCED COMPETITORS.

Our markets are highly competitive worldwide, with low transportation costs and few import barriers. We compete principally on the basis of product quality and reliability, availability, customer service, technological innovation, timely delivery and price. All of the industries in which we compete have become increasingly concentrated and globalized in recent years. Our major competitors, some of which are larger than us, and potential competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer support capabilities than we have.

OUR SUCCESS DEPENDS ON OUR ABILITY TO RETAIN OUR KEY MANAGEMENT AND TECHNICAL PERSONNEL AND ATTRACTING, RETAINING, AND TRAINING NEW TECHNICAL PERSONNEL.

Our future growth and success will depend in large part upon our ability to retain our existing management and technical team and to recruit and retain highly skilled technical personnel, including engineers. The labor markets in which we operate are highly competitive and most of our operations are not located in highly populated areas. As a result, we may not be able to retain and recruit key personnel. Our failure to hire, retain or adequately train key personnel could have a negative impact on our performance.

Mtron/PTI'S BACKLOG MAY NOT BE INDICATIVE OF FUTURE REVENUES AND MAY ADVERSELY AFFECT OUR BUSINESS.

Mtron/PTI's backlog comprises orders that are subject to specific production release orders under written contracts, oral and written orders from customers with which Mtron/PTI has had long-standing relationships and written purchase orders from sales representatives. Mtron/PTI's customers may order components from multiple sources to ensure timely delivery when backlog is particularly long and may cancel or defer orders without significant penalty. They often cancel orders when business is weak and inventories are excessive, a phenomenon that Mtron/PTI experienced in the most recent economic slowdown. As a result, Mtron/PTI's backlog as of any particular date may not be representative of actual revenues for any succeeding period.

Mtron/PTI RELIES UPON ONE CONTRACT MANUFACTURER FOR A SIGNIFICANT PORTION OF ITS FINISHED PRODUCTS, AND A DISRUPTION IN ITS RELATIONSHIP COULD HAVE A NEGATIVE IMPACT ON Mtron/PTI'S REVENUES.

In 2005, approximately 14% of Mtron/PTI's revenue was attributable to finished products that were manufactured by an independent contract manufacturer located in both Korea and China. We expect this manufacturer to account for a smaller but substantial portion of Mtron/PTI's revenues in 2006 and a material portion of Mtron/PTI's revenues for the next several years. Mtron/PTI does not have a written, long-term supply contract with this manufacturer. If this manufacturer becomes unable to provide products in the quantities needed, or at acceptable prices, Mtron/PTI would have to identify and qualify acceptable replacement manufacturers or manufacture the products internally. Due to specific product knowledge and process capability, Mtron/PTI could encounter difficulties in locating, qualifying and entering into arrangements with replacement manufacturers. As a result, a reduction in the production capability or financial viability of this manufacturer, or a termination of, or significant interruption in, Mtron/PTI's relationship with this manufacturer, may adversely affect Mtron/PTI's results of operations and our financial condition.

Mtron/PTI PURCHASES CERTAIN KEY COMPONENTS FROM SINGLE OR LIMITED SOURCES AND COULD LOSE SALES IF THESE SOURCES FAIL TO FULFILL OUR NEEDS.

If single source components were to become unavailable on satisfactory terms, and could not obtain comparable replacement components from other sources in a timely manner, our business, results of operations and financial condition could be harmed. On occasion, one or more of the components used in our products have become unavailable, resulting in unanticipated redesign and related delays in shipments. We cannot assure you that similar delays will not occur in the future. Our suppliers may be impacted by compliance to environmental regulations including RoHS & WEEE, which could affect our continued supply of components or cause additional costs for us to implement new components into our manufacturing process.

Mtron/PTI'S PRODUCTS ARE COMPLEX AND MAY CONTAIN ERRORS OR DESIGN FLAWS, WHICH COULD BE COSTLY TO CORRECT.

When we release new products, or new versions of existing products, they may contain undetected or unresolved errors or defects. Despite testing, errors or defects may be found in new products or upgrades after the commencement of commercial shipments. Undetected errors and design flaws have occurred in the past and could occur in the future. These errors could result in delays, loss of market acceptance and sales, diversion of development resources, damage to our reputation, legal action by our customers, failure to attract new customers and increased service costs.

CONTINUED MARKET ACCEPTANCE OF Mtron/PTI'S PACKAGED QUARTZ CRYSTALS, OSCILLATOR MODULES AND ELECTRONIC FILTERS IS CRITICAL TO OUR SUCCESS, BECAUSE FREQUENCY CONTROL DEVICES ACCOUNT FOR NEARLY ALL OF Mtron/PTI'S REVENUES.

Virtually all of Mtron/PTI's 2005 and 2004 revenues came from sales of frequency control devices, which consist of packaged quartz crystals, oscillator modules and electronic filters. We expect that this product line will continue to account for substantially all of Mtron/PTI's revenues for the foreseeable future. Any decline in demand for this product line or failure to achieve continued market acceptance of existing and new versions of this product line may harm Mtron/PTI's business and our financial condition.

Mtron/PTI'S FUTURE RATE OF GROWTH IS HIGHLY DEPENDENT ON THE DEVELOPMENT AND GROWTH OF THE MARKET FOR COMMUNICATIONS AND NETWORK EQUIPMENT.

