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UNITED STATES
SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

or

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File No. 1-106

LYNCH CORPORATION

(Exact name of Registrant as Specified in Its Charter)

Indiana	38-1799862
(State or Other Jurisdiction of Incorporation or Organization)	I.R.S. Employer Identification No.)
140 Greenwich Avenue, 4th Floor, Greenwich, CT	06830
(Address of principal executive offices)	(Zip Code)

(203) 622-1150

Registrant's telephone number, including area code

(Former address, changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes /X/ No / /

Indicate by check mark whether the registrant is 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.

Large accelerated filer / / Accelerated filer / / Non-accelerated filer /X/

Indicate by check mark whether the registrant is an a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes / / No /X/

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practical date.

Class	Outstanding at May 8, 2006
Common Stock, $0.01 par value	2,154,702

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LYNCH CORPORATION AND SUBSIDIARIES

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ITEM 1 -- FINANCIAL STATEMENTS

LYNCH CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS -- UNAUDITED
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	March 31, 2006	December 31, 2005 (A)
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,465	$ 5,512
Restricted cash (Note E)	650	650
Investments - marketable securities (Note F)	3,242	2,738
Accounts receivable, less allowances of $300 and $325, respectively	7,653	7,451
Unbilled accounts receivable (Note I)	1,880	902
Inventories (Note G)	7,250	7,045
Deferred income taxes	111	111
Prepaid expense and other current assets	509	461
Total Current Assets	24,760	24,870
Property, Plant and Equipment		
Land	855	855
Buildings and improvements	5,767	5,767
Machinery and equipment	14,659	14,606
	21,281	21,228
Less: accumulated depreciation	(14,332)	(14,025)
	6,949	7,203
Other assets	564	591
Total Assets	$ 32,273	$ 32,664
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to bank (Note H)	$ 2,381	$ 2,838
Trade accounts payable	2,739	2,900
Accrued warranty expense (Note I)	365	357
Accrued compensation expense	1,567	1,372
Accrued income taxes	742	673
Accrued professional fees	292	574
Margin liability on marketable securities	-	330
Other accrued expenses	1,233	1,312
Commitments and contingencies (Note M)	34	859
Customer advances	1,403	515
Current maturities of long-term debt (Note H)	845	1,215
Total Current Liabilities	11,601	12,945
Long-term debt (Note H)	4,835	5,031
Total Liabilities	16,436	17,976
Shareholders' Equity		
Common stock, $0.01 par value - 10,000,000 shares authorized; 2,188,510 shares issued; 2,154,702 shares outstanding	22	22
Additional paid-in capital	21,053	21,053

Accumulated deficit	(6,210)	(6,576)
Accumulated other comprehensive income (Note K)	1,618	835
Treasury stock, at cost, of 33,808	(646)	(646)
Total Shareholders' Equity	15,837	14,688
Total Liabilities and Shareholders' Equity	$ 32,273	$ 32,664

(A) The Balance Sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

LYNCH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS -- UNAUDITED
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Three Months Ended March 31, 2006	2005
REVENUES	$ 12,091	$ 10,595
Cost and expenses:		
Manufacturing cost of sales	8,544	7,318
Selling and administrative	3,161	3,050
OPERATING PROFIT	386	227
Other income (expense):		
Investment income	235	10
Interest expense	(163)	(185)
Other income	(8)	3
	64	(172)
INCOME BEFORE INCOME TAXES	450	55
Provision for income taxes	(84)	(5)
NET INCOME	$ 366	$ 50
Weighted average shares outstanding	2,154,702	1,632,126
BASIC AND DILUTED INCOME PER SHARE:	$ 0.17	$ 0.03

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

LYNCH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS -- UNAUDITED
(IN THOUSANDS)

	Three Months Ended March 31, 2006	2005
OPERATING ACTIVITIES		

Net income	$ 366	$ 50
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	307	304
Amortization of definite-lived intangible assets	27	21
Gain realized on sale of marketable securities	(202)	-
Changes in operating assets and liabilities:		
Receivables	(1,180)	(631)
Inventories	(205)	(172)
Accounts payable and accrued liabilities	(250)	(119)
Commitments and contingencies	(825)	-
Other assets/liabilities	840	604
Net cash (used in) provided by operating activities	(1,122)	57
INVESTING ACTIVITIES		
Capital expenditures	(53)	(31)
Restricted cash	-	125
Proceeds from sale of marketable securities	423	-
Net repayment of margin liability on marketable securities	(330)	-
Cash provided by investing activities	40	94
FINANCING ACTIVITIES		
Net repayment of notes payable	(457)	(198)
Repayment of long-term debt	(566)	(198)
Other	58	21
Net cash used in financing activities	(965)	(375)
Decrease in cash and cash equivalents	(2,047)	(224)
Cash and cash equivalents at beginning of period	5,512	2,580
Cash and cash equivalents at end of period	$ 3,465	$ 2,356

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. SUBSIDIARIES OF THE REGISTRANT

As of March 31, 2006, the Subsidiaries of the Registrant are as follows:

	Owned by Lynch
Lynch Systems, Inc.	100.0%
M-tron Industries, Inc.	100.0%
M-tron Industries, Ltd	100.0%
Piezo Technology, Inc.	100.0%
Piezo Technology India Private Ltd.	99.9%

Lynch Corporation (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."

B. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant Company and Subsidiaries Annual Report on Form 10-K for the year ended December 31, 2005.

C. ADOPTION OF ACCOUNTING PRONOUNCEMENTS

On January 1, 2006 the Company adopted revised Statement of Financial Accounting Standards No. 123 ("SFAS No. 123-R"), "Share-Based Payments." SFAS No. 123-R impacts the Company's accounting for its stock option plan. Because all of the Company's stock options were fully vested at December 31, 2005 and there were no new options issued in the first quarter of 2006, there was no impact on the Company's 2006 financial statements from the adoption of this standard.

D. ACQUISITION

On October 15, 2004, the Company acquired, through its wholly-owned subsidiary, Mtron, 100% of the common stock of PTI. The acquisition was effective September 30, 2004. PTI manufactures and markets high-end oscillators, crystals, resonators and filters used in electronic and communications systems. The purchase price was approximately $8,736,000 (before deducting cash acquired, and before adding acquisition costs and transaction fees). The Company funded the purchase price by (a) new notes payable and long-term debt of $6,936,000 and (b) proceeds of $1,800,000 received from the sale of Lynch Stock to Venator Merchant Fund ("Venator"), which is controlled by the Company's Chairman, Marc Gabelli.

E. RESTRICTED CASH

At March 31, 2006 and December 31, 2005, the Company had $650,000, of Restricted Cash that secures a Letter of Credit issued by Bank of America to the First National Bank of Omaha as collateral for its Mtron subsidiary's loans.

F. INVESTMENTS

The following is a summary of marketable securities (investments) held by the Company (IN THOUSANDS):

Equity Securities	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2006	$ 1,770	$ 1,472	--	$ 3,242
December 31, 2005	$ 1,991	$ 747	--	$ 2,738

The Company had a margin liability against this investment of $330,000 at December 31, 2005 which must be settled upon the disposition of the related securities whose fair value is based on quoted market prices. The Company paid off the margin liability in January 2006. The Company has designated these investments as available for sale pursuant to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

FAIR VALUE OF FINANCIAL INSTRUMENTS - INTEREST RATE SWAP HEDGING

The Company has an interest rate swap agreement to reduce the interest exposure on the $3,030,000 RBC Term Loan that is described in Note H. This agreement eliminates the variability of cash flows in the interest payments for 100% of the total variable-rate term loan effectively changing the Company's exposure from a variable interest rate to a fixed interest rate.

The Company has designated the agreement as a cash flow hedge. The critical terms of the swap and the term loan coincide (notional amount, interest rate reset dates, maturity/expiration date and underlying index) and the hedge is expected to exactly offset changes in expected cash flows due to fluctuations in the LIBOR Base Rate over the term of the loan. Accordingly, this swap qualifies for the short-cut method and therefore changes in the fair value of the swap will be recorded directly in the other comprehensive income. The fair value of the interest rate swap at March 31, 2006 is $47,000 which is included in other current assets on the balance sheet with the offset reflected within other comprehensive income, net of tax.

G. INVENTORIES

Inventories are stated at the lower of cost or market value. At March 31, 2006, inventories were valued by two methods: last-in, first-out ("LIFO") - 52%, and first-in, first-out ("FIFO") - 48%. At December 31, 2005, inventories were valued by the same two methods: LIFO - 52%, and FIFO - 48%.

	March 31, 2006	December 31, 2005
	(in thousands)	
Raw materials	$ 2,707	$ 2,817
Work in process	2,307	2,232
Finished goods	2,236	1,996
Total Inventories	$ 7,250	$ 7,045

Current costs exceed LIFO value of inventories by $1,110,000 and $1,075,000 at March 31, 2006 and December 31, 2005, respectively.

H. NOTES PAYABLE TO BANKS AND LONG-TERM DEBT

Notes payable to banks and long-term debt consists of:

	March 31, 2006	December 31, 2005
Notes Payable:	(in Thousands)	
Mtron bank revolving loan (First National Bank of Omaha) at variable interest rates (greater of prime or 4.5%; 7.75% at March 31, 2006), due May 2006	$ 1,625	$ 2,082
Lynch Systems working capital revolving loan (BB&T) at variable interest rates, (One Month LIBOR + 2.75%; 7.39% at March 31, 2006), due October 2006	756	756
	$ 2,381	$ 2,838
Long-term debt:		
Lynch Systems term loan (SunTrust), repaid in February 2006	$ -	$ 378
Mtron term loan (RBC) due October 2010. The Company entered into a five-year interest rate swap to hedge the variable interest rate volatility. Under the terms of the interest rate swap the variable interest Term Loan will be essentially converted to a 7.51% fixed rate loan	3,013	3,030
Mtron term loan (First National Bank of Omaha) at variable interest rates (greater of prime plus 50 basis points or 4.5%; 8.00% at March 31, 2006), due October 2007	1,531	1,612
Mtron commercial bank term loan at variable interest rates (8.00% at March 31, 2006), due April 2007	398	456
South Dakota Board of Economic Development at a fixed rate of 3%, due December 2007	259	262
Yankton Areawide Business Council loan at a fixed interest rate of 5.5%, due November 2007	72	74
Rice University Promissory Note at a fixed interest rate of 4.5%, due August 2009	258	275
Smythe Estate Promissory Note at a fixed interest rate of 4.5% due August 2009	149	159
	5,680	6,246
Current maturities	(845)	(1,215)
	$ 4,835	$ 5,031

Lynch Systems and Mtron/PTI maintain their own short-term line of credit facilities. In general, the credit facilities are secured by property, plant and equipment, inventory, receivables and common stock of certain subsidiaries and contain certain covenants restricting distributions to the Company. The Lynch Systems credit facility includes an unsecured parent Company guarantee. Mtron/PTI's credit facility includes an unsecured parent Company guarantee and is supported by a $650,000 Letter of Credit that is secured by a $650,000 deposit at Bank of America.

The Company is in compliance with all financial covenants at March 31, 2006.

On June 30, 2005, Mtron/PTI renewed its credit agreement with First National Bank of Omaha extending the due date to May 31, 2006. At March 31, 2006, Mtron/PTI's short-term credit facility provides for a line of credit in the maximum principal amount of $5,500,000, of which $3,725,000 was available under the line of credit.

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. At March 31, 2006, there were no outstanding Letters of Credit and $2,744,000 was available under the line of credit. This line of credit replaces the working capital revolving loan that Lynch Systems had with SunTrust Bank, which loan 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.

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.

During 2005, the Company executed various amendments and extensions with one of Lynch Systems' commercial lenders, SunTrust. As a result, certain required repayments were made on amounts owed to SunTrust, and the expiring working capital loan was not renewed. Additionally it was agreed that the Company's remaining obligation to SunTrust, a $378,000 term note would be payable on March 1, 2006. This amount was repaid in full in February 2006.

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. 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 to hedge the variable interest rate volatility. Under the terms of the interest rate swap, the variable interest rate RBC Term Loan will be essentially converted to a 7.51% fixed rate loan. The Company has designated this swap as a cash flow hedge in accordance with FASB 133 "Accounting for Derivative Instruments and Hedging Activities". The fair value of the interest rate swap at March 31, 2006 is $47,000 which is included in other current assets on the balance sheet with the offset reflected within other comprehensive income, net of tax.

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 provided 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 was repaid in 2005 from proceeds received from the RBC Term Loan. The Revolving Loan was renewed on June 30, 2005 as previously discussed. 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.

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 March 31, 2006, 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.

Both Mtron/PTI and Lynch Systems intend to renew the credit agreements that expire on May 31 and October 1, 2006, respectively, with their incumbent lenders.

I. LONG-TERM CONTRACTS AND WARRANTY EXPENSE

Lynch Systems, a 100% wholly-owned subsidiary of the Company, is engaged in the manufacture and marketing of glass-forming machines and specialized manufacturing machines. Certain sales contracts require an advance payment (usually 30% of the contract price) which is accounted for as a customer advance. The contractual sales prices are paid either (i) as the manufacturing process reaches specified levels of completion or (ii) based on the shipment date or (iii) negotiated terms of sale. Guarantees by letter of credit from a qualifying financial institution are required for most sales contracts. Because of the specialized nature of these machines and the period of time needed to complete production and shipping, Lynch Systems accounts for these contracts using the percentage-of-completion accounting method as costs are incurred compared to total estimated project costs (cost-to-cost basis). At March 31, 2006 and December 31, 2005, unbilled accounts receivable were $1,880,000 and $902,000, respectively.

Lynch Systems provides a full warranty to world-wide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year or thirteen months. Based upon experience, the warranty accrual is based upon three to five percent of the selling price of the machine. The Company periodically assesses the adequacy of the reserve and adjusts the amounts as necessary.

	(in thousands)
Balance, December 31, 2005	$ 357
Warranties issued during the period	49
Settlements made during the period	(41)
Balance, March 31, 2006	$ 365

J. EARNINGS PER SHARE AND STOCKHOLDERS' EQUITY

The Company's basic and diluted earnings per share are equivalent, as the Company has no dilutive securities.

