

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003 Commission file number 1-106

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

For the transition period from to

LYNCH CORPORATION

(Exact name of Registrant as specified in its charter)

Indiana
*(State or other jurisdiction of
Incorporation or organization)*

**50 Kennedy Plaza, Suite 1250,
Providence, RI**
(Address of principal executive offices)

38-1799862
*(I.R.S. Employer
Identification No.)*

02903
(Zip Code)

Registrant's telephone number, including area code:
(401) 453-2007

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 whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 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.

Indicate by check mark whether the registrant is an accelerated filer (as defined) in Rule 12b-2 under the Securities Act of 1934). Yes No

The aggregate market value of voting stock 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, 2003 of \$9.90 per share) was \$10.0 million. (In determining this figure, the Registrant has assumed that all of the Registrant's directors and officers are affiliates. This assumption shall not be deemed conclusive for any

other purpose.)

The number of outstanding shares of the Registrant's Common Stock was 1,495,483 as of March 12, 2004.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of Registrant's definitive Proxy Statement for the 2004 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than April 13, 2004, are incorporated by reference in Part III of this Report.

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 Registrant’s current plans and expectations and involve risks and uncertainties, over which the Registrant 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 Registrant 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 Registrant 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 Registrant, in this document, as well as the Registrant’s periodic reports on Forms 10-K, 10-Q and 8-K, filed with the Securities and Exchange Commission (“SEC”).

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

The Registrant also makes this information available on its website, who’s internet address is www.lynchcorp.com.

PART I

Item 1. *Business*

The Registrant, Lynch Corporation (hereinafter referred to as “Registrant,” “Company” or “Lynch”), incorporated in 1928 under the laws of the State of Indiana, is a diversified holding company with subsidiaries engaged in manufacturing. Lynch’s executive offices are located at 50 Kennedy Plaza, Suite 1250, Providence, RI 02903. Its telephone number is (401) 453-2007.

Lynch has two wholly owned subsidiaries, M-tron Industries, Inc., a Delaware corporation (“M-tron”), and Lynch Systems, Inc., a South Dakota corporation (“LS” or “Lynch Systems”).

Registrant’s business development strategy is to expand its existing operations through internal growth and acquisitions. 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 Registrant includes subsidiary corporations.

A. **Lynch Systems, Inc.**

Overview

Lynch Systems, Inc. (“LS” or “Lynch Systems”), a 100% owned subsidiary of Registrant, designs, develops, manufactures and markets a broad range of manufacturing equipment for the electronic display and consumer glass industries. LS also produces replacement parts for various types of packaging and glass container-making machines, which LS does not manufacture.

Selected Financial Information

For financial reporting purposes, Lynch Systems comprises the Registrant’s “glass manufacturing equipment” segment. For information about this segment’s net sales, profit or loss, and total assets for each of

the last three fiscal years, please see Note 15 “Segment Information” to the Registrant’s Consolidated Financial Statements.

Lynch Systems Objectives

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

LS’s 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. LS intends to 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.

LS also intends to continue to expand on its expertise in the feeder and shear markets obtained from its former joint venture partner, Lynch AMAV LLC, and to reduce the cost of its raw materials by continuing to search for cheaper suppliers of materials, especially from foreign markets. In addition, LS intends to continue its own in-house cost cutting programs by eliminating redundant or superfluous operations, improving its factory quality and yield rates and better utilization of its current personnel. By increasing its efficiency and shortening its delivery rate, LS hopes to increase the number of turns giving a positive effect to its financial performance. There is no assurance that LS can attain these objectives.

Products and Manufacturing

LS 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. LS also manufactures and installs forming equipment that sizes, cuts, and forms tableware such as glass tumblers, plates, cups, saucers and commercial optical glass. Additionally, LS manufactures and installs fire polishing, electronic controls and retrofit systems for CRT display and consumer glass presses.

At year-end 1998, LS, through a subsidiary, entered into a joint venture, Lynch-AMAV LLC, with AMAV GmbH of Germany to develop and manufacture glass-manufacturing equipment for the tableware industry. The joint venture designed and developed feeders, shears and presses, most of which were manufactured for the joint venture by LS. LS believes that this joint venture expanded LS’s glass tableware equipment business, particularly in Europe. LS had a 75% interest in the joint venture until June 13, 2002 when LS completed the planned AMAV technology transfer and acquired the remaining interests in the joint venture. All international business is now directed from Bainbridge, Georgia and all equipment is produced in the United States.

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 24 hours a day, 365 days a year.

In 2003, LS sold three large glass press machines with an aggregate value of \$7.3 million. Using the percentage of completion method, \$5.5 million was recognized in 2003 revenue with the balance expected to be recognized in 2004.

In 2001 LS sold four additional large TV glass press machines that were delivered in 2002. These machines sold for an aggregate of \$14 million, of which \$5.5 million was recognized as revenue in 2001 using the percentage of completion method with the balance of \$8.5 million recognized in 2002 upon delivery and acceptance of these machines. At December 31, 2002, the Company had sold two machines for approximately \$1.5 million, of which \$0.7 million was recognized in 2002 using the percentage of completion accounting method with the balance recognized in 2003 upon delivery and acceptance of these machines.

LS's 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.

To further expand LS's Tableware product lines, additional product lines have been acquired through royalty partnerships with leading industry concerns. In 1999, LS 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 LS as the LH-28 with numerous Electronic Control improvements. In accordance with the terms of the agreement, LS is obligated to pay Emhart a royalty of 13% on parts sales up to \$2 million a year, a 5% royalty rate on all parts sales in excess of \$2 million, 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 LS. In accordance with the terms of the agreement, LS 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. LS has no contractual obligations to Merkad.

International Sales

LS's revenues from international sales were \$9.1 million, \$13.2 million and \$23.1 million for 2003, 2002 and 2001, respectively, representing approximately 71%, 88% and 89% of LS's net sales for 2003, 2002 and 2001, respectively. International sales the past three years were mainly to customers in China, South Korea, Lithuania, and the Netherlands. The profitability of international sales is approximately equivalent to that of domestic sales. Because many international orders require partial advance deposits, with the balance often secured by irrevocable letters of credit from banks in the foreign country, the Registrant believes that most of the credit risks commonly associated with doing business in international markets are minimized. The Registrant avoids currency exchange risk by transacting substantially all international sales in United States dollars.

Backlog

LS had an order backlog of approximately \$2.8 million at December 31, 2003, compared to \$3.9 million at December 31, 2002. Backlog declined due to the lack of orders from television and tableware manufactures. All of LS's \$2.8 million backlog as of December 31, 2003 is scheduled to be delivered in 2004. LS includes as backlog only those orders which are subject to written contract or written purchase orders.

Competition

LS believes that in the worldwide pressware market it is the largest supplier to glass companies that do not manufacture their own pressware machines. Competitors include various companies in Italy, Japan, Korea, Germany and elsewhere. While several of the largest domestic and international producers of glass pressware frequently build their own glass-forming machines and produce spare parts in-house, nearly all pressware producers have made purchases of machines and/or spare parts from LS.

Customers

Although one customer accounted for 27% of Lynch Systems 2003 revenue, and three customers accounted for 66% of 2003 sales, its pool of potential customers is diverse and LS does not believe it is dependent upon a single customer.

Raw Materials

Raw materials are generally available to LS in adequate supply from a number of suppliers.

Research and Development

Research and development expense was \$180,000 in 2003, \$220,000 in 2002 and \$146,000 in 2001. 2003 R&D expense was for television related activities while prior year R&D was mainly for stemware.

Intellectual Property

Lynch Systems owns patents and proprietary know-how which 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. Lynch System's investment in Lynch-AMAV, discussed above, has given Lynch Systems access to important proprietary know-how and technology that has enabled Lynch Systems to expand its product offerings and customer base.

Employees

Lynch Systems employs 68 employees at its Bainbridge, Georgia facility, and 2 in Germany, none of whom belong to a union.

B. M-tron Industries, Inc. ("M-tron")

Overview

M-tron, a wholly-owned subsidiary of Lynch, is a designer, manufacturer and marketer of custom designed electronic components that are used primarily to control the frequency or timing of electronic signals in communications equipment. Its devices, which are commonly called frequency control devices, crystals or oscillators, support fixed and mobile wireless, copper wire, coaxial cable, wide area networks, local area networks and fiber optic systems. It sells its products to original equipment manufacturers, contract manufacturers and to distributors.

M-tron's products are quartz crystal based frequency control devices consisting of packaged quartz crystals and oscillators incorporating those crystals. Its products enable communications equipment manufacturers and network equipment manufacturers to meet the increasing demands of their customers because they produce an electrical signal that is:

- accurate — the frequency of the signal does not change significantly over a period of time;
- stable — the frequency of the signal does not vary significantly when our product is subjected to a range of operating temperatures; and
- has low electronic noise — the signal does not add interfering signals that can degrade the performance of the electronics system.

In addition, M-tron sells crystals and oscillators which are used outside the communications industry. These frequency control devices are used in microprocessor and computer applications, industrial controls, medical instrumentation, automotive products and military applications.

In October 2002, M-tron acquired certain assets, technology and customer orders backlog from Champion Technologies, Inc. ("Champion"). Champion's product line includes crystals, clock oscillators, specialized crystal oscillators, and timing solutions that will further broaden M-tron's product offering and customer base. See Note 2 — "Acquisitions" — to the Registrant's Consolidated Financial Statements.

M-tron has over 35 years of experience designing, manufacturing and marketing crystal based frequency control products. Its customers rely on the skills of M-tron's engineering and design team to help them solve frequency control problems during all phases of their product's life cycles, including product design, prototyping, manufacturing and subsequent product improvements.

Selected Financial Information

For financial reporting purposes, M-tron comprises the Registrant's "frequency control devices" segment. For information about this segment's net sales, profit or loss, and total assets for each of the last three fiscal years, please see Note 15 "Segment Information" to the Registrant's Consolidated Financial Statements.

M-tron Objectives

M-tron's objective is to build on the strength of its core expertise in packaged quartz crystal and oscillator technologies to become the supplier of choice to original equipment manufacturers who supply infrastructure equipment to the communications and networking industries.

M-tron 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 manufacturers customers in the early stages of their design process will lead to M-tron's frequency control devices being designed into their products more regularly.

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

M-tron 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.

M-tron intends to design, manufacture and sell devices that offer higher frequencies or greater precision than its current products. It intends to achieve this through a combination of focused research and development and strategic acquisitions, if they are appropriate.

There is no assurance that M-tron can achieve these objectives.

Products

M-tron's products are high quality, reliable, technically advanced frequency control devices, including packaged quartz crystals and oscillators incorporating those crystals. The October 2002 acquisition of "Champion" provided M-tron an entry to the timing modules market.

M-tron designs and produces a wide range of packaged quartz crystals and quartz crystal based oscillators. There are 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 an oscillator designed for use over a range of temperatures. The Digitally Compensated Crystal Oscillator (DCXO) is a temperature compensated oscillator in which the compensation electronics are digital and offer greater frequency stability than the TCXO over a range of temperatures. This variety of features in M-tron's product family offers the designers at electronic equipment manufacturers a range of options as they create the needed performance in their products.

Currently, M-tron's oscillator products operate at frequencies ranging from 2 kilohertz to over 2.5 gigahertz that constitutes most of the oscillator frequencies that are now used in communications equipment. However, many of its products, through amplification or other means, are ultimately incorporated into those products that operate at higher frequencies.

M-tron'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 and oscillators M-tron sells for use in non-communications applications are used in industrial applications such as security systems, metering systems, electronic test instruments and industrial control systems. They are used in military and medical instrumentation applications as well as in various computer peripheral equipment such as printers, modems, monitors, video cards and sound cards.

M-tron'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.

Research and Development

At December 31, 2003, M-tron employed 7 engineers and technicians in South Dakota who devoted most of their time to research and development. Its research and development expense was approximately \$565,000 in 2003, \$724,000 in 2002, and \$1,348,000 in 2001. M-tron expects to increase its spending on research and development by up to 15% during 2004.

Customers

M-tron markets and sells its frequency control devices primarily to:

- original equipment manufacturers of communications and networking equipment;
- contract manufacturers for original equipment manufacturers; and
- distributors who sell to original equipment manufacturers and contract manufacturers.

In 2003, a Distributor accounted for approximately 13% of M-tron's net sales, compared to less than 8% in 2002. No other customer accounted for more than 7% of its 2003 revenues. Sales to its ten largest customers accounted for approximately 44% of net sales in 2003, compared to approximately 60% of net sales for 2002 and 2001.

International Sales

M-tron's revenues from international sales were \$7.9 million, \$5.8 million, and \$10.8 million for 2003, 2002 and 2001, representing approximately 52%, 51%, and 50% of its net sales for 2003, 2002 and 2001, respectively. In 2003, these revenues included approximately 12% from customers in Canada, 24% from customers in Asia, 9% from customers in Western Europe and 5% from customers in Mexico. M-tron has increased its international sales efforts by adding distributors and manufacturers' representatives in Western Europe and Asia. As anticipated, the Champion products acquisition improved the Company's market position in Western Europe by doubling year over year sales. See Note 2 — "Acquisitions" to the Registrant's Consolidated Financial Statements. The Registrant avoids currency exchange risk by transacting substantially all international sales in United States dollars.

Backlog

M-tron had backlog orders of approximately \$2.8 million at December 31, 2003, compared to \$2.3 million at December 31, 2002. The \$0.5 million improvement is mainly the result of purchased oscillator bookings stemming from M-tron's becoming more price competitive by moving the production of components requiring less engineering content to lower cost offshore contractors. M-tron includes as backlog those orders which are subject to specific production release orders under written contracts, verbal and written orders from

distributors with which it has had long-standing relationships, as well as written purchase orders from sales representatives. Its customers may cancel or defer orders without significant penalty.

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 and oscillator modules comparable in quality and performance to its products. Competitors include Vectron International (a division of Dover Corporation), CTS Corporation and Saronix. M-tron does not operate in the same markets as high volume manufacturers of standard products; rather it focuses on manufacturing lower volumes of custom designed frequency control devices. Many of its competitors and potential competitors have substantially greater financial, engineering, manufacturing and marketing resources than it does. M-tron 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.

Manufacturing

M-tron has one manufacturing facility in Yankton, South Dakota, and has established long-term relationships with two contract manufacturers in Asia, with one contract manufacturer currently enjoying all of M-tron's business. M-tron maintains a rigorous quality control system and is an ISO 9001 qualified manufacturer. M-tron's Hong Kong subsidiary (M-tron Industries, Limited) does not manufacture, but acts as a buying agent and sales representative for its parent company.

In 1986, M-tron established a working relationship with a contract manufacturer located in South Korea, and in 1994, it established a working relationship with a contract manufacturer located in the People's Republic of China. While it does not have written long term agreements with them, M-tron believes that it is potentially their largest customer and, as such, believes that from time to time it received preferential treatment on production scheduling matters.

M-tron attempts to utilize standard parts and components that are available from multiple vendors located in the United States or internationally; however, some components used in its products are available from only a limited number of sources.

Intellectual Property

M-tron has no patents, trademarks or licenses that are considered to be important to M-tron's business or operations. Rather, M-tron 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.

Employees

As of December 31, 2002, M-tron employed 136 people, including 6 in its Hong Kong subsidiary. None of its employees is represented by a labor union and it considers its employee relations to be good.

C. Spinnaker Industries, Inc. ("Spinnaker")

Until September 23, 2002, Lynch (through its subsidiary LS) owned 1,829,063 shares of the Class A Common Stock and 1,237,203 shares of the Common Stock of Spinnaker Industries, Inc. ("Spinnaker"), representing 41.8% and 49.5% of the equity and voting power of Spinnaker, respectively. On September 23, 2002, the Company sold its remaining interest in Spinnaker to an independent, international brokerage firm in New York City. The transfer was made for nominal consideration because Lynch 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, Lynch 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 Lynch's

total shareholders' equity to approximately \$11,644,000 at September 30, 2002 from a deficit of \$7,615,000 on June 30, 2002.

Deconsolidation

Prior to September 30, 2001, Lynch owned 48% and 60%, respectively, of the equity and voting power of Spinnaker. As such, under accounting principles generally accepted in the United States, Lynch consolidated the results of Spinnaker and was required to record all of the losses of Spinnaker, since the non-Lynch interests were not required to absorb their shares of losses (52%) after their investment was fully absorbed by losses. On September 26, 2001, Lynch caused LS to make a charitable disposition of 430,000 shares of Spinnaker's Class A Common Stock. As a result of that transaction: (a) Lynch's equity interest and voting power in Spinnaker were reduced to 41.8% and 49.5%, respectively, (b) Lynch deconsolidated Spinnaker for financial reporting purposes, effective September 30, 2001, (c) Lynch recorded a non-cash gain of \$27,406,000 on September 30, 2001, (d) from September 30, 2001 until September 23, 2002, Lynch accounted for its ownership of Spinnaker using the equity method of accounting and (e) Lynch did not record any additional losses from Spinnaker, as Lynch had no obligation to further fund such losses.

Upon the disposition of its remaining Spinnaker shares on September 23, 2002 as described above, Lynch completed the deconsolidation of Spinnaker and no longer has any economic interest in Spinnaker or affiliation with Spinnaker.

D. Other Information

While the Registrant holds licenses and patents of various types, Registrant does not believe they are critical to its overall operations. See respective "Intellectual Property" sections above for each of Lynch Systems and M-tron.

The Registrant conducts product development activities with respect to each of its major lines of business. Currently, such activities are directed principally toward the improvement of existing products, the development of new products and/or diversification. In the last three years, M-tron has accounted for the vast majority of Registrant's product development costs.

The capital expenditures, earnings and competitive position of Registrant 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, Registrant cannot predict the effect of future laws and regulations. The Registrant has not experienced difficulties relative to fuel or energy shortages.

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

In 2003, the largest single customer accounted for 12% of consolidated sales, while the next largest customer represented 10% of revenue. In 2002, a single customer, who represented 42% of Lynch Systems sales, accounted for 24% of consolidated net sales, while the next largest customer represented less than 8% of consolidated revenue. There were no customers in 2001 that represent 10% or more of consolidated revenues. The Registrant does not believe that it is dependent on any single customer.

Additional information with respect to each of the Registrant's lines of business is included in Note 15 "Segment Information" to the Registrant's Consolidated Financial Statements included as Item 15(a) below.

E. Executive Officers of the Registrant

Pursuant to General Instruction G (3) of Form 10-K, the following list of executive officers of the Registrant is included in Part I of this Annual Report on Form 10-K in lieu of being included in the Proxy Statement for the 2003 Annual Meeting of Shareholders. Such list sets forth the names and ages of all

executive officers of Registrant indicating all positions and offices with the Registrant 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
Ralph R. Papitto	Chairman and Chief Executive Officer (since August 2001) of the Corporation; Chief Executive Officer of Avtek Inc., since 2002, a private holding company controlled by Mr. Papitto; Chairman and Chief Executive Officer of AFC Cable Systems, Inc., a NASDAQ listed manufacturer and supplier of electrical distribution products (1990-1999); Founder, Chairman and Chief Executive Officer of Nortek, Inc., a NYSE listed manufacturer of construction products (1967-1990); Chairman of the Board of Trustees of Roger Williams University; Former Director of Lynch Interactive Corporation and Spinnaker Industries, Inc.	77
Mario J. Gabelli	Chairman (1986 to August 2001) and Chief Executive Officer (1986 to January 2000; and April 2001 to August 2001) and Vice Chairman (since August 2001) of Lynch; Chairman, Chief Executive Officer and a Director of Lynch Interactive Corporation (since September 1999); Chairman and Chief Executive Officer of Gabelli Group Capital Partners (since 1980), a private Corporation which makes investments for its own account; Chairman and Chief Executive Officer of Gabelli Asset Management Inc. (since 1999), a NYSE listed holding corporation for subsidiaries engaged in various aspects of the securities business; Director/Trustee and/or President of all registered investment companies managed by Gabelli Funds, LLC (since 1986); Governor of the American Stock Exchange; Overseer of Columbia University Graduate School of Business; Trustee of Fairfield University, Roger Williams University, Winston Churchill Foundation and E.L. Wigend Foundation; Director of The National Italian American Foundation and The American-Italian Cancer Foundation; Chairman, Patron's Committee of Immaculate Conception School; and former trustee of Fordham Preparatory School.	61
Richard E. McGrail	President and Chief Operating Officer (since October 2001) of Lynch; President of Avtek Inc., since 2001, a private holding company controlled by Ralph R. Papitto; Division President of AFC Cable Systems, Inc., a NASDAQ listed manufacturer and supplier of electrical distribution products (1993 to 2001); Prior general and marketing management experience with Digital Equipment Corporation (DEC).	49
Raymond H. Keller	Chief Financial Officer, Vice President and Secretary (since October 2001) of Lynch; Chief Financial Officer of Avtek Inc., since 2000, a private holding company controlled by Ralph R. Papitto; Director and Chief Financial Officer of AFC Cable Systems, Inc., a NASDAQ listed manufacturer and supplier of electrical distribution products (1989 to 2000); Trustee of Roger Williams University; Prior financial management experience with Microdot, Inc.	66

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

Item 2. *Properties*

Lynch's principal executive offices in Providence, Rhode Island are leased and shared with Avtek Inc., a private holding company controlled by Ralph R. Papitto. Mr. Papitto is Chairman and Chief Executive Officer of Lynch.

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. All such properties are subject to security deeds relating to loans.

M-tron's operations are housed in two separate facilities in Yankton, South Dakota. These facilities contain approximately 51,000 square feet in the aggregate. The manufacturing facility that is owned by M-tron 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.

M-tron's Hong Kong office contains approximately 1,500 square feet; the lease expires October 5, 2005 and does not include renewal options.

It is Registrant'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 Registrant are defendants in certain product liability, worker claims and other litigation in which the amounts being sought may exceed insurance coverage levels. The resolution of these matters is not expected to have a material adverse effect on the Registrant's consolidated financial condition or operations. In addition, Registrant and/or one or more of its subsidiaries are parties to the following additional legal proceedings:

1. In re: Spinnaker Coating, Inc., Debtor/ PACE Local 1-1069 v. Spinnaker Coating, Inc., and Lynch Corporation, U.S. Bankruptcy Court, District of Maine, Chapter 11, Adv. Pro. No. 02-2007, and PACE Local 1-1069 v. Spinnaker Industries, Inc., Spinnaker Coating, Inc., and Spinnaker Coating-Maine, Inc., Cumberland County Superior Court, CV-2001-00352

On or about June 26, 2001, in anticipation of the July 15, 2001 closure of Spinnaker's Westbrook, Maine facility, Plaintiff PACE Local 1-1069 ("PACE") filed a three count complaint in Cumberland County Superior Court, CV-2001-00352 naming the following defendants: Spinnaker Industries, Inc., Spinnaker Coating, Inc., and Spinnaker Coating-Maine, Inc. (collectively, the "Spinnaker Entities") and Lynch. The complaint alleged that under Maine's Severance Pay Act both the Spinnaker Entities and Lynch would be liable to pay approximately \$1,166,000 severance pay under Maine's Severance Pay Act in connection with the plant closure. The Defendants filed a notice of removal, thereby creating United States District Court Civil Action C.V. No. 01-236. The case was remanded to state court. The Spinnaker Entities also filed a separate complaint challenging the constitutionality of the Maine Severance Pay Act, United States District Court Civil Action No. 01-232 which later was dismissed by stipulation of the Spinnaker Entities. PACE also filed three separate Motions for Ex-Parte Attachment against the Spinnaker Entities and Lynch. PACE filed the First Motion for Attachment with its original Complaint. PACE sought to attach \$1,166,483.44, an amount large enough to cover the claims of all PACE's members seeking severance. The Court denied that Motion as being premature. PACE then filed a Second Motion against the Spinnaker Entities and Lynch for an attachment large enough to cover the claims of eight individual employees seeking severance pay in the amount of \$120,736.27. On August 20, 2001, the Court granted that Motion in the amount of \$118,500. On

April 4, 2002, PACE subsequently recorded this attachment through UCC-1 filings with the Maine Secretary of State against Lynch Manufacturing and Lynch Corporation. PACE filed a Third Motion for Ex-Parte Attachment on August 29, 2001. This Motion sought an attachment large enough to cover the severance pay claimed by the remaining PACE members, \$1,048,003. The Court denied this Motion but permitted PACE the opportunity to obtain an attachment after all defendants had an opportunity to respond and after hearing.

Before any further action was taken with respect to PACE's Third Motion for Attachment, the Spinnaker Defendants filed for relief under Chapter 11 of the Bankruptcy Code. Following a series of filings in the United States District Court for the District of Maine and the United States Bankruptcy Court for the District of Maine which, like United States District Court Case No. 01-236, later were dismissed by the parties with prejudice and without costs, PACE's case continues to proceed against Lynch in Cumberland County Superior Court in Maine on the issue of whether Lynch has liability to PACE's members under the Maine Severance Pay Act.

On September 30, 2002, PACE requested a ruling from the Superior Court on its Third Motion for Attachment. On October 21, 2002, Lynch filed a Motion for Summary Judgment which incorporated its prior objection to any attachment. PACE filed an Opposition to Lynch's Motion for Summary Judgment, which included a request for summary judgment in its favor, and a Motion for Leave to Further Amend the Complaint on November 12, 2002. Lynch thereafter filed a Reply Memorandum in Support of its Motion for Summary Judgment on November 26, 2002 and an opposition to PACE's Motion for Leave to Further Amend the Complaint on December 3, 2002. On December 31, 2002, the Superior Court held a hearing on all pending Motions. The Superior Court requested that arguments focus on Lynch's Motion for Summary Judgment since the granting of that Motion would render PACE's Third Motion for Attachment and Motion to Further Amend the Complaint moot.

On July 28, 2003, the Superior Court issued an Order deciding both Lynch's and PACE's Motions for Summary Judgment. The Court denied Lynch's Motion for Summary Judgment, finding that there remained a disputed issue of material fact regarding one of Lynch's primary defenses. The Court granted partial summary judgment in favor of PACE to the extent that the Court found Lynch was an "employer" subject to potential liability under Maine's Severance Pay Act. The Court held, however, that PACE must still prove its entitlement to severance pay under the Act. In a separate ruling also issued on July 28, 2003, the Court denied PACE's Third Motion for Attachment.

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

Lynch believes that, in addition to other defenses, it is not subject to the Maine Severance Pay Act, as now in effect. Management does not believe that the resolution of this case will have a material adverse effect on the Registrant's consolidated financial condition and operations.

The Company does not believe that it has any other contingent liabilities related to Spinnaker.

2. Qui Tam Lawsuit

Lynch Corporation, Lynch Interactive Corporation ("Interactive"), and several other parties have been named as 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 complaint was filed under seal with the court on February 14, 2001, and the seal was lifted on January 11, 2002. The Company was formally served with the complaint on July 9, 2002. The main allegation in the case is that the defendants participated in the creation of "sham" bidding entities that allegedly defrauded the federal Treasury by improperly participating in Federal Communications Commission spectrum auctions restricted to small businesses, as well as obtaining bidding credits in other spectrum auctions allocated to "small" and "very small" businesses. The lawsuit seeks to recover an unspecified amount of damages, which would be subject to mandatory trebling under the statute. On September 19, 2002, Interactive, on behalf of itself and Lynch, filed two Motions with

the court: a Motion to Transfer the Action to the Southern District of New York and a Motion to Dismiss the Lawsuit. The relator filed an opposition reply to Interactive's Motion to Dismiss and, on December 5, 2002, Interactive filed a Reply in Support of Its Motion to Dismiss. On September 30, 2003, the Court granted Interactive's Motion to Transfer the Action to the Southern District of New York. A Court mandated scheduling conference was held on February 10, 2004, following which the Court issued a scheduling order setting forth a timetable for the discovery process.

The U.S. Department of Justice has notified the court that it has declined to intervene in the case. The defendants strongly believe that the lawsuit is completely without merit and intend to defend the suit vigorously. Furthermore, under the separation agreement between the Company and Interactive pursuant to which Interactive was spun-off to the Company's shareholders on September 1, 1999, Interactive would be obligated to indemnify the Company for any losses or damages incurred by the Company as a result of this lawsuit; and Interactive has, in fact, agreed in writing to defend the case on Lynch's behalf and to indemnify Lynch for any losses it may incur as a result of the lawsuit. Interactive has retained legal counsel to defend the claim on behalf of Lynch and Interactive at the expense of Interactive. 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 and Related Stockholder Matters*

The Common Stock of Lynch Corporation is traded on the American Stock Exchange under the symbol "LGL." The market price highs and lows in consolidated trading of the Common Stock during the two years ended December 31, 2003 and 2002 are as follows:

	2003	Three Months Ended			
		March 31	June 30	September 30	December 31
High		9.05	13.00	12.35	11.38
Low		7.71	6.30	8.24	9.10
	2002	March 31	June 30	September 30	December 31
High		21.50	17.25	12.51	9.50
Low		14.75	12.25	9.60	5.60

At March 12, 2004, the Company had 806 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 2004. Substantially all of the subsidiaries' assets are restricted under the companies' current credit agreements and limit the companies' ability to pay dividends.