Mtron/PTI's business depends heavily upon capital expenditures by the providers of communications and network services. In 2005, the majority of Mtron/PTI's revenues was to manufacturers of communications and network infrastructure equipment, including indirect sales through distributors and contract manufacturers. In 2006, Mtron/PTI expects a smaller but significant portion of its revenues to be to manufacturers of communications and network infrastructure equipment. Mtron/PTI intends to increase its sales to communications and network infrastructure equipment manufacturers in the future. Communications and network service providers have experienced periods of capacity shortage and periods of excess capacity. In periods of excess capacity, communications systems and network operators cut purchases of capital equipment, including equipment that incorporates Mtron/PTI's products. A slowdown in the manufacture and purchase of communications and network infrastructure equipment could substantially reduce Mtron/PTI's net sales and operating results and adversely affect our financial condition. Moreover, if the market for communications or network infrastructure equipment fails to grow as expected, Mtron/PTI may be unable to sustain its growth. In addition, Mtron/PTI's growth depends upon the acceptance of its products by communications and network infrastructure equipment manufacturers. If, for any reason, these manufacturers do not find Mtron/PTI's products to be appropriate for their use, our future growth will be adversely affected.

COMMUNICATIONS AND NETWORK INFRASTRUCTURE EQUIPMENT MANUFACTURERS INCREASINGLY RELY UPON CONTRACT MANUFACTURERS, THEREBY DIMINISHING Mtron/PTI'S ABILITY TO SELL ITS PRODUCTS DIRECTLY TO THOSE EQUIPMENT MANUFACTURERS.

There is a growing trend among communications and network infrastructure equipment manufacturers to outsource the manufacturing of their equipment or components. As a result, Mtron/PTI's ability to persuade these original equipment manufacturers to specify our products has been reduced and, in the absence of a manufacturer's specification of Mtron/PTI's products, the prices that Mtron/PTI can charge for them may be subject to greater competition.

MtronPTI'S CUSTOMERS ARE SIGNIFICANTLY LARGER THAN IT AND THEY MAY EXERT LEVERAGE THAT WILL NOT BE IN THE BEST INTEREST OF MtronPTI.

The majority of MtronPTI's sales are to companies that are many times its size. This size differential may put MtronPTI in a disadvantage while negotiating contractual terms and may result in terms that are not in the best interest of MtronPTI. These items may include price, payment terms, product warranties and product consignment obligations.

FUTURE CHANGES IN Mtron/PTI'S ENVIRONMENTAL LIABILITY AND COMPLIANCE OBLIGATIONS MAY INCREASE COSTS AND DECREASE PROFITABILITY.

Mtron/PTI's manufacturing operations, products and/or product packaging are subject to environmental laws and regulations governing air emissions, wastewater discharges, and the handling, disposal and remediation of hazardous substances, wastes and other chemicals. In addition, more stringent environmental regulations may be enacted in the future, and we cannot presently determine the modifications, if any, in Mtron/PTI's operations that any future regulations might require, or the cost of compliance that would be associated with these regulations.

THE EUROPEAN UNION HAS RECENTLY ISSUED ITS RESTRICTION OF HAZARDOUS SUBSTANCES DIRECTIVE ("THE RHSD"), WHICH RESTRICTS THE USE OF CERTAIN HAZARDOUS SUBSTANCES USED IN THE CONSTRUCTION OF COMPONENT PARTS EFFECTIVE JULY 1, 2006.

We may need to change our manufacturing processes, redesign some of our products, and change components to eliminate these hazardous substances in our products in order to be able to continue to offer them for sale within the European Union.

SALES OF A SIGNIFICANT PORTION OF OUR PRODUCTS TO CUSTOMERS OUTSIDE OF THE UNITED STATES SUBJECTS US TO BUSINESS, ECONOMIC AND POLITICAL RISKS.

Our export sales, which are primarily to Canada, Asia, Western Europe accounted for 46% of revenues during 2005 and 48% of revenues during 2004. We anticipate that sales to customers located outside of the United Sates will continue to be a significant part of our revenues for the foreseeable future. Because significant portions of our sales are to customers outside of the United States, we are subject to risks including foreign currency fluctuations, longer payment cycles, reduced or limited protection of intellectual property rights, political and economic instability, and export restrictions. To date, very few of our international revenue and cost obligations have been denominated in foreign currencies. As a result, in increase in the value of the US dollar relative to foreign currencies could make our products more expensive and thus, less competitive in foreign markets. We do not currently engage in foreign currency hedging activities, but may do so in the future to the extent that such obligations become more significant.

LYNCH SYSTEMS' REVENUE IS LARGELY DEPENDENT ON DEMAND FOR ITS TELEVISIONS AND COMPUTER MONITORS BASED ON CATHODE-RAY TUBE TECHNOLOGY. THIS TECHNOLOGY WILL EVENTUALLY BE REPLACED BY PLASMA AND LIQUID CRYSTAL DISPLAYS.

Lynch Systems generates a significant portion of its revenue from sales to glass producers that supply television and computer monitor displays that are based on cathode-ray tube technology. This market is being rapidly penetrated by thinner, lighter weight plasma displays and liquid crystal displays. Although cathode-ray tube televisions and computer monitors currently retain advantages in image quality and price, glass producers are investing billions of dollars to improve the quality and lower the unit price of plasma, liquid crystal and other display types. We believe that market penetration by plasma and liquid crystal display producers will continue and eventually render obsolete cathode-ray tube technology and this Lynch Systems product line.

LYNCH SYSTEMS' DEPENDENCE ON A FEW SIGNIFICANT CUSTOMERS EXPOSES IT TO OPERATING RISKS.

Lynch Systems' sales to its ten largest customers accounted for approximately 79% and 80% of its revenues in 2005 and 2004, respectively. Lynch Systems' sales to its largest customer accounted for approximately 46% and 36%

of its revenues in 2005 and 2004, respectively. If a significant customer reduces, delays or cancels its orders for any reason, the business and results of operations of Lynch Systems would be negatively affected.