Prior to January 1, 2006, the Company accounted for 2001 Equity Incentive Plan ("the Plan") under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company provided pro forma disclosures of the compensation expense determined under the fair value provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

On May 26, 2005, the Company's shareholders approved amendments to the Plan to increase the total number of shares of the Company's Common Stock available for issuance from 300,000 to 600,000 shares and to add provisions that require terms and conditions of awards to comply with section 409A of the Internal Revenue Code of 1986. Also on May 26, 2005, the Company granted options to purchase 120,000 shares of Company common stock to certain employees and directors of the Company at $13.17 per share. These options were anti-dilutive and have lives of up to ten years. As of March 31, 2006 and December 31, 2005, options to purchase 300,000 shares are outstanding and fully vested.

For purposes of pro forma disclosures under SFAS No. 123, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	Three Months Ended March 31, 2005 (in thousands)
Net income as reported	$ 50
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effect	-
Pro-forma net income	$ 50
Basic & diluted income per share:	
As reported	$ 0.03
Pro forma	$ 0.03

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

K. ACCUMULATED OTHER COMPREHENSIVE INCOME

Total comprehensive income was $1,149,000 in the three months ended March 31, 2006, compared to total comprehensive income of $493,000 in the three months ended March 31, 2005. Included in total comprehensive income were unrealized gains on available for sale securities of $724,000 and $422,000 in the three months ended March 31, 2006 and 2005, respectively.

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net income as reported	$ 366	$ 50
Foreign currency translation	12	21
Deferred gain on hedge contract	47	-
Unrealized gain on available for sale securities	724	422
Total comprehensive income	$ 1,149	$ 493

The components of accumulated other comprehensive income, net of related tax, at March 31, 2006, December 31, 2005, and March 31, 2005 are as follows:

	March 31, 2006	December 31, 2005	March 31, 2005
Balance beginning of period	$ 835	$ 849	$ 849
Foreign currency translation	12	75	21
Deferred gain (loss) on hedge contract	47	(1)	-
Unrealized gain on available for-sale securities	724	(88)	422
Accumulated other comprehensive income	$ 1,618	$ 835	$ 1,292

L. SEGMENT INFORMATION

The Company has two reportable business segments: 1) glass manufacturing equipment business, which represents the operations of Lynch Systems, and 2) frequency control devices (quartz crystals and oscillators) which represents products manufactured and sold by Mtron/PTI. The Company's foreign operations in Hong Kong and India are under the control of Mtron/PTI.

Operating profit (loss) is equal to revenues less operating expenses, excluding investment income, interest expense, and income taxes. The Company allocates a negligible portion of its general corporate expenses to its operating segments. Such allocation was $125,000 in the three months ending March 31, 2006 and 2005, respectively. Identifiable assets of each industry segment are the assets used by the segment in its operations excluding general corporate assets. General corporate assets are principally cash and cash equivalents, short-term investments and certain other investments and receivables.

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
REVENUES		
Glass manufacturing equipment - USA	$ 530	$ 450
Glass manufacturing equipment - Foreign	1,813	1,761
Total Glass manufacturing equipment	2,343	2,211
Frequency control devices - USA	4,890	4,854
Frequency control devices - Foreign	4,858	3,530
Total Frequency control devices	9,748	8,384
Consolidated total revenues	$ 12,091	$ 10,595

OPERATING PROFIT (LOSS)		
Glass manufacturing equipment	$ (260)	$ 74
Frequency control devices	975	579
Total manufacturing	715	653
Unallocated Corporate expense	(329)	(426)
Consolidated total operating profit	$ 386	$ 227
OTHER PROFIT (LOSS)		
Investment income	$ 235	$ 10
Interest expense	(163)	(185)
Other (expense) income	(8)	3
Consolidated total profit before taxes	$ 450	$ 55
CAPITAL EXPENDITURES		
Glass manufacturing equipment	$ --	$ 12
Frequency control devices	53	18
General Corporate	--	1
Consolidated total capital expenditures	$ 53	$ 31
TOTAL ASSETS		
Glass manufacturing equipment	$ 8,663	$ 11,613
Frequency control devices	17,656	17,281
General Corporate	5,954	5,510
Consolidated total assets	$ 32,273	$ 34,404

For the three months ended March 31, 2006 and 2005, significant foreign revenues to specific countries were as follows:

	Three Months Ended March 31, 2006	2005
Glass manufacturing equipment - Foreign Revenues		
Brazil	$ 623	$ -
Democratic Republic of the Congo	385	-
China	198	-
Pakistan	187	-
Indonesia	-	1,161
All other foreign countries	420	600
Total foreign revenues	$ 1,813	$ 1,761

	Three Months Ended March 31, 2006	2005
Frequency control devices - Foreign Revenues		
China	$ 1,083	$ 528
Canada	1,000	862
Thailand	531	-
Mexico	-	477
All other foreign countries	2,244	1,663
Total foreign revenues	$ 4,858	$ 3,530

All other foreign countries includes countries with less than 10% of total foreign revenues for each segment.