Equity Compensation Plan Information

On May 2, 2002, the Company's shareholders approved the 2001 Equity Incentive Plan and the issuance of up to 300,000 options to purchase shares of Company common stock. The options approved included the grant of 180,000 fully vested options to the Registrant's Chairman and Chief Executive Officer, Ralph R. Papitto, and 24,000 options that vest over three years starting in 2002 to each of Raymond H. Keller, the Registrant's Chief Financial Officer, and to Richard E. McGrail, the Registrant's President and Chief Operating Officer.

The following table sets forth the Equity Compensation Plan information required by Item 201(d) of Regulation S-K at the end of fiscal 2003:

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	228,000 shares Common Stock	\$17.50 per share	72,000 shares Common Stock
Equity compensation plans not approved by security holders	—	—	—
Total	228,000 shares Common Stock	\$17.50 per share	72,000 shares Common Stock

Item 6. Selected Financial Data

LYNCH CORPORATION AND SUBSIDIARIES

CONSOLIDATED SELECTED FINANCIAL DATA
(Adjusted to Reflect Discontinued Operations and Spin Off of Lynch Interactive Corporation)
(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)				
	2003*	2002*	2001*	2000	1999
Revenues	\$27,969	\$26,386	\$141,073	\$219,196	\$194,222
Operating profit (loss)(b)	(832)	16,168	(19,240)	2,352	1,043
Net financial activities (loss)	252	(80)	(7,357)	(12,751)	(9,528)
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, minority interests and discontinued operations:	183	15,996	(26,597)	(10,399)	(8,485)
(Provision) benefit for income taxes	(73)	1,967	(358)	181	2,189
Minority interests	—	—	4,017	6,780	2,347
Income (loss) from continuing operations before discontinued operations:	110	17,963	(22,938)	(3,438)	(3,949)
Operations of Lynch Interactive Corporation(e)	—	—	—	—	(7,493)
Discontinued operations(c)	—	—	—	—	(572)
Gain on sale of Spinnaker's industrial tape segment(c)	—	—	—	—	10,431
Net income (loss)	\$ 110	\$17,963	\$ (22,938)	\$ (3,438)	\$ (1,583)
Per Common Share:(d)					
Income (loss) from continuing operations before discontinued operations:					
Basic	\$ 0.07	\$ 11.99	\$ (15.24)	\$ (2.31)	\$ (2.79)
Diluted	0.07	11.99	(15.24)	(2.31)	(2.79)
Net income (loss):					
Basic	0.07	11.99	(15.24)	(2.31)	(1.12)
Diluted	0.07	11.99	(15.24)	(2.31)	(1.12)
Cash, securities and short-term Investments(f)	\$ 6,292	\$ 6,847	\$ 4,247	\$ 10,543	\$ 13,106
Restricted cash(f)(g)	1,125	1,125	4,703	6,500	56,026
Total assets (net of discontinued Operations)(c)(e)(f)	23,019	23,430	31,615	162,820	211,192
Long-term debt, exclusive of current portion(f)	833	1,089	1,678	61,350	116,765
Shareholders' equity (deficiency)(e)(f)	11,033	10,934	(7,451)	15,432	15,991

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”.

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- (a) The data presented herein reflect the spin off of Lynch Interactive Corporation (Interactive) from the Company and the sale by Spinnaker Industries, Inc. (Spinnaker), of its industrial tape units, all of which transactions occurred in the third quarter of 1999. Accordingly, the operating results of both Interactive and the industrial tape segment have been segregated from continuing operations of the Company and are reported as separate line items. The data presented also includes results of the business acquired from S.D. Warren (name changed Spinnaker Coating-Maine, Inc.) from March 17, 1998, the 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 (see Note g).
 - (c) Discontinued operations of the industrial tape segment of Spinnaker Corporation.
 - (d) Based on weighted average number of common shares outstanding.
 - (e) No cash dividends have been declared over the period. In 1999 for each share of Lynch Common Stock, shareholders received one share of Lynch Interactive Corporation in a Spin Off of the multimedia and transportation business (See Note 4 to Financial Statements — “Discontinued Operations”).
 - (f) 2003, 2002 and 2001 exclude 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.
 - (g) See discussion of Restricted Cash and Notes Payable and Long-Term Debt in Note 6 to the Consolidated Financial Statements.
 - (h) For three-year trend data of revenues and operating profit (loss) by segment, see Note 15 to the Consolidated Financial Statements — “Segment Information”.

Item 7. *Management’s Discussion and Analysis of Financial Condition and Results of Operations*

Critical Accounting Policies

The Company’s significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in Item 8 of this Form 10-K. The Company’s discussion and analysis of its financial condition and results of operations are based upon the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to the carrying value of inventories, realizability of outstanding accounts receivable, percentage of completion of long-term contracts, and the provision for income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the past, actual results have not been materially different from the Company’s estimates. However, results may differ from these estimates under different assumptions or conditions.

The Company has identified the following as critical accounting policies, based on the significant judgments and estimates used in determining the amounts reported in its consolidated financial statements:

Accounts Receivable

Accounts receivable on a consolidated basis consist principally of amounts due from both domestic and foreign customers. Credit is extended based on an evaluation of the customer’s financial condition and collateral is not generally required except at Lynch Systems. The Company considers concentrations of credit risk to be minimal due to the Company’s diverse customer base. In relation to export sales, the Company requires letters of credit supporting a significant portion of the sales price prior to production to limit exposure

to credit risk. Certain subsidiaries and business segments have credit sales to industries that are subject to cyclical economic changes. The Company maintains an allowance for doubtful accounts at a level that management believes is sufficient to cover potential credit losses.

The Company maintains 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 were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Our failure to estimate accurately the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition, and results of 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 73% and 63% of consolidated inventories at December 31, 2003 and 2002, respectively. The balance of inventories at December 31, 2003 and 2002 are valued using the first-in-first-out (FIFO) method. If actual market conditions are more or less favorable than those projected by management, adjustments may be required.

Revenue Recognition and Accounting for Long-Term Contracts

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

Lynch Systems, a 100% owned subsidiary of the Company, is engaged in the manufacture and marketing of glass-forming machines and specialized manufacturing machines. Certain sales contracts require an advance payment (usually 30% of the contract price), which is accounted for as a customer advance. The contractual sales prices are paid either (i) as the manufacturing process reaches specified levels of completion or (ii) based on the shipment date. Guarantees by letter of credit from a qualifying financial institution are required for most sales contracts. Because of the specialized nature of these machines and the period of time needed to complete production and shipping, Lynch Systems accounts for these contracts using the percentage-of-completion accounting method as costs are incurred compared to total estimated project costs (cost to cost basis). At December 31, 2003 and 2002, unbilled accounts receivable (included in accounts receivable) were \$2.4 million and \$0.7 million, respectively.

The percentage of completion method is used since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made, based on historical experience and milestones set in the contract. 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. 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 worldwide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year or thirteen months. Based upon

experience, the warranty accrual is based upon three to five percent of the selling price of the machine. The Company periodically assesses the adequacy of the reserve and adjusts the amounts as necessary.

Balance, beginning of the period	\$ 1,595
Warranties issued during the period	426
Settlements made during the period	(1,383)
Changes in liabilities for pre-existing warranties during the period, including expirations	(53)
Balance, end of the period	\$ 585

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109, “Accounting for Income Taxes,” which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. A valuation allowance is recorded for deferred tax assets whose realization is not likely. As of December 31, 2003 and December 31, 2002, a valuation allowance of \$1,034,000 and \$967,000, respectively, was recorded.

The carrying value of the Company’s net deferred tax asset at December 31, 2003 of \$57,000 is equal to the amount of the Company’s carry-forward alternative minimum tax (“AMT”) at that date.

Earnings Per Share and Stock Based Compensation

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

At December 31, 2003, the Company has a stock-based employee compensation plan which is described in Note 9 to the Consolidated Financial Statements — “Stock Options Plans”. The Company accounts for the plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company provides pro forma disclosures of the compensation expense determined under the fair value provisions of Financial Accounting Standards Board Statement No. 123, “Accounting for Stock-Based Compensation.” See Notes 1 and 9 to the Consolidated Financial Statements.

Recent Issued Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Indebtedness of Others*. FIN 45 will significantly change current practice in the accounting for, and disclosure of, guarantees. FIN 45 requires certain guarantees to be recorded at fair value, which is different from current practice, which is generally to record a liability only when a loss is probably and reasonably estimable, as those terms are defined in FASB Statement No. 5, *Accounting for Contingencies* (FAS 5). FIN 45 also requires a guarantor to make significant new disclosures, even when the likelihood of making any payments under the guarantee is remote, which is another change from current practice.

The Company presently guarantees (unsecured) the SunTrust Bank loans of its subsidiary, Lynch Systems, and has guaranteed a Letter of Credit issued to the First National Bank of Omaha on behalf of its subsidiary, M-tron Industries, Inc. (see Note 6 to the Consolidated Financial Statements — “Notes Payable to Banks and Long-term Debt”). These guarantees are subject to FIN 45’s disclosure requirement only. As of December 31, 2003, there were no obligations to the SunTrust Bank. As of December 31, 2003, the \$1,000,000 Letter of Credit issued by Fleet Bank to The First National Bank of Omaha was secured by a

\$1,125,000 deposit in a Fleet Bank Treasury Fixed Income Fund. (See “Restricted Cash” included in Note 1 to the Consolidated Financial Statements.)

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

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51” (“FIN 46”). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The consolidation requirements of FIN 46, as revised, are required to be applied for periods ending after December 15, 2003 for interests in structures that are commonly referred to as special-purpose entities while the application of this Interpretation for all other types of variable interest entities is required for periods ending after March 15, 2004. The Company does not have any interests in variable interest entities.

Results of Operations

Year 2003 Compared to 2002

Net Sales

Consolidated revenues for the year ended December 31, 2003 of \$28.0 million, represented an improvement of \$1.6 million, or 6.1%, over Fiscal Year 2002. This improvement was attributable to Lynch’s M-tron unit, whose additional revenue more than offset declines at Lynch Systems.

Lynch Systems’ revenues declined by \$2.2 million, or 14.7%, to \$12.8 million due to low order in-flow. In spite of an improving general economy, producers of television and computer-monitor screens and other devices that incorporate electronic display ordered few glass press machines. Sales of glass press machines and their related spare parts of \$11.9 million were \$1.5 million less than 2002.

Although Lynch Systems 2003 orders of \$12.7 million exceeded 2002 by \$6.9 million, Lynch Systems’ backlog declined by \$1.1 million from December 31, 2002 to \$2.8 million at December 31, 2003 due to the low opening backlog caused by low order-input in the last half of 2002.

M-tron’s served market, the infrastructure segment of the telecommunications industry, has improved in relation to the downward correction in 2001 and 2002 of worldwide overcapacity caused by the internet bubble. Revenues at M-tron increased by \$3.8 million, or 33.3%, to \$15.2 million for fiscal 2003 due partly to the acquisition on October 18, 2002, of certain assets of an industry competitor, Champion Technologies, Inc. (“Champion”).

M-tron has successfully completed the integration of Champion’s manufacturing lines, incorporating the products of this acquisition with M-tron’s pre-existing products. As a result of this investment in M-tron’s production capacity and the expanded product line, M-tron has signed preferred-supplier agreements with two of the leading, worldwide manufacturers of telecommunications systems, and strengthened its relationship with a third customer. M-tron’s December 31, 2003 backlog improved by \$0.5 million to \$2.8 million from the prior year-end backlog of \$2.3 million, and improved by \$1.4 million compared to the backlog at December 31, 2001, partly due to the Champion acquisition in October 2002.

Operating Profit

Consolidated operating loss was \$0.8 million in 2003, compared to an operating profit of \$16.2 million in 2002. Fiscal 2002 operating profit includes a \$19.4 million non-recurring gain on deconsolidation of Spinnaker. (See Note 1 to the Consolidated Financial Statements — “Basis of Presentation”). Excluding the \$19.4 million non-recurring gain in 2002, the 2003 operating loss of \$0.8 million represented an improvement of \$2.4 million on \$1.6 million additional revenue.

M-tron’s operating loss of \$0.2 million was \$2.4 million less than the \$2.6 million loss in 2002 due mainly to \$2.2 million additional gross profit caused mainly by \$3.8 million additional revenue and manufacturing efficiencies.

Lynch Systems 2003 operating profit of \$0.8 million was less than 2002 by \$0.1 million due to \$2.2 million, or 15%, less revenue that resulted in \$1.5 million less gross profit. To help offset the 26% decline in gross profit, selling and administrative expenses were reduced by \$1.4 million.

Other Income/ Expense

Investment income of \$534,000 at December 31, 2003 represented an increase of \$413,000 from the previous year, of which \$483,000 was attributable to realized gains on the sale of marketable securities. Less cash invested in money market funds and low interest rates on invested funds were factors in reducing investment income by \$70,000 in relation to 2002.

Interest expense of \$282,000 was \$81,000 more than the prior year, primarily due to Letter of Credit fees of \$39,000; margin account interest of \$9,000; borrowings to finance the "Champion" acquisition of \$18,000 and higher average borrowing to fund losses.

2003 other income of \$763,000 was comprised of (a) \$728,000 realized upon the expiration of a credit memo that was originally the consequence of a \$2.4 million custom glass press order cancellation in 1998; (b) \$14,000 for insurance related matters; (c) \$13,000 for currency gains; (d) fee income of \$5,000 for collecting accounts receivable on behalf of Champion's bank; and (e) other miscellaneous matters.

2002 other expense of \$92,000 was mainly the result of a \$108,000 loss on disposing certain fixed assets at Lynch Systems that was partly offset by gains of \$13,000 related to the Champion purchase transaction.

Income tax benefit (expense) includes federal, state, local and foreign taxes. The Company has a \$2,735,000 net operating loss ("NOL") carry forward as of 12/31/03. This NOL expires in 2024 if not utilized prior to that date. There was no state income tax provision in 2003 due to deductions applicable to the Company's Georgia business. There was no federal tax benefit as a result of 2003 net operating losses because the Company utilized its applicable carry-back ("NOL") in 2003 and there is uncertainty regarding the utilization of the NOL carry-forward. The \$73,000 tax expense recorded in 2003 represents the applicable tax at the Hong Kong tax rate on M-tron's foreign subsidiaries' earnings.

Because the 2002 gain on deconsolidation in the amount of \$19.4 million is non-taxable, the Company incurred a taxable loss of \$3.4 million in 2002. As a result, the Company recorded a tax benefit of \$2.0 million, which includes a \$0.9 million tax benefit as a result of a capital loss carry-back on the Company's investment in Spinnaker Industries disposed of in 2002. In spite of a net loss for the year 2001, there was a \$358,000 tax expense as Spinnaker's loss did not provide any tax benefits to Lynch.

Net income for the year ended December 31, 2003 was \$110,000, or \$0.07 per share compared to net income of \$18.0 million in 2002, or \$11.99 per share. Net income for 2003 included non-recurring gains (\$452,000 realized on settlement of customer contingency, and \$319,000 gain on sale of marketable securities) totaling \$771,000. Net income for 2002 of \$18.0 million was due primarily to the \$19.4 million gain on the final deconsolidation of Spinnaker Industries and related tax benefit of \$0.9 million.

Total backlog of manufactured products at December 31, 2003 was \$5.6 million, which represents a decrease of \$0.6 million from the comparable backlog of \$6.2 million at December 31, 2002. The backlog at Lynch Systems declined from \$3.9 million to \$2.8 million due to the continuation of weak demand from the CRT and tableware industries. Meanwhile, the backlog at M-tron increased to \$2.8 million from \$2.3 million due to M-tron's becoming more competitive by moving more production of high volume oscillators to lower cost offshore contract manufacturers.

Year 2002 Compared to 2001 (including results of Spinnaker for the nine months ended September 30, 2001)

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, Lynch disposed of its remaining interest in Spinnaker. See Note 1 to the

Consolidated Financial Statements — “Basis of Presentation”. Accordingly, Spinnaker results of operations have only been included for nine months in 2001.

Net Sales

Consolidated revenues for the year ended December 31, 2002 were \$26.4 million, a reduction of \$114.7 million from Fiscal Year 2001, due mainly to the previously described deconsolidation of Spinnaker. Spinnaker’s net sales for the nine month period ending September 30, 2001 of \$93.4 million accounted for 81% of the year over year unfavorable revenue variance.

Lynch Systems’ revenues declined by \$11.1 million, or 42.5%, to \$15.0 million due to low order in-flow. In spite of a substantial increase in quotations, producers of television and computer-monitor screens and other devices that incorporate electronic display did not order glass press machines. Sales of glass press machines and their related spare parts of \$13.4 million were \$7.3 million less than 2001. In addition, tableware machine sales of \$0.7 million were \$2.4 million less than last year, reflecting worldwide weaknesses in the glass industry. The remaining reduction of \$1.4 million was related to various businesses and due to general weakness in the economy.

Due to these industry weaknesses, Lynch Systems’ backlog declined by \$8.0 million from December 31, 2001 to \$3.9 million at December 31, 2002. See Note 17 to the Consolidated Financial Statements — “Subsequent Events” relating to increases in the backlog in early 2003.

M-tron’s served market, the infrastructure segment of the telecommunications industry, continued to be deeply depressed by the major correction of world-wide overcapacity caused by the internet bubble. M-tron could not overcome the dramatic reduction in spending by its customers who use M-tron’s quartz crystals and oscillators in their communication and networking equipment. As a result, M-tron suffered a sales decline of \$10.2 million, or 47.2%, from \$21.6 in 2001 to \$11.4 million in 2002. Partly as a result of the Company’s acquisition of Champion Technologies, Inc., described in Note 2 to the Consolidated Financial Statements, M-tron’s December 31, 2002 backlog improved by \$0.9 million to \$2.3 million from the prior year-end backlog of \$1.4 million.

Operating Profit

Consolidated operating profit was \$16.2 million in 2002, compared to an operating loss of \$19.2 million in 2001. Fiscal 2002 operating profit includes a \$19.4 million gain on deconsolidation of Spinnaker, while 2001 results included an operating loss of \$19.8 million at Spinnaker, which included an asset impairment and restructuring charge of \$41.7 million, and a \$27.4 million gain on deconsolidation (see Note 1 to the Consolidated Financial Statements — “Basis of Presentation”).

M-tron’s operating loss of \$2.6 million was equivalent to the 2001 loss of \$2.5 million despite a 47.1% reduction in sales. Personnel reductions throughout 2002 (108 personnel at December 31, 2002 versus 136 personnel at December 31, 2001), and salary rate reductions helped to control costs.

Lynch Systems 2002 operating profit of \$0.9 million was less than 2001 by \$3.8 million due to \$11.1 million, or 42%, less revenue including the loss of higher margin repair parts business. To help offset the 42% decline in revenue, headcount at Lynch Systems was reduced to 70 at December 31, 2002 from 100 at December 31, 2001.

Other Income/ Expense

Investment income of \$121,000 at December 31, 2002 represented a reduction of \$263,000 from the previous year, of which \$184,000 was attributable to Spinnaker. Low interest rates on invested funds was also a factor in reducing investment income.

Interest expense of \$201,000 was \$7.5 million less than the prior year, primarily due to Spinnaker, which represented \$7.4 million of 2001’s interest expense.

Other expense of \$92,000 was mainly the result of a \$108,000 loss on disposing certain fixed assets at Lynch Systems, offset by foreign exchange gains and fees received from Champion's lending bank for collecting accounts receivable on its behalf.

Income tax benefit (expense) includes federal, state and local taxes. Because the 2002 gain on deconsolidation in the amount of \$19.4 million is non-taxable, the Company incurred a taxable loss of \$3.4 million. As a result, the Company recorded a tax benefit of \$2.0 million that includes a \$0.9 million tax benefit as a result of a capital loss carry-back on the Company's investment in Spinnaker Industries disposed of in 2002. In spite of a net loss for the year 2001, there was a \$358,000 tax expense as Spinnaker's loss did not provide any tax benefits to Lynch.

There was no minority interest income or losses in 2002. However, minority interests reduced fiscal 2001 losses by \$4.0 million as a result of losses at Spinnaker that were allocable to the minority interests to the extent of their investment in Spinnaker.

Net income for the year ended December 31, 2002 was \$18.0 million, or \$11.99 per share, which compared to a net loss of \$22.9 million or (\$15.24) per share for the same period of 2001. 2002 net income of \$18.0 million was due primarily to the \$19.4 million gain on the final deconsolidation of Spinnaker Industries.

The net loss for the year ended December 31, 2001 of \$22.9 million was due primarily to Spinnaker's 9-month loss of \$54.5 million that was partly offset by the \$27.4 million that gain on deconsolidation. See Note 1 to the Consolidated Financial Statements — "Basis of Presentation".

Total backlog of manufactured products at December 31, 2002 was \$6.2 million, which represents a decrease of \$7.2 million from the comparable backlog of \$13.4 million at December 31, 2001. Not included in this backlog is \$1.3 million and \$1.5 million at December 31, 2002 and 2001 respectively, representing a payment from a customer for a glass press order at Lynch Systems, which was subsequently cancelled. The customer can use this amount for future orders and, if not utilized, will be forfeited to Lynch Systems in 2003. The backlog at Lynch Systems declined sharply from \$12.0 million to \$3.9 million due to depressed demand from the CRT and tableware industries. (See Note 17 to the Consolidated Financial Statements — "Subsequent Events".) Meanwhile, the backlog at M-tron increased to \$2.3 million from \$1.4 million due to the acquisition of Champion Technologies, Inc. in October 2002.

Liquidity and Capital Resources

The Company's total cash, cash equivalents and investments in marketable securities at December 31, 2003, total \$7.4 million (including \$1.1 million of restricted cash). In addition, the Company had a \$2.4 million borrowing capacity under LS's and M-tron's revolving line of credit. Therefore, gross cash and securities and availability under the LS and M-tron loans total \$9.8 million and exceed the combined outstanding debt and margin liability on marketable securities of \$4.8 million by \$5.0 million.

At December 31, 2003, the Company had current assets of \$18.6 million and current liabilities of \$11.2 million. Working capital was therefore \$7.4 million as compared to \$8.0 million at December 31, 2002. The ratio of current assets to current liabilities was 1.66 to 1.00 at December 31, 2003, unfavorable when compared to 1.79 to 1.00 ratio at December 31, 2002, by 0.13 to 1.00.

An obligation to First National Bank of Omaha that matures September 30, 2004 is now included in its entirety in current liabilities. This \$676,000 reclassification from long-term debt accounts for 0.10 to 1.00 of the 0.13 to 1.00 year-over-year unfavorable variance in the ratio of current assets to current liabilities. The Company expects to renew the expiring loan at terms that will allow it to classify the majority of the debt as a long-term obligation.

Cash used in operating activities was approximately \$0.5 million in 2003, compared to cash provided of approximately \$3.6 million in 2002. The year over year unfavorable change in operating cash flow of \$4.1 million was mainly the result of \$0.9 million additional income being more than offset by \$4.7 million of restricted cash that was "released" for use in operations in 2002.

Capital expenditures, on a comparable basis, were \$141,000 in 2003 and \$223,000 in 2002. The Company anticipates that it will have sufficient cash flow from operations and borrowing availability under various credit facilities at the subsidiaries to fund 2004 capital expenditures that could approximate \$0.7 million.

At December 31, 2003, total debt of \$3.8 million was \$0.3 million less than total debt at December 31, 2002 of \$4.1 million. Debt outstanding at December 31, 2003 included \$1.0 million of fixed rate debt at an 4.0% interest rate, and \$2.8 million of variable rate debt (year-end 2003 average rate of 4.6%).

On May 30, 2003, Lynch Systems renewed its loan agreement with its bank for a \$7 million line of credit to be used for the issuance of standby letters of credit and/ or up to \$2 million revolving credit. This line of credit is secured by accounts receivable and inventories. Amounts available under this line of credit will be used to fund letters of credit securing customer advances, certain warranty coverages and working capital. This loan includes an unsecured parent company guarantee. At December 31, 2003, there were outstanding Letters of Credit of \$1.3 million and no borrowings under the working capital line. There were no parent company obligations to SunTrust Bank as of December 31, 2003. This \$7 million line of credit with SunTrust Bank has a May 29, 2004 maturity date. The Company expects to renew this credit in its present form.

On August 4, 2003, Lynch Systems entered into a new term loan agreement with SunTrust Bank. The new loan is in the amount of \$498,000 and is secured by a lien on Lynch Systems' real estate. The new loan has a 10-year term with interest at 5.5%. Principal payments are \$4,150 per month for 120 months commencing August 2003. The loan proceeds were used to retire the First Port City loan that was due in its entirety on August 5, 2003 in the amount of \$554,000.

On April 30, 2003, M-tron's long-time lending bank, First National Bank of Omaha, renewed the revolving credit loan that now matures on April 30, 2004. The renewed loan includes the following conditions:

(a) Effective May 20, 2003, the Company subordinates its October 3, 2002, \$200,000 loan to M-tron to the bank, bringing the subordinated total to \$700,000;

(b) The bank reduces the minimum net worth and subordinated debt limit from \$3.1 million to \$2.9 million. In return, the Company has committed to fund any shortfall with an equity or subordinated debt cash infusion within 45 days of the quarter end. Since M-tron's subordinated debt and equity total \$3,020,000 at December 31, 2003, no additional cash infusion is currently required.

The Company has guaranteed a Letter of Credit issued to the First National Bank of Omaha on behalf of its subsidiary, M-tron Industries, Inc. As of December 31, 2003, the \$1,000,000 Letter of Credit issued by Fleet Bank to The First National Bank of Omaha was secured by a \$1,125,000 deposit in a Fleet Bank Treasury Fixed Income Fund. The Company's outstanding Letter of Credit in the amount of \$1.0 million for the benefit of the bank can be reduced to \$500,000 when M-tron is profitable for 5 of 6 consecutive months and the cumulative after tax profit equals or exceeds \$500,000. The remaining \$500,000 Letter of Credit will be released when the earning parameters are met for a second time. These thresholds were not met in 2003 and there is no assurance they will be met in 2004.

Funding for the Champion transaction was provided by the South Dakota Board of Economic Development, Yankton Area Progressive Growth, Inc. and the Areawide Business Council in the amount of \$296,000, \$250,000, and \$100,000 respectively. These loans, which total \$646,000, are secured by M-tron's real estate and have maturity dates of December 19, 2007; April 21, 2005; and November 10, 2007 respectively. \$525,000 is outstanding on these three loans as of December 31, 2003. Principal payments under three loans will total \$120,000 in 2004. The average interest rate in 2004 for these fixed rate loans will be 2.58%. (See Note 6 to the Consolidated Financial Statements — "Notes Payable to Bank and Long-term Debt").

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

Restrictions on dividends under the M-tron loan with the First National Bank of Omaha disallow distributions to the parent company without consent of the bank. Lynch Systems, under its loan with SunTrust Bank, may pay a cash dividend to the parent company equal to 50% of LS's net income for the prior fiscal year, subject to the minimum net worth covenant in the loan agreement. In addition, LS may pay an annual management fee to the parent company in an amount not to exceed \$250,000, and LS may reimburse the parent company for expenses and taxes paid by the parent on its behalf. Under the M-tron loan agreement, advances to the parent company are disallowed without the prior written consent of the lending bank.

The Company does not at present have credit facilities at the parent company level. The Company believes that existing cash and cash equivalents, cash generated from operations and available borrowings

under its subsidiaries lines of credit will be sufficient to meet its on-going working capital and capital expenditures requirements for the foreseeable future.

At December 31, 2003, the Company's total cash, cash equivalents and investments in marketable securities total \$7.4 million (including \$1.1 million of restricted cash). In addition, the Company had a \$2.4 million borrowing capacity under LS's and M-tron's revolving line of credit. Therefore, gross cash and securities and availability under the LS and M-tron loans total \$9.8 million and exceed the combined outstanding debt and margin liability on marketable securities of \$4.8 million by \$5.0 million.

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 2004. (See Note 6 to the Consolidated Financial Statements — "Notes Payable to Banks and Long-term Debts" — for restrictions on the companies assets).

Off-Balance Sheet Arrangements

Aside from the Company's stand-by letter of credit, the Company does not have any off-balance sheet arrangements.

Aggregate Contractual Obligations

Details of the Company's contractual obligations for short-term debt, long-term debt, leases, purchases and other long term obligations are as follows (see Notes 6 and 14 to the Consolidated Financial Statements):

Contractual Obligations	Payments Due by Period — Including Interest				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Short-term Debt	\$2,007,000	\$2,007,000	—	—	—
Long-term Debt Obligations	2,087,000	1,063,000	\$ 702,000	\$125,000	\$197,000
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	630,000	274,000	356,000	—	—
Purchase Obligations	—	—	—	—	—
Other Long-term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	—	—	—	—	—
TOTAL	\$4,724,000	\$3,344,000	\$1,058,000	\$125,000	\$197,000

Market Risk

The Company is exposed to market risk relating to changes in the general level of U.S. interest rates. Changes in interest rates affect the amounts of interest earned on the Company's cash equivalents and short-term investments (approximately \$5.0 million at December 31, 2003). The Company generally finances the debt portion of the acquisition of long-term assets with fixed rate, long-term debt. The Company does not use derivative financial instruments for trading or speculative purposes. Management does not foresee any significant changes in the strategies used to manage interest rate risk in the near future, although the strategies may be reevaluated as market conditions dictate. There has been no significant change in market risk since December 31, 2003.