A MULTIPLE MACHINE ORDER WITH A SIGNIFICANT CUSTOMER IN THE TABLEWARE MARKET MAY NOT BE REALIZED IN FULL.

Lynch Systems has a significant order for glass manufacturing machines which may not be realized in full. In 2004, Lynch Systems signed a contract to sell five machines for a total purchase price of $2,350,000. The contract was accounted for under the percentage of completion method. Throughout 2004 and 2005, revenues totaling approximately $1,983,000 were recorded relating to the five machines based upon the percentage completed. There was no profit recorded to date on this contract. In late 2005, the first machine was completed and shipped. The installation of the machine has been delayed several times due to the customer temporarily closing down its plant. The customer has now indicated that the plant will open in mid 2006 and that the machine can be installed at that time. The customer has stated that when the first machine is operational, it will pay for the first machine and accept deliveries on three additional machines over the next 12 to 18 months. Management fully expects that the customer will honor its commitment; however, the Company has provided a reserve of $350,000 against the billed receivable, unbilled receivable and inventory balances at December 31, 2005. If the customer does not honor its commitment, additional provisions may be required, based upon the ultimate disposition of the machines.

THE RESULTS OF LYNCH SYSTEMS' OPERATIONS ARE SUBJECT TO FLUCTUATIONS IN THE AVAILABILITY AND COST OF STEEL USED TO MANUFACTURE GLASS FORMING EQUIPMENT.

Lynch Systems uses large amounts of steel to manufacture its glass forming equipment. The price of steel has risen substantially and demand for steel is very high. Lynch Systems has only been able to pass some of the increased costs to its customers. As a result, Lynch Systems' profit margins on glass forming equipment have decreased. If the price of and demand for steel continues to rise, our profit margins will continue to decrease.

LYNCH SYSTEMS MAY BE UNABLE TO PROTECT ITS INTELLECTUAL PROPERTY.

The success of Lynch Systems' business depends, in part, upon its ability to protect trade secrets, designs, drawings and patents, obtain or license patents and operate without infringing on the intellectual property rights of others. Lynch Systems relies on a combination of trade secrets, designs, drawings, patents, nondisclosure agreements and technical measures to protect its proprietary rights in its products and technology. The steps taken by Lynch Systems in this regard may not be adequate to prevent misappropriation of its technology. In addition, the laws of some foreign countries in which Lynch Systems operates do not protect its proprietary rights to the same extent as do the laws of the United States. Although Lynch Systems continues to evaluate and implement protective measures, we cannot assure you that these efforts will be successful. Lynch Systems' inability to protect its intellectual property rights could diminish or eliminate the competitive advantages that it derives from its technology, cause Lynch Systems to lose sales or otherwise harm its business.

FORWARD LOOKING INFORMATION

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this discussion and throughout this document, words, such as "intends," "plans," "estimates," "believes," "anticipates" and "expects" or similar expressions are intended to identify forward-looking statements. These statements are based on the Company's current plans and expectations and involve risks and uncertainties, over which the Company has no control, that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and operating results to differ include fluctuating demand for capital goods such as large glass presses, delay in the recovery of demand for components used by telecommunications infrastructure manufacturers, and exposure to foreign economies. Important information regarding risks and uncertainties is also set forth elsewhere in this document, including in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations". Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no

obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Readers are also urged to carefully review and consider the various disclosures made by the Company, in this document, as well as the Company's periodic reports on Forms 10-K, 10-Q and 8-K, filed with the Securities and Exchange Commission ("SEC").

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

The Company also makes this information available on its website

WWW.LYNCHCORP.COM.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Lynch's principal executive offices are located in Greenwich, Connecticut, under a monthly lease for approximately 1,100 square feet of office space.

Lynch Systems' operations are housed in two adjacent buildings totaling 95,840 square feet situated on 4.86 acres of land in Bainbridge, Georgia. Finished office area in the two buildings totals approximately 17,000 square feet. Additionally, the Company has 18,604 square feet that is utilized for warehouse and storage. At December 31, 2005, all such properties are subject to security deeds relating to loans.

Mtron/PTI's operations are located in Yankton, South Dakota, Orlando, Florida, India and Hong Kong. Mtron/PTI has two separate facilities in Yankton, these facilities contain approximately 51,000 square feet in the aggregate. The manufacturing facility that is owned by Mtron/PTI contains approximately 35,000 square feet, is situated on approximately 15 acres of land and is subject to security deeds relating to loans. The other facility is leased and contains approximately 16,000 square feet. The lease expires on September 30, 2006, with no options to extend the lease; Mtron/PTI intends to renew the lease. Mtron/PTI has one building, approximately 76,000 square feet, on approximately 7 acres of land in Orlando that was purchased in connection with the acquisition of PTI. Mtron/PTI has approximately 1,500 square feet of office space in Hong Kong; the lease expires October 5, 2006 and does not include renewal options and the Company leases approximately 7,500 square feet of office and manufacturing space in Delhi, India.

It is the Company's opinion that the facilities referred to above are in good operating condition and suitable and adequate for present uses.