M. COMMITMENTS AND CONTINGENCIES

In the normal course of business, subsidiaries of the Company are defendants in certain product liability, worker claims and other litigation in which the amounts being sought may exceed insurance coverage levels. The resolution of these matters is not expected to have a material 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:

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 November 2005, the court ruled that damages based on profits from resales of licenses were not allowed under the False Claims Act. In February 2006, the defendants and the FCC reached an agreement granting defendants discovery of certain documents and other evidentiary materials.

Initially, in 2001, the Department of Justice notified the court that it would not intervene in the case. In March 2005, however, in response to the judge's ruling in November 2005 (described above), the DOJ petitioned the court to allow it to intervene. 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. While Lynch Interactive and other defendants believe they have meritorious defenses and have contested the case vigorously, Lynch Interactive and the other defendants are involved in serious settlement negotiations in order to avoid the further costs and uncertainties associated with a trial and possible subsequent appeals. It is anticipated that any such settlement would have a substantial adverse effect on Lynch Interactive and its consolidated financial statements. While Lynch Interactive believes that it could raise additional debt and/or equity and that it could also sell assets to satisfy such a potential settlement, there is no assurance that such a plan could be accomplished. 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.

N. INCOME TAXES

The Company files consolidated federal income tax returns, which includes all subsidiaries. The Company has a $1,954,000 net operating loss ("NOL") carry-forward as of March 31, 2006. This NOL expires through 2024 if not utilized prior to that date.

O. GUARANTEES

The Company presently guarantees (unsecured) the SunTrust Bank loans of its subsidiary, Lynch Systems. The Company presently guarantees (unsecured) the First National Bank of Omaha loans of its subsidiary, Mtron, and has guaranteed a Letter of Credit issued to the First National Bank of Omaha on behalf of its subsidiary, Mtron (see Note H - "Notes Payable to Banks and Long-term Debt"). As of March 31, 2006, 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. (See Note E - "Restricted Cash".)

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CRITICAL ACCOUNTING POLICIES

The Company has identified the accounting policies listed below that we believe are most critical to our financial condition and results of operations, and that require management's most difficult, subjective and complex judgments in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 1 to the Consolidated Financial Statements, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, which includes other significant accounting policies.

ACCOUNTS RECEIVABLE

Accounts receivable on a consolidated basis consists principally of amounts due from both domestic and foreign customers. Credit is extended based on an evaluation of the customer's financial condition and collateral is not generally required except at Lynch Systems. In relation to export sales, the Company requires letters of credit supporting a significant portion of the sales price prior to production to limit exposure to credit risk. Certain subsidiaries and business segments have credit sales to industries that are subject to cyclical economic changes. The Company maintains an allowance for doubtful accounts at a level that management believes is sufficient to cover potential credit losses.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. We base our estimates on our historical collection experience, current trends, credit policy and relationship of our accounts receivable and revenues. In determining these estimates, we examine historical write-offs of our receivables and review each client's account to identify any specific customer collection issues. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Our failure to estimate accurately the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition, and results of operations.

INVENTORY VALUATION

Inventories are stated at the lower of cost or market value. Inventories valued using the last-in, first-out (LIFO) method comprised approximately 52% of consolidated inventories at March 31, 2006 and December 31, 2005, respectively. The balance of inventories are valued using the first-in-first-out (FIFO) method. If actual market conditions are more or less favorable than those projected by management, including the demand for our products, changes in technology, internal labor costs and the costs of materials, adjustments may be required.

REVENUE RECOGNITION AND ACCOUNTING FOR LONG-TERM CONTRACTS

Revenues, with the exception of certain long-term contracts discussed below, are recognized upon shipment when title passes. Shipping costs are included in manufacturing cost of sales.

Lynch Systems, a 100% owned subsidiary of the Company, is engaged in the manufacture and marketing of glass-forming machines and specialized manufacturing machines. Certain sales contracts require an advance payment (usually 30% of the contract price) which is accounted for as a customer advance. The contractual sales prices are paid either (i) as the manufacturing process reaches specified levels of completion; or (ii) based on the shipment date; or (iii) negotiated terms of sale. Guarantees by Letter of Credit from a qualifying financial institution are required for most sales contracts. Because of the specialized nature of these machines and the period of time needed to complete production and shipping, Lynch Systems accounts for these contracts using the percentage-of-completion accounting method as costs are incurred compared to total estimated project costs (cost-to-cost basis). At March 31, 2006, and December 31, 2005, unbilled accounts receivable were $1,880,000 and $902,000 respectively.