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

At December 31, 2003, approximately \$2.8 million of the Company's debt bears interest at variable rates. Accordingly, the Company's earnings and cash flows are slightly affected by changes in interest rates. Assuming the current level of borrowings for variable rate debt, and assuming a two percentage point increase in the 2003 average interest rate under these borrowings, it is estimated that the Company's interest expense

would change by less than \$0.1 million. In the event of an adverse change in interest rates, management would take actions to further mitigate its exposure.

Concentrations of Credit Risk

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.

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.

Item 7A. *Quantitative and Qualitative Disclosure About Market Risk*

The information required by this Item 7A is included under the caption "Market Risk" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7.

Item 8. *Financial Statements and Supplementary Data*

See Item 15(a).

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

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

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

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The information required by this Item 10 is included under the caption "Executive Officers of the Registrant" in Item 1 hereof and included under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in Registrant's Proxy Statement for its Annual Meeting of Shareholders for 2004, which information is incorporated herein by reference.

The Registrant's audit committee chairman, Mr. Anthony R. Pustorino, is an "audit committee financial expert" as defined in Item 401(h) of Regulation S-K. Mr. Pustorino is "independent" as defined in the American Stock Exchange Listing Standards.

The Registrant has adopted a code of ethics, within the meaning of Item 406(b) of Regulation S-K, which applies to its Chief Executive Officer and Chief Financial Officer, as well as the Company's President, subsidiary Presidents, and subsidiary Financial Officers. In addition, Registrant has amended and restated its Business Conduct Policy which applies to all employees and which is filed herewith as Exhibit 99.1. Certain employees are required to certify their compliance and understanding with this policy on a regular basis.

Item 11. *Executive Compensation*

The information required by this Item 11 is included under the captions "Compensation of Directors," "Executive Compensation," "Executive Compensation and Benefits Committee Report on Executive Compensation" and "Performance Graph" in Registrant's Proxy Statement for its Annual Meeting of Shareholders for 2004, which information is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

The information required by this Item 12 is included under the caption "Security Ownership of Certain Beneficial Owners and Management," in the Registrant's Proxy Statement for its Annual Meeting of Shareholders for 2004, which information is included herein by reference.

Item 13. *Certain Relationships and Related Transactions*

The information required by this Item 13 is included under the caption "Executive Compensation", and "Transactions with Certain Affiliated Persons" in the Registrant's Proxy Statement for its Annual Meeting of Shareholders for 2004, which information is included herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this Item 14 is included under the caption "Fees Billed to the Company by Ernst and Young, LLP", in the Registrant's Proxy Statement for its Annual Meeting of Shareholders for 2004, which information is included herein by reference.

PART IV

Item 15. *Exhibits, Financial Statements, Financial Statement Schedules and Reports on Form 8-K*

(a) The following documents are filed as part of this Form 10-K Annual Report:

(1) Financial Statements:

The Report of Independent Auditors and the following Consolidated Financial Statements of the Company are included herein:

Consolidated Balance Sheets at December 31, 2003 and 2002

Consolidated Statements of Shareholders' Equity — Years ended December 31, 2003, 2002, and 2001

Consolidated Statements of Cash Flows — Years ended December 31, 2003, 2002, and 2001

Notes to Consolidated Financial Statements

- (2) Financial Statement Schedules as of December 31, 2003 and 2002 and for the three years ended December 31, 2003:

Schedule I — Condensed Financial Information of Registrant

Schedule II — Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, and therefore have been omitted.

See Page 2 above re Forward Looking Information.

- (b) Reports on Form 8-K: A report on Form 8-K was filed on November 11 2003 as a press release announcing Lynch's results of operations for the third quarter period ending September 30, 2003.

- (c) The following Exhibits listed in the Exhibit Index are filed with this Form 10-K Annual Report:

10(hh) — Mortgage dated October 21, 2002 by Mortgagor, M-tron Industries, Inc., to Mortgagee, Yankton Area Progressive Growth, Inc.

10(ii) — Promissory Note between M-tron Industries, Inc. and Yankton Area Progressive Growth, Inc. dated October 21, 2002.

10(jj) — Standard Loan Agreement by and between M-tron Industries, Inc. and Areawide Business Council, Inc. dated October 10, 2002 and Exhibits thereto.

10(kk) — Loan Agreement by and between M-tron Industries, Inc. and South Dakota Board of Economic Development dated December 19, 2002.

10(ll) — Promissory Note between M-tron Industries, Inc. and South Dakota Board of Economic Development dated December 19, 2002.

10(mm) — Employment Agreement by and between M-tron Industries, Inc. and South Dakota Board of Economic Development dated December 19, 2002.

21 — Subsidiaries of the Registrant.

23 — Consent of Ernst & Young LLP.

24 — Powers of Attorney.

31 — Certifications of Registrant's principal executive and principal chief financial officers required by Exchange Act Rule 13a-14(a).

32 — Section 1350 Certifications of Registrant's principal executive and principal executive financial officers required by Exchange Act Rule 13a-14(b).

99.1 — Amended and Restated Business Conduct Policy.

(d) Financial Statement Schedules:

Financial Statement Schedules are listed in response to Item 15(a)(2)

REPORT OF INDEPENDENT AUDITORS

Shareholders and Board of Directors
Lynch Corporation

We have audited the accompanying consolidated balance sheets of Lynch Corporation and subsidiaries (“Lynch Corporation” or the “Company”) as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedules listed in the index at Item 15(a). These financial statements and schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lynch Corporation and subsidiaries at December 31, 2003 and 2002 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statements schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

/s/ ERNST & YOUNG LLP

Providence, Rhode Island
April 9, 2004

LYNCH CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, December 31,
2003 2002

(In thousands, except share
amounts)

ASSETS

Current Assets:

Cash and cash equivalents	\$ 3,981	\$ 5,986
Restricted cash (Note 1)	1,125	1,125
Investments — Marketable Securities	2,311	861
Trade accounts receivable, less allowances of \$91 and \$91, respectively (Note 1)	5,797	3,524
Inventories	4,911	5,624
Recoverable income taxes	—	532
Deferred income taxes	57	207
Prepaid expense	456	324
	<u> </u>	<u> </u>
Total Current Assets	18,638	18,183
Property, Plant and Equipment		
Land	291	291
Buildings and improvements	4,198	4,198
Machinery and equipment	11,377	11,841
	<u> </u>	<u> </u>
	15,866	16,330
Less: Accumulated depreciation	11,689	11,504
	<u> </u>	<u> </u>
	4,177	4,826
Other assets	204	421
	<u> </u>	<u> </u>
Total Assets	\$23,019	\$23,430
	<u> </u>	<u> </u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Notes payable to banks	\$ 1,976	\$ 2,228
Trade accounts payable	2,054	927
Accrued warranty expense	585	1,595
Accrued compensation expense	1,219	921
Accrued income taxes	716	1,053
Accrued professional fees	273	327
Accrued commissions	429	214
Margin liability on marketable securities	1,033	251
Other accrued expenses	664	659
Customer advances	1,206	1,147
Current maturities of long-term debt	998	832
	<u> </u>	<u> </u>
Total Current Liabilities	11,153	10,154
Long-term debt	833	1,089
Other long-term liabilities	—	1,253
	<u> </u>	<u> </u>
Total Liabilities	11,986	12,496

Commitments and Contingencies (Note 14)

Shareholders' Equity

Common stock, \$0.01 par value — 10,000,000 shares authorized; 1,513,191 shares issued; 1,497,883 shares outstanding	15	15
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Additional paid-in capital	15,645	15,645
(Accumulated deficit)	(4,460)	(4,570)
Accumulated other comprehensive Income	291	302
Treasury stock of 15,308 shares at cost	(458)	(458)
	<u> </u>	<u> </u>
Total Shareholders' Equity	11,033	10,934
	<u> </u>	<u> </u>
Total Liabilities and Shareholders' Equity	\$23,019	\$23,430
	<u> </u>	<u> </u>

* 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".

LYNCH CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31,

	2003	2002	2001
	(In thousands, except share and per-share amounts)		
SALES AND REVENUES	\$ 27,969	\$ 26,386	\$ 141,073
Costs and expenses:			
Manufacturing cost of sales	20,319	19,437	130,290
Selling and administrative	8,482	10,201	19,157
Asset impairment and restructuring charges	—	—	38,272
	28,801	29,638	187,719
Gain on deconsolidation (Note 1)	—	19,420	27,406
OPERATING PROFIT (LOSS)	(832)	16,168	(19,240)
Other income (expense):			
Investment income	534	121	384
Interest expense	(282)	(201)	(7,741)
Other income (expense)	763	(92)	—
	1,015	(172)	(7,357)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	183	15,996	(26,597)
(Provision) Benefit for income taxes	(73)	1,967	(358)
Minority interests	—	—	4,017
NET INCOME (LOSS)	\$ 110	\$ 17,963	\$ (22,938)
Weighted average shares outstanding	1,497,900	1,497,900	1,505,300
BASIC AND DILUTED INCOME (LOSS) PER SHARE	\$ 0.07	\$ 11.99	\$ (15.24)

* 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".

See accompanying notes

LYNCH CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Years Ended December 31, 2003**

	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Officer's Note Receivable	Accumulated Other Comprehensive Income	Treasury Stock	Total
	(In thousands except for shares of common stock)							
BALANCE AT DEC. 31, 2000	1,510,183	\$ 5,139	\$10,403	\$ 405	\$(382)	\$ (71)	\$ (62)	\$ 15,432
Comprehensive Income (Loss):								
Net loss for year	—	—	—	(22,938)	—	—	—	(22,938)
Other comprehensive income	—	—	—	—	—	69	—	69
Comprehensive Loss								(22,869)
Acquisition of Treasury Stock	(12,300)	—	—	—	382	—	(396)	(14)
BALANCE AT DEC. 31, 2001	1,497,883	\$ 5,139	\$10,403	\$(22,533)	\$ —	\$ (2)	\$(458)	\$ (7,451)
Assign \$0.01 par value (Note 10)	—	(5,124)	5,124	—	—	—	—	—
Comprehensive Income (Loss):								
Net income for year	—	—	—	17,963	—	—	—	17,963
Other comprehensive income	—	—	—	—	—	304	—	304
Comprehensive Income								18,267
Unredeemed minority interest Shares	—	—	118	—	—	—	—	118
BALANCE AT DEC. 31, 2002	1,497,883	\$ 15	\$15,645	\$ (4,570)	\$ —	\$302	\$(458)	\$ 10,934
Comprehensive Income (Loss):								
Net income for year	—	—	—	110	—	—	—	110
Other comprehensive loss	—	—	—	—	—	(11)	—	(11)
Comprehensive Income								99
BALANCE AT DEC. 31, 2003	1,497,883	\$ 15	\$15,645	\$ (4,460)	\$ —	\$291	\$(458)	\$ 11,033

* 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".

See accompanying notes.

LYNCH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2003	2002	2001
	(In thousands)		
OPERATING ACTIVITIES			
Net income (loss)	\$ 110	\$ 17,963	\$(22,938)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Gain on deconsolidation	—	(19,420)	(27,406)
Restricted operating cash	—	4,703	1,797
Loss on disposal of fixed assets	—	145	—
Loss on donation of shares	—	—	366
Asset impairment and restructuring charges	—	—	38,272
Gain realized on sale of marketable securities	(483)	—	—
Depreciation	982	1,044	4,315
Amortization of definite-lived intangible assets	257	206	244
Amortization of deferred financing charges	—	—	703
Deferred taxes	150	202	501
Recoverable income taxes	—	(532)	—
Minority interests	—	—	(4,017)
Other	(22)	—	761
Changes in operating assets and liabilities:			
Receivables	(2,273)	6,294	10,861
Inventories	503	194	13,430
Accounts payable and accrued liabilities	1,617	(7,620)	(14,269)
Other assets/liabilities	(1,385)	414	4,727
Net cash provided by (used in) operating activities	(544)	3,593	7,347
INVESTING ACTIVITIES			
Acquisition of minority interest (Note 7)	—	(220)	—
Capital Expenditures	(141)	(223)	(1,104)
Restricted investing cash	—	(1,125)	—
Reduction in cash due to deconsolidation	—	—	(5,728)
Acquisition (See Note 2)	—	(850)	—
Proceeds from sale of marketable securities	1,041	—	—
Payment on margin liability on marketable securities	(454)	—	—
Purchase of marketable securities	(1,565)	(306)	—
Other	—	(214)	(860)
Net cash used in investing activities	(1,119)	(2,938)	(7,692)
FINANCING ACTIVITIES			
Net borrowings (repayments) of notes payable	(252)	1,453	(7,587)
Repayment of long-term debt	(884)	(369)	(420)
Proceeds from long-term debt	794	—	1,987
Other	—	—	69
Net cash provided by (used in) financing activities	(342)	1,084	(5,951)
Increase (decrease) in cash and cash equivalents	(2,005)	1,739	(6,296)
Cash and cash equivalents at beginning of year	5,986	4,247	10,543
Cash and cash equivalents at end of year	\$ 3,981	\$ 5,986	\$ 4,247

* 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".

See accompanying notes

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

1. Accounting and Reporting Policies

Organization

Lynch Corporation (the “Company” or “Lynch”) is a diversified holding company with subsidiaries engaged in manufacturing primarily in the United States. The Company has two wholly-owned subsidiaries (Lynch Systems, Inc. (“Lynch Systems” and M-tron Industries, Inc. (“M-tron”)) and until September 23, 2002, an investment in Spinnaker Industries, Inc. (“Spinnaker”); see discussion below. Information on the Company’s operations by segment and geographic area is included in Note 15 — “Segment Information”.

Basis of Presentation

Prior to September 30, 2001, the Company owned 47.6% of the equity of Spinnaker (60.4% voting control), an entity engaged in the manufacture of adhesive-backed material. Under accounting principles generally accepted in the United States, Spinnaker was a consolidated entity and the Company was required to record all of the losses of Spinnaker since the non-Company investors interests were not required to absorb their share of the losses (52.4%) after their investment was fully absorbed by losses (which occurred in the first quarter of 2001).

Effective September 30, 2001, the Company donated 430,000 shares of Spinnaker Class A common stock to a university on whose board several of the Company’s executives serve as Trustees, thereby relinquishing control of such securities. This resulted in the reduction of the Company’s ownership and voting interests in Spinnaker to 41.8% and 49.5%, respectively. As a result, effective September 30, 2001, the Company deconsolidated Spinnaker and prospectively accounted for its ownership of Spinnaker using the equity method of accounting. On September 23, 2002, the Company disposed of its remaining investment in Spinnaker (See Note 8 to the Consolidated Financial Statements — “Spinnaker Industries, Inc.”).

As a result, the Company’s results of operations include the operating results of Spinnaker through September 30, 2001 (date of deconsolidation). The balance sheet at December 31, 2002 does not contain the assets and liabilities of Spinnaker due to the deconsolidation. This deconsolidation resulted in a non-cash gain of \$27,406,000 being recorded on September 30, 2001 to reduce the Company’s negative investment in Spinnaker to \$19,420,000. This remaining interest, which represents losses in excess of investment, was recorded as a deferred credit on the Company’s balance sheet until the Company disposed of its remaining interests in Spinnaker on September 23, 2002. This deferred credit of \$19,420,000 was recognized in earnings in 2002.

Principles of Consolidation

The consolidated financial statements include the accounts of Lynch Corporation and entities in which Lynch had majority voting control. All material intercompany transactions and accounts have been eliminated in consolidation.

Uses of Estimates

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

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Cash Equivalents

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

At December 31, 2003 and 2002, assets of \$1.9 million and \$2.2 million, which are classified as cash and cash equivalents, are invested in United States Treasury money market funds for which affiliates of the Company serve as investment managers to the respective funds.

Restricted Cash

At December 31, 2003 and 2002, the Company had \$1.1 million of Restricted Cash. (See Note 6 to the Consolidated Financial Statements — “Notes Payable to Banks and Long-term Debt”). The \$1.1 million restricted cash secures a Letter of Credit issued to the Bank of Omaha as collateral for M-tron’s loans.

Investments

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

<u>Equity Securities</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Unrealized Gross Losses</u>	<u>Estimated Fair Value</u>
December 31, 2003	\$2,020	\$291	—	\$2,311
December 31, 2002	\$ 559	\$302	—	\$ 861

The Company has a margin liability against this investment of \$1,033,000 as of December 31, 2003 that must be settled upon the disposition of the related securities, whose fair value is based on quoted market prices. The Company has designated these investments as available for sale pursuant to Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities”.

Accounts Receivable

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

The Company maintains 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 were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Our failure to estimate accurately the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition, and results of operations.

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Property, Plant and Equipment, Net

Property, plant and equipment are recorded at cost less accumulated depreciation and include expenditures for additions and major improvements. Maintenance and repairs are charged to operations as incurred. Depreciation is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets, which range from 5 years to 35 years for buildings and improvements, and for 3 to 10 years for other fixed assets. Property, plant, and equipment are periodically reviewed for indicators of impairment. If any such indicators were noted, the Company would assess the appropriateness of the assets carrying value and record any impairment at that time.

Revenue Recognition

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.

Accounting for Long-Term Contracts

Lynch Systems, a 100% owned subsidiary of the Company, is engaged in the manufacture and marketing of glass-forming machines and specialized manufacturing machines. Certain sales contracts require an advance payment (usually 30% of the contract price) which is accounted for as a customer advance. The contractual sales prices are paid either (i) as the manufacturing process reaches specified levels of completion or (ii) based on the shipment date. Guarantees by letter of credit from a qualifying financial institution are required for most sales contracts. Because of the specialized nature of these machines and the period of time needed to complete production and shipping, Lynch Systems accounts for these contracts using the percentage-of-completion accounting method as costs are incurred compared to total estimated project costs (cost to cost basis). At December 31, 2003 and 2002, unbilled accounts receivable (included in accounts receivable) were \$2.4 million and \$0.7 million, respectively.

The percentage of completion method is used since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made, based on historical experience and milestones set in the contract. 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. 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 worldwide customers who acquire machines. The warranty covers both parts and labor and normally covers a period of one year or thirteen months. Based upon experience, the warranty accrual is based upon three to five percent of the selling price of the machine. The Company periodically assesses the adequacy of the reserve and adjusts the amounts as necessary.

Balance, beginning of the period	\$ 1,595
Warranties issued during the period	426
Settlements made during the period	(1,383)
Changes in liabilities for pre-existing warranties during the period, including expirations	(53)
Balance, end of the period	\$ 585

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Research and Development Costs

Research and development costs are charged to operations as incurred. Such costs were \$745,000, \$944,000, and \$1,772,000, in 2003, 2002, and 2001, respectively.

Advertising Expense

The cost of advertising is expensed as incurred. The Company incurred \$136,000, \$191,000 and \$177,000, in advertising costs during 2003, 2002 and 2001, respectively.

Earnings Per Share and Stock Based Compensation

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

At December 31, 2003, the Company has a stock-based employee compensation plan that is described in Note 9 to the Consolidated Financial Statements — "Stock Options Plans". The Company accounts for the plan under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company provides pro forma disclosures of the compensation expense determined under the fair value provisions of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation."

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands, except for earnings per share information):

	2003	2002	2001
Net income (loss) as reported	\$ 110	\$17,963	\$(22,938)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(154)	(1,260)	0
Pro forma net income (loss)	\$ (44)	\$16,703	\$(22,938)
Basic and diluted earnings (loss) per share:			
As reported	\$ 0.07	\$ 11.99	\$ (15.24)
Pro forma	\$(0.03)	\$ 11.15	\$ (15.24)

Segment Information

The Company reports segment information in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS 131). SFAS No. 131 requires companies to report financial and descriptive information for each operating segment based on management's internal organizational decision-making structure. See Note 15 to the Consolidated Financial Statements — "Segment Information" — for the detailed presentation of business segments report.

Impairments

The Company accounts for impairments of long-lived assets in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company periodically assesses the net realizable value of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For assets to be held and used, impairment is determined to exist if estimated undiscounted future cash flows are less than the carrying amount. For assets to be disposed of, impairment is determined to exist if the estimated net realizable value is less than the carrying amount. If indicators of impairment are present, and we do not expect the estimated undiscounted cash flows to be derived from the related assets to be sufficient to recover the asset's carrying amount, an impairment loss is charged to expense in the period identified based upon the difference between the carrying amount and the discounted cash flows. The rates that would be utilized to discount the net cash flows to net present value would take into account the time value of money and investment risk factors. See Note 3 to the Consolidated Financial Statements — "Asset Impairment and Restructuring Charges" — regarding Spinnaker's restructuring costs for fiscal year 2001.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("FAS 141"), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. FAS 141 also includes guidance on the initial recognition and measurement of goodwill and intangible assets arising from business combinations completed after June 30, 2001. FAS 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, FAS 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized. Note that the Company has indefinite-lived intangibles arising from the acquisition of "Champion" in October, 2002 in the amount of \$40,000.

Financial Instruments

Cash and cash equivalents, trade accounts receivable, short-term borrowings, trade accounts payable and accrued liabilities are carried at cost which approximates fair value due to the short-term maturity of these instruments. The carrying account of the Company's borrowings under its revolving lines of credit approximates fair value, as the obligations bear interest at a floating rate. The fair value of other long-term obligations approximates cost based on borrowing rates for similar instruments.

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.

Reclassifications

Certain amounts in the 2002 and 2001 financial statements have been reclassified to conform to the 2003 presentation. These other reclassifications are immaterial to the consolidated financial statements taken as a whole.

Guarantees

The Company presently guarantees (unsecured) the SunTrust Bank loans of its subsidiary, Lynch Systems, and has guaranteed a Letter of Credit issued to the First National Bank of Omaha on behalf of its subsidiary, M-tron Industries, Inc. (see Note 6 to the Consolidated Financial Statements — "Notes Payable to Banks and Long-term Debt"). As of December 31, 2003, there were no obligations to the SunTrust Bank. As of December 31, 2003, the \$1,000,000 Letter of Credit issued by Fleet Bank to The First National Bank of

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Omaha was secured by a \$1,125,000 deposit in a Fleet Bank Treasury Fixed Income Fund. (See “Restricted Cash” included in Note 1 to the Consolidated Financial Statements.)

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

Recent Issued Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51” (“FIN 46”). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties, as revised, are required to be applied for periods ending after December 15, 2003 for interests in structures that are commonly referred to as special-purpose entities while the application of this Interpretation for all other types of variable interest entities is required for periods ending after March 15, 2004. The Company does not have any interests in variable interest entities.

2. Acquisitions

On October 18, 2002, the Company’s subsidiary, M-tron Industries, Inc., acquired certain assets of an industry competitor, Champion Technologies, Inc., from U.S. Bank in a transaction accounted for as a purchase. Champion’s product line includes crystals, clock oscillators, specialized crystal oscillators, and timing solutions. The \$850,000 purchase price included inventories, fixed assets, and the customers order backlog. There were no assumed liabilities in this transaction. A 7.5% royalty will be applicable to certain sales through December 31, 2004. Financing for this transaction includes \$646,000 in new loans from State and local agencies and a \$200,000 parent Company cash infusion (See Note 6 to the Consolidated Financial Statements — “Notes Payable to Banks and Long-term Debt”).

The purchase price was allocated to the acquired assets based on their estimated fair value at the date of acquisition to Current Assets and Property, Plant & Equipment in the amounts of \$558,000 and \$292,000 respectively. In September, 2003, the acquirer initiated a new study of the fair value of the acquired assets and has reallocated the purchase price of \$850,000 as follows: Property, Plant & Equipment \$728,000; Goodwill \$40,000; and Current Assets \$82,000.

3. Asset Impairment and Restructuring Charges

Prior to the deconsolidation of Spinnaker on September 30, 2001 (see Note 1 to the Consolidated Financial Statements — “Basis of Presentation”), the Company recognized certain restructuring charges in 2001 related to Spinnaker, totaling \$41.8 million. The charges resulted from (a) the write-down to estimated fair market value of fixed assets to be taken out of service and held for sale or disposal of \$16.0 million; (b) impairment of goodwill associated with the acquisition of Coating — Maine of \$20.8 million; (c) severance and related costs of \$1.5 million; and (d) inventory write-downs of \$3.5 million (recorded through manufacturing costs of sales).

4. Spin-Off of Lynch Interactive Corporation

On August 12, 1999, the Board of Directors approved a plan to distribute the stock of Lynch Interactive Corporation on a one for one basis to the shareholders of Lynch Corporation (“spin off”). Lynch completed the spin off of Lynch Interactive Corporation (“Interactive”) on September 1, 1999, to stockholders of record on August 23, 1999.

Lynch Interactive and Lynch have entered into certain agreements governing various ongoing relationships, including the provision of support services and a tax allocation agreement. The tax allocation agreement provides for the allocation of tax attributes to each company as if it had actually filed with the respective tax

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

authority. At the spin off, the employees of the corporate office of Lynch Corporation became the employees of Lynch Interactive Corporation and Lynch Interactive Corporation began providing certain support services to Lynch. The Company was charged a management fee for these services amounting to approximately \$180,000 and \$265,000 in 2001 and 2000, respectively. Note that this arrangement was terminated in August, 2001.

5. Inventories

Inventories are stated at the lower of cost or market value. Inventories valued using the last-in, first-out (LIFO) method comprised approximately 73% and 63% of consolidated inventories at December 31, 2003 and 2002, respectively. The balance of inventories at December 31, 2003 and 2002 are valued using the first-in-first-out (FIFO) method.

	December 31,	
	2003	2002
	(In Thousands)	
Raw materials and supplies	\$1,394	\$1,436
Work in progress	1,641	2,376
Finished goods	1,876	1,812
	\$4,911	\$5,624

Current cost exceeded the LIFO value of inventories by \$930,000 and \$1,212,000 at December 31, 2003 and 2002, respectively.

6. Notes Payable to Banks and Long-term Debt

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

	December 31,	
	2003	2002
	(In Thousands)	
Notes payable:		
M-tron bank revolving loan at variable interest rates (4.75% at December 31, 2003), due May 2004	\$1,976	\$2,228
Lynch Systems bank revolving loan at variable interest rates, due June 2004	—	—
	\$1,976	\$2,228
Long-term debt:		
M-tron commercial bank term loan at variable interest rates (4.25% at December 31, 2003), due September 2004	\$ 829	\$1,001
Yankton Area Progressive Growth loan at 0.0% interest, due April 2005	150	250
Yankton Areawide Business Council loan at a fixed interest rate of 5.5%, due November 2007	90	98
South Dakota Board of Economic Development at a fixed rate of 3.0% due December 2007	285	—
Lynch Systems term loan at a fixed interest rate of 5.5%, due August 2013	477	572
	1,831	1,921
Current maturities	(998)	(832)

	<u> </u>	<u> </u>
	\$ 833	\$1,089
	<u> </u>	<u> </u>

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On a consolidated basis, at December 31, 2003, Lynch maintains short-term credit facilities totaling \$10.0 million, of which \$3.5 million was available for future borrowings, including up to \$2.4 million for working capital and/or up to \$3.0 million for Letters of Credit. These facilities generally limit the credit available under the lines of credit to certain variables, such as inventories and receivables, and are secured by the operating assets of the respective subsidiary borrower, and include various financial covenants, which currently restrict the transfer of substantially all the assets of the subsidiaries. At December 31, 2003, the revolving credit facilities expire within one year. The weighted average interest rate for short-term borrowings at December 31, 2003 and 2002 was 4.5% and 5.2%, respectively. Cash of \$1.1 million at December 31, 2003 and 2002 has been disclosed as restricted as required under an outstanding Letter of Credit issued by Fleet Bank for the benefit of First National Bank of Omaha.

Lynch Systems renewed its loan agreement with SunTrust Bank on May 30, 2003. The lender has provided a \$7 million Line of Credit, which can be used entirely for stand-by Letters of Credit to secure customer advances and certain warranty coverages or up to \$2 million for domestic revolving credit to finance working capital within the \$7 million line. The Lynch Systems Line of Credit is secured by accounts receivable and inventories and bears an interest rate of one month LIBOR plus 2.0%. At December 31, 2003, there were outstanding Letters of Credit of \$1.3 million and no Working Capital Loans or unsecured parent company guarantees outstanding under this Line of Credit. This credit line has a May 30, 2004 maturity date.

On August 4, 2003, Lynch Systems entered into a new term loan agreement with SunTrust Bank. The new loan is in the amount of \$498,000 and is secured by a lien on Lynch Systems' real estate. The new loan has a 10-year term with interest at 5.5%. Principal payments are \$4,150 per month for 120 months commencing August 2003. The loan proceeds were used to retire the First Port City loan that was due in its entirety on August 5, 2003 in the amount of \$554,000.