ITEM 3. LEGAL PROCEEDINGS

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 adverse effect on the Company's financial condition or operations. In addition, the Company and/or one or more of its subsidiaries are parties to the following additional legal proceedings:

IN RE: SPINNAKER COATING, INC., DEBTOR/PACE LOCAL 1-1069 V. SPINNAKER COATING, INC., AND LYNCH CORPORATION, U.S. BANKRUPTCY COURT, DISTRICT OF MAINE, CHAPTER 11, ADV. PRO. NO. 02-2007, AND PACE LOCAL 1-1069 V. LYNCH CORPORATION AND LYNCH SYSTEMS, INC. CUMBERLAND COUNTY SUPERIOR COURT, CV-2001-00352

On or about June 26, 2001, in anticipation of the July 15, 2001 closure of Spinnaker's Westbrook, Maine facility, Plaintiff PACE Local 1-1069 ("PACE") filed a three count complaint in Cumberland County Superior Court, CV-2001-00352 naming the following Defendants: Spinnaker Industries, Inc., Spinnaker Coating, Inc., and Spinnaker Coating-Maine, Inc. (collectively, the "Spinnaker Entities") and the Company. The complaint alleged that under Maine's Severance Pay Act both the Spinnaker Entities and the Company would be liable to pay approximately $1,166,000 severance pay under Maine's Severance Pay Act in connection with the plant closure. Subsequently, the Spinnaker Entities filed for relief under Chapter 11 of the Bankruptcy Code and the action proceeded against the Company on the issue of whether the Company has liability to PACE's members under the Maine Severance Pay Act.

In 2002, both PACE and the Company moved for summary judgment in the action. On July 28, 2003, the Court issued an order denying the Company's motion, finding that there remained a disputed issue of material fact regarding one of the Company's primary defenses. The Court granted partial summary judgment in favor of PACE to the extent that the Court found that the Company was the Spinnaker Entities' "parent corporation" and, therefore, the Company was an "employer" subject to potential liability under Maine's Severance Pay Act.

On November 3, 2004, the Superior Court granted summary judgment to PACE on the second count of its complaint, based on the Courts' earlier ruling that the Company was the parent corporation of the Spinnaker Entities. The Court also issued a separate order that related to the calculation of damages, largely agreeing with the Company on the appropriate method of calculating damages and awarded PACE $653,018 (subsequently modified to $656,020) in severance pay, which is approximately one-half the amount claimed by PACE. The Superior Court rejected PACE's claim for pre-judgment interest, but granted its request for attorney fees.

Both PACE and the Company appealed to the Maine Supreme Judicial Court. The parties filed written briefs during April and May 2005 and made oral arguments to the Supreme Court on September 13, 2005. On January 13, 2006, before the Supreme Court issued its decision, the Company and PACE agreed to settle the case. The settlement includes payment of a total of $800,000 to resolve the claims of 67 workers who lost their jobs in 2001. The parties also withdrew their respective appeals pending in the Supreme Court and, therefore, no decision was ever issued by the Court.

QUI TAM LAWSUIT

The Company, Lynch Interactive and numerous other parties have been named as defendants in a lawsuit originally brought under the so-called "qui tam" provisions of the federal False Claims Act in the United States District Court for the District of Columbia. The complaint was filed under seal in February 2001, and the seal was lifted at the initiative of one of the defendants in January 2002. The Company was formally served with the complaint in July 2002. The main allegation in the case is that the defendants participated in the creation of "sham" bidding entities that allegedly defrauded the United States Treasury by improperly participating in Federal Communications Commission ("FCC") spectrum auctions restricted to small businesses, as well as obtaining "bidding credits" in other spectrum auctions allocated to "small" and "very small" businesses. While the lawsuit seeks to recover an unspecified amount of damages, which would be subject to mandatory trebling under the statute, a report prepared for the relator (the private party who filed the action on behalf of the United States) in February 2005 alleges damages of approximately $91,000,000 in respect of "bidding credits", approximately $70,000,000 in respect of government "financing" and approximately $206,000,000 in respect of subsequent resales of licenses, in each case prior to trebling. The liability is alleged to be joint and several. In September 2003, the court granted Lynch Interactive's motion to transfer the action to the Southern District of New York.

In September 2004, the court issued a ruling denying defendants' motion to refer the issues in the action to the FCC. In December 2004, the defendants filed a motion in the United States District Court in the District of Columbia asking that court to compel the FCC to provide information subpoenaed by them to enable them to conduct their defense. This motion was denied in May 2005, and the defendants appealed. In February 2006, the defendants and the FCC reached an

agreement granting defendants discovery of certain documents and other evidentiary materials. In November 2005, the court ruled that damages based on profits from resales of licenses were not allowed under the False Claims Act.

Initially, in 2001, the Department of Justice notified the court that it would not intervene in the case. However, in response to the judge's ruling in November 2005 (described above), the DOJ recently, in March 2006, petitioned the court to allow it to intervene. This petition is scheduled to be argued in April 2006. The case had been tentatively scheduled for trial in June 2006 but the trial may be delayed due to the government's intervention and related issues. The defendants believe that the action is without merit and that the relator's damage computations are without basis, and they are defending the suit vigorously. Under the separation agreement between the Company and Lynch Interactive pursuant to which Lynch Interactive was spun-off to the Company's shareholders on September 1, 1999, Lynch Interactive would be obligated to indemnify the Company for any losses or damaged incurred by the Company as a result of this action. Lynch Interactive has agreed in writing to defend the case on the Company's behalf and to indemnify the Company for any losses it may incur. Nevertheless, the Company cannot predict the ultimate outcome of the litigation, nor can the Company predict the effect that the lawsuit or its outcome will have on the Company's business or plan of operation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Common Stock of the Company 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 fiscal years ended December 31, 2005 and December

31, 2004 are as follows:

	QUARTER ENDED			
2005	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
High....................	$14.97	$9.50	$13.70	$11.95
Low.....................	9.00	7.75	8.35	7.50
2004	MARCH 31,	JUNE 30,	SEPTEMBER 30,	DECEMBER 31,
High....................	17.00	16.25	15.10	16.74
Low.....................	9.80	12.26	11.65	12.25

At March 21, 2006, the Company had 1,565 shareholders of record.

DIVIDEND POLICY

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 2006. Substantially all of the subsidiaries' assets are restricted under the Company's current credit agreements, which limit the subsidiaries' ability to pay dividends.