The percentage of completion method is used since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made, based on historical experience and milestones set in the contract. These estimates include current customer contract specifications, related engineering requirements and the achievement of project milestones. Financial

management maintains contact with project managers to discuss the status of the projects and, for fixed-price engagements, financial management is updated on the budgeted costs and required resources to complete the project. These budgets are then used to calculate revenue recognition and to estimate the anticipated income or loss on the project. In the past, we have occasionally been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated profitability or losses on those contracts. Favorable changes in estimates result in additional profit recognition, while unfavorable changes in estimates result in the reversal of previously recognized earnings to the extent of the error of the estimate. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

WARRANTY EXPENSE

Lynch Systems provides a full warranty to world-wide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year or thirteen months. Based upon experience, the warranty accrual is based upon three to five percent of the selling price of the machine. The Company periodically assesses the adequacy of the reserve and adjusts the amounts as necessary.

RESULTS OF OPERATIONS
FIRST QUARTER
THREE MONTHS ENDED MARCH 31, 2006 COMPARED TO MARCH 31, 2005

CONSOLIDATED REVENUES AND GROSS MARGIN

Consolidated revenues for the first quarter 2006 increased $1,496,000, or 14%, to $12,091,000 from $10,595,000 for the comparable period in 2005. The increase is attributable to both Mtron/PTI and Lynch Systems.

Revenues at Mtron/PTI increased by $1,364,000, or 16%, to $9,748,000 for the first quarter 2006 from $8,384,000 for the comparable period in 2005. The increase was primarily due to higher international revenues resulting from an improved business environment.

Revenues at Lynch Systems increased by $132,000, or 6%, to $2,343,000 for the first quarter 2006 from $2,211,000 for the comparable period in 2005. The increase was primarily due to an increase in machine part sales.

The consolidated gross margin as a percentage of revenues for the first quarter decreased slightly to 29.3%, from 30.9% for the comparable period in 2005. Mtron/PTI experienced slightly higher margins and Lynch Systems experienced lower margins as compared to 2005.

Mtron/PTI's gross margin as a percentage of revenues for the first quarter, increased to 30.8% from 29.8% for the comparable period in 2005. The improved gross margin resulted from operational efficiencies.

Lynch Systems' gross margin as a percentage of revenues for the first quarter, decreased to 23.4% from 35.1% for the comparable period in 2005. The lower margin was primarily due to higher margin sales of CRT machines in the first quarter of 2005.

OPERATING PROFIT (LOSS)

Operating profit was $386,000 for the first quarter 2006 compared to $227,000 for the comparable period in 2005.

The operating profit at Mtron/PTI increased $396,000 to $975,000 for the first quarter 2006 from $579,000 for the comparable period in 2005. The operating profit improvement was primarily due to increased revenues and a slight improvement in gross margin.

The operating loss at Lynch Systems increased $334,000 to an operating loss of $260,000 for the first quarter 2006 from an operating profit of $74,000 for the comparable period in 2005. The operating loss primarily resulted from lower gross margins for the first quarter 2006.

Corporate expenses decreased $97,000 to $329,000 for the first quarter 2006 from $426,000 for the comparable period in 2005. The decline was primarily due to lower professional fees.

OTHER INCOME (EXPENSE), NET

Investment income increased $225,000 to $235,000 for the first quarter 2006 from $10,000 for the comparable period in 2005 due to a $202,000 realized gain on sale of marketable securities.

Interest expense decreased $22,000 to $163,000 for the first quarter 2006 from $185,000 for the comparable period in 2005, primarily due to a decrease in debt outstanding which was partially offset by higher interest rates.

Other expense was $8,000 for the first quarter 2006 compared to other income of $3,000 for the comparable period in 2005.

INCOME TAXES

The Company files consolidated federal income tax returns, which includes all subsidiaries. The income tax expense for the three month period ended March 31, 2006 included federal, state and foreign taxes.

NET INCOME

Net income for the first quarter 2006 was $366,000 compared to net income of $50,000 in the comparable period in 2005. As a result, for the first quarter 2006, fully diluted income per share was $0.17 compared to income of $0.03 per share for the comparable period in 2005.

BACKLOG/NEW ORDERS

Total backlog of manufactured products at March 31, 2006 was $14,636,000, a $776,000 increase compared to the backlog at December 31, 2005, and a $3,475,000 decline from the backlog at March 31, 2005.

Mtron/PTI had backlog orders of $9,660,000 at March 31, 2006 compared to $8,906,000 at December 31, 2005 and $8,045,000 at March 31, 2005. Backlog increased $754,000 from December 31, 2005 and increased $1,615,000 from March 31, 2005.

Lynch Systems had backlog orders of $4,976,000 at March 31, 2006 compared to $4,954,000 at December 31, 2005 and $10,066,000 at March 31, 2005. Backlog increased $22,000 from December 2005 and decreased $5,090,000 from March 31, 2005 due to the shipment of large CRT machines in 2005. At March 31, 2006 the backlog of $4,976,000 comprised glass press machine orders and parts and did not contain any CRT machine orders.

FINANCIAL CONDITION

The Company's cash, cash equivalents and investments in marketable securities at March 31, 2006 was $7,357,000 (including $650,000 of restricted cash) as compared to $8,900,000 at December 31, 2005. In addition, the Company had a borrowing capacity of $6,469,000 under Lynch Systems' and Mtron/PTI's revolving lines of credit at March 31, 2006, as compared to $5,327,000 at December 31, 2005.