On April 30, 2003, M-tron's long-time lending bank, First National Bank of Omaha, renewed the revolving credit loan that now matures on April 30, 2004. The renewed loan includes the following conditions:

(a) Effective May 20, 2003, the Company subordinates its October 3, 2002, \$200,000 loan to M-tron to the bank, bringing the subordinated total to \$700,000;

(b) The bank reduces the minimum net worth and subordinated debt limit from \$3.1 million to \$2.9 million. In return, the Company has committed to fund any shortfall with an equity or subordinated debt cash infusion within 45 days of the quarter end. Since M-tron's subordinated debt and equity total \$3,020,000 as of December 31, 2003, no additional cash infusion is currently required.

The Company has guaranteed a Letter of Credit issued to the First National Bank of Omaha on behalf of its subsidiary, M-tron Industries, Inc. As of December 31, 2003, the \$1,000,000 Letter of Credit issued by Fleet Bank to The First National Bank of Omaha was secured by a \$1,125,000 deposit in a Fleet Bank Treasury Fixed Income Fund. The Company's outstanding Letter of Credit in the amount of \$1.0 million for the benefit of the bank can be reduced to \$500,000 when M-tron is profitable for 5 of 6 consecutive months and the cumulative after tax profit equals or exceeds \$500,000. The remaining \$500,000 Letter of Credit will be released when the earning parameters are met for a second time. These thresholds were not met in 2003 and there is no assurance they will be met in 2004.

The M-tron Line of Credit is secured by accounts receivable and inventories and carries an interest rate equal to the First National Bank of Omaha's national prime rate with a minimum rate of 4.75%. At December 31, 2003, borrowings under this line totaled \$1,976,000 with \$451,000 additional availability.

First National Bank of Omaha previously extended a \$1,200,000 commercial loan to M-tron of which \$829,000 was outstanding on December 31, 2003. Interest is at the bank rate (4.25% at December 31, 2003), with monthly payments totaling \$18,000 and a \$765,000 balloon payment due in September 2004.

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In conjunction with the acquisition of Champion in October of 2002, M-tron entered into loan arrangements with two Yankton, South Dakota agencies and a state agency to provide \$646,000 at a weighted average interest rate of 2.6%. Yankton Area Progressive Growth, Inc. provided \$250,000 at a 0% interest rate and \$100,000 was provided by the Areawide Business Council, Inc. at a 5.5% interest rate. The South Dakota Board of Economic Development loan of \$296,000 is at a 3.0% interest rate and includes a \$250,000 balloon payment in December 2007. Aggregate principal maturities of this acquisition debt for each of the next five years are as follows: 2004 — \$120 thousand; 2005 — \$70 thousand; 2006 — \$21 thousand; and \$315 thousand in 2007. M-tron's real estate is security for these local agency loans as well as the South Dakota State loan.

Restrictions on dividends under the M-tron loan with First National Bank of Omaha disallow distributions to the parent company without consent of the bank. Lynch Systems, under its loan with Sun Trust Bank, may pay a cash dividend to the parent company equal to 50% of LS's net income for the prior fiscal year. In addition, LS may pay an annual management fee to the parent company in an amount not to exceed \$250,000 and LS may reimburse the parent company for expenses and taxes paid by the parent on behalf of LS. Under the M-tron loan agreement, advances to the parent company are disallowed without the prior written consent of the lending bank.

Both M-tron and Lynch Systems intend to renew the credit agreements that expire on April 30, 2004 and May 30, 2004 respectively with their incumbent lenders.

At December 31, 2003, the Company's total cash, cash equivalents and investments in marketable securities total \$7.4 million (including \$1.1 million of restricted cash). In addition, the Company had a \$2.4 million borrowing capacity under M-tron's and LS's revolving lines of credit. Therefore, gross cash and securities and availability under the revolving credit loans total \$9.8 million and exceed the combined outstanding debt and margin liability of \$4.8 million by \$5.0 million.

Cash payments for interest were \$282,000, \$272,000, and \$2.0 million for the years ended December 31, 2003, 2002 and 2001, respectively. Interest payments in 2001 are substantially higher than 2003 and 2002 because 2001 included Spinnaker for the nine months prior to the deconsolidation.

Aggregate principal maturities of long-term debt for each of the next five years are as follows: 2004 — \$998 thousand; 2005 — \$120 thousand; 2006 — \$71 thousand; in 2007 — \$364 thousand; and \$50 thousand in 2008.

7. Minority Interests and Related Party Transactions

Minority Interests

On June 13, 2002, the Company acquired the remaining 25% interest in Lynch AMAV, LLC, a joint venture between Frank Haepe and Lynch International Holding Corporation, by paying \$220,000 and by settling certain other obligations. A related definite-lived intangible is included in the Company's balance sheet in Other Assets in the amount of \$164,000 and will be fully amortized in 2004.

Transactions with Certain Affiliated Persons

Mario J. Gabelli, former Chairman of the Company and current Vice Chairman of the Company, is affiliated with various entities which he directly or indirectly controls and which are engaged in various aspects of the securities business. During 2003, the Company and its subsidiaries engaged in various transactions with certain of these entities and the amount of commissions, fees, and other remunerations paid to such entities, was not material.

On October 1, 2001, the Company transferred its principal executive offices to Providence, Rhode Island from Rye, New York. These offices are shared with Avtek, Inc. ("Avtek") a private holding company controlled by Mr. Papitto (Company Chairman). Since August 2001, Avtek and the Company have shared,

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

on an approximately equal basis, (i) all occupancy costs of the shared premises and (ii) the salary expense of certain persons employed by Avtek at the premises (including Mr. McGrail, the Company's President and Chief Operating Officer and Mr. Keller, the Company's Chief Financial Officer, and other administrative and clerical personnel) whose services are provided to both the Company and Avtek. The Company's share of such occupancy and salary costs was \$344,000 in 2003 and \$231,500 in 2002, a portion of which represents compensation to Mr. McGrail and Mr. Keller that is reported in the Summary Compensation Table of the Proxy Statement.

In the opinion of management, the method of allocating these costs was reasonable; however, the costs of these services allocated to the Company are not necessarily indicative of the costs that would have been included on a stand-alone basis.

Equity Transactions

Effective July 31, 2001, Louis A. Guzzetti, Jr. resigned from the Board of Directors of the Company. In connection with Mr. Guzzetti's resignation, on August 9, 2001, the Company purchased 12,300 shares of its Common Stock for its treasury from Mr. Guzzetti for a purchase price of \$396,204. Such purchase price was equal to the outstanding principal amount and unpaid interest on the loans made by the Company to Mr. Guzzetti on June 5, 2000 and September 20, 2000 to finance his original purchase of such Common Stock. Mr. Gabelli's loan to the Company in the amount of \$371,000 to fund the loan to Mr. Guzzetti, which was issued in September, 2000 at an initial interest rate of 7.5% per annum adjusted prospectively on each interest payment date to two points below the prime rate, was repaid to Mr. Gabelli by the Company on August 10, 2001.

8. Spinnaker Industries, Inc.

On September 23, 2002, Lynch disposed of its remaining interest in Spinnaker for nominal consideration and completed the deconsolidation that commenced on September 30, 2001. The net result was the recording of a non-cash gain on deconsolidation of \$19.4 million in 2002 and \$27.4 million in 2001. See Note 1 to the Consolidated Financial Statements — "Basis of Presentation".

9. Stock Option Plans

On May 2, 2002, the Company's shareholders approved the 2001 Equity Incentive Plan and the issuance of up to 300,000 options to purchase shares of Company common stock to certain employees of the Company, of which 228,000 options were granted (subject to shareholder approval) at \$17.50 per share on December 10, 2001. Shareholders approval was obtained on May 2, 2002. These options have lives of five to ten years. 212,000 of these options are fully vested, with the remaining options vesting quarterly in 2004.

Pro forma information regarding net income and earnings per share is required by SFAS 123, which requires that the information be determined as if the Company has accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2002 (no options outstanding in 2001 or 2000) risk-free interest rate of 5.3%; dividend yield of 0.0%; volatility factors of the expected market price of the Company's common stock of .49 and weighted-average expected life of the option of 10 years. See Note 1 to the Consolidated Financial Statements — "Basis of Presentation".

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. Shareholders' Equity

At the Annual Meeting of Stockholders of the Registrant held on May 2, 2002, the Stockholders approved an amendment to the Restated Articles of Incorporation of Registrant that effected a change of all 10,000,000 shares of Registrant's authorized Common Stock from shares without par value into shares having a par value of \$0.01 per share for all purposes, without otherwise changing the designations, rights, preferences, or limitations of such shares and without increasing or decreasing the number of such shares. As a result, common stock at par value is now valued at \$15,000 resulting in a \$5.1 million reclassification to additional paid-in capital.

The Board of Directors previously authorized the purchase of up to 400,000 shares of Common Stock. Through December 31, 2000, 238,991 shares had been purchased at an average cost of \$14.88 per share. There were no purchases in 2001, 2002, and 2003.

On February 1, 1996, the Company adopted a plan to provide a portion of the compensation for its directors in common shares of the Company. The amount of common stock is based upon the market price at the end of the previous year. Through December 31, 2003, a total of 4,126 shares have been awarded under this program. No stock was issued for compensation during 2001, 2002 and 2003.

Both M-tron and Lynch Systems have plans that provided certain former shareholders with Stock Appreciation Rights (SAR's). These SAR's are fully vested and expire at the earlier of certain defined events or 2008 to 2010. These SAR's provide the participants a certain percentage, ranging from 1-5%, of the increase in the defined value of M-tron and Lynch Systems, respectively. Vested amounts are payable at the holder's option in cash or equivalent amount of M-tron or Lynch Systems stock. Expense related to the SAR's was \$70,000, \$22,000, and \$195,000, in 2003, 2002 and 2001 respectively. At December 31, 2003 and 2002, \$399,000 and \$329,000 was accrued for the SAR's.

11. Income Taxes

The Company files consolidated federal income tax returns, which includes all subsidiaries excluding Spinnaker for all periods.

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

Year 2003 income tax includes federal, state, local, and foreign taxes. There was no state income tax provision in 2003 due to deductions applicable to the Company's Georgia business. There was no federal tax benefit in 2003 as a result of 2003 net operating losses because the Company utilized its carry-back ("NOL") in 2003 and there is uncertainty regarding the utilization of the NOL carry-forward. The Company recorded a \$73,000 tax provision in 2003 for foreign taxes at the Hong Kong tax rate on M-tron's foreign subsidiaries' earnings.

The 2002 income tax benefit of \$2.0 million includes federal, as well as state, local, and foreign taxes. \$0.9 million of the 2002 tax benefit is the result of a capital loss carry-back on the Company's investment in Spinnaker Industries. The 2002 net tax benefit also includes \$.6 million for operating losses recovered through carry-backs to prior periods. The 2003 and 2002 effective tax rate differs from the statutory tax rate primarily due to foreign tax rates and the tax benefit related to the Spinnaker investment.

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred income taxes for 2003 and 2002 provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Cumulative temporary differences and carry-forwards at December 31, 2003 and 2002 are as follows:

	December 31, 2003		December 31, 2002	
	Deferred Tax Asset	Deferred Tax Liability	Deferred Tax Asset	Deferred Tax Liability
	(In Thousands)			
Inventory reserve	\$ 593	\$ —	\$ 768	\$ —
Fixed assets written up under Purchase accounting and tax over book depreciation	—	337	—	275
Other reserves and accruals	577	—	928	—
Other	—	729	—	454
Capital loss and other carry forwards	987	—	207	—
Total deferred income taxes	2,157	1,066	1,903	729
Valuation allowance	(1,034)		(967)	
	\$ 1,123		\$ 936	

At December 31, 2003, the net deferred tax asset of \$57,000 presented in the Company's balance sheet is comprised of deferred tax assets of \$1,123,000 offset by deferred tax liabilities of \$1,066,000. At December 31, 2002, the net deferred tax asset of \$207,000 was comprised of deferred tax assets of \$936,000 offset by deferred tax liabilities of \$729,000.

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

	2003	2002	2001
	(In Thousands)		
Current:			
Federal	\$ (150)	\$(2,332)	\$(439)
State and local	—	144	274
Foreign	73	19	22
Total Current	(77)	(2,169)	(143)
Deferred:			
Federal	150	264	489
State and local	—	(62)	12
Total Deferred	150	202	501
	\$ 73	\$(1,967)	\$ 358

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	2003	2002	2001
	(In Thousands)		
Tax (benefit) at statutory rate	\$ 62	\$ 5,439	\$ (9,043)
Foreign tax rate differential	(81)	—	—
State and local taxes, net of federal benefit	—	54	189
Spinnaker operating loss	—	—	18,533
Deconsolidation gain	—	(6,603)	(10,132)
Foreign export sales benefit	(54)	(142)	(236)
Capital loss utilization	—	(860)	—
Valuation allowance	139	29	938
Other	7	116	109
	\$ 73	\$(1,967)	\$ 358

Profit (loss) before income taxes from foreign operations was \$452,000, (\$336,000), and \$671,000 in 2003, 2002, and 2001 respectively.

Federal, State and Foreign income tax payments were \$0.3, \$0, and \$1.2 million, for the years 2003, 2002 and 2001, respectively. Income tax recoveries were \$532,000 in 2003 for tax loss carry-backs, and totaled \$2,170,000 in 2002, including refunds of 2001 estimated tax payments in the amount of \$700,000 and \$1,470,000 for tax loss carry-backs.

12. Accumulated Other Comprehensive Income (Loss)

Total comprehensive income was \$99,000 in the twelve months ended December 31, 2003, including “other” comprehensive loss of \$11,000 for unrealized losses on available for sale securities.

Total comprehensive income was \$18,267,000 in the twelve months ended 2002, including “other” comprehensive income of \$304,000 that was the result of unrealized gains on available for sale securities.

The components of accumulated other comprehensive income (loss), net of related tax, at December 31, 2003, 2002, and 2001 are as follows:

	2003	2002	2001
	(In Thousands)		
Balance beginning of year	\$302	\$ (2)	\$(71)
Foreign currency translation	—	—	69
Unrealized gain (loss) on available for-sale securities	(11)	304	—
Accumulated other comprehensive income (loss)	\$291	\$302	\$ (2)

Note that no foreign currency translation remains at December 31, 2003 or 2002 due to the acquisition of the remaining minority interest of Lynch AMAV, LLC in 2002.

13. Employee Benefit Plans

The Company, through its operating subsidiaries, has several defined contribution plans for the eligible employees. The Company's former investee company, Spinnaker, had various employee retirement type plans including defined benefit, defined contribution, multi-employer, profit sharing, and 401 (k) plans. The

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

following table sets forth the consolidated expenses (including Spinnaker’s expenses through September 30, 2001, prior to the deconsolidation) for these plans:

	2003	2002	2001
	(In Thousands)		
Defined contribution:			
Lynch Systems & M-tron	\$ 48	\$ 34	\$ 17
Spinnaker	—	—	346
Defined benefit (Spinnaker)	—	—	202
Multi-employer (Spinnaker)	—	—	42
	\$ 48	\$ 34	\$607
Total	\$ 48	\$ 34	\$607

Under the Lynch Systems and M-tron defined contribution plan, the Company contributes up to a maximum of 62.5 percent of participants’ contributions that do not exceed \$800 per participant in the plan year. The Company contribution occurs at the end of the plan year and the participant is immediately vested in the employers’ contribution.

Spinnaker and its subsidiaries had several defined benefit plans (both Union and non-Union). Spinnaker also had a defined contribution plan for substantially all employees. No disclosures are made for 2003 and 2002 due to the deconsolidation of Spinnaker (see Note 1 to the Consolidated Financial Statements — “Basis of Presentation”).

14. Commitments and Contingencies

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

On or about June 26, 2001, in anticipation of the July 15, 2001 closure of Spinnaker’s Westbrook, Maine facility, Plaintiff PACE Local 1-1069 (“PACE”) filed a three count complaint in Cumberland County Superior Court, CV-2001-00352 naming the following defendants: Spinnaker Industries, Inc., Spinnaker Coating, Inc., and Spinnaker Coating-Maine, Inc. (collectively, the “Spinnaker Entities”) and Lynch. The complaint alleged that under Maine’s Severance Pay Act both the Spinnaker Entities and Lynch would be liable to pay approximately \$1,166,000 severance pay under Maine’s Severance Pay Act in connection with the plant closure. The Defendants filed a notice of removal, thereby creating United States District Court Civil Action C.V. No. 01-236. The case was remanded to state court. The Spinnaker Entities also filed a separate complaint challenging the constitutionality of the Maine Severance Pay Act, United States District Court Civil Action No. 01-232 which later was dismissed by stipulation of the Spinnaker Entities. PACE also filed three separate Motions for Ex-Parte Attachment against the Spinnaker Entities and Lynch. PACE filed the First Motion for Attachment with its original Complaint. PACE sought to attach \$1,166,483.44, an amount large enough to cover the claims of all PACE’s members seeking severance. The Court denied that Motion as being pre-mature. PACE then filed a Second Motion against the Spinnaker Entities and Lynch for an attachment large enough to cover the claims of eight individual employees seeking severance pay in the amount of \$120,736.27. On August 20, 2001, the Court granted that Motion in the amount of \$118,500. On April 4, 2002, PACE subsequently recorded this attachment through UCC-1 filings with the Maine Secretary of State against Lynch Manufacturing and Lynch Corporation. PACE filed a Third Motion for Ex-Parte Attachment on August 29, 2001. This Motion sought an attachment large enough to cover the severance pay claimed by the remaining PACE members, \$1,048,003.00. The Court denied this Motion but permitted

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

PACE the opportunity to obtain an attachment after all defendants had an opportunity to respond and after hearing.

Before any further action was taken with respect to PACE's Third Motion for Attachment, the Spinnaker Defendants filed for relief under Chapter 11 of the Bankruptcy Code. Following a series of filings in the United States District Court for the District of Maine and the United States Bankruptcy Court for the District of Maine which, like United States District Court Case No. 01-236, later were dismissed by the parties with prejudice and without costs, PACE's case continues to proceed against Lynch in Cumberland County Superior Court in Maine on the issue of whether Lynch has liability to PACE's members under the Maine Severance Pay Act.

On September 30, 2002, PACE requested a ruling from the Superior Court on its Third Motion for Attachment. On October 21, 2002, Lynch filed a Motion for Summary Judgment which incorporated its prior objection to any attachment. PACE filed an Opposition to Lynch's Motion for Summary Judgment and a Motion for Leave to Further Amend the Complaint on November 12, 2002. Lynch thereafter filed a Reply Memorandum in Support of its Motion for Summary Judgment on November 26, 2002 and an opposition to PACE's Motion for Leave to Further Amend the Complaint on December 3, 2002. On December 31, 2002, the Superior Court held a hearing on all pending Motions. The Superior Court requested that arguments focus on Lynch's Motion for Summary Judgment since the granting of this Motion will render PACE's Third Motion for Attachment and Motion to Further Amend the Complaint moot.

On July 28, 2003, the Superior Court issued an Order deciding both Lynch's and PACE's Motions for Summary Judgment. The Court denied Lynch's Motion for Summary Judgment, finding that there remained a disputed issue of material fact regarding one of Lynch's primary defenses. The Court granted partial summary judgment in favor of PACE to the extent that the Court found Lynch was an "employer" subject to potential liability under Maine's Severance Pay Act. The Court held, however, that PACE must still prove its entitlement to severance pay under the Act. In a separate ruling also issued on July 28, 2003, the Court denied PACE's Third Motion for Attachment.

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

Lynch believes that, in addition to other defenses, it is not subject to the Maine Severance Pay Act, as now in effect. At this time, management is unable to assess the prospects for a favorable summary judgment decision, but firmly believes that, under current law, the resolution of this case will not have a material adverse effect on the Registrant's consolidated financial condition or operations.

Lynch Corporation, Lynch Interactive Corporation ("Interactive"), and several other parties have been named as 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 complaint was filed under seal with the court on February 14, 2001, and the seal was lifted on January 11, 2002. The Company was formally served with the complaint on July 9, 2002. The main allegation in the case is that the defendants participated in the creation of "sham" bidding entities that allegedly defrauded the federal Treasury by improperly participating in Federal Communications Commission spectrum auctions restricted to small businesses, as well as obtaining bidding credits in other spectrum auctions allocated to "small" and "very small" businesses. The lawsuit seeks to recover an unspecified amount of damages, which would be subject to mandatory trebling under the statute. On September 19, 2002, Interactive, on behalf of itself and Lynch, filed two Motions with the court: a Motion to Transfer the Action to the Southern District of New York and a Motion to Dismiss the Lawsuit. The relator filed an opposition reply to Interactive's Motion to Dismiss and, on December 5, 2002, Interactive filed a Reply in Support of Its Motion to Dismiss. A court mandated scheduling conference

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

was held on February 10, 2004, following which the Court issued a scheduling order setting forth a timetable for the discovery process.

The U.S. Department of Justice has notified the court that it has declined to intervene in the case. The defendants strongly believe that the lawsuit is completely without merit and intend to defend the suit vigorously. Furthermore, under the separation agreement between the Company and Interactive pursuant to which Interactive was spun-off to the Company's shareholders on September 1, 1999, Interactive would be obligated to indemnify the Company for any losses or damages incurred by the Company as a result of this lawsuit; and Interactive has, in fact, agreed in writing to defend the case on Lynch's behalf and to indemnify Lynch for any losses it may incur as a result of the lawsuit. Interactive has retained legal counsel to defend the claim on behalf of Lynch and Interactive at the expense of Interactive.

Rent expense under operating leases was \$284,000, \$320,000, and \$846,000 (including Spinnaker for nine months, prior to the deconsolidation) for the years ended December 31, 2003, 2002 and 2001, respectively. The Company leases certain property and equipment, including warehousing and sales and distribution equipment, under operating leases that extend from one to three years. Certain of these leases have renewal options and escalation provisions.

Future minimum rental payments under long-term non-cancelable operating leases subsequent to December 31, 2003 are as follows (in thousands):

2004	\$274
2005	229
2006	127
	<hr/>
	\$630
	<hr/>

15. Segment Information

The Company had two reportable business segments in 2003 and 2002, Lynch Systems (glass manufacturing equipment) and M-tron (frequency control devices).

The Company had four reportable business segments in 2001. The largest was Spinnaker Coating's adhesive backed label stock for labels and related applications. The second largest segment was Lynch Systems glass manufacturing equipment business. Frequency control devices (quartz crystals and oscillators) manufactured and sold by M-tron was the third segment. Entoleter (then a subsidiary of Spinnaker Industries, Inc.) manufactured and sold industrial process equipment and was the fourth segment. Spinnaker Coating and Entoleter results for 2001 represent the nine-month period ending September 30, 2001 pursuant to the "deconsolidation" of Spinnaker on September 30, 2001 (see Note 1 to the Consolidated Financial Statements — "Basis of Presentation"). Except for M-tron's Hong Kong subsidiary, which acts as a buying agent and sales representative, the businesses are located domestically and consolidated export sales (primarily Canada and China) were approximately \$17.0 million in 2003, \$19.0 million in 2002 and \$45.8 million in 2001. For the year ended December 31, 2003, one customer accounted for \$3.4 million or 27.0 percent of Lynch Systems' sales while one customer represented \$1.9 million or 12.7% of frequency control sales. The Company considers concentrations of credit risk to be minimal due to its diverse customer base and because it requires letters of credit of most foreign customers to support a significant portion of the purchase price.

M-tron attempts to utilize standard parts and components that are available from multiple vendors located in the United States or internationally; however, some components used in its products are available from only a limited number of sources.

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 \$175,000 in 2003, \$200,000 in 2002, and \$289,000 in 2001. Identifiable assets of each industry segment are the assets used by the segment in its operations excluding general corporate assets. General corporate assets are principally cash and cash equivalents, short-term investments and certain other investments and receivables.

	Years ended December 31		
	2003	2002	2001
Revenues			
Adhesive-backed label stock — USA	\$ —	\$ —	\$ 78,891
Adhesive-backed label stock — Europe	—	—	—
Adhesive-backed label stock — Far East	—	—	—
Adhesive-backed label stock — Canada	—	—	10,652
Adhesive-backed label stock — All Other	—	—	620
	<u>—</u>	<u>—</u>	<u>11,272</u>
Total Adhesive-backed label stock — Foreign	—	—	11,272
Total Adhesive-backed label stock	—	—	90,163
Glass manufacturing equipment — USA	3,677	1,790	2,906
Glass manufacturing equipment — Europe	1,469	7,953	6,673
Glass manufacturing equipment — Far East	7,402	4,844	14,882
Glass manufacturing equipment — Canada	4	7	1
Glass manufacturing equipment — All Other	234	380	1,585
	<u>9,109</u>	<u>13,184</u>	<u>23,141</u>
Glass manufacturing equipment — Foreign	9,109	13,184	23,141
Total Glass manufacturing equipment	12,786	14,974	26,047
Frequency control devices — USA	7,282	5,562	10,772
Frequency control devices — Europe	1,405	657	1,536
Frequency control devices — Far East	3,700	2,166	2,361
Frequency control devices — Canada	1,847	1,938	6,257
Frequency control devices — All Other	949	1,089	667
	<u>7,901</u>	<u>5,850</u>	<u>10,821</u>
Total Frequency control devices — Foreign	7,901	5,850	10,821
Total Frequency control devices	15,183	11,412	21,593
Industrial process equipment — USA	—	—	2,716
Industrial process equipment — Europe	—	—	—
Industrial process equipment — Far East	—	—	—
Industrial process equipment — Canada	—	—	554
Industrial process equipment — All Other	—	—	—
	<u>—</u>	<u>—</u>	<u>554</u>
Industrial process equipment — Foreign	—	—	554

Total Industrial process equipment	—	—	3,270
Consolidated total	\$27,969	\$26,386	\$141,073

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Years ended December 31		
	2003	2002	2001
Operating Profit (Loss)			
Adhesive-backed label stock	\$ —	\$ —	\$ (7,860)
Glass manufacturing equipment	822	936	4,778
Frequency control devices	(170)	(2,574)	(2,549)
Industrial process equipment	—	—	(22)
Corporate manufacturing expenses	—	—	(1,065)
	652	(1,638)	(6,718)
Total manufacturing			
Unallocated Corporate expense	(1,484)	(1,614)	(1,656)
Gain on deconsolidation	—	19,420	27,406
Restructuring charge — Spinnaker	—	—	(38,272)
	—	—	(38,272)
Consolidated Total	\$ (832)	\$16,168	\$(19,240)
Capital expenditures			
Adhesive-backed label stock	\$ —	\$ —	\$ 430
Glass manufacturing equipment	74	89	217
Frequency control devices	67	134	429
Industrial process equipment	—	—	28
General corporate	—	—	—
	—	—	—
Consolidated Total	\$ 141	\$ 223	\$ 1,104
Total Assets			
Adhesive-backed label stock	\$ —	\$ —	\$ —
Glass manufacturing equipment	12,207	13,181	22,496
Frequency control devices	7,860	7,021	7,671
Industrial process equipment	—	—	—
General Corporate	2,952	3,228	1,448
	2,952	3,228	1,448
Consolidated Total	\$23,019	\$23,430	\$ 31,615
Total operating profit (loss) for reportable segments	\$ (832)	\$16,168	\$(19,420)
Other profit or (loss):			
Investment income	534	121	384
Interest expense	(282)	(201)	(7,741)
Other income (expense)	763	(92)	—
	763	(92)	—
Income (loss) before income taxes	\$ 183	\$15,996	\$(26,597)

On September 30, 2001, the Company's ownership and voting interest of Spinnaker Industries, Inc. was reduced to 41.8% and 49.5% respectively, due to the disposition of shares of Spinnaker. As a result, effective September 30, 2001, the Company relinquished control of Spinnaker and has deconsolidated Spinnaker. On September 23, 2002, the Company disposed of its remaining interest in Spinnaker (see Note 1 to the Consolidated Financial Statements — "Basis of Presentation").

LYNCH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16. Quarterly Results of Operations (unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2003 and December 31, 2002, (in thousands, except per share amounts):

	2003 Three Months Ended			
	Mar. 31	June 30	Sep. 30	Dec. 31
Sales and revenues	\$ 4,744	\$6,714	\$7,716	\$8,795
Gross profit	793	1,732	2,221	2,904
Operating profit (loss)	(1,040)	(278)	68	418
Net income (loss)	(738)	(173)	783	238
Basic and diluted earnings (loss) per share	(0.49)	(0.12)	0.52	0.16

	2002 Three Months Ended(a)			
	Mar. 31	June 30	Sep. 30	Dec. 31
Sales and revenues	\$7,003	\$9,691	\$ 5,040	\$ 4,652
Gross profit	2,149	2,820	1,078	902
Operating profit (loss)	(400)	(193)	18,196	(1,435)
Net income (loss)	(292)	(108)	19,267	(904)
Basic and diluted earnings (loss) per share	(0.19)	(0.07)	12.86	(0.60)

NOTE:

- a) Third quarter of 2002 includes \$19,420 gain on deconsolidation. (See Note 1 to the Consolidated Financial Statements — “Basis of Presentation”).