ISSUER REPURCHASE OF ITS EQUITY SECURITIES

There were no repurchases made by the Company during the fourth fiscal quarter of 2005.

ITEM 6. SELECTED FINANCIAL DATA

LYNCH CORPORATION AND SUBSIDIARIES

CONSOLIDATED SELECTED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The following selected financial data is qualified by reference to, and should be read in conjunction with, the financial statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report.

	YEAR ENDED DECEMBER 31, (a)				
	2005	2004	2003	2002*	2001*
Revenues...	$ 46,183	$ 33,834	$ 27,969	$ 26,386	$ 141,073
Operating profit (loss) (b)...	1,178	(2,888)	(832)	16,168	(19,240)
Gain (loss) on sale of subsidiary stock and other operating assets.........................	--	--	35	(92)	--
Gain on release of customer related contingency..	--	--	728	--	--
Income (loss) from continuing operations before income taxes and minority interests.....	1,001	(3,226)	183	15,996	(26,597)
Benefit (provision) for income taxes.............	209	(100)	(73)	1,967	(358)
Minority interests...............................	--	--	--	--	4,017
Net income (loss)................................	$ 1,210	$ (3,326)	$ 110	$ 17,963	$ (22,938)
Per Common Share:(c)					
Net income (loss):					
Basic......................................	$ 0.73	$ (2.18)	$ 0.07	$ 11.99	$ (15.24)
Diluted....................................	0.73	(2.18)	0.07	11.99	(15.24)

	DECEMBER 31, (a)				
	2005	2004	2003	2002*	2001*

Cash, securities and short-term Investments(e)	$ 8,250	$ 6,189	$ 6,292	$ 6,847	$ 4,247
Restricted cash(e)(f)	650	1,125	1,125	1,125	4,703
Total assets(d)(e)	32,664	33,883	23,019	23,430	31,615
Long-term debt, exclusive of current portion(e)	5,031	3,162	833	1,089	1,678
Shareholders' equity (deficiency) (d)(e)	14,688	9,993	11,033	10,934	(7,451)

NOTES:

* Effective September 30, 2001, the Company's ownership and voting interest of Spinnaker Industries, Inc. was reduced to 41.8% and 49.5% respectively, due to the disposition of shares of Spinnaker. As a result, effective

September 30, 2001, the Company relinquished control of Spinnaker and has deconsolidated Spinnaker. On September 23, 2002, the Company disposed of its remaining interest in Spinnaker. See Note 1 to the Consolidated Financial Statements -- "Basis of Presentation".

(a) The data presented includes results of the business acquired from PTI, from September 30, 2004, the effective date of its acquisition, and Champion Technologies, Inc. from October 18, 2002, the date of its acquisition.

(b) Operating profit (loss) is revenues less operating expenses, which excludes investment income, interest expense, extraordinary items, minority interests and taxes. Included are asset impairment and restructuring charges and the gain on deconsolidation.

(c) Based on weighted average number of common shares outstanding.

(d) No cash dividends have been declared over the period.

(e) Excludes Spinnaker Industries as a result of the September 30, 2001 deconsolidation of Spinnaker resulting from the Company's disposition of shares of Spinnaker that reduced its ownership and voting interest of Spinnaker Industries, Inc. to 41.8% and 49.5% respectively, and the Company's subsequent disposition of its remaining interest in Spinnaker on September 23, 2002.

(f) See discussion of Restricted Cash and Notes Payable and Long-Term Debt in Note 4 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with the Selected Financial Data and our Consolidated Financial Statements and the related notes included elsewhere in this Annual Report.

RESULTS OF OPERATIONS

2005 COMPARED TO 2004

CONSOLIDATED REVENUES AND GROSS MARGIN

Consolidated revenues increased $12,349,000, or 36%, to $46,183,000 for the year ended December 31, 2005 from $33,834,000 for the comparable period in 2004.

Revenues at Mtron/PTI increased by $11,638,000, or 50%, to $35,051,000 for the year ended December 31, 2005 from $23,413,000 in 2004. The increase was due to improvements in the telecommunications market, improvements in the infrastructure segment of the telecommunications market and the contribution of PTI, which was acquired effective September 30, 2004.

Revenues at Lynch Systems increased by $711,000, or 7%, to $11,132,000 for the year ended December 31, 2005 from $10,421,000 in 2004. This increase was primarily due to sales of large CRT machines in 2005, which was partially offset by lower revenue for glass press machines.

The consolidated gross margin as a percentage of revenues in 2005 increased to 31.9%, compared to 23.8% in the prior year.

Mtron/PTI's gross margin as a percentage of revenues for the year ended December 31, 2005 increased to 30.2% from 26.9% in 2004. The contribution from PTI, combined with selective price increases and operational efficiencies, resulted in the improved gross margin rates.

Lynch Systems' gross margin as a percentage of revenues for the year ended

December 31, 2005 increased to 37.3% from 16.7% in 2004. The increase was primarily due to sales of large CRT machines, which carry higher gross margins,

in 2005. Although the 2005 revenues for Lynch Systems' include a large CRT machine order, Lynch Systems has undergone a shift in its business away from higher margin CRT machines to lower margin tableware products and repair parts business.

OPERATING PROFIT (LOSS)

The operating profit for the year ended December 31, 2005 was $1,178,000, compared to an operating loss of $2,888,000 for the comparable period in 2004, primarily due to higher margins at both Mtron/PTI and Lynch Systems and a $775,000 litigation provision recorded in 2004 compared to a $150,000 provision in 2005.