At March 31, 2006, the Company's net working capital was $13,159,000 as compared to $11,925,000 at December 31, 2005. At March 31, 2006, the Company had current assets of $24,760,000 and current liabilities of $11,601,000. At December 31, 2005, the Company had current assets of $24,870,000 and current liabilities of $12,945,000. The ratio of current assets to current liabilities was 2.13 to 1.00 at March 31, 2006, compared to 1.92 to 1.00 at December 31,

2005. The increase in net working capital was primarily due to realized and unrealized gains on marketable securities and improved operating results.

Cash used in operating activities was $1,122,000 for the three months ended March 31, 2006, compared to cash provided by operating activities of $57,000 for the three months ended March 31, 2005. The year to year unfavorable change in operating cash flow of $1,179,000 was primarily due to payments relating to a litigation settlement in the first quarter 2006 and net changes in receivables. The Company and United Steelworkers of America Local 1069, formerly known as PACE Local 1-1069 reached a settlement of their severance pay litigation, which arose out of the July 2001 closure of the Spinnaker-Maine manufacturing plant in Westbrook, Maine. The settlement includes payment of a total of $800,000 to resolve the claims of 67 workers who lost their jobs in 2001. Capital expenditures were $53,000 in the three months ended March 31, 2006, compared to $31,000 for the comparable period in 2005.

At March 31, 2006, the Company had $2,381,000 in notes payable to banks consisting of a revolving credit loan at Mtron/PTI for $1,625,000 due in May, 2006 and a working capital revolver at Lynch Systems for $756,000 due in 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 March 31, 2006, the Company also had $845,000 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 March 31, 2006, total debt of $8,061,000 was $1,023,000 less than the total debt at December 31, 2005 of $9,084,000. The debt decreased at both Mtron/PTI and Lynch Systems due to repayments of revolving debt, repayment of the SunTrust term loan and scheduled payments on long term debt. Debt outstanding at March 31, 2006 effectively included $3,751,000 of fixed rate debt at a quarter-end average interest rate of 6.8%, and $4,310,000 of variable rate debt at a quarter-end average interest rate of 7.8%.

The Company is in compliance with all financial covenants at March 31, 2006.

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 provided 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 was repaid in 2005 from proceeds received from the RBC Term Loan. The Revolving Loan was renewed on June 30, 2005 as previously discussed. 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.

The Company has guaranteed a letter of credit issued to the First National Bank of Omaha on behalf of its subsidiary, Mtron. As of March 31, 2006, 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. As of December 31, 2005, the Company has a total of $2,500,000 of subordinated promissory notes issued from Mtron/PTI.

On June 30, 2005, Mtron/PTI renewed its credit agreement with First National Bank of Omaha extending the due date to May 31, 2006. At March 31, 2006, Mtron/PTI's short-term credit facility provides for a line of credit in the maximum principal amount of $5,500,000, of which $3,725,000 was available under the line of credit.

During 2005, the Company executed various amendments and extensions with one of Lynch Systems' commercial lenders, SunTrust. As a result, certain required repayments were made on amounts owed to SunTrust, and the expiring working capital loan was not renewed. Additionally it was agreed that the Company's remaining obligation to SunTrust, a $378,000 term note would be payable on March 1, 2006. This amount was repaid in full in February 2006.

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. 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 to hedge the variable interest rate volatility. Under the terms of the interest rate swap, the variable interest rate RBC Term Loan will be essentially converted to a 7.51% fixed rate loan. The Company has designated this swap as a cash flow hedge in accordance with FASB 133 "Accounting for Derivative Instruments and Hedging Activities". The fair value of the interest rate swap at March 31, 2006 is $47,000 which is included in other current assets on the balance sheet with the offset reflected within other comprehensive income, net of tax.

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. At March 31, 2006, there were no outstanding Letters of Credit and $2,744,000 was available under the line of credit. This line of credit replaces the working capital revolving loan that Lynch Systems had with SunTrust Bank, which loan 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.

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 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. (See Note H to the Consolidated Financial Statements - "Notes Payable to Banks and Long-term Debts" - for restrictions on the company's assets).

RIGHTS OFFERING

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.

Under the terms of the offering, holders of the Company's common stock were entitled to one transferable subscription right for each share of common stock held on the record date, November 9, 2005. Every three such rights entitled the shareholder to subscribe for one common share at a subscription price of $7.25 per share. The rights were transferable and contained an oversubscription privilege.

ADOPTION OF ACCOUNTING PRONOUNCEMENTS

On January 1, 2006 the Company adopted SFAS No. 123-R, "Share-Based Payments." SFAS No. 123-R impacts the Company's accounting for its stock option plan. Because all of the Company's stock options were fully vested at December

31, 2005 and there were no new options issued in the first quarter of 2006, there was no impact on the Company's 2006 financial statements from the adoption of this standard.