17. Subsequent Events

On February 4, 2004, Lynch announced that the Board of Directors authorized the repurchase of up to 50,000 shares of the Company’s outstanding stock. The timing of the buy-back and the exact number of shares purchased will depend on market conditions. The Company will buy back shares through both public and private channels at prices believed to be appropriate and in the best interest of shareholders.

**SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF
REGISTRANT LYNCH CORPORATION**

CONDENSED BALANCE SHEET

	2003	2002
(In Thousands)		
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents(a)	\$ 3,091	\$ 3,412
Investments — Marketable Securities	2,311	861
Dividend Receivable From Subsidiary	28	6
Deferred Income Taxes	166	166
Other Current Assets	161	174
	5,757	4,619
NET PROPERTY, PLANT & EQUIPMENT	18	—
OTHER ASSETS (principally investment in and amounts due from wholly owned subsidiaries)	9,945	9,942
	15,720	14,561
TOTAL ASSETS	\$15,720	\$14,561
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES	\$ 5,649	\$ 4,589
LONG TERM LIABILITIES	(962)	(962)
TOTAL SHAREHOLDERS' EQUITY	11,033	10,934
	15,720	14,561
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$15,720	\$14,561

Notes:

- (a) Cash and cash equivalents includes \$1,125,000 restricted cash that secures the \$1,000,000 Letter of Credit issued on behalf of Lynch to M-tron's lending bank.
- * On September 30, 2001, the Company's ownership and voting interest of Spinnaker Industries, Inc. was reduced to 41.8% and 49.5% respectively, due to the disposition of shares of Spinnaker. As a result, effective September 30, 2001, the Company relinquished control of Spinnaker and has deconsolidated Spinnaker. On September 23, 2002, the Company disposed of its remaining interest in Spinnaker (See Note 1 to the Consolidated Financial Statements — "Basis of Presentation").

LYNCH CORPORATION

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED STATEMENT OF OPERATIONS

	Year Ended December 31		
	2003	2002	2001
	(In Thousands)		
Interest, Dividends & Gains on Sale of Marketable Securities	\$ 523	\$ 40	\$ 209
Dividend from Subsidiary	486	1,306	—
Interest & Other Income from Subsidiaries	36	12	24
	1,045	1,358	233
TOTAL INCOME			
Costs & Expenses:			
Unallocated Corporate Administrative Expense	1,309	1,414	1,001
Interest Expense	18	9	23
	1,327	1,423	1,024
TOTAL COST AND EXPENSE			
LOSS BEFORE INCOME TAXES AND EQUITY IN NET INCOME			
(LOSS) OF SUBSIDIARIES	(282)	(65)	(791)
Income Tax Benefit	96	20	269
Equity in Net Income (Loss) of Subsidiaries	296	18,008	(22,416)
	\$ 110	\$17,963	\$(22,938)
NET INCOME (LOSS)			

* On September 30, 2001, the Company's ownership and voting interest of Spinnaker Industries, Inc. was reduced to 41.8% and 49.5% respectively, due to the disposition of shares of Spinnaker. As a result, effective September 30, 2001, the Company relinquished control of Spinnaker and has deconsolidated Spinnaker. On September 23, 2002, the Company disposed of its remaining interest in Spinnaker. — See Note 1 to Consolidated Financial Statements — “Basis of Presentation”.

LYNCH CORPORATION

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED STATEMENTS OF CASH FLOW

	Year Ended December 31		
	2003	2002	2001
	(In Thousands)		
CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES	\$ 193	\$ 910	\$(1,220)
INVESTING ACTIVITIES:			
Purchase of available for-sale Securities (net of proceeds from sales)	(978)	(306)	—
Dividend from subsidiaries	464	1,300	1,500
NET CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES	(514)	994	1,500
FINANCING ACTIVITIES:			
Loans to Subsidiary	—	(700)	—
NET CASH (USED IN) FINANCING ACTIVITIES	—	(700)	—
TOTAL INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(321)	1,204	280
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,412	2,208	1,928
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$3,091	\$3,412	\$ 2,208

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTE A — BASIS OF PRESENTATION

In the parent company's financial statements, the Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings of the subsidiaries.

NOTE B — PURCHASE OF AVAILABLE FOR SALE SECURITIES

2003 proceeds from the sale of marketable securities totaled \$1,041,000. Purchases of securities and payments on margin liabilities were \$1,565,000 and \$454,000 respectively.

NOTE C — DIVIDENDS FROM SUBSIDIARIES

Dividends paid to Lynch Corporation from the Registrant's consolidated subsidiaries were \$464,000 in 2003, \$1,300,000 in 2002 and \$1,500,000 in 2001.

NOTE D — LOANS TO SUBSIDIARIES

In 2002, Lynch Corporation (parent) lent its subsidiary, M-tron Industries, Inc., \$700,000 to support its banking relationship and to fund M-tron's acquisition of Champion Technologies, Inc.

NOTE E — INCOME TAX RECOVERY

2003 cash provided from operations includes income tax recoveries of \$532,000; 2002 cash provided from operations includes income tax recoveries of \$2,170,000.

NOTE F — SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR ADDITIONAL INFORMATION.

LYNCH CORPORATION AND SUBSIDIARIES

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001**

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning Of Period	Additions		Deductions(B)	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts(A)		
Year ended December 31, 2003 Allowance for uncollectible accounts receivable	\$ 91,000	\$ 10,000	\$ 0	\$ 10,000	\$ 91,000
Year ended December 31, 2002 Allowance for uncollectible accounts receivable	\$ 118,000	\$ 7,000	\$ 0	\$ 34,000	\$ 91,000
Year ended December 31, 2001 Allowance for uncollectible accounts receivable	\$1,582,000	\$120,000	\$(589,000)	\$995,000	\$118,000

(A) \$589,000 is the result of the deconsolidation of Spinnaker Industries, Inc. on September 30, 2001 (as discussed in Note 1 to the Consolidated Financial Statements).

(B) Uncollectible accounts receivable written off are net of recoveries (majority attributable to Spinnaker in 2001).

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LYNCH CORPORATION

By: /s/ RALPH R. PAPITTO

RALPH R. PAPITTO
Chief Executive Officer
(Principal Executive Officer)

April 13, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
<hr/> <i>/s/ RALPH R. PAPITTO</i> RALPH R. PAPITTO	Principal Executive Officer, Chairman of the Board of Directors and Director	April 13, 2004
<hr/> <i>/s/ MARIO J. GABELLI</i> MARIO J. GABELLI	Vice Chairman of the Board of Directors and Director	April 13, 2004
<hr/> <i>/s/ E. VAL CERUTTI</i> E. VAL CERUTTI	Director	April 13, 2004
<hr/> <i>/s/ MARC J. GABELLI</i> MARC J. GABELLI	Director	April 13, 2004
<hr/> <i>/s/ AVRUM GRAY</i> AVRUM GRAY	Director	April 13, 2004
<hr/> <i>/s/ ANTHONY R. PUSTORINO</i> ANTHONY R. PUSTORINO	Director	April 13, 2004
<hr/> <i>/s/ RICHARD E. MCGRAIL</i> RICHARD E. MCGRAIL	President, Chief Operating Officer and Director	April 13, 2004
<hr/> <i>/s/ RAYMOND H. KELLER</i>	Principal Financial and Accounting Officer and Director	April 13, 2004

EXHIBIT INDEX

Exhibit No.	Description
2	<p>(a) Asset Purchase Agreement (“Asset Purchase Agreement”) dated January 18, 2002 by and among Spinnaker Industries, Inc., Spinnaker Coating, Inc., Spinnaker Coating-Maine, Inc. and SP Acquisition, LLC.</p> <p>(b) Asset Purchase Agreement Amendment No. 1 dated February 15, 2002.</p> <p>(c) Asset Purchase Agreement Amendment No. 2 dated February 25, 2002.</p> <p>(d) Asset Purchase Agreement Amendment No. 3 dated March 5, 2002.</p> <p>(e) Asset Purchase Agreement Amendment No. 4 dated March 8, 2002.</p> <p>(f) Asset Purchase Agreement Amendment No. 5 dated March 18, 2002.</p> <p>(g) Schedules to Asset Purchase Agreement dated January 18, 2002.</p> <p>(h) United States Bankruptcy Court Order dated March 6, 2002; In Re: Spinnaker Industries, Inc., et al., C.A. No. 01-38066.</p>
3	<p>(a) Restated Articles of Incorporation of Registrant (incorporated by reference to Exhibit 3(a) of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1987).</p> <p>(b) By-laws of the Registrant, (incorporated by reference to the Exhibit 3(b) of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1987).</p>
4	<p>(a) Purchase Agreement, dated October 18, 1996 (the “Purchase Agreement”) among Spinnaker Industries, Inc., a Delaware corporation (“Spinnaker”), Brown-Bridge Industries, Inc., a Delaware corporation (“Brown-Bridge”), Central Products Company, a Delaware corporation (“Central Products”), and Entoleter, Inc., (“Entoleter”) and together with Brown-Bridge and Central Products, (the “Guarantors”) and BT Securities Corporation (the “Initial Purchaser”) (incorporated by reference to Exhibit 4.1 to Registrant’s Form 8-K, dated October 23, 1996).</p> <p>(b) Indenture, dated October 23, 1996, among Spinnaker, the Guarantors and the Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.3 to Registrant’s Form 8-K, dated April 19, 1996).</p> <p>(b)(i) First Supplemental Indenture dated as of March 17, 1998, among Spinnaker Industries, Inc., Central Products Company, Entoleter, Inc., Spinnaker Coating, Inc., Spinnaker Coating-Maine, Inc. and the Chase Manhattan Bank, as Trustee (incorporated by reference by Exhibit 99.6 to the Form 8-K of Spinnaker Industries, Inc., dated as of March 17, 1998.)</p> <p>(c) Credit Agreement (the “Spinnaker Credit Agreement”) amended as of December 31, 1997, among Central Products Company, Brown-Bridge Industries, Inc. and Entoleter, Inc. as Borrowers, Spinnaker Industries, Inc. as Guarantor, each of the financial institutions listed on Schedule 1 thereto, BT Commercial Corporation, as Agent, Transamerican Business Credit Corporation, as Collateral Agent, and Bankers Trust Company as Issuing Bank (incorporated by reference to Exhibit 99.1 to Registrant’s Form 8-K dated October 23, 1996).</p> <p>(c)(i) Fourth Amendment to the Spinnaker Credit Agreement (incorporated by reference to Exhibit 9.3 to the Form 8-K of Spinnaker Industries, Inc. dated as of March 17, 1998).</p> <p>(c)(ii) Fifth Amendment to Spinnaker Credit Agreement (incorporated by reference to Exhibit 9.4 to the Form 8-K of Spinnaker Industries, Inc. dated as of March 17, 1998).</p> <p>(c)(iii) Sixth Amendment to the Spinnaker Credit Agreement (incorporated by reference by Exhibit 9.5 to the Form 8-K of Spinnaker Industries, Inc. dated as of March 17, 1998).</p> <p>(d) Refinanced Credit Agreement among Spinnaker Coating, Inc., Spinnaker Coating-Maine, Inc. and Entoleter, Inc. as Borrowers, Spinnaker Industries, Inc. as Guarantor, each of the financial institutions listed as Schedule 1 hereto and Transamerica Business Corporation, as Agent, dated August 9, 1999 and the First, Second and Third Amendments thereto (incorporated by reference to Exhibits 10.5, 10.6, 10.7 and 10.8 to Spinnaker’s Form 10-K for the year ended December 31, 1999).</p> <p>(d)(i) Fourth Amendment to financed Credit Agreement dated April 17, 2000 (incorporated by reference to Exhibit 10.1 to Spinnaker’s Form 10-Q for the quarter ended March 31, 2000).</p>

Exhibit No.	Description	
(d)(ii)	Fifth Amendment to Refinanced Credit Agreement dated September 30, 2000 (incorporated by reference to Exhibit 10.1 to Spinnaker's Form 10-Q for the quarter ended September 30, 2000).	
(d)(iv)	Sixth Amendment to Refinanced Credit Agreement dated March 2001 (incorporated by reference to Exhibit 10.16 to Spinnaker's Form 10-K for the year ended December 31, 2001).	
<p>The Registrant, by signing this Form 10-K Annual Report, agrees to furnish to the Securities and Exchange Commission a copy of any long-term debt instrument where the amount of the securities authorized thereunder does not exceed 10 percent of the total assets of the Registrant on a consolidated basis.</p>		
10	(a)* (b) (c)* (d) (e) (f) (g) (h) (i) (j) (k)* (l) (m) (n) (o)	<p>Lynch Corporation 401(k) Savings Plan.</p> <p>Acquisition Agreement between Brown-Bridge Acquisition Corporation and Kimberly-Clark Corporation, dated June 15, 1994 (exhibit omitted) (incorporated by reference to Exhibit 10@ to Registrant's Form 10-Q for the quarter ended June 10, 1994).†</p> <p>Management Agreement, dated as of June 10, 1994, by and among Boyle, Fleming, George & Co., Inc. and Safety Railway Service Corporation (incorporated by reference by Exhibit 7.1 to the Registrant's Form 8-K, dated June 13, 1994).</p> <p>Subscription Agreement dated March 9, 2000 between Registrant and Mario J. Gabelli (incorporated by reference to Exhibit E to Amendment No. 41 to Schedule 13D of Registrant dated March 15, 2000 filed by Mario J. Gabelli et. al.).</p> <p>Warrant Purchase Agreement dated as of June 10, 1994, by and among Boyle, Fleming, George & Co., Inc. and Safety Railway Service Corporation (incorporated by reference by Exhibit 7.1 to the Registrant's Form 8-K, dated June 13, 1994).</p> <p>A Warrant, dated as of June 10, 1994, executed by Safety Railway Service Corporation (incorporated by reference to Exhibit 7.1 to Registrant's Form 8-K, dated June 12, 1994).</p> <p>Asset Purchase Agreement, dated as of June 15, 1994, between Kimberly-Clark Corporation and Brown-Bridge Acquisition Corp. (Exhibits omitted) (incorporated by reference to Exhibit 10@ to Registrant's Form 10-Q for the quarter ended June 30, 1994).†</p> <p>Stock Purchase and Loan Program (incorporated by reference to Exhibit 10(p) to Registrant's Form 10-K for the year ended December 31, 1994).</p> <p>Shareholders' and Voting Agreement, dated September 16, 1994, among Safety Railway Service Corporation, Brown-Bridge Industries, Inc. and the other stockholders of Brown-Bridge (incorporated by reference to Exhibit 10(q) to Registrant's Form 10-K for the year ended December 31, 1994).</p> <p>Put Option Agreement, dated September 16, 1994, among Safety Railway Service Corporation, Brown-Bridge Industries, Inc. and certain stockholders of Brown-Bridge (incorporated by reference to Exhibit 10(q) to Registrant's Form 10-K for the year ended December 31, 1994).</p> <p>Directors Stock Plan (incorporated by reference to Exhibit 10(o) to Registrant's Form 10-K for the year ended December 31, 1997).</p> <p>Amended Phantom Stock Plan (incorporated by reference to Exhibit 10(p) to Registrant's Form 10-Q for the year ended September 30, 1998).</p> <p>Stock and Asset Purchase Agreement, dated as of September 27, 1995, by and among Central Products Acquisition Corp. Unisource Worldwide, Inc. and Alco Standard Corporation (incorporated by reference to Exhibit 7.1 to Registrant's Form 8-K, dated October 19, 1995).†</p> <p>Agreement and Plan of Merger (Brown-Bridge Minority Interest), by and among Spinnaker Industries, Inc., BB Merger Corp., Brown-Bridge Industries, Inc. and the stockholder of Brown-Bridge Industries, Inc. on Exhibit A Thereto (incorporated by reference to Exhibit 99.2 to Registrant's Form 8-K, dated April 19, 1996).†</p> <p>Lease Agreement between Registrant and Gabelli Funds, Inc. (incorporated by reference to Exhibit 10(a)(a) to Registrant's Form 10-Q for the Quarter Ended March 31, 1998).</p>

Exhibit No.	Description
(p)	Asset Purchase Agreement, dated as of November 18, 1997, by and between S.D. Warren Company (“Seller”) and Spinnaker Industries, Inc. (incorporated by reference to Exhibit 2.1 to the Form 8-K of Spinnaker Industries, Inc., dated as of March 17, 1998).
(p)(i)	First Amendment to Asset Purchase Agreement, dated March 17, 1998, by and between S.D. Warren Company and Spinnaker Industries, Inc. (incorporated by reference by Exhibit 4.2 to the Form 8-K of Spinnaker Industries, Inc., dated as of March 17, 1998).†
(p)(ii)	Subordinated Note, dated March 17, 1998, issued by Spinnaker Industries, Inc. to S.D. Warren Company in the original principal amount of \$7 million bearing interest at a rate of 20% per annum (incorporated by reference to Exhibit 4.1 to the Form 8-K of Spinnaker Industries, Inc., dated as of March 17, 1998).
(p)(iii)	Site Separation and Service Agreement, dated March 17, 1998, between S.D. Warren Company and Spinnaker Industries, Inc. (incorporated by reference by Exhibit 99.1 to the Form 8-K of Spinnaker Industries, Inc., dated March 17, 1998).
(p)(iv)	Lease Agreement, dated March 17, 1998, between S.D. Warren Company and Spinnaker Industries, Inc. (incorporated by reference by Exhibit 99.2 to the Form 8-K of Spinnaker Industries, Inc., dated as of March 17, 1998.)
(q)	Stock Purchase Agreement between Spinnaker Industries, Inc. and Intertape Polymer Group, Inc., dated April 9, 2000 (incorporated by reference to Exhibit 2.1 to Spinnaker Industries, Inc. Form 8-K, dated August 16, 2000).
(r)	Asset Purchase Agreement by and among Registrant, Spinnaker Electrical Tape Company and Intertape Polymer Group, Inc., dated April 9, 2000 (incorporated by reference to Exhibit 2.2 to Spinnaker Industries, Inc. Form 8-K, dated August 16, 2000).
(s)	Information Statement of Lynch Interactive Corporation’s (incorporated by reference to Exhibit 99.1 to Lynch Interactive Corporation’s Form 10-A-1, dated August 18, 2000).
(t)	Separation Agreement, dated as of August 31, 2000, between Registrant and Lynch Interactive Corporation (incorporated by reference to Exhibit 2 to Lynch Interactive Corporation’s Form 10a-1, dated August 18, 2000).
(u)*	Letter of Understanding between Registrant and Louis A. Guzzetti (incorporated by reference to Exhibit (u) to Registrant’s Form 10-K for the year ended December 31, 1999).
(v)	Note from Louis A. Guzzetti, Jr. to Registrant (incorporated by reference to Exhibit 10(v) to Registrant’s Form 10-K for the year ended December 31, 2000).
(w)*	Agreement among Registrant, Mario J. Gabelli and Ralph R. Papitto dated August 17, 2001 pursuant to which, among other things, Registrant agreed to grant Mr. Papitto an option (incorporated by reference to Exhibit 10 (w) to Registrant’s Form 8-K dated August 17, 2001).
(x)*	Amendment dated February 7, 2002 among Registrant, Mario J. Gabelli and Ralph R. Papitto, amending the Agreement at Exhibit 10(w) to terminate Registrant’s obligation to grant an option to Mr. Papitto.
(y)*	Lynch Corporation 2001 Equity Incentive Plan adopted December 10, 2001.
(z)	Amended and Restated Credit Agreement by and between Lynch Systems, Inc. and SunTrust Bank dated as of June 10, 2002.
(aa)	Unlimited Continuing Guaranty Agreement by Guarantor, Lynch Corporation, dated June 10, 2002.
(bb)	Restated Loan and Security Agreement by and between M-tron Industries, Inc. and First National Bank of Omaha dated August 31, 2001.
(cc)	First Amendment to Restated Loan and Security Agreement by and between M-tron Industries, Inc. and First National Bank of Omaha dated August 31, 2001.
(dd)	Second Amendment to Restated Loan and Security Agreement dated April 30, 2003 between M-tron Industries, Inc. and First National Bank of Omaha (incorporated by reference to Exhibit 10(dd) to Registrant’s Form 10-Q for the period ending June 30, 2003).

Exhibit No.	Description
(ee)	First Amendment and Waiver to Amended and Restated Credit Agreement between Lynch Systems, Inc. and SunTrust Bank dated May 30, 2003 (incorporated by reference to Exhibit 10(ee) to Registrant's Form 10-Q for the period ending June 30, 2003).
(ff)	Term Loan Promissory Note between Lynch Systems, Inc. and SunTrust Bank dated August 4, 2003 (incorporated by reference to Exhibit 10(ff) to Registrant's Form 10-Q for the period ending June 30, 2003).
(gg)	Second Amendment to Security Deed and Agreement dated August 4, 2003 between Lynch Systems, Inc. and SunTrust Bank (incorporated by reference to Exhibit 10(gg) to Registrant's Form 10-Q for the period ending June 30, 2003).
(hh)	Mortgage dated October 21, 2002 by Mortgagor, M-tron Industries, Inc., to Mortgagee, Yankton Area Progressive Growth, Inc.††
(ii)	Promissory Note between M-tron Industries, Inc. and Yankton Area Progressive Growth, Inc., dated October 21, 2002.††
(jj)	Standard Loan Agreement by and between M-tron Industries, Inc. and Areawide Business Council, Inc., dated October 10, 2002 and Exhibits thereto.††
(kk)	Loan Agreement by and between M-tron Industries, Inc. and South Dakota Board of Economic Development, dated December 19, 2002.††
(ll)	Promissory Note between M-tron Industries, Inc. and South Dakota Board of Economic Development, dated December 19, 2002.††
(mm)	Employment Agreement by and between M-tron Industries, Inc. and South Dakota Board of Economic Development, dated December 19, 2002.††
14	(A) Code of Ethics for Senior Executive Personnel (incorporated by reference to Exhibit 14(A) to Registrant's Form 8-K, dated August 14, 2003).
16	Letter Re: Change in Certifying Accountant (incorporated by reference to Exhibit 16 to Registrant's Form 8-K, dated March 19, 1996).
21	Subsidiaries of the Registrant.††
23	Consent of Ernst & Young LLP.††
24	Powers of Attorney.††
31	Certifications of Registrant's principal executive and principal chief financial officer required by Exchange Act Rule 13a-14(a).††
32	Section 1350 Certifications of Registrant's principal executive and principal financial officers required by Exchange Act Rule 13a-14(b).††
99.1	Amended and Restated Business Conduct Policy.††

* Management contract or compensatory arrangement.

† Registrant agrees to furnish a supplemental copy of any omitted schedule to the Securities and Exchange Commission upon request.

†† Filed herewith.

The Exhibits listed above have been filed separately with the Securities and Exchange Commission in conjunction with this Annual Report on Form 10-K or have been incorporated by reference into this Annual Report on Form 10-K. Lynch Corporation will furnish to each of its shareholders a copy of any such Exhibit for a fee equal to Lynch Corporation's cost in furnishing such Exhibit. Requests should be addressed to the Office of the Secretary, Lynch Corporation, 50 Kennedy Plaza, Suite 1250, Providence, RI 02903.

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THIS MORTGAGE, made this 21st day of October, in the year 2002, by M-Tron Industries, Inc. of 100 Douglas Avenue, Yankton, Yankton County, South Dakota, Mortgagor, to Yankton Area Progressive Growth, Inc., P. O. Box 588, Yankton, SD 57078, Mortgagee:

WITNESSETH, that said Mortgagor hereby mortgages to said Mortgagee the following described premises situated in the County of Yankton and State of South Dakota, to-wit:

Lot One (1) and Lot Two (2), Tucker's 4th Addition, County of Yankton, South Dakota, as per plat recorded in Book S11, page 66,

and

West Two Hundred feet (W 200') of the Northeast Quarter of the Northeast Quarter (NE 1/4 NE 1/4), except the North 467.8 feet thereof, AND the West Two Hundred feet (W 200') of Government Lot One (1), Section Seventeen (17), Township Ninety-three (93), Range Fifty-five (55), Yankton County, South Dakota,

as security for payment to said mortgagee at P. O. Box 588, Yankton, SD 57078, of the principal sum of Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00) and no interest thereon, according to a certain promissory note bearing even date herewith, due April 21, 2005.

SAID MORTGAGOR further agrees to pay all taxes and assessments that may be levied upon said premises, before the same shall become delinquent and to keep the buildings upon said premises insured for the benefit of said Mortgagee against loss by fire, wind, lightning, and other perils in the sum of at least \$250,000.

In case of the Mortgagor's failure to pay said taxes or assessments before the same become delinquent or to pay insurance premiums for insurance on said buildings, said Mortgagee or assignee may do so and the amounts so paid shall be added to and deemed a part of the money secured by this mortgage. Said Mortgagor hereby warrants that he is the owner in fee of said premises.

In case of default in the payment of said principal sum of money or any part thereof, or interest thereon at the time or times above specified for payment thereof, or in case of non-payment of any taxes, assessments, or insurance as aforesaid, or of breach of any covenant or agreement herein contained, then and in either case, the whole, principal and interest, of said

note shall at the option of the holder thereof, immediately become due and payable, and this mortgage may be foreclosed by this action, or by advertisement as provided by statute or the rules of practice relating thereto, and this paragraph shall be deemed as authorizing and constituting a power of sale as mentioned in said statutes or rules, and any amendatory thereof.

M-Tron Industries, Inc.

By: /s/ Robert Zylstra

Robert Zylstra
Its President

State of South Dakota)
)ss
County of Yankton)

On this the 28 day of October, 2002, before me, the undersigned officer, personally appeared Robert Zylstra, who acknowledged himself to be the President of M-Tron Industries, Inc., a corporation, and that he, as such President being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as President.

In witness whereof I hereunto set my hand and official seal.

/s/ David L. Rein

Notary Public - South Dakota

</TEXT>
</DOCUMENT>

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PROMISSORY NOTE

October 21, 2002

FOR VALUE RECEIVED, the undersigned promises to pay to the order of Yankton Area Progressive Growth, Inc. of P. O. Box 588, Yankton, SD 57078, the principal sum of Two Hundred Fifty Thousand and 00/100 Dollars (\$250,000.00), with no interest thereon for thirty (30) months with principal payments due as follows: November 1, 2003, the sum of \$100,000; November 1, 2004, the sum of \$100,000; and April 21, 2005, the sum of \$50,000.

The maker, surety, endorser and guarantor of this Note hereby waives presentment for payment, notice of nonpayment, protest, and notice of protest, and consent that time of payment may be extended without notice thereof.

In the event a default should occur in the payment of any installment due under this Note, or in the performance of any other agreement in this Note, then and in any such event, this Note shall become immediately due and payable at the option of the holder hereof.

M-Tron Industries, Inc.

By: /s/ Robert Zylstra

Robert Zylstra
Its President

</TEXT>
</DOCUMENT>

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<FILENAME> b490041cexv10wxjy.txt
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STANDARD LOAN AGREEMENT

ARTICLE I.

SECTION 1.01: PURPOSE OF LOAN FUND

The purpose of the Revolving Loan Fund is to support business activities for which credit is not otherwise available on terms and conditions which would permit completion and/or the successful operation or accomplishment of the project in the following eligible areas:

Aurora, Bon Homme, Brule, Charles Mix, Davison, Douglas, Gregory, Hanson, Hutchinson, Jerauld, Lyman, Sanborn, Tripp and Yankton Counties in South Dakota. The Lender reserves the right to recall the loan if these requirements are not met. Loan funds from this loan may be used for real property acquisition or construction, machinery, equipment, inventory, and working capital. Any equipment to be purchased with loan funds must be specifically identified on an exhibit to this agreement, and Borrower shall comply with all reporting and inventory requirements of Lender with respect to equipment purchased.

SECTION 1.02: PURPOSE OF LOAN

M-Tron Industries, Inc. (the Borrower) will utilize ABC funding, up to \$100,000, to assist with the expansion of their business in Yankton, South Dakota. The description of the collateral is described in Exhibit A.

SECTION 1.03: TERMS AND CONDITIONS

Upon the terms and conditions as hereinafter set forth, Lender shall loan to, borrower the sum up to \$100,000 (hereinafter "Loan") bearing interest at the rate of five and one half percent (5.5%) per annum to be amortized over 120 periods, and paid in equal monthly installments with the first such installment due on the 10th day of November, 2002, and a like monthly payment due on the 10th day of each month thereafter until November 10, 2007 when the entire remaining principal balance, together with accumulated interest, shall become due and paid in full. Such loan shall be evidenced by a promissory note, a true and correct copy of which is attached hereto as Exhibit "B," and shall be secured by a mortgage, a true and correct copy of which is attached hereto as Exhibit "D". Those documents, together with this Loan agreement, (the "Loan Documents") shall be executed contemporaneously herewith and incorporated herein by this reference. The parties agree that a default under the terms of any of the agreements within said Loan documents shall constitute a default under all the agreements incorporated within the said Loan Documents.