For the year ended December 31, 2005, Mtron/PTI had operating profit of $2,306,000, an improvement of $1,294,000 compared to $1,012,000 in 2004. The operating profit improvement was primarily due to the significant revenue increase and improvements in gross margin, which was partially offset by higher operating expenses resulting from the addition of PTI, which was acquired effective September 30, 2004.

For the year ended December 31, 2005, Lynch Systems had operating profit of $684,000, compared to an operating loss of $1,340,000 in 2004. The operating profit resulted from resulted from higher gross margins in 2005 directly related to the composition of revenues by product in 2005.

Corporate expenses decreased $748,000, to $1,662,000 for the year ended December 31, 2005 from $2,560,000 for the comparable period in 2004. The decline was primarily due to a lawsuit settlement provision in 2005 of $150,000 compared to $775,000 in 2004.

OTHER INCOME (EXPENSE), NET

Investment income for the year ended December 31, 2005 was $608,000, $593,000 more than the $15,000 investment income for the comparable period in 2004, primarily due to a $567,000 realized gain on sale of marketable securities in 2005.

Interest expense of $847,000 for the year ended December 31, 2005 was $487,000 more than the comparable period in 2004, primarily due to an increase in the level of debt outstanding during the year resulting from the acquisition of PTI, borrowings at Lynch Systems, as well as higher interest rates.

Other income for the year ended December 31, 2005 was $62,000, $55,000 more than the $7,000 recorded for the comparable period in 2004, primarily due to a gain on the sale of a warehouse in Orlando, FL in the second quarter 2005.

INCOME TAXES

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

The income tax benefit for the year period ended December 31, 2005 included federal, as well as state, local, and foreign taxes offset by provisions made for certain net operating loss carryforwards that may not be fully realized. The income tax benefit also includes a non-recurring reduction to an income tax reserve of $716,000 in the third quarter 2005, which was originally provided for during 2001. The tax reserve was increased in the fourth quarter of 2005 by a net $232,000 provision for federal and state tax reserves identified in that period.

NET INCOME (LOSS)

Net income for the year ended December 31, 2005 was $1,210,000, compared to a net loss of $3,326,000 for the comparable period in 2004. As a result, fully diluted income per share for the year ended December 31, 2005 was $0.73 compared to a $2.18 loss per share for the comparable period of 2004.

BACKLOG/NEW ORDERS

Total backlog of manufactured products at December 31, 2005 was $13,860,000, a $3,714,000 decline compared to the backlog at December 31, 2004, and $790,000 increase from the backlog at September 30, 2005.

Mtron/PTI had backlog orders of $8,906,000 at December 31, 2005 compared to $7,647,000 at December 31, 2004 and $8,218,000 at September 30, 2005. Backlog increased $1,259,000 from December 31, 2004 and increased $688,000 from September 30, 2005. The increase in backlog is due to improved business conditions.

Lynch Systems had backlog orders of $4,954,000 at December 31, 2005 compared to $9,927,000 at December 31, 2004 and $4,852,000 at September 30, 2005. Backlog decreased $4,973,000 from December 2004 due to shipment of large CRT machines in 2005 and increased $102,000 from September 30, 2005. At December 31, 2005 the backlog of $4,954,000 comprised glass press machine orders and parts and did not contain any CRT machine orders.

2004 COMPARED TO 2003

CONSOLIDATED REVENUES AND GROSS MARGIN

Consolidated revenues increased $5,865,000, or 21%, to $33,834,000 for the year ended December 31, 2004 from $27,969,000 for the comparable period in 2003. The increase came from Mtron/PTI, including the contribution of the PTI acquisition, and was partially offset by lower revenues at Lynch Systems.

Revenues at Mtron/PTI increased by $8,230,000, or 54%, to $23,413,000 for the year ended December 31, 2004 from $15,183,000 for the comparable period in 2003. The increase was due to improvements in the telecommunications market resulting from a stronger general economy, improvements in the infrastructure segment of the telecommunications market, new customers and the PTI acquisition which contributed approximately $3,600,000 in revenue since it was acquired effective September 30, 2004.

Revenues at Lynch Systems declined by $2,365,000, or 18%, to $10,421,000 for the year ended December 31, 2004 from $12,786,000 for the comparable period in 2003. This decrease was primarily due to less revenue for glass press machines. However, order backlog of $9,927,000 at December 31, 2004 represented a significant improvement of approximately $7,100,000 compared to December 31, 2003. Most of Lynch Systems' $9,927,000 backlog as of December 31, 2004 is scheduled to be delivered in 2005 with the majority scheduled to be delivered in the second quarter.

The consolidated gross margin as a percentage of revenues in 2004 decreased to 23.8%, compared to 27.4% in the prior year. Improvements in the gross margin at Mtron/PTI were more than offset by lower margins at Lynch Systems.

Mtron/PTI's gross margin as a percentage of revenues for year ended December 31, 2004, increased to 26.9% from 23.1% in 2003. The revenue improvement at Mtron and the contribution from PTI, combined with selective price increases and operational efficiencies resulted in the improved gross margin rates.

Lynch Systems' gross margin as a percentage of revenues for the year ended December 31, 2004, declined over the comparable period in 2003 from 32.9% to 16.7%. This decline was primarily due to 18% lower revenues, lower high-margin repair part business and a shift from higher margin CRT business to lower margin tableware products in 2004. The Company expects that revenues from the CRT business, as a percentage of total revenues, will continue to decline.

OPERATING LOSS

The operating loss for the year ended December 31, 2004 was $2,888,000, compared to $832,000 for the comparable period in 2003, primarily due to lower margins at Lynch Systems and a $775,000 litigation provision.

For the year ended December 31, 2004, Mtron/PTI had an operating profit of $1,012,000, an improvement of $1,182,000 compared to the $170,000 operating loss for 2003. The operating profit improvements were due primarily to the 54% sales increase and higher gross margin in 2004 compared to 2003.