OFF-BALANCE SHEET ARRANGEMENTS

Aside from the Company's stand-by Letter of Credit in the amount of $650,000, the Company does not have any off-balance sheet arrangements.

RISK FACTORS

Certain subsidiaries and business segments of the Company sell to industries that are subject to cyclical economic changes. Any downturns in the economic environment would have a financial impact on the Company and its consolidated subsidiaries and may cause the reported financial information herein not to be indicative of future operating results, financial condition or cash flows.

Future activities and operating results may be adversely affected by fluctuating demand for capital goods such as large glass presses, delay in the recovery of demand for components used by telecommunications infrastructure manufacturers, disruption of foreign economies and the inability to renew or obtain new financing for expiring loans.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and trade accounts receivable.

The Company maintains cash and cash equivalents and short-term investments with various financial institutions. These financial institutions are located throughout the country and the Company's policy is designed to limit exposure to any one institution. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. Other than certain accounts receivable, the Company does not require collateral on these financial instruments. In relation to export sales, the Company requires Letters of Credit supporting a significant portion of the sales price prior to production to limit exposure to credit risk. The Company maintains an allowance for doubtful accounts at a level that management believes is sufficient to cover potential credit losses.

For a complete list of risk factors, see the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

FORWARD LOOKING INFORMATION

Included in this Management Discussion and Analysis of Financial Condition and Results of Operations are certain forward looking financial and other information, including without limitation matters relating to "Risks". It should be recognized that such information are projections, estimates or forecasts based on various assumptions, including without limitation, meeting its assumptions regarding expected operating performance and other matters specifically set forth, as well as the expected performance of the economy as it impacts the Company's businesses, government and regulatory actions and approvals, and tax consequences, and the risk factors and cautionary statements set forth in reports filed by the Company with the Securities and Exchange Commission. As a result, such information is subject to uncertainties, risks and inaccuracies, which could be material.

The Registrant makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and current reports, if any, on Form 8-K.

The Registrant also makes this information available on its website, whose internet address is WWW.LYNCHCORP.COM.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risk relating to changes in the general level of U.S. interest rates. Changes in interest rates affect the amounts of interest earned on the Company's cash and cash equivalents and restricted cash (approximately $4,115,000 at March 31, 2006). The Company generally finances the debt portion of the acquisition of long-term assets with fixed and variable rate, long-term debt. The Company does not use derivative financial instruments for trading or speculative purposes. Management does not foresee any significant changes in the strategies used to manage interest rate risk in the near future, although the strategies may be reevaluated as market conditions dictate. There has been no significant change in market risk since December 31, 2005.

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

At March 31, 2006, $4,310,000 of the Company's debt effectively bears interest at variable rates. Accordingly, the Company's earnings and cash flows are affected by changes in interest rates. In October 2005, in connection with the 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, effectively reducing the variable rate debt to $4,310,000, from $7,323,000.

ITEM 4. CONTROLS AND PROCEDURES

The principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report based on the evaluation of these controls and procedures required by Exchange Act Rule 13a-15.

There has been no changes in the Registrant's internal control over financial reporting that occurred during the Registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 November 2005, the court ruled that damages based on profits from resales of licenses were not allowed under the False Claims Act. In February 2006, the defendants and the FCC reached an agreement granting defendants discovery of certain documents and other evidentiary materials.

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Initially, in 2001, the Department of Justice notified the court that it would not intervene in the case. In March 2005, however, in response to the judge's ruling in November 2005 (described above), the DOJ petitioned the court to allow it to intervene. 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. While Lynch Interactive and other defendants believe they have meritorious defenses and have contested the case vigorously, Lynch Interactive and the other defendants are involved in serious settlement negotiations in order to avoid the further costs and uncertainties associated with a trial and possible subsequent appeals. It is anticipated that any such settlement would have a substantial adverse effect on Lynch Interactive and its consolidated financial statements. While Lynch Interactive believes that it could raise additional debt and/or equity and that it could also sell assets to satisfy such a potential settlement, there is no assurance that such a plan could be accomplished. 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 6. EXHIBITS

Exhibits filed herewith:

31(a)* Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31(b)* Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32(a)* Certification by Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

LYNCH CORPORATION
(Registrant)

May 11, 2006

By: /s/ Eugene Hynes

Eugene Hynes
Principal Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
31(a)*	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)*	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32(a)*	Certification by Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* filed herewith

The Exhibits listed above have been filed separately with the Securities and Exchange Commission in conjunction with this Quarterly Report on Form 10-Q or have been incorporated by reference into this Quarterly Report on Form 10-Q. Upon request, Lynch Corporation will furnish to each of its shareholders a copy of any such Exhibit. Requests should be addressed to the Office of the Secretary, Lynch Corporation, 140 Greenwich Avenue, 4th Floor, Greenwich CT 06830.