The Borrower will make payments to the Lender as follows:

1. The sum of \$100,000 will be amortized over a 120 month period with monthly installments that equally blend principal and interest in the amount of \$1,085.43 each. The first of such installments shall be due on the 10th day of November, 2002 with a like installment due on the 10th day of each month thereafter until November 10, 2007.
2. Payments are due on the tenth of the month, unless otherwise agreed to by the Board of Areawide Business Council.
3. The borrower will be given ten (10) days grace to remit the loan payments. After ten (10) days, the loan payment will be considered delinquent.
4. Payments received after the twentieth of the month will be subject to a late fee in an amount equaling ten percent of the scheduled payment due that month or \$50 whichever is greater.
5. If the Borrower does not include the late charge with their next payment, the next payment will be applied to the late charge first, interest next, and principal last.

6. If the Borrower makes no further payments, interest will be added to the late charges at the same rate as on the balance of the loan.
7. Board of Directors of the Areawide Business Council may forgive the late charges and interest on late charges if it is deemed necessary or beneficial to ABC.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

The Borrower represents and covenants the following:

SECTION 2.01: DULY ORGANIZED

The Borrower is a corporation duly organized, validly existing, and in good standing under the laws of the State of South Dakota and has the power to enter into this Agreement and to borrow hereunder.

SECTION 2.02: DULY AUTHORIZED

The making and performance by the Borrower of this Agreement, and the execution and delivery of the Note, and any Security Agreements and Instruments have been duly authorized by all necessary corporate actions and will not violate any law, rule, regulation, order, writ, judgment, decree, determination, or award presently in effect having applicability to the Borrower or any provision of the Borrower's Certificate of Incorporation or by-laws, or result in a breach of, or constitute a default under any indenture or bank loan or credit agreement or any other agreement or instrument to which the Borrower is a party or by which is or its property may be bound or affected.

SECTION 2.03: NO LEGAL SUITS

There are no legal actions, suits or proceedings pending, or, to the knowledge of the Borrower, threatened against the Borrower before any court or administrative agency, which, if determined adversely to the Borrower, would have a material adverse effect on the financial condition or business of the Borrower.

SECTION 2.04: NOT IN DEFAULT

The Borrower is not in default of any obligation, covenant, or condition contained in any bond, debenture, note or other evidence of indebtedness or any mortgage or collateral instrument securing the same.

SECTION 2.05: TAXES ARE PAID

The Borrower has filed all tax returns which are required and has paid all taxes which have or may become due pursuant to said returns or pursuant to any assessments levied against the Borrower or its personal or real property by any taxing agency, federal, state or local. No tax liability has been assessed by the Internal Revenue Service or other taxing agency, federal, state or local for taxes materially in excess of those already provided for and the Borrower knows of no basis for such deficiency assessment. Borrower has paid in full all personal and real property taxes by any taxing agency, federal, state or local against the property which Borrower owns or is obligated to pay.

SECTION 2.06: NO ADVERSE CHANGE

The Borrower certifies that there has been no adverse change since the date of the loan application in the financial conditions, organizations, operation, business prospects, fixed properties, or personnel of the Borrower.

ARTICLE III.

CONDITIONS OF LENDING

The obligation of Areawide Business Council, Inc. (the "Lender") to make the Loan shall be subject to the fulfillment at the time of closing of each of the following conditions:

SECTION 3.01:

Borrower agrees to indemnify and hold Areawide Business Council, the Economic Development Administration, and the United States Department of Commerce harmless from and against all liabilities that may be incurred as a result of providing a loan, grant, or other award to assist, directly or indirectly, in the preparation of the business site or construction, renovation, or repair of any facility on the business site, to the extent that such liabilities are incurred because of toxic or hazardous contamination of the ground water, surface, soil or other conditions caused by operations of the Borrower or any of its predecessors on the property.

SECTION 3.02:

Borrower acknowledges that, when applying for this loan, Borrower completed a Certificate of Hazardous Waste, wherein borrower represented and warranted the absence of contamination from toxic or hazardous substances on the premises of Borrower's facilities. Borrower continues to represent and warrant that, to the Best of Borrower's knowledge, there exists not toxic or hazardous substances upon borrower's premises, and borrower shall not store or bury such toxic or hazardous substances on its premises during the term of this loan agreement.

SECTION 3.03:

The Borrower will document a REDI loan of at least \$350,000 from the Governor's Office of Economic Development and loan from YAPG in the amount of \$250,000. These can be documented by Standard Loan Agreements and Promissory Notes.

SECTION 3.04:

The Borrower will document a minimum equity injection of \$800,000.

SECTION 3.05:

Said loan shall be evidenced by a Promissory Note and shall be secured by a Mortgage on real estate of the corporation according to the terms of the Mortgage which in addition to this Loan Agreement (the "Loan Documents") is executed contemporaneously herewith and incorporated by reference herein. The parties agree a default under the terms of any of the agreements within said Loan Documents shall constitute a default under all the agreements incorporated within the said Loan Documents.

SECTION 3.06

Loan disbursements shall be made on or after October 9, 2002 and shall be based on evidence submitted by the Borrower and verified by ABC that the Borrower has or will incur actual costs as permitted by the Loan Agreement for the expansion of M-Tron Industries, Inc.. The Borrower will pay a loan origination fee of 1% of the loan amount. This will be paid at or before the time of the loan closing.

SECTION 3.07

Disbursements of the Loan funds shall be made in accordance to Section 3.06 the Borrower represents and warrants that it shall not provide any financing statements covering the collateral herein described to any other party than ABC, and no financing statements covering all or any part of the collateral, except any which may have been filed by ABC, is or shall be on file at any public office. Upon disbursement of loan funds from time to time, ABC may require, and the Borrower shall promptly and timely

provide, such financing statement or statements covering any property and equipment ABC shall deem necessary.

SECTION 3.08:

This contract shall not be construed as creating between the parties or by any third persons any relationship of third party beneficiary, principal and agent, limited or general partnership, or joint venture.

SECTION 3.9:

The Borrower warrants that it has obtained or has reasonable assurance that it will obtain, all federal, state and local governmental approvals and reviews required by law to be obtained for the establishment of the business.

ARTICLE IV.

AFFIRMATIVE COVENANTS OF THE BORROWER

The Borrower agrees to comply with the following covenants from the date hereof until the Lender has been fully repaid with interest, unless the Lender shall otherwise consent in writing.

SECTION 4.01: PAYMENT OF THE LOAN

The Borrower agrees to pay punctually the principal and interest on the Note according to its terms and conditions and as set forth in Section 6.04 of this Agreement. Borrowers shall pay punctually any other amounts that may become due and payable to the Lender under or pursuant to the terms of this Agreement or Note. Loan payments delinquent for 10 days shall be assessed a late payment fee of \$50.00 or 10% of the scheduled payment, whichever is greater.

SECTION 4.02: PAYMENT OF OTHER INDEBTEDNESS

The Borrower agrees to pay punctually the principal and interest due on any other indebtedness now or hereafter at any time owing by the Borrower to any Lender involved in this project Borrower shall, at Lender's request, provide evidence of application of all other funds to project, and of payment on all other obligations.

SECTION 4.03: MAINTAIN AND INSURE PROPERTY

The Borrower agrees at all times to maintain the property provided as security for this Loan in a condition equal to the condition of said property at the time this Agreement is executed, normal wear and tear excepted, and in any event in such condition and repair that the Lender's security will be adequately protected. The Borrower also agrees to maintain, during the term of the Loan, adequate hazard insurance policies covering fire and extended coverage and such other hazards as may be deemed appropriate in amounts at least equal to the unpaid balance of the note, and issued by companies satisfactory to the Lender with acceptable loss payee clauses in favor of the Lender. The policy of insurance shall include a proof of insurance provision requiring written notice to Lender prior to cancellation. The Borrower further agrees if, at any time during the life of the Loan the Borrower's property is declared to be within a flood hazard area, to purchase Federal Flood Insurance if available. Such insurance shall be in an amount equal to the lesser of: (i) the amount of the loan; (ii) the insurable value of the property; or (iii) the maximum limit of coverage available. If the property is not located in a flood hazard area at the time of loan closing, the Borrower will provide satisfactory evidence thereof. The Borrower further agrees to maintain adequate liability and workers' compensation insurance in amounts and form satisfactory to the Lender.

SECTION 4.04: PAY ALL TAXES

The Borrower agrees to duly pay and discharge all real and personal property taxes, assessments, and governmental charges upon it or against its properties prior to the date on which the penalties attached

thereto, except that the Borrower shall not be required to pay any such tax, assessment, or governmental charge which is being contested by it in good faith and by appropriate proceedings.

SECTION 4.05: MAINTAIN EXISTENCE

The Borrower agrees to maintain its existence, rights and privileges within the State of South Dakota and qualify and remain qualified as a Corporation in each jurisdiction in which its present or future operations or its ownership of property requires such qualification.

SECTION 4.06: PROVIDE FINANCIAL AND JOB INFORMATION

The Borrower agrees to maintain adequate records and books of account, in which complete entries will be made reflecting all of its business and financial transactions, such entries to be made in accordance with generally accepted accounting principles and provided to the Lender on an annual basis.

Borrower will keep accurate books, records and accounts with respect to the collateral, and with respect to the general business of Borrower, including annual financial statements prepared by an independent accountant and certified by an authorized officer of the Borrower, and will make the same available to the Lender at its request for examination and inspection until the indebtedness hereby secured shall be paid in full; and Borrower will permit any authorized representative of the Lender to examine and inspect, during normal business hours, any and all premises where the collateral is or may be kept or located. Borrower agrees that annual financial statements will be completed within a reasonable time following the close of Borrower's fiscal year, and that any records requested by Lender will be furnished within a reasonable time. The Lender retains the right to request audited statements from the Borrower, to be obtained at the Borrower's expense. Lender agrees to keep any information disclosed pursuant to this paragraph confidential.

The Borrower further agrees to provide job hiring or saving documentation to the Lender annually for the period of the Loan. This job documentation will be provided by ABC and will include new hires, or jobs saved that directly relate to the Loan Commitment Letter.

The Borrower further agrees to provide written notice to the Lender of any public hearing or meeting before any administrative or other public agency which may in any manner affect the chattel, personal property, or real estate securing the Loan.

The Borrower will create 25 permanent jobs or job opportunities at its place of business within thirty-six (36) months of the date hereof. This loan shall be callable by ABC, at ABC's sole and uncontrolled discretion, at any time after 36 months if the above new employment positions have not been developed and maintained by the business. If such loan is called by ABC, and a default declared thereby, Borrower shall repay the outstanding principal loan amount plus accumulated interest within 30-days of such notice to Borrower.

SECTION 4.07: RIGHT TO INSPECTION

The Borrower agrees to grant the Lender, until the Note has been fully repaid with interest, the right at all reasonable hours to inspect the property used to secure the Loan; and the Borrower further agrees to provide the Lender free access to the Borrower's premises for the purpose of such inspection to determine the condition of the personal property and real estate.

SECTION 4.08: NULL AND VOID COVENANTS

The Borrower agrees that, in the event that any provision of this Loan Agreement or any other instrument executed at closing or the application thereof to any person or circumstances shall be declared null and void, invalid, or held for any reason to be unenforceable by a Court of competent jurisdiction, the remainder of such agreement shall nevertheless remain in full force and effect, and to this end, the provisions of all covenants, conditions, and agreements described herein are deemed separate.

SECTION 4.09: EXPENSES AND CLOSING COSTS

All loans are subject to a loan origination fee equal to one and a half percent of the amount of the loan. The Borrower agrees to pay all fees, expenses and charges in respect to the Loan, or its making or transfer to the Lender in any way connected therewith including but not limited to, the fees and out-of-pocket expenses of legal counsel employed by the Lender, title insurance and survey costs, recording and filing fees, any other taxes, fees and expenses payable in connection with this transaction and with the enforcement of this Loan Agreement and Note.

SECTION 4.10: NOTICE OF DEFAULT

The Borrower agrees to give written notice to the Lender of any event, within thirty (30) days of the event, which constitutes an Event of Default under this Loan Agreement as described in Article V herein or that would, with notice or lapse of time or both, constitute an Event of Default under this Loan Agreement.

SECTION 4.11: EXPENSE OF COLLECTION OR ENFORCEMENT

The Borrower agrees if, at any time, the Borrower defaults on any provision of this Loan Agreement, to pay the Lender in addition to any other amounts that may be due from the Borrower, an amount equal to the costs and expenses of collection, enforcement, or correction or waiver of the default incurred by the Lender's rights under the Note and this Agreement, the prevailing party shall pay reasonable Attorney's fees including Attorney's fees on appeal.

ARTICLE V.

EVENTS OF DEFAULT

The entire unpaid principal of the Note, and the interest then accrued thereon, shall become and be immediately due and payable upon the written demand of the Lender without any other notice or demand of any kind or any presentment or protest, if any one of the following events (hereafter an "Event of Default") shall occur and be continuing at the time of such demand, whether voluntarily or involuntarily, or without limitation, occurring or brought about by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rules, or regulations of any administrative or governmental body. Provided, however, that such sum shall not be then payable if Borrower's payments have been waived or the time for making the Borrower's payments has been extended by the Lender.

SECTION 5.01 NONPAYMENT OF LOAN

If the Borrower shall fail to make payment when due of any installment of principal on the Note or interest accrued thereon, and if the default shall remain unremedied for fifteen (15) days.

SECTION 5.02: NONPAYMENT OF OTHER INDEBTEDNESS

If default shall be made in the payment when due of any installment of principal or of interest on any of the Borrower's other indebtedness as described in Paragraph 4.02 hereof, and if such default shall remain unremedied for fifteen (15) days.

SECTION 5.03: INCORRECT REPRESENTATION OR WARRANTY

Any representation or warranty contained in, or made in connection with the execution and delivery of this Loan Agreement, or in any certificate furnished pursuant hereto, shall prove to have been false when made in any material respect.

SECTION 5.04: DEFAULT IN COVENANTS

The Borrower shall default in the performance of any other term, covenant, or agreement contained in this Loan Agreement, and such default shall continue unremedied for thirty (30) days after either: (1) it

becomes known to an executive officer of the Borrower; or (2) written notice thereof shall have been given to the Borrower by the Lender.

SECTION 5.05: VOLUNTARY INSOLVENCY

If the Borrower shall become insolvent or shall voluntarily file a petition seeking reorganization of, or the appointment of a receiver, trustee, or liquidation for it or a substantial portion of its assets, or to effect a plan or other arrangement with creditors, or shall be adjudicated bankrupt, or shall make a voluntary assignment for the benefit of creditors.

SECTION 5.06: INVOLUNTARY INSOLVENCY

If an insolvency petition shall be filed against the borrower under any bankruptcy, insolvency, or similar law or seeking the reorganization of or the appointment of any receiver, trustee, or liquidation for the Borrower, or of a substantial part of the property of the Borrower, or a writ or warrant of attachment or similar process shall be issued against a substantial part of the property of the borrower, and such petition shall not be dismissed, or such writ or warrant of attachment or similar process shall not be released or bonded, within thirty (30) days after filing of levy.

SECTION 5.07: JUDGMENTS

If any final judgment for the payment of money that is not fully covered by liability insurance shall be rendered against me Borrower, which would have a material adverse effect on the financial status of borrower, and within sixty (60) days shall not be discharged, or an appeal therefrom taken and execution thereon effectively stayed pending such appeal, and if such judgment be affirmed on such appeal and the same shall not be discharged within thirty (30) days.

SECTION 5.08: CESSATION/REDUCTION OF OPERATIONS/RELOCATION

A cessation or substantial reduction of operations in the Project under circumstances indicative, in the opinion of Lender, of a lack of intention or ability to provide continuing employment and economic benefits for the area in which the Project is located. Any relocation of activities outside Lender's service area.

SECTION 5.09: FAILURE OF JOB CREATION

If Borrower fails to demonstrate job creation as detailed in the loan application, or if Borrower fails to report job creation as requested by Lender.

SECTION 5.10: RIGHTS UPON DEFAULT

Upon default by Borrower, Lender has all remedies available to it under State law in enforcing this Agreement and Lender's rights to the collateral mentioned herein including, but not limited to, the following:

- a) Accelerate and declare the full balance immediately due on the Note and commence suit for collection thereof;
- b) Take possession of the collateral or render it unusable, without notice, except as required by law, provided that said self-help shall be done without breach of peace; provided further that Lender's rights under this subparagraph shall be subject to Borrower's right to cure within thirty (30) days of written notice of default as set forth in Section 5.04 hereof,
- c) Request and demand that Borrower assemble the collateral at an acceptable location for delivery to Lender;
- d) Sell or dispose of collateral by sale and pursuant to the law;
- e) Specifically enforce the terms of the Note and related agreements;

- f) Foreclose on any or appropriate property by strict foreclosure in equity;
- g) Pursue any and all other remedies available under law to enforce the terms of this Agreement and Lender's rights to the real and personal property identified herein, and in collateral security documents of the Lender.

ARTICLE VI.

MISCELLANEOUS

SECTION 6.01: WAIVER OF NOTICE

No failure or delay on the part of the Lender in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. No modification or waiver of any provision of this Loan Agreement or of the Note, nor any consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

SECTION 6.02: AMENDMENTS - WRITING REQUIRED

The Lender hereby expressly reserves all rights to amend any provisions of this Agreement, to consent to or waive any departure from the provisions of this Loan Agreement, to amend or consent to, or waive departure from the provisions of the Note, and to release or otherwise deal with any collateral security for payment of the Note provided, however, that all such amendments be in writing and executed by the Lender and the Borrower.

SECTION 6.03: NOTICES

All notices, consents, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given to a party hereto if mailed by certified mail, prepaid, to the Lender at P.O. Box 687, Yankton, South Dakota 57078, and to the Borrower in care of David Rein, CFO, M-Tron Industries, Inc., 100 Douglas Ave., Yankton, SD 57078 or at such other addresses as any party may have designated in writing to any other party hereto. This section does not limit other means of delivering written notice if said notices are actually received.

SECTION 6.04: SURVIVAL OF REPRESENTATIONS AND WARRANTIES

All agreements, representations, and warranties made by the Borrower herein or any other document or certificate delivered to the Lender in connection with the transactions contemplated by this Loan Agreement shall survive the delivery of this Agreement, the Note and the Security Agreements hereunder, and shall continue in full force and effect so long as the Note is outstanding.

SECTION 6.05: SUCCESSORS AND ASSIGNS

This Loan Agreement shall be binding upon the Borrower, its Successors and Assigns, except that the Borrower may not assign or transfer its rights without prior written consent of the Lender, which consent shall not be unreasonably withheld. This Agreement shall inure to the benefit of the Lender and, except as otherwise expressly provided in particular provisions hereof, all subsequent holders of the Note. Borrower acknowledges that Lender contemplates and may assign the Note and this Agreement and consents to such assignments.

SECTION 6.06: RESTRICTION ON SALE OR LEASE

Borrower shall not sell or lease the building financed in part with ABC funding, or any part thereof, or its business in the City of Yankton, South Dakota, to any unrelated third party while any amount remains unpaid on said Loan without the prior written consent thereto by ABC which consent shall not be unreasonably withheld. Violation of this provision by Borrower shall constitute an event of default hereunder and ABC may pursue its remedies as hereinafter set forth.

SECTION 6.07: GOVERNING LAW

This Loan Agreement and the Note and Mortgage shall be deemed contracts made under the laws of the State of South Dakota and for all purposes shall be construed in accordance with the laws of said State.

SECTION 6.08: WAIVER

Failure by Lender at any time to require performance by Borrower of any of the provisions of this Agreement shall in no way affect Lender's rights hereunder to enforce the same. Nor shall any waiver by Lender of any breach hereof be held to be a waiver of any succeeding breaches or a waiver of this non-waiver clause.

ARTICLE VII.

PREPAYMENT

The Borrower has the ability to prepay the loan in full or in part, without penalty, but such prepayment shall be first applied to accrued interest, and the balance, if any, on principal.

ARTICLE VIII.

PROJECT ASSURANCES

The Borrower hereby assures and certifies that it will comply with all regulations, policies, guidelines and requirements as they relate to the Revolving Loan Fund (RLF). The Borrower assures and certifies that:

1. It will comply with Title VI of the Civil Rights Act of 1964 (P.L. 88-352) and in accordance with Title VI of the Act, no person in the United States shall, on the ground of race, color or national origin, be excluded from participation in, be denied the benefits of or be otherwise subjected to discrimination under any program or activity for which the applicant receives Federal financial assistance and will immediately take any measures to effectuate this agreement. If any real property or structure thereon is provided or improved with the aid of Federal financial assistance extended to me applicant, this assurance shall obligate the applicant, or in the case of any transfer of such property, any transferee, for the period during which the real property or structure is used for a purpose for which the Federal financial assistance is extended or for another purpose involving the provisions of similar services or benefits.
2. It will comply with the Civil Rights laws listed below, and with any subsequent modifications of those regulations. The application of these laws is described and explained in EDA's Civil Rights Guidelines.
 - a. Section 112 of Public Law 92-65 (42 U.S.C. 3123). Prohibits sex discrimination in assistance provided under the Public Works and Economic Development Act of 1965, as amended

- b. Americans with Disabilities Act, Public Law 90-480, as amended. Prohibits discrimination against people with disabilities in any program or activity receiving Federal financial assistance.
 - c. Section 504 of the Rehabilitation Act of 1973 (26 U.S.C. 794) and 15 CFR, Part 8b, subsections a, b, c, and e (Regulations of Department of Commerce Implementing section 504 of the Rehabilitation Act). Prohibits discrimination against the handicapped in any program or activity receiving Federal financial assistance.
 - d. Section 303 of the Age Discrimination Act of 1975 (42 U.S.C. 6102). Prohibits discrimination on the basis of age in any program or activity receiving Federal financial assistance.
 - e. Executive Order 11246. Provides that Federal contractors or Federally assisted contractors shall not discriminate on the basis of race, color, religion, sex or national origin.
 - f. Title 13 CFR Part 311. (Civil Rights regulations of the Economic Development Administration).
 - g. Sections of Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d) prohibiting employment discrimination where (1) the primary purpose of the grant is to provide employment or (2) discriminatory employment practices will result in unequal treatment of persons who are or should be benefiting from the grant- aided activity.
- 3. It will insure that the facilities under its ownership, lease, or supervision which shall be utilized in the accomplishment of the project are not listed on the Environment Protection Agency's (EPA) list of Violating Facilities and that it will notify the Federal grantor agency of the receipt of any communication from the Director of the EPA Office of Federal Activities indicating that a facility to be utilized in the project is under consideration for listing by the EPA.
 - 4. It will comply with the flood insurance purchase requirements of Section 102(E) of the Flood Disaster Protection Act of 1973, Public Law 93-234, 87 Stat. 975, approved December 31, 1976. Section 102(a) requires, on and after March 2, 1975, the purchase of flood insurance in communities where such insurance is available as a condition for the receipt of any Federal financial assistance for construction or acquisition purposes for use in any area that has been identified by the Federal Emergency Management Agency (FEMA) as an area having special flood hazards. The phrase "Federal financial assistance" includes any form of loan, grant, guaranty, insurance payment, rebate, subsidy, disaster assistance loan or grant, or any other form of direct or indirect Federal assistance.
 - 5. It will assist the Federal grantor agency in its compliance with Section 106 of the National Historic Preservation Act of 1966, as amended (16 U.S.C. 470), Executive Order 11593, and the Archeological and Historic Preservation Act of 1966, (16 U.S.C. 469a-1) by (a) consulting with the state Historic Preservation Officer on the conduct of investigations, as necessary, to identify properties listed in or eligible for inclusion in the National Register of Historic Places that are subject to adverse effects (See 36 CFR Part 800.8) by the activity, and notifying the Federal grantor agency of the existence of any such properties, and by (b) complying with 811 requirements established by the Federal grantor agency to avoid or mitigate adverse effects upon such properties.
 - 6. It will give Lender or the Economic Development Administration through any authorized representative the access to the right to examine all records, books, papers, or documents related to the loan.

7. It will comply with Section 2 of the Public Works and Economic Development Act of 1965, as amended, which states that under the provisions of this Act new employment opportunities should be created by developing and expanding new and existing facilities and resources rather than by merely transferring jobs from one labor area to another.
8. It will assure that any building or facility financed in whole or in part by any funds provided under the RLF will be designed, constructed or altered so as to assure ready access to and use of such building or facility by the physically handicapped. This provision applies only to firms which deal directly with the general public in the normal and usual course of their business, and to facilities in which business is customarily transacted by and with members of the general public.
9. It will comply with the Davis Bacon Act, as amended (40 U.S.C. 276a-276a-5).
10. It will comply with all requirements imposed by the Federal sponsoring agency concerning special requirements of law, program requirements, and other administrative requirements.
11. It, with all other applicable federal, state, county or municipal statutes, ordinances, rules or regulations as they may apply to M-Tron Industries, Inc. in the operations of its business in Yankton County, South Dakota.

ACCEPTANCE

The Offer of Lender set forth herein may be withdrawn unless accepted in writing by Borrower within ten (10) days from the date of receipt by Borrower of Lender's Offer of the Loan. This Loan Agreement shall be effective upon the date of Borrower's acceptance hereof.

OFFERED ON 10-10-02

AREAWIDE BUSINESS COUNCIL, INC.

By: Rod Hartog

Its: Chairman

BORROWER'S ACCEPTANCE

To evidence its acceptance of Lender's Offer of the Loan and its agreement with and acceptance of all of the terms, conditions, representations and provisions of this Loan Agreement, Borrower has duly subscribed this instrument and has caused its seal to be affixed hereto this 10th day of October, 2002.

BORROWER: M-TRON INDUSTRIES, INC.

BY: /s/ Robert R. Zylstra

Robert R. Zylstra, President

(CORPORATE SEAL)

(STATE OF SOUTH DAKOTA)

(COUNTY OF Yankton)

On this 10 day of October, 2002, before me the undersigned officer, personally appeared Robert Zylstra, who acknowledged himself to be the President of M-Tron Industries, Inc. and that he as such President being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the limited liability corporation by himself as President.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

LORI COWMAN
NOTARY PUBLIC SEAL
STATE OF SOUTH DAKOTA

/s/ Lori Cowman

Notary Public

Commission Expires: 5-19-06

EXHIBIT A

COLLATERAL:

MORTGAGE DATED OCTOBER 9, 2002 ON REAL PROPERTY LEGALLY KNOWN AS THE EAST TWO HUNDRED FEET (E200') OF THE NORTHWEST QUARTER (NW 1/4) OF THE NORTHEAST QUARTER (NE 1/4) OF SECTION 17, TOWNSHIP 93, RANGE 55, WEAT OF THE 5TH P.M., YANKTON COUNTY, SOUTH DAKOTA.

EXHIBIT B
PROMISSORY NOTE

\$100,000

October 9, 2002

For value received, the undersigned, M-TRON INDUSTRIES, INC. (hereafter sometimes referred to as "Debtor") promises to pay to the order of Areawide Business Council, Inc. (hereafter referred to as "Holder") at its office in the City of Yankton, State of South Dakota or at such other place as may be designated from time to time by the Holder, the principal sum of One Hundred Thousand Dollars and no Cents (\$100,000.00) together with interest on the unpaid balance of the principal remaining from time to time unpaid at the rate of Five and one half percent (5.5%) per annum; interest shall commence and be computed from October 9, 2002, at said rate; said loan and the payments thereon shall be paid as follows:

The One Hundred Thousand Dollars and no Cents (\$100,000.00) will be amortized over a 120 month period with installments that equally blend principal and interest in the amount of \$1,085.43 each, with the first of such installments due on the 10th day of November, 2002, and with a like installment due on the 10th day of each month thereafter until November 10, 2007 when the entire remaining principal balance, together with accumulated interest, shall become due and paid in full. All payments made upon this Promissory Note shall be applied first to the payment of accrued interest and then to the reduction of principal. This payment schedule is based upon the amortization schedule attached hereto as Attachment A which amortization schedule assumes that all payments due on this Promissory Note are paid in full when due. Variation of actual payment date from the required and anticipated payment date shall affect and cause variance from the specific calculations shown upon the said amortization schedule.

This Promissory Note is made and given in conjunction with the Loan Agreement between the parties and is secured by the Mortgage bearing even date herewith. Default of any term or condition of any of said documents or agreements shall be deemed a default of this Promissory Note entitling the Holder to all of the rights and remedies of the Secured Party Creditor as provided in the said agreements, documents and guaranties and as provided by law.

Any sum payable hereunder and not paid when due, including the entire unpaid balance upon acceleration, shall bear interest at the default rate of 12% per annum until paid.

This Promissory Note or any portion thereof may be prepaid on any payment date without penalty; provided that any prepayment shall not relieve the Borrower of its obligation to make the monthly installments due on the first day of each month until this Promissory Note is paid in full.

The makers, endorsers, and guarantors hereof waive presentment, demand of payment, notice of non-payment, protest and notice of protest, and agree that any extensions of the time made hereon or renewals hereof shall not affect their liability, regardless whether they have notice of such extensions or renewals.