For the year ended December 31, 2004, Lynch Systems had an operating loss of $1,340,000, compared to an operating profit of $822,000 in the comparable period in 2003. Declining sales prices and lower volume resulted in the unfavorable operating results when comparing 2004 to 2003.

The Company's corporate headquarters incurred unallocated expenses of $2,560,000 for the year ended December 31, 2004, exceeding the comparable period in 2003 by $1,076,000, primarily due to a $775,000 provision recorded for a potential legal settlement and higher compensation costs, professional fees and public company expenses.

OTHER INCOME (EXPENSE), NET

Investment income for the year ended December 31, 2004 was $15,000, $519,000 less than the $534,000 investment income for the comparable period in 2003 primarily due to a $483,000 realized gain on sale of marketable securities in 2003 and lower average cash balances in 2004.

Interest expense of $360,000 for the year ended December 31, 2004 was $78,000 more than the comparable period in 2003 primarily due to interest on new loans relating to the acquisition of PTI.

Other income for the year ended December 31, 2004 was $7,000, $756,000 less than the $763,000 recorded for the comparable period in 2003, primarily due to $728,000 that was realized in 2003 relating to the final settlement of a customer-related contingency.

INCOME TAXES

Income tax benefit (expense) includes federal, state, local and foreign taxes. The Company recorded a $100,000 tax provision in 2004 for foreign taxes at the Hong Kong tax rate on Mtron/PTI's foreign subsidiaries' earnings and other state tax expense items.

NET INCOME (LOSS)

Net loss for the year ended December 31, 2004 was $3,326,000 compared to a net profit of $110,000 for the comparable period in 2003. The $3,436,000 unfavorable variance was primarily due to lower operating profits as described above, including the $775,000 litigation provision, higher interest expense and lower other income in 2004, compared to 2003. As a result, fully diluted loss per share for the year ended December 31, 2004 was $2.18 compared to $0.07 income per share for the comparable period of 2003.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash, cash equivalents and investments in marketable securities at December 31, 2005 totaled $8,900,000 (including $650,000 of restricted cash) compared to $7,314,000 at December 31, 2004. In addition, the Company had a $5,327,000 borrowing capacity under Lynch Systems' and Mtron/PTI's revolving line of credit at December 31, 2005, as compared to $2,751,000 at December 31, 2004.

At December 31, 2005, the Company's net working capital was $11,925,000 as compared to $4,042,000 at December 31, 2004. At December 31, 2005, the Company had current assets of $24,870,000 and current liabilities of $12,945,000. At December 31, 2004, the Company had current assets of $24,770,000 and current liabilities of $20,728,000. The ratio of current assets to current liabilities was 1.92 to 1.00 at December 31, 2005, compared to 1.20 to 1.00 ratio at December 31, 2004. The increase in net working capital was primarily due to refinancing of debt, improved operating results, gain on sale of marketable securities and cash received from the rights offering (discussed below).

Cash provided by operating activities was $2,283,000 in 2005, compared to cash used in operating activities of $1,910,000 in 2004. The year to year favorable change in operating cash flow of $4,193,000 was primarily due to net income of $1,360,000 for the year ended December 31, 2005 compared to a net loss of $3,326,000 for the comparable period in 2004 and net changes in receivables, inventory and customer advances. Capital expenditures were $343,000 in the year ended December 31, 2005, compared to $440,000 for the comparable period in 2004.

In December 2005, the Company completed its rights offering. The fully subscribed rights offering resulted in the issuance of 538,676 additional shares of common stock for proceeds to the Company of approximately $3,655,000, net of $250,000 in fees. The offering granted holders of the Company's common stock transferable subscription rights to purchase shares of the Company's common stock at a subscription price of $7.25 per share.

At December 31, 2005, the Company had $2,838,000 in notes payable to banks consisting of a revolving credit loan at Mtron/PTI for $2,082,000 due May, 2006 and a working capital revolver at Lynch Systems for $756,000 due October, 2006. The Company intends to renew these facilities with the existing banks, however, there can be no assurances the existing facilities will be renewed. At December 31, 2005, the Company also had $1,215,000 in current maturities of long-term debt. The Company believes that existing cash and cash equivalents, cash generated from operations and available borrowings under its subsidiaries' lines of credit, including the proposed renewals, will be sufficient to meet its ongoing working capital and capital expenditure requirements for the foreseeable future.

At December 31, 2005, total debt of $9,084,000 was $3,477,000 less than the total debt at December 31, 2004 of $12,561,000. The debt decreased at both Mtron/PTI and Lynch Systems due to repayments of revolving debt and scheduled payments on long term debt. Debt outstanding at December 31, 2005 included $4,178,000 of fixed rate debt at a year-end average interest rate of 6.8%, and $4,906,000 of variable rate debt at a year-end average rate of 7.4%.

The Company is in compliance with all financial covenants at December 31, 2005.

In connection with the completion of the acquisition of PTI, on October 14, 2004, Mtron and PTI, each wholly-owned subsidiaries of Lynch Corporation, entered into a Loan Agreement with First National Bank of Omaha. The Loan Agreement provides for loans in the amounts of $2,000,000 (the "Term Loan") and $3,000,000 (the "Bridge Loan"), together with a $5,500,000 Revolving Line of Credit (the "Revolving Loan"). The Term Loan bears interest at the greater of prime rate plus 50 basis points, or 4.5%, and is to be repaid in monthly installments of $37,514, with the then remaining principal balance plus accrued interest to be paid on the third anniversary of the Loan Agreement. The Bridge Loan bears interest at the same rate as the Term Loan. Accrued interest thereon is payable monthly and the principal amount thereof, together with accrued interest. The bridge loan was paid off with the proceeds from the RBC term loan. The Revolving Loan bears interest at the greater of prime rate or 4.5%. The revolving loan was renewed extending the due date to May 31, 2006. All outstanding obligations under the Loan Agreement are collateralized by security interests in the assets of Mtron and PTI, as well as by a mortgage on PTI's premises. The Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility. The Loan Agreement also contains financial covenants relating to maintenance of levels of minimal tangible net worth and working capital, and current, leverage and fixed charge ratios, restricting the amount of capital expenditures.