The Indebtedness evidenced hereby, including all principal, interest and expense charges (hereafter called the "Indebtedness"), shall immediately become due and payable, without notice or demand, upon the appointment of a receiver or liquidator, whether voluntary or involuntary, unless any involuntary proceeding is dismissed within thirty (30) days of filing, for the undersigned Debtor or for any of its property, or upon the filing of a petition by or against the undersigned Debtor under the provisions of any State insolvency law or under the provisions of the Bankruptcy Reform Act of 1978, as amended, or upon the making by the undersigned Debtor of an assignment for the benefit of its creditors.

The Holder hereof is authorized to declare all or any part of the Indebtedness immediately due and payable upon the happening of any of the following events: [1] Failure to pay any part of the Indebtedness within ten (10) days when due; [2] non-performance by the undersigned Debtor of any agreement with, or any condition imposed by Holder with respect to the Indebtedness in any note, security agreement, or loan agreement with Area wide Business Council, Inc. not cured within thirty (30) days of notice to Debtor; [3] Holder's discovery of the failure of Debtor or its parent company to disclose any fact deemed by Holder to be material to the making of this Loan, or any misrepresentation by, on behalf of, or for the benefit of the undersigned Debtor; [4] the reorganization (other than a reorganization pursuant to any of the provisions of the Bankruptcy Reform Act of 1978, as amended) or merger or consolidation of the undersigned Debtor (or the making of any agreement therefor), other than within Debtor's own organization without the prior written consent of Holder; [5] the undersigned Debtor's failure duly to account to Holder's satisfaction within ten (10) days of notice, at such time or times as Holder may require, for any of the Collateral, or proceeds thereof coming into the control of the undersigned Debtor, [6] if any final judgment for the payment of money that is not fully covered by liability insurance shall be rendered against the Borrower, which would have a material adverse effect on the financial status of borrower, and within sixty (60) days shall not be discharged, or an appeal therefrom taken and execution thereon effectively stayed pending such appeal, and if such judgment be affirmed on such appeal and the same shall not be discharged within thirty (30) days; or [7] if Debtor or its parent company should violate any other covenant contained in the loan documents, including the Loan Agreement and the Security Agreement and other documents related thereto. Holder's failure to exercise its rights under this paragraph shall not constitute a waiver thereof.

None of the rights, remedies, privileges or powers of Holder expressly provided for herein shall be exclusive, but each of them shall be cumulative with and in addition to every other right, remedy, privilege and power now or hereafter existing in favor of Holder, whether at law or equity, by statute or otherwise.

The Borrower agrees if, at any time, the Borrower defaults on any provision of this Loan Agreement, to pay the Lender in addition to any other amounts that may be due from

the Borrower, an amount equal to the costs and expenses of collection, enforcement, or correction or waiver of the default incurred by the Lender's rights under the Note, the prevailing party shall pay reasonable Attorney's fees including Attorney's fees on appeal,

The rights of Holder and its assigns hereunder and the security rights granted in the Security Agreement granted simultaneously herewith shall not be impaired by Holder's sale, hypothecation or re-hypothecation of the Promissory Note or any item of Collateral, or by any indulgence, including but not limited to (a) any renewal, extension, or modification which Holder may grant with respect to the Indebtedness or any part thereof, or (b) any surrender, compromise, release, renewal, extension, exchange or substitution which Holder may grant in respect of the Collateral, or (c) any indulgence granted in respect of any endorser, guarantor or surety. The purchaser, assignee, transferee or pledgee of this Note, the Collateral and Guaranty and any other document (or any of them) sold, assigned, transferred, pledged or repledged shall forthwith become vested with and entitled to exercise all the powers and rights given by this Promissory Note and all applications of the undersigned as if said purchaser, assignee, transferee, or pledgee were originally named as payee therein.

M-TRON INDUSTRIES, INC.

/s/ Robert R. Zylstra

Robert R. Zylstra, President

STATE OF SOUTH DAKOTA)
COUNTY OF Yankton)

On this 10th day of October, 2002, before me the undersigned officer, personally appeared Robert Zylstra, Who acknowledged himself to be the President of M-Tron Industries, Inc. and that he as such President being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as President.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

LORI COWMAN
NOTARY PUBLIC SEAL
STATE OF SOUTH DAKOTA

/s/ Lori Cowman

Notary Public

My Commission Expires: 5-19-06

EXHIBIT D
MORTGAGE
ONE HUNDRED EIGHTY DAY REDEMPTION

THIS MORTGAGE, made this 9th day of October, 2002, by M-Tron Industries, Inc. of Yankton, Yankton County, South Dakota to Areawide Business Council, Inc., a South Dakota Corporation, 1808 Summit Street, Yankton, Yankton County, South Dakota 57078, Mortgage.

WITNESSETH, that said Mortgagor hereby mortgages to said Mortgagee the following described premises situated in the County of Yankton, and State of South Dakota, to-wit:

LEGAL DESCRIPTION:

THE EAST TWO HUNDRED FEET (E200') OF THE NORTHWEST QUARTER (NW1/4) OF THE NORTHEAST QUARTER (NE1/4) OF SECTION 17, TOWNSHIP 93, RANGE 55, WEST OF THE 5TH P.M., YANKTON COUNTY, SOUTH DAKOTA.

as security for the payment to said mortgagee at the above post office address in Yankton, South Dakota 57078, the principal sum of ONE HUNDRED THOUSAND DOLLARS (\$100,000.00), and interest thereon at five and one half percent (5.5%) per annum, according to a certain promissory note bearing even date herewith, due November 10, 2007.

SAID MORTGAGOR further agrees to pay all taxes and assessments that may be levied upon said premises, before the same shall become delinquent and to keep the buildings, if any upon said premises safely insured for the benefit of said Mortgagee in the sum of \$100,000.00 against loss by fire or other casualty and deliver the insurance policies to said Mortgagee.

In case of the Mortgagor's failure to pay said taxes or assessments before the same become delinquent or to pay insurance premiums for insurance on said buildings, said Mortgagee or assignee may do so and the amounts so paid, with interest at 12 percent, from date of payment, shall be added to and deemed a part of the money secured by this mortgage.

Said Mortgagor hereby relinquishes all rights of homestead in said premises and warrants that it is the owner in fee of said premises, and that the same are free from all encumbrances except for a pro-rate parity agreement in regards to this mortgage with the State of South Dakota.

In case of default in the payment of said principal sum of money or any part thereof, or interest thereon at the time or times above specified for payment thereof, or in case of non-payment of any taxes, assessments, or insurance as aforesaid, or of breach of any covenant or agreement herein contained, then and in either case, the whole, principal and interest, of said note shall at the option of the holder thereof immediately become due and payable, and this mortgage may be foreclosed by action, or by advertisement as provided by statute or the rules of practice relating thereto, and this paragraph shall be deemed as authorizing and constituting a power of sale as mentioned in said statutes or rules, and any amendments thereto.

In the case of foreclosure, the holder of this mortgage shall recover reasonable Attorneys fees and actual disbursements necessarily incurred. Further, in the case of foreclosure, the holder of this mortgage is authorized to appoint a receiver to take possession of the mortgaged premises if the premises are abandoned, or to have a receiver appointed by the circuit court upon sufficient proof being established therefor.

In the case of foreclosure, the Mortgagor shall pay to the holder of this mortgage the difference between the net proceeds of sale if less than the total debt due.

The period of redemption from the recording of the certificate of sale shall be one hundred eighty days. Any agreement to extend the redemption period must be in writing. THE PARTIES AGREE THAT THE PROVISIONS OF THE ONE HUNDRED EIGHTY DAY REDEMPTION MORTGAGE ACT GOVERN THIS MORTGAGE,

If the mortgaged premises are sold without the prior consent of the Mortgagee, the entire balance owing may at the option of the Mortgagee be declared immediately due and payable upon 30 days notice to the Mortgagor, and this mortgage may be foreclosed.

Further conditions hereon are contained in the Standard Loan Agreement between the parties, which agreement is incorporated herein by this reference,

IN WITNESS WHEREOF, the Mortgagor has hereunto set her hand on the day and year first above-written.

M-TRON INDUSTRIES, INC.

/s/ Robert R. Zylstra

Robert R. Zylstra, President

STATE OF SOUTH DAKOTA)

COUNTY OF Yankton)

On this 10 day of October, 2002, before me, the undersigned officer, personally appeared Robert Zylstra, who acknowledged himself to be the President of M-Tron Industries, Inc. and that he as such President being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as President.

In witness whereof, I hereunto set my hand and official seal.

LORI COWMAN
NOTARY PUBLIC SEAL
STATE OF SOUTH DAKOTA

/s/ Lori Cowman

Notary Public

My Commission Expires: 5-19-06
</TEXT>
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STATE OF SOUTH DAKOTA
BOARD OF ECONOMIC DEVELOPMENT
REVOLVING ECONOMIC DEVELOPMENT
AND INITIATIVE FUND (REDI)

LOAN AGREEMENT

LOAN AGREEMENT made and entered into this 19th day of December, 2002, by and between the South Dakota Board of Economic Development, 711 Wells Avenue, Pierre, South Dakota 57501 (herein "BED"), and M-TRON INDUSTRIES, INC. OF 100 DOUGLAS AVENUE, YANKTON, SOUTH DAKOTA 57078 (herein the "Borrower").

WHEREAS, the South Dakota Board of Economic Development is a board created pursuant to SDCL 1-16G-1 for the purpose of promoting economic development in South Dakota, and the South Dakota Governor's Office of Economic Development, acting pursuant to ARSD 68:02:01:23, provides administrative support to BED in the application, processing, monitoring, and servicing of loans made by BED; and,

WHEREAS, the Borrower made an application (the "Application") dated September 20, 2002, to BED for a loan from the Revolving Economic Development and Initiative Fund (REDI), which Application was approved by BED pursuant to SDCL Chapters 1-33 and 1-16G, as amended, and ARSD Article 68:02 (the "BED Loan"); and,

WHEREAS, BED has by duly adopted resolution designated one of the members of the Board of Economic Development to execute this Loan Agreement; has designated the Commissioner, Governor's Office of Economic Development (the "Commissioner"), and BankWest, Inc., a state chartered financial institution, of Pierre, South Dakota (BankWest), as its representatives hereunder; has authorized the Commissioner to act on its and the State's behalf hereunder; has empowered the Commissioner to delegate his duties in connection herewith to those persons under his supervision as he deems appropriate, has entered into a Loan Servicing Agreement with BankWest, whereby BankWest will act as BED's agent for purposes of closing, funding, receiving payment and servicing the BED Loan with the Borrower; and has authorized BankWest to act on behalf of BED consistent with the terms of the Loan Servicing Agreement and the Borrower's BED Loan Documents;

NOW THEREFORE it is mutually agreed as follows:

1. In consideration of the Borrower's execution and delivery of a Promissory Note dated the date hereof, and observance and performance of the covenants, terms and conditions hereof, and in reliance on the Borrower's representations made herein, BED, through its duly designated agent, agrees to loan to Borrower, from the Revolving Economic Development and Initiative Fund the principal sum of Two Hundred Ninety-Six Thousand and no/100 Dollars (\$296,000), according to the terms and conditions set forth in this Loan Agreement and the Promissory Note of even date herewith, which is incorporated herein by reference.

2. In consideration of BED's agreement to loan said funds to the Borrower, the Borrower has made, executed and delivered to BED a Promissory Note dated the date hereof, in the principal sum of Two Hundred Ninety-Six Thousand and no/100 Dollars (\$296,000), due and payable, together with interest thereon at the rate of three percent (3%) per annum, simple interest, according to the terms and conditions set forth therein and in this Loan Agreement.

3. As security for the repayment of the BED Loan above described, the Borrower agrees as follows:

- a. To mortgage to BED the real property, buildings, and improvements owned by the Borrower as described with particularity in the Mortgage of even date which is incorporated herein by reference;

4. Unless otherwise provided herein or in the Loan Servicing Agreement, or unless a Lender disburses the funds pursuant to a Lender Agreement, the loan proceeds will be kept in the state treasury, in the Revolving Economic Development and Initiative Fund, and shall be disbursed to the Borrower based upon the Borrower's request for disbursements. In order to obtain a disbursement, the Borrower shall submit to BED a signed request for disbursement on a form prescribed by BED, together with all attachments required by such form. Disbursements may be obtained only for those Project costs which have been legally incurred, and which are due and payable, or have been paid by the Borrower. The Borrower will designate, by duly adopted resolution, an official to certify on Borrower's behalf that the request submitted is correct and is a valid expenditure for the Project. Unless BED specifically agrees otherwise, or unless the Borrower has already paid the costs, disbursements shall be made directly to the person to whom the Borrower owes such amount. First disbursement of the BED Loan must be made not later than six months from the date hereof, and no disbursement may be made later than twelve months from the date of BED's original approval of Borrower's Application, unless such time is extended in writing by BED.

5. Borrower warrants and represents as follows:

- a. The Borrower is duly organized and existing under the laws of the State of South Dakota, or under the laws of another state or country and is authorized to transact business in the State of South Dakota; has taken all proper action, including the adoption of a resolution, to authorize the execution, delivery and performance of its obligations under this Loan Agreement, the Promissory Note, and any other Loan Documents (hereinafter referred to jointly as the "Loan Documents"), and the incurring of the debt represented by the Promissory Note; and has the power and authority to enter into and consummate all transactions contemplated by the Loan Documents, and to carry out its obligations hereunder and thereunder.
- b. There is no action, suit, proceeding, inquiry or investigation at law or equity, by or before any judicial or administrative court, agency or body, pending or threatened against the Borrower wherein an unfavorable decision, ruling, or finding would materially and adversely affect the validity or enforceability of any of the Loan Documents.

- c. Neither the execution and delivery of the Loan Documents, the consummation of the transactions contemplated thereby, nor the fulfillment of, or compliance with the provisions of the Loan Documents will conflict with or result in the breach of any restriction, agreement or instrument to which the Borrower is a party, or by which it is bound, or result in the creation or imposition of any lien of any nature upon any of the property of the Borrower under the terms of any such instrument or agreement, nor will such action result in the violation of any provision of any law, ordinance, governmental order to which the Borrower, its property or operations are subject.
- d. No event of default has occurred in any agreement or instrument as to any outstanding indebtedness of the Borrower for money borrowed and no condition, event or act exists which, with the lapse of time or the giving of notice, would constitute an event of default under any such agreement or instrument. The Borrower is not in violation of any term of any restriction, agreement, indenture, ordinance, resolution, charter, or other instrument to which it is a party or which it or its property may be bound, which violation would materially and adversely affect the transactions contemplated hereby or the compliance by the Borrower with the terms of the Loan Documents.
- e. The Borrower has obtained or made all permits, filings and approvals required to the date of this Loan Agreement by any governmental body or officer for the making and performance by the Borrower of its obligations under the Loan Documents or for the Project, the financing thereof or the reimbursement of the Borrower for the costs thereof No consent, approval or authorization of, or filing, registration or qualification with, any governmental authority (other than those, if any, already obtained) is required on the part of the Borrower as a condition to entering into the Loan Documents and the performance of the Borrower's obligations hereunder and thereunder.
- f. The Loan Documents to which the Borrower is a party are legal, valid and binding obligations and agreements of the Borrower, enforceable against the Borrower according to their terms, except as the enforceability thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally and general principles of equity.
- g. The Project consists of the facilities, improvements and activities described in Exhibit A, attached hereto, and by this reference incorporated herein, as such Exhibit may be amended from time to time.
- h. The funds provided pursuant to this Loan Agreement do not exceed 29 percent of the total Project cost as described in the Borrower's Application.
- i. There is no fact that the Borrower has not specifically disclosed in writing to BED that materially and adversely affects or will materially and adversely affect the properties, operations and finances of the Borrower, its status as a legal entity in good standing, or its ability to perform its obligations under the Loan Documents, or to pledge any revenues or property to the repayment of the BED Loan

j. The Borrower certifies that there has been no material adverse change since the date of the Borrower's Application in the financial condition, organization, operation, business prospects, property, or the personnel of the Borrower; and that the information contained in the Application, and other information the Borrower provided to BED does not contain any material misrepresentations or misstatements of fact.

k. The Borrower further warrants and represents that it:

- (1) has not received any notice or otherwise learned of any environmental liability which would individually or in the aggregate constitute a Material Adverse Occurrence arising in connection with (i) any non-compliance with or violation of the requirements of any Environmental Law as defined in Section 13 or (ii) the release or threatened release of any toxic or hazardous waste, contaminant, constituent or other substance into the environment;
- (2) does not have any knowledge of any threatened or actual liability in connection with the release or threatened release of any toxic or hazardous waste, contaminant, constituent, or other substance in the environment which would individually or in the aggregate constitute a Material Adverse Occurrence; and
- (3) has not received any notice or otherwise learned of any federal or state investigation evaluating whether any remedial action is needed to respond to a material release or threatened release on any toxic or hazardous waste, contaminant, constituent or other substance into the environment for which the Borrower is or may be liable. The Borrower is in substantial compliance with all Environmental Laws in the respective jurisdictions where it is presently doing business or conducting operations.

Material Adverse Occurrence shall mean any occurrence of whatsoever nature (including, without limitation, any adverse determination in any litigation, arbitration or governmental investigation or proceeding) which the BED shall reasonably determine materially adversely affects: (i) the then present or prospective financial condition or operations of any party to the Loan; (ii) the ability of any such Party to perform its obligations under any of the Loan Documents; or (iii) the value of the Collateral securing the Loan.

6. To further induce BED to make this BED Loan, Borrower agrees to the following conditions:

- a. Borrower will execute the Loan Documents and any supplements or additions thereto, and such other documents in connection with this BED Loan as BED may from time to time request which are reasonably necessary to effectuate to the fullest extent possible the terms of this Loan Agreement and the Loan Documents.

- b. Borrower will, on demand, reimburse BED for any and all expenses, including reasonable attorney fees, incurred, or which may be hereafter incurred, by BED or its agents from time to time in connection with or by reason of Borrower's Application for, and the making and administration, of the BED Loan.
- c. Borrower will at all times keep proper books of account in a manner satisfactory to BED. Borrower authorizes BED to make or cause to be made, during regular business hours, at Borrower's expense and in such manner and at such times as BED may require, (i) inspections and audits of any books, records and papers in the custody or control of Borrower or others, relating to Borrower's financial or business conditions, including the making of copies thereof and extracts therefrom, and (ii) inspections and appraisals of any of Borrower's assets. Borrower will furnish to BED quarterly financial statements within 60 days of quarter-end and an annual report within 90 days of the fiscal year end. The annual report must contain, at a minimum, the Borrower's unaudited financial statements (including a balance sheet, income statements and cash flow statement), and upon request of BED will include Borrower's federal tax returns. Borrower hereby authorizes all federal, state and municipal authorities to furnish reports, examination, records, and other information relating to the conditions and affairs of Borrower and any desired information from such reports, returns, files, and records of such authorities upon request therefor by BED.
- d. Borrower agrees to comply with those federal, state and local laws, regulations, ordinances and permits applicable to the Project, as well as the provisions of SDCL Chapter 1-16G, SDCL Chapter 1-33, and ARSD Chapter 68:02, and shall furnish to BED such reports and information and provide such access required by those statutes and rules.
- e. Borrower agrees to pay in a timely manner the principal and interest on the Promissory Note, and on any other indebtedness now or hereafter at any time due to BED or any other Lender.
- f. The Borrower will promptly pay all taxes, charges, liens, assessments and encumbrances which now affect, or which may in the future affect, the Project or the security for the payment of the Promissory Note as herein provided, or BED's interest therein for which it is legally liable.
- g. Borrower agrees to indemnify and hold BED, its officers, agents and employees, harmless from and against any and all actions, suits, damages, liability or other proceedings (including costs and attorney's fees) arising from or connected with the Borrower's Project funded herein. This section does not require the Borrower to be responsible for or defend against claims or damages arising solely from errors or omissions of BED, its officers, agents or employees.

- h. Borrower agrees that it will notify BED in writing within 30 days of the occurrence of any of the following: (i) if Borrower is an individual, a change in the place of Borrower's principal residence; (ii) if Borrower is an organization, a change in Borrower's place of business, the opening of any new place of business or the closing of any existing place of business; (iii) if Borrower is an organization, a change in the location of its chief executive office; (iv) any other change in the Borrower's "location" as that term is defined and used in Article 9 of the Uniform Commercial Code as adopted in South Dakota and as amended from time to time. Failure to do so shall constitute a material default upon the terms of this Loan Agreement.

7. On or prior to the disbursement of funds pursuant to this Loan Agreement, the Borrower shall submit to BankWest all documents required by the Commitment Letter, the Loan Documents and the applicable statutes and regulations. In addition, the Borrower shall submit the following items:

- a. the executed Promissory Note, Mortgage and Parity Agreement;
- b. an executed counterpart of this Loan Agreement;
- c. an executed Employment Agreement with BED agreeing to create and retain not less than 32 full time employee positions, as set forth in the Borrower's Application dated September 20, 2002.
- d. a certified resolution of the Borrower's governing body approving the BED Loan, this Loan Agreement, the Promissory Note, and the Loan Documents;
- e. any certificate of insurance required by the Loan Agreement or the Loan Documents, including, if applicable, a title insurance policy;
- f. such other certificates, documents and other information as BED may require.

Once the documents listed above have been executed and delivered, the BED Loan will be deemed closed.

8. In the event Borrower fails to make any payment or any part thereof as provided in the Promissory Note described herein, within fifteen (15) days of the due date thereof, or in the event that the Borrower fails or refuses to perform any covenants or agreements hereunder on the Borrower's part made and entered into, or under any agreement between the Borrower and the BED made in connection with the BED Loan, or in the event of failure of the Borrower to promptly pay, when due, any taxes, charges, liens, assessments, or encumbrances, or in the event of the insolvency of the Borrower, BED may at its option declare this Agreement and the Promissory note to be in default and the total indebtedness owed by the Borrower to BED, including principal and interest, shall at the option of BED immediately become due and payable, upon twenty (20) days' written notice to the Borrower. Anything in the foregoing or in any of the other Loan Documents to the contrary

notwithstanding, BED may in the event of a default not capable of cure immediately declare a default and immediately take action to realize upon the Collateral by whatever means allowed by law.

- a. In the event of any default by Borrower upon the terms of this Loan Agreement or the Promissory Note, then the entire outstanding principal balance of the Loan shall thereafter bear interest until paid or until the default is cured to BED's satisfaction at a fixed rate three percentage points higher than the prime rate of interest published weekly in the Wall Street Journal, as published at the time of the default.
- b. In the event that Borrower defaults in providing the financial information required by Section 6(c), the reports required under Section 6(d), or proof of the insurance required by Section 12 of this Loan Agreement, then the Borrower shall pay to BED the sum of \$200 for each such default. This sum is intended by the parties and shall be considered and treated as liquidated damages due to BED, and not as a penalty. The parties specifically agree that due to the nature of the BED Loan made to the Borrower it is impracticable or extremely difficult to fix the actual damages resulting from the Borrower's breach of those provisions of this Loan Agreement because failure to provide the information in a timely manner prevents BED from having complete and accurate data concerning the status of its economic development program for the purpose of preparing its annual report, assessing the success of its economic development strategies and developing future strategies; from assessing the financial strength of the businesses BED assists, and the success of its assistance efforts; and it makes it difficult for BED to protect the continued viability of its revolving loan program.

9. If an event of default occurs, BED, at its sole option, has the right, but not the duty, to incur and pay any reasonable expenses, for the account of the Borrower, for the payment of any taxes, charges, liens, assessments and encumbrances with relation to the Project, and add any amounts so paid to the principal sum due hereunder. Borrower agrees that if an event of default occurs, in addition to any other amounts that may be due from the Borrower, it will pay BED an amount equal to the costs and expenses, including reasonable expert and attorneys fees, incurred by BED in enforcing its rights under this Loan Agreement or the other Loan Documents.

10. The rights and remedies herein conferred upon BED shall be cumulative and not alternative and shall be in addition and not in substitution of or in derogation of rights and remedies conferred by the Loan Documents or any other agreements between the parties hereto or by any applicable law. The failure of BED to enforce strict performance of any covenant, promise, or condition herein contained, including timely payments due hereunder, shall not operate as a waiver of the right of BED thereafter to require that the terms hereof be strictly performed according to the tenor thereof.

11. If BED participates in this loan with a bank, credit union, savings and loan, a federal or state agency, or other lender ("the Lender"), the Borrower agrees to cooperate and abide by all terms and conditions of any and all loan documents involving any loan from the Lender to the Borrower for the Project, including the Lender Agreement. A default in any provision of any such loan documents with the Lender shall constitute a default under this Loan Agreement and the Promissory Note.

Borrower further agrees to cooperate with BankWest as closing agent and loan servicing agent, to facilitate the performance of the duties of BankWest pursuant to the Loan Servicing Agreement.

12. The Borrower shall at all times during the term of this Loan Agreement, and while the Promissory Note is outstanding, keep and maintain, or provide evidence acceptable to BED that it has obtained, property and casualty insurance, workers compensation, and liability insurance with insurers licensed to do business in the State, against such risks and in such amounts as are customary in the State for entities of the same or similar size and type as the Borrower, and similarly situated with facilities of the Project's type, and provide proof of such coverage to BED. Each policy (except workers' compensation insurance) shall be lender loss payable, and name BED as an additional insured or loss payee, as its interests may appear. Any policy provided pursuant to this section must provide that it cannot be canceled without 30 days prior written notice of cancellation to BED. In the event of cancellation the Borrower will promptly obtain replacement insurance with the same or substantially similar coverage and provide proof of such coverage to BED. In the event of renewal, replacement, or changes in coverage, the Borrower will promptly provide written notice of such changes to BED.

13. The Borrower covenants and agrees to comply with all present and future environmental laws, ordinances, permits, rules and regulations. Borrower shall not permit the generation, creation, treatment, incorporation, discharge, disposal, escape, release or threat of release of any contaminant above, upon, under, within, or from the Project site which is not in compliance with any applicable laws, ordinances, permits, rules and regulations. Borrower represents that there are no underground storage tanks containing any contaminant located on the Project site, or property assigned as Collateral for this BED Loan, and that no new tanks will be located on such property unless the Borrower complies with any applicable laws, ordinances, rules and regulations, and obtains all necessary permits.

- a. For purposes of this Loan Agreement, "contaminant" is a "Petroleum Product" as described in SDCL 37-2-5; "Asbestos" as described in SDCL 34-44-1(2); a "Regulated Substance" as described in SDCL 34 A-12-1(8); substances regulated under and defined in the provisions of 15 U.S.C. 2601-2671, 33 U.S.C. 1251-1387, 42 U.S.C. 6901-6999(I), or 42 U.S.C. 7401-7642; or any corresponding federal or state regulations promulgated under the above federal or state statutes, as well as any amendments, deletions, or corrections to any such laws, ordinances, rules and regulations, including any laws, ordinances, rules and regulations which may be enacted or adopted subsequent to the date of, and which become effective during the term of, and while the Premises remains subject to the terms and conditions of this Loan Agreement.
- b. Borrower agrees to indemnify and hold BED, its officers, agents, employees, assigns and successors in interest harmless from any and all claims, demands, judgments, penalties, costs, damages, expenses or liability of any kind or character whatsoever, including costs and reasonable attorneys' fees, arising or resulting from or connected with a breach of the foregoing covenant, it being the intent of BED and the Borrower that BED shall have no liability for damage to the environment or natural resources, for abatement, removal, or cleanup of, or otherwise with respect to, any contaminants either by virtue of any interest

of BED in the property, or created as a result of BED's exercise of any of its rights or remedies under this Loan Agreement or any of the Loan Documents.

c. Borrower shall, for the purposes of this Loan Agreement, be designated the "Owner" or "Operator" of the property.

14. Any required or permitted notice or other communication under this Agreement shall be in writing and addressed as follows:

If to BED: State of South Dakota
Board of Economic Development
c/o Governors Office of Economic Development
711 East Wells Avenue
Pierre, SD 57501-3369

Copy to: BankWest, Inc.
P.O. Box 998
Pierre, S.D. 57501

If to Borrower: M-tron Industries, Inc.
100 Douglas Avenue
Yankton, SD 57078

Notices required or permitted under this Loan Agreement shall be given by and to the Commissioner, Governor's Office of Economic Development and Craig Hilton, Senior Vice President of Bankwest on behalf of BED, and the Borrower or _____ on behalf of the Borrower, or such authorized designees as either party may from time to time designate in writing. Any such notice or other communication, if mailed, shall be sent by registered or certified mail, return receipt requested. Notices or communications to or between the parties shall be deemed to have been delivered when mailed by registered or certified mail or, if personally delivered, when received by such party.

15. Time is of the essence in the performance of the covenants, terms and conditions contained in this BED Loan Agreement. This Loan Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective transferees, successors and assigns except that the Borrower may not assign or transfer its rights under the Loan Documents without prior written consent of BED.

16. All other prior discussions, communications and representations concerning the subject matter of the Loan Documents are superseded by the terms of the Loan Documents, and except as specifically provided herein, the Loan Documents constitute the entire agreement with respect to the subject matter hereof.

17. This Agreement shall be governed by and construed in accordance with the laws of the State of South Dakota. Any lawsuit pertaining to or affecting this Loan Agreement shall be venued in Circuit Court, Sixth Judicial Circuit, Hughes County, South Dakota.

18. All representations contained in the Borrower's Application, and all representations, terms, conditions and covenants contained in the Commitment Letter executed in conjunction with this Loan Agreement are hereby incorporated by reference herein. To the extent there is a conflict between the terms of the Application or Commitment Letter and this Loan Agreement, the terms of this Loan Agreement shall prevail.

19. This Loan Agreement and the Loan Documents may not be amended except in writing, which writing shall be expressly identified as a part hereof or thereof, and which writing will be signed by an authorized representative of each of the parties. No provision stated herein shall be waived without the prior written consent of BED.

20. In the event that any provision of this Loan Agreement shall be held unenforceable or invalid by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

IN WITNESS WHEREOF the parties hereto have set their hands and seals effective the day and year above first written.

SOUTH DAKOTA BOARD OF
ECONOMIC DEVELOPMENT

BY: [ILLEGIBLE]

(SEAL)

ITS: TREASURER

M-TRON INDUSTRIES, INC.

(SEAL)

BY: /s/ Robert R. Zylstra

ITS: President & CEO

ATTEST:

BY: /s/ David L. Rein

ITS: Secretary

NOTE: Corporate Borrowers must execute Loan Agreement, in corporate name, by duly authorized officer, and seal must be affixed and duly attested.

EXHIBIT A
TO
LOAN AGREEMENT

PROJECT DESCRIPTION

REDI loan proceeds will be used expand the Yankton facility by funding the purchase of inventory and equipment from Champion Technology, A competitor being liquidated.

<TABLE>

<CAPTION>

SOURCES

<S>

REDI	\$ 350,000
ABC	\$ 100,000
YAPG	\$ 250,000
FNB-Omaha	\$ 120,000
Equity-Lynch Corp,	\$ 200,000

TOTAL	\$ 1,020,000
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USES

<C>

Equipment	\$ 350,000
Inventory	\$ 500,000
Acquisition Costs	\$ 170,000

TOTAL	\$ 1,020,000
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</TABLE>

ACKNOWLEDGMENT OF EXHIBIT A
TO LOAN AGREEMENT

M-TRON INDUSTRIES, INC.

BY: /s/ David L. Rein

ITS: VP & CFO

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STATE OF SOUTH DAKOTA
BOARD OF ECONOMIC DEVELOPMENT

REDI LOAN NUMBER 02-18-A

PROMISSORY NOTE

YANKTON, SOUTH DAKOTA

\$296,000

DECEMBER 19, 2002

For value received, the undersigned M-TRON INDUSTRIES, INC. OF 100 DOUGLAS AVENUE, YANKTON, SOUTH DAKOTA 57078 promises to pay, in lawful money of the United States of America, to the order of SOUTH DAKOTA BOARD OF ECONOMIC DEVELOPMENT at the offices of its Loan Servicing Agent, BankWest Inc., at P.O. Box 998, City of PIERRE, State of SOUTH DAKOTA or at holder's option, at such other place as may be designated from time to time by the holder TWO HUNDRED NINETY-SIX THOUSAND AND NO/100 DOLLARS, (\$296,000) with interest on unpaid principal computed from the date of each advance to the undersigned at the rate of three percent per annum, payment to be made in installments as follows:

By paying 59 equal monthly installments, in the amount of \$1,642.00, (based on a level 240 month amortization), beginning thirty (30) days from the date of this Promissory Note, with the final balloon payment of principal and interest due at the end of 60 months/years from the date of this Promissory Note.

This Promissory Note is issued pursuant to that certain Revolving Economic Development and Initiative Fund (REDI) Loan Agreement dated the date hereof by and between the Borrower and BED (the "Loan Agreement"), the terms and provisions of which are hereby incorporated by reference, pursuant to SDCL Chapters 1-16G and 1-33, as amended, and Rules and Regulations Article 68:02, Administrative Rules South Dakota (ARSD).

This Promissory Note is secured by:

Mortgage of even date.

If any sum payable hereunder is not paid when due or in the event of a default upon any term, covenant or condition of any of the Loan Documents, then the entire outstanding principal balance shall thereafter bear interest until paid or until the default is cured to BED's satisfaction at a fixed rate three percentage points higher than the prime rate of interest published weekly in the Wall Street Journal, as published at the time of the default.

The Borrower shall have the option of prepaying any installment of principal or interest owing on this Promissory Note prior to the maturity date thereof without penalty. If prepayments are made, such payment will include accrued interest to the date of the prepayment on the amount of principal prepaid, and principal payments shall be reduced in inverse order of maturity. Such prepayments shall not in any way alter or suspend any obligations of the Borrower under the terms of this Promissory Note or the Loan Agreement.

In the event of default in the payment of this Promissory Note, the Borrower agrees to pay all costs of collection, including reasonable attorney fees.

The Borrower hereby waives presentment for payment, demand, notice of nonpayment, protest, notice of protest, and notice of dishonor.

This Promissory Note and all instruments or documents securing the same shall be governed by and construed in accordance with the laws of the State of South Dakota.

Signed and sealed this 19th day of December, 2002.

M-TRON INDUSTRIES, INC.

(SEAL)

BY: /s/ Robert R. Zylstra

ITS: President & CEO

ATTEST:

BY: /s/ David L. Rein

ITS: Secretary

NOTE: Corporate Borrowers must execute Promissory Note, in corporate name, by duly authorized officer, and seal must be affixed and duly attested.

DECLARATION OF BUSINESS PURPOSE

The undersigned has applied to BED for credit in the amount not to exceed \$296,000. The undersigned warrants and represents that the credit will be used primarily (50% or more) for the business or commercial purpose described in the Loan Agreement, and will not be used primarily for personal, family or household purposes. This declaration is to confirm that no disclosures are required under the Federal Truth in Lending law and Regulations.

Dated at Yankton, South Dakota, this 19th day of December, 2002.

M-TRON INDUSTRIES, INC.

(SEAL)

BY: /s/ Robert R. Zylstra

ITS: President & CEO

ATTEST:

BY: /s/ David L. Rein

ITS: Secretary

NOTE: Corporate Borrowers must execute Declaration, in corporate name, by duly authorized officer, and seal must be affixed and duly attested.

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STATE OF SOUTH DAKOTA
BOARD OF ECONOMIC DEVELOPMENT

REVOLVING ECONOMIC DEVELOPMENT AND INITIATIVE FUND
(ARSD 68:02:01)

EMPLOYMENT AGREEMENT

REDI LOAN NUMBER 02-18-A

EMPLOYMENT AGREEMENT, made and entered into this 19th day of December, 2002, by and between the State of South Dakota, Board of Economic Development, 711 Wells Avenue, Pierre, South Dakota 57501 (herein "BED"), and M-tron Industries, Inc., of 100 Douglas Avenue, Yankton, South Dakota 57078 (herein the "Borrower").

WHEREAS, M-tron Industries, Inc., (the "Borrower") made an application (the "Application") dated September 20, 2002, to BED for a loan from the Revolving Economic Development and Initiative Fund (REDI), for the purposes of Borrower's business expansion or relocation in the State of South Dakota (the "Project"), as described with particularity in the Application and the BED Loan Documents, which are by this reference incorporated herein; and,

WHEREAS, the Application was approved by BED and the Borrower and BED entered into a certain Revolving Economic Development and Initiative Fund (REDI) Loan Agreement dated the 19th day of December, 2002, (the "Loan Agreement"), whereby BED loaned to Borrower from the REDI Fund the sum of \$296,000, together with interest thereon at 3% per annum, due and payable as set forth in the Promissory Note of even date, all pursuant to SDCL Chapter 1-33 and 1-16G, as amended, and ARSD Article 68:02 (the "BED Loan"); and,

WHEREAS, the BED Loan accrues interest at the rate of three percent per annum, which interest rate is below the prevailing rate available from commercial lending institutions at the time the BED Loan was made; and,

WHEREAS, part of the inducement and consideration for BED to make said BED Loan to Borrower is the Project's creation of employment opportunities for South Dakota citizens, as set forth in the projections made by Borrower in the Application; and,

WHEREAS, failure of Borrower to meet the projections in the Application will constitute a failure of consideration, and a default under the terms and conditions of this Employment Agreement, the Loan Agreement, Promissory Note, and other Loan Documents executed by Borrower and BED in connection with this Application, BED Loan, and Project, all of which documents are incorporated by reference herein;

NOW, THEREFORE IT IS MUTUALLY AGREED AS FOLLOWS:

1. The parties specifically agree that due to the nature of the consideration for the BED Loan to the Borrower it is impracticable or extremely difficult to fix the actual damages resulting from the breach of this Employment Agreement, the Loan Agreement, the Promissory Note, or the other Loan Documents.

2. The parties specifically agree that it will constitute an event of default under the terms and conditions of this Employment Agreement and the Loan Agreement if the Borrower fails to meet the employment projections set forth in the Application, or substantially changes the nature of the Project or ceases operations or relocates the business or Project from Yankton, South Dakota, so that there is a loss of the employment created by the Project in that area of the State, within five years from the date of this Employment Agreement or the term of the BED Loan whichever is longer. In the event of a default, then the total indebtedness owed by the Borrower to the BED, including principal and interest, and the payment of liquidated damages by the Borrower to BED, shall at the option of BED immediately become due and payable upon twenty (20) days' written notice to the Borrower. It is agreed that liquidated damages will be computed as follows:

Damages shall be an amount equal to the difference between the total interest paid on each payment date prior to the final payment of the BED Loan and on the final payment date (whether at maturity or upon prepayment) and the total interest that would have been paid on those dates had the BED Loan been made at 5.25%, the current commercial rate at the time of this Employment Agreement, rather than 3%, the interest rate at which BED made the BED Loan to Borrower. If BED demands such liquidated damages five years or more after the date of the Loan Agreement, and each monthly installment payment and the final payment on the BED Loan shall have been made when due without prepayment, and if no default exists, then the damages due and owing to BED will be \$21,180.

3. This Employment Agreement is made in consideration of the BED Loan.

4. This Employment Agreement shall be governed by and construed in accordance with the laws of the State of South Dakota. Any lawsuit pertaining to or affecting this Employment Agreement shall be venued in Circuit Court, Sixth Judicial Circuit, Hughes County, South Dakota.

5. This Employment Agreement may not be modified or amended except by mutual consent expressed in writing, which writing shall be expressly identified as a part hereof, and which writing shall be signed by an authorized representative of each of the parties hereto.

6. Any notice provided for herein shall be deemed given when transmitted as provided in Section 14 of the Loan Agreement.

7. The covenants in this Employment Agreement shall be deemed to be severable; in the event that any portion of this Employment Agreement is determined to be void or unenforceable, that determination shall not affect the validity of the remaining portions of the Employment Agreement.

8. Terms used herein and defined in the Loan Agreement shall have the same meaning as set forth in the Loan Agreement unless the context clearly requires otherwise.

9. Time is of the essence in the performance of the covenants, terms and conditions contained in this Employment Agreement. This Employment Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective transferees, successors and assigns except that the Borrower may not assign or transfer its rights under the Loan Documents without prior written consent of BED

Dated this 19th day of December, 2002.

SOUTH DAKOTA BOARD OF
ECONOMIC DEVELOPMENT

BY: /s/ Anthony Klein

(SEAL)

ITS: TREASURER

M-TRON INDUSTRIES, INC.

(SEAL)

BY: /s/ Robert R. Zylstra

ITS: President & CEO

ATTEST:

BY: David L. Rein

ITS: Secretary

NOTE: Corporate Borrowers must execute Employment Agreement, in corporate name, by duly authorized officer, and seal must be affixed and duly attested.

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LYNCH CORPORATION SUBSIDIARIES

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Subsidiary Name	State of Organization	Owned by Lynch
Lynch Systems, Inc.	South Dakota	100.0%
M-tron Industries, Inc.	Delaware	100.0%
M-tron Industries, Limited	Hong Kong	100.0%

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CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-46953 and Form S-8 No. 333-01102) pertaining to the 401(k) Savings Plan of Lynch Corporation and Participating Employers and the Lynch Corporation 2001 Equity Incentive Plan, respectively, of our report dated April 9, 2004, with respect to the consolidated financial statements and schedules of Lynch Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2003.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

Providence, Rhode Island
April 12, 2004

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<FILENAME> b490041cexv24.txt
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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, MARIO J. GABELLI, Director and Vice Chairman of the Board of Directors of LYNCH CORPORATION, an Indiana corporation, hereby appoints RALPH R. PAPITTO, RAYMOND H. KELLER and RICHARD E. McGRAIL, true and lawful attorneys-in-fact and agents, and each of them (with full power to act without the other) his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign, execute, deliver and file with the Securities and Exchange Commission the Annual Report on Form 10-K of Lynch Corporation for the fiscal year ended December 31, 2003, including any and all amendments thereto, granting unto said attorneys-in-fact and agents, and each of them, full power to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof, and hereby revoking all prior appointments by him, if any, of attorneys-in-fact and agents to sign and file the above-described document, including any and all amendments thereto.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal on the date set forth below.

DATE: April 13, 2004

/s/ MARIO J. GABELLI

MARIO J. GABELLI

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, MARC J. GABELLI, Director of the Board of Directors of LYNCH CORPORATION, an Indiana corporation, hereby appoints RALPH R. PAPIITTO, RAYMOND H. KELLER and RICHARD E. McGRAIL, true and lawful attorneys-in-fact and agents, and each of them (with full power to act without the other) his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign, execute, deliver and file with the Securities and Exchange Commission the Annual Report on Form 10-K of Lynch Corporation for the fiscal year ended December 31, 2003, including any and all amendments thereto, granting unto said attorneys-in-fact and agents, and each of them, full power to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof, and hereby revoking all prior appointments by him, if any, of attorneys-in-fact and agents to sign and file the above-described document, including any and all amendments thereto.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal on the date set forth below.

DATE: April 13, 2004

/s/ MARC J. GABELLI

MARC J. GABELLI

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, ANTHONY R. PUSTORINO, Director of the Board of Directors of LYNCH CORPORATION, an Indiana corporation, hereby appoints RALPH R. PAPITTO, RAYMOND H. KELLER and RICHARD E. McGRAIL, true and lawful attorneys-in-fact and agents, and each of them (with full power to act without the other) his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign, execute, deliver and file with the Securities and Exchange Commission the Annual Report on Form 10-K of Lynch Corporation for the fiscal year ended December 31, 2003, including any and all amendments thereto, granting unto said attorneys-in-fact and agents, and each of them, full power to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof, and hereby revoking all prior appointments by him, if any, of attorneys-in-fact and agents to sign and file the above-described document, including any and all amendments thereto.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal on the date set forth below.

DATE: April 13, 2004

/s/ ANTHONY R. PUSTORINO

ANTHONY R. PUSTORINO

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, E. VAL CERUTTI, Director of the Board of Directors of LYNCH CORPORATION, an Indiana corporation, hereby appoints RALPH R. PAPITTO, RAYMOND H. KELLER and RICHARD E. McGRILL, true and lawful attorneys-in-fact and agents, and each of them (with full power to act without the other) his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign, execute, deliver and file with the Securities and Exchange Commission the Annual Report on Form 10-K of Lynch Corporation for the fiscal year ended December 31, 2003, including any and all amendments thereto, granting unto said attorneys-in-fact and agents, and each of them, full power to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof, and hereby revoking all prior appointments by him, if any, of attorneys-in-fact and agents to sign and file the above-described document, including any and all amendments thereto.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal on the date set forth below.

DATE: April 13, 2004

/s/ E. VAL CERUTTI

E. VAL CERUTTI

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, AVRUM GRAY, Director of the Board of Directors of LYNCH CORPORATION, an Indiana corporation, hereby appoints RALPH R. PAPITTO, RAYMOND H. KELLER and RICHARD E. McGRILL, true and lawful attorneys-in-fact and agents, and each of them (with full power to act without the other) his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign, execute, deliver and file with the Securities and Exchange Commission the Annual Report on Form 10-K of Lynch Corporation for the fiscal year ended December 31, 2003, including any and all amendments thereto, granting unto said attorneys-in-fact and agents, and each of them, full power to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof, and hereby revoking all prior appointments by him, if any, of attorneys-in-fact and agents to sign and file the above-described document, including any and all amendments thereto.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal on the date set forth below.

DATE: April 13, 2004

/s/ AVRUM GRAY

AVRUM GRAY

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CERTIFICATIONS

I, Ralph R. Papitto, certify that:

1. I have reviewed this annual report on Form 10-K of Lynch Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), [inapplicable language intentionally omitted] for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) [Intentionally omitted]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has been materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 13, 2004

/s/ Ralph R. Papitto

Ralph R. Papitto
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Raymond H. Keller, certify that:

1. I have reviewed this annual report on Form 10-K of Lynch Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the Registrant as of, and for, the periods presented in this annual report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), [inapplicable language intentionally omitted] for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) [Intentionally omitted]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has been materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 13, 2004

/s/ Raymond H. Keller

Raymond H. Keller
Vice President and Chief Financial Officer

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<TYPE> EX-32
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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lynch Corporation (the "Company") on Form 10-K for the year ending December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ralph R. Papitto, Chief Executive Officer of the Company, and I, Raymond H. Keller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ RALPH R. PAPITTO

Ralph R. Papitto
Chief Executive Officer
April 13, 2004

/s/ RAYMOND H. KELLER

Raymond H. Keller
Chief Financial Officer
April 13, 2004

A signed original of this written statement required by Section 906 has been provided to Lynch Corporation and will be retained by Lynch Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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BUSINESS CONDUCT POLICY

INTRODUCTION

This Business Conduct Policy ("Policy") is issued by Lynch Corporation (the "Company") to provide its employees with guidelines and a frame of reference for their actions when representing the Company. Since the actions of the Company's employees directly affect how the Company is viewed within the community in which it conducts business, these guidelines are meant to ensure that employees conduct that business fairly, impartially and ethically.

Employees are responsible for acquiring the knowledge necessary to ensure that they perform their particular duties legally and to know when and where to seek advice when unsure of the business ethics involved or the potential liabilities associated with their actions. Employees who are unsure, or question whether any action they are performing is illegal or inappropriate in nature, should confer with the President of their subsidiary or Chief Financial Officer of Lynch Corporation for a recommended course of action. Any violation of this Policy may be cause for termination of employment.

This Policy serves as only one reference to which employees should refer when conducting their duties. It is not an all-inclusive treatise on prohibited or inappropriate behavior but rather a guideline intended to raise employees' awareness to potential infractions and illegal conduct. It is the responsibility of employees to ensure that their own conduct, or the conduct of anyone in the Company of which they become aware, does not violate either the letter or spirit of this Policy.

Prior to the issuance of this Policy, the Company has adopted various guidelines and policies for employees to follow which are now incorporated herein. These include:

- (1) Sexual Harassment in the Workplace
- (2) Anti-Harassment Policy
- (3) Internet Code of Conduct
- (4) E-mail/Telephone Usage Policy
- (5) Computer System Policy
- (6) Drug-Free Workplace Policy
- (7) Affirmative Action/Equal Opportunity Policy
- (8) Non Compete Agreement Policy (Certain Individuals)
- (9) Workplace Safety Policy
- (10) Employee Handbook
- (11) Human Resource Policy Manual

From time to time, the Company and its subsidiaries may adopt additional guidelines that will be incorporated into this Policy and they will be subject to the same enforcement procedures.

CONFLICTS OF INTEREST

Employees must conduct business free from actual or potential conflicts of interest. Such conflicts might compromise their loyalties to the Company and adversely affect it both economically and ethically. Employees are expected to act at all times in a manner beneficial to the Company and may not, directly

or indirectly, benefit improperly from their positions as employees of the Company. They may not derive a personal benefit, directly or indirectly, from any sale, purchase, transaction or other activity of the Company other than under a Company compensation arrangement. Employees should avoid situations that may give rise to a conflict or to the appearance of a conflict between their duties to the Company and any personal gain. Any employee faced with a potential conflict of interest situation should seek advice from the subsidiary President or Chief Financial Officer of the Company. In order to facilitate understanding of what may cause potential conflicts of interest, various examples are provided below:

- o Seeking or accepting any payment or loan (other than on prevailing terms from a financial institution), or seek or accept any gratuity, gift, travel or other favor of more than nominal value from any individual or corporation doing business or seeking to do business with the Company. Under no circumstances should any employee accept cash gifts. Any non-cash gift received by an employee should be accepted only if it is of nominal value. If a non-cash gift of greater than nominal value is offered, or if the value of a gift given is uncertain, then the employee should seek advice from the subsidiary President or Chief Financial Officer. Inappropriate gifts received should be returned to the donor. The Company will follow with a letter to the donor explaining its reasons for rejecting the gift.
- o Serving as a director, employee, officer, consultant, partner, representative, agent or advisor of any supplier, customer, partner, subcontractor or competitor of the Company.
- o Holding a substantial financial interest (either directly or indirectly) in any supplier, customer, or competitor of the Company. A "substantial interest" means, among

other things, an economic, personal or family interest that might influence a person's judgment or action. A substantial interest does not include an investment representing less than one percent of the outstanding equity of a publicly held business.

- o Acquiring any interest, whether in real estate, patent rights, securities or any other type of property in which the Company has, or might have, an interest.
- o Dealings with competitors for the purpose of setting or controlling prices, rates, trade practices, costs or any other activities are prohibited by law.
- o Engaging in any business unrelated to the Company on Company premises or during normal working hours, except with the permission of the President.

CONFIDENTIAL INFORMATION

Employees are obligated to protect any of the Company's confidential and proprietary information to which they have access. Confidential and proprietary information includes any non-public information that may be of use to our competitors or harmful to the Company if made public.

Employees must ensure that any use, acquisition or disposition of confidential and proprietary information is undertaken in accordance with the authorization given to them by their supervisor(s). The unauthorized disclosure or use of confidential and proprietary information, whether owned by the Company or by a third party, is a violation of Company policy and a violation of law. Employees should take appropriate steps to ensure the confidentiality of such information. These steps include, but are not limited to, properly

filing documents, marking documents "confidential" and otherwise limiting access to such information. Questions as to whether information is confidential should be referred to the subsidiary President or Chief Financial Officer.

The term "confidential and proprietary information" includes, among other things, trade secrets, customer names and lists, vendor names and lists, employees names, compensation, titles and positions, business plans, capital expenditure plans, marketing plans, non-public financial data, product specifications and designs, the nature and results of research and development projects, concepts, inventions, discoveries, formulas, processes, drawings, documents, records, software, pricing, or customer preferences. The term also encompasses any information that is communicated to an employee, learned of by an employee, or developed or otherwise acquired by an employee in the course of employment with the Company and that is not generally known to the public.

COMPANY PROPERTY

The Company's property consists of tangible property, i.e.: desks, chairs, computers, tools, equipment, financial records; and intangible property, i.e.: trademarks, copyrights and confidential and proprietary information. No employee may remove property of the Company from the Company's premises without the written permission of an officer of the Company. Written permission will not only protect the Company and its property, it will also protect the employee should any questions arise in the future as to why or when the property was removed. Permission to remove Company property from the Company's premises does not affect in any way an employee's obligation to protect

the property from damage, disclosure or improper use, and to return it to the Company on request, or when the reason for its removal no longer exists.

FINANCIAL AND ACCOUNTING ENTRIES

Accounting entries must accurately and fully record all the financial transactions of the Company. The intent is to have the Company's books reflect generally accepted accounting principles. Employees must comply with the Company's prescribed accounting procedures and controls. No secret or unrecorded funds or assets may be created or maintained and all liabilities must be recorded. Recording false or fictitious transactions is strictly prohibited. Employees who have any questions regarding this policy, should direct them to the Chairman of the Company's Audit Committee.

BRIBES AND OTHER IMPROPER PAYMENTS

The Company prohibits employees from giving bribes or kickbacks or using any other unlawful or improper methods to remunerate any person or entity. No employee may make any payment to an employee or agent of any domestic or any foreign government or agency. Any questions employees have regarding this provision, should be directed to the President of the Company.

Payments in excess of \$10,000 made by any person or corporation to an entity outside of the United States may have to be reported under federal law. As a result of this regulation, the Company requires any employee intending to make such a payment to notify the President of the Company.

UNITED STATES FOREIGN CORRUPT PRACTICES ACT

The Foreign Corrupt Practices Act ("FCPA") is a federal law that, among other things, prohibits payments that may influence any act or decision of a foreign government official. The FCPA makes it a criminal offense to offer anything of value to a foreign official, candidate, political party or intermediary of any of these groups as an inducement to obtain, retain or direct business to any person or entity. The FCPA applies to agents and consultants of a company and applies to both domestic and foreign business operations.

Employees intending to make payments to a foreign government official, candidate or political party or any third party connected with such entity should first seek approval from the corporate President.

In order to detect and prevent any illegal payments, the FCPA requires that accurate accounting records be maintained and that there be an internal control system in place to ensure that Company assets are preserved and only used for bona fide purposes.

BUSINESS GIFTS

The rules governing the giving of gifts to outsiders follow:

- o Gifts in the form of cash or its equivalent may not be given under any circumstances.
- o Individuals other than government officials. Gifts must be lawful and in accordance with the generally accepted business practices of the applicable government jurisdictions.

- o Specific prior approval of the subsidiary President or Chief Financial Officer must be obtained when any gift is to be given with a value in excess of \$100. In no event may the value of any gift exceed \$500. These limitations do not apply to gifts made in public presentations, the nature of which indicates that the gift is being made by an individual acting on behalf of the Company.
- o Gifts should be appropriately identified and recorded in the Company's records.
- o Government Officials. No gift is to be given to any employee of a government agency or any other public official without the prior approval of the Company President.
- o Political Contributions. No employee at any time may make a contribution for or on behalf of the Company in connection with any election without the approval of the Board of Directors of the Company.
- o Only the following gifts are permitted to be given: candy, beverages, food products and fruit of nominal value given for personal consumption; flowers of nominal value; souvenirs of nominal value; and gifts of a value that is usual under the circumstances given to persons upon their promotion, transfer, retirement, etc.

BUSINESS ENTERTAINMENT

In appropriate circumstances, employees may entertain, with prior approval of their supervisor, at Company expense, individuals representing entities with which the Company maintains or may establish a business relationship. The entertainment should

be reasonable in scope and in accordance with generally accepted local practice. What is "reasonable" will depend on the circumstances and will also be subject to the Company's established expense approval procedures.

Employees may also entertain public/government officials in appropriate circumstances. Entertainment of such officials must comply with the rules and regulations of the applicable government agency or legislative body. In some cases, government employees may not be permitted to accept any entertainment.

BUSINESS COURTESIES

The term "business courtesy" is a present, gift, gratuity, hospitality, or favor from persons or firms with which the Company maintains or may establish a business relationship and for which fair market value is not paid by the recipient. A business courtesy may be a tangible or intangible benefit, including, but not limited to, such items as gifts, meals, drinks, entertainment (including tickets and passes), recreation (including golf course and tennis court fees), door prizes, honoraria, transportation, discounts, promotional items, or use of a donor's time, materials, facilities, or equipment.

The Company expects all employees to act responsibly, ethically, and with the best interests of the Company in mind when dealing with business courtesies and that their business judgments are not compromised by any outside factors.

Employees may accept business courtesies that may promote working relationships and goodwill with persons or firms with which the Company maintains or may establish a business relationship. Employees, however, should not accept business courtesies that are inappropriately lavish, create a conflict of interest, create the appearance of an

improper attempt to influence business decisions, or are unreasonable in light of generally accepted standards and practice. Any concerns as to what are appropriate actions when offered a business courtesy, or whether a business courtesy accepted is appropriate, should be referred to an officer of the Company.

ENVIRONMENTAL COMPLIANCE

Environmental protection is a Company goal and environmental compliance is an integral and essential part of good management. All management policies and decisions must include, where appropriate, environmental considerations and employees must also consider the environmental implications of their actions.

VIOLATION OF THIS POLICY

Employees are expected to comply with this Business Conduct Policy in all respects. Failure to do so can result in disciplinary action up to and including dismissal. In addition, where violation of this Policy also constitutes a criminal offense, the Company may file a criminal complaint with the appropriate authorities.

Employees may be requested to certify that they have read this, and the other Company policies, that they have understood them, and have not violated them. Any employee who fails to return a certificate, who submits a certificate containing a false statement or that omits material information requested by the certificate, or who knowingly permits a subordinate to violate this policy, will also be subject to disciplinary action, up to and including dismissal.

Employees will be expected to disclose promptly any acts or transactions known to them that may be in violation of this Policy. All disclosures will be received and treated in confidence to the extent legally permissible and should be directed to:

The Lynch Corporation

Attention: President, Chairman of the Audit Committee,
and the Chief Financial Officer

IMPLEMENTATION

All managerial level personnel have an obligation to implement this policy and to ensure compliance with it by all employees within their area of responsibility. The provisions of this policy will be reviewed on a periodic basis, and all new employees should be given a copy and acknowledge, in writing, that they have read it.

LYNCH CORPORATION
BUSINESS CONDUCT POLICY
CERTIFICATION OF COMPLIANCE

I certify that I have read, understand, and am in compliance with, the Business Conduct Policy.

Date: _____

(Signature)

(Please print name)

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