On October 14, 2004, in connection with the acquisition of PTI, the Company provided $1,800,000 of subordinated financing to Mtron/PTI and Mtron/PTI issued a subordinated promissory note to the Company in such amount increasing the subordinated total to $2,500,000.

The Company has guaranteed a letter of credit issued to the First National Bank of Omaha on behalf of its subsidiary, Mtron Industries, Inc. As of December 31, 2005, the $650,000 letter of credit issued by Bank of America to The First National Bank of Omaha was secured by a $650,000 deposit at Bank of America. The Company's outstanding letter of credit was reduced from $1,000,000 to $650,000 during 2005.

On June 30, 2005, Mtron/PTI renewed its credit agreement with First National Bank of Omaha extending the due date to May 31, 2006. Mtron/PTI's short-term credit facility totals $5,500,000, of which $3,418,000 was available for future borrowings.

On June 29, 2005, Lynch Systems entered into an extension agreement with SunTrust Bank to extend the due date of it credit agreement until August 31, 2005. Lynch Systems $7,000,000 short-term credit facility was reduced to $4,300,000 in accordance with the extension agreement, of which $200,000 was available for letters of credit. The extension agreement also calls for the acceleration of the existing Lynch Systems term loan from August, 2013 to August 31, 2005. On August 29, 2005, Lynch Systems entered into a first amendment to the extension agreement, dated August 25, 2005 to extend until September 30, 2005 the due date of indebtedness. On October 6, 2005, Lynch Systems entered into a first amended and restated extension agreement by and among Lynch Systems, Lynch Corporation and SunTrust Bank ("SunTrust"), to extend until December 31, 2005 the due date of all remaining indebtedness of Lynch Systems to SunTrust. On December 30, 2005, Lynch Systems entered into a first amendment to first amended and restated extension agreement to extend until March 1, 2006 the due date of all remaining indebtedness of Lynch Systems to SunTrust. This loan was repaid in full in February 2006. At December 31, 2005, there were borrowings under the term loan of $378,000.

On May 12, 2005, Venator Merchant Fund, L.P. ("Venator") made a loan to Lynch Corporation in the amount of $700,000 due September 11, 2005 or within seven days after demand by Venator. Venator is an investment limited partnership controlled by Lynch's Chairman of the Board, Marc Gabelli. On September 8, 2005, Lynch Corporation entered into a Letter Agreement extending the maturity date of its Promissory Note in the principal amount of $700,000 to Venator. The maturity date of the Promissory Note, which was to have been September 11, 2005 or within seven days after demand by Venator, was changed to November 10, 2005 or within seven days after demand by Venator. The loan was approved by the Audit Committee of the Board of Directors of Lynch. This loan, along with $30,000 of interest due, was repaid in full on December 22, 2005.

On September 30, 2005, Mtron/PTI entered into a Loan Agreement with RBC Centura Bank ("RBC"). The Loan Agreement provides for a loan in the amount of $3,040,000 (the "RBC Term Loan"), the proceeds of which were used to pay off the $3,000,000 bridge loan with First National Bank of Omaha which had been due October 2005. The RBC Term Loan bears interest at LIBOR Base Rate plus 2.75% and is to be repaid in monthly installments based on a twenty year amortization, with the then remaining principal balance to be paid on the fifth anniversary of the RBC Term Loan. The RBC Term Loan is secured by a mortgage on PTI's premises. In connection with this RBC Term Loan, Mtron/PTI entered into a five-year interest rate swap from which it will receive periodic payments at the LIBOR Base Rate and make periodic payments at a fixed rate of 7.51% with monthly settlement and rate reset dates.

Effective October 6, 2005, Lynch Systems entered into a loan agreement (the "BB&T Loan Agreement") with Branch Banking and Trust Company ("BB&T"). The BB&T Loan Agreement provides for a line of credit in the maximum principal amount of $3,500,000. This line of credit replaces the working capital revolving loan that Lynch Systems had with SunTrust Bank, which expired by its terms on September 30, 2005. Borrowings under the BB&T Loan Agreement bear interest at the One Month LIBOR Rate plus 2.75% and accrued interest is payable on a monthly basis, with the principal balance due to be paid on the first anniversary of the Loan Agreement. At December 31, 2005, there were outstanding Letters of Credit of $398,000 and borrowings on the line of credit of $756,000.

The BB&T Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including those relating to reporting requirements, maintenance of records, properties and corporate existence, compliance with laws, incurrence of other indebtedness and liens, restrictions on certain payments and transactions and extraordinary corporate events. The BB&T Loan Agreement also contains financial covenants relating to maintenance of levels of minimal tangible net worth, a debt to worth ratio, and restricting the amount of capital expenditures. In addition, the BB&T Loan Agreement provides that the following will constitute events of default thereunder, subject to certain grace periods: (i) payment defaults; (ii) failure to meet reporting requirements; (iii) breach of other obligations under the BB&T Loan Agreement; (iv) default with respect to other material indebtedness; (v) final judgment for a material amount not discharged or stayed; and (vi) bankruptcy or insolvency.

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 in its ac