

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **1996-08-26** | Period of Report: **1995-12-31**
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FILER

LYNCH CORP

CIK: **61004** | IRS No.: **381799862** | State of Incorporation: **IN** | Fiscal Year End: **1231**
Type: **10-K/A** | Act: **34** | File No.: **001-00106** | Film No.: **96620394**
SIC: **4213** Trucking (no local)

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FORM 10-K/A(4)

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 1995 Commission file number 1-106

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from to

LYNCH CORPORATION

(Exact name of Registrant as specified in its charter)

Indiana

38-1799862

State of other jurisdiction of
incorporation or organization

(I.R.S. Employer Identification No.)

8 Sound Shore Drive, Suite 290, Greenwich, CT
(Address of principal executive offices)

06830
(Zip Code)

Registrant's telephone number, including area code (203) 629-3333

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, No Par Value

Name of each exchange
on which registered
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 X No

Indicate by 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. []

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 March 15, 1996 of \$66 per share) was \$68,254,000. (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 1,390,464 as of March 15, 1996.

DOCUMENTS INCORPORATED BY REFERENCE:

Parts I, II, and IV: Certain portions of the Annual Report of Shareholders for the year ended December 31, 1995, a revised copy of which is filed as an exhibit herewith.

Part III: Certain portions of the draft Proxy Statement for the 1996 Annual Meeting of Shareholders, filed as an exhibit herewith.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements and Supplementary Data as amended August 19, 1996 to revise Note 2 (Pro Forma Information).

SIGNATURES

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

LYNCH CORPORATION

By:s/ROBERT E. DOLAN
ROBERT E. DOLAN
Chief Financial Officer (Principal
Financial and Accounting Officer)

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
* MARIO J. GABELLI MARIO J. GABELLI	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	August 19, 1996
* MORRIS BERKOWITZ MORRIS BERKOWITZ	Director	August 19, 1996
* E. VAL CERUTTI E. VAL CERUTTI	Director	August 19, 1996
* PAUL J. EVANSON PAUL J. EVANSON	Director	August 19, 1996
* SALVATORE MUOIO SALVATORE MUOIO	Director	August 19, 1996
* RALPH R. PAPITTO RALPH R. PAPITTO	Director	August 19, 1996
* PAUL P. WOOLARD PAUL P. WOOLARD	Director	August 19, 1996
s/ROBERT E. DOLAN ROBERT E. DOLAN	Chief Financial Officer (Principal Financial and Accounting Officer)	August 19, 1996
*by s/ROBERT A. HURWICH ROBERT A. HURWICH Attorney-in-fact		

LYNCH CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

LYNCH CORPORATION AND SUBSIDIARIES
<TABLE>
(In Thousands)
<CAPTION>

December 31
1995 1994

	-----	-----
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	\$ 15,921	\$ 18,010
Marketable securities and short-term investments	11,432	13,511
Trade accounts receivable, less allowances of \$1,732 and \$737 in 1995 and 1994, respectively; includes \$3,602 and \$3,624 of costs in excess of billings in 1995 and 1994, respectively	52,306	36,454
Inventories	33,235	18,955
Deferred income taxes	3,944	2,872
Other current assets	6,810	4,083
	<u>123,648</u>	<u>93,885</u>
TOTAL CURRENT ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Land	2,068	1,893
Buildings and improvements	16,675	11,713
Machinery and equipment	128,397	79,290
	<u>147,140</u>	<u>92,896</u>
Accumulated depreciation	(36,093)	(31,451)
	<u>111,047</u>	<u>61,445</u>
INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES	8,982	3,503
INTANGIBLE ASSETS, NET	53,060	23,518
OTHER ASSETS	5,702	3,559
	<u>\$302,439</u>	<u>\$185,910</u>
	=====	=====

</TABLE>

See accompanying notes.

LYNCH CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets (continued)

LYNCH CORPORATION AND SUBSIDIARIES

<TABLE>

<CAPTION>

(In Thousands)

December 31
1995 1994

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

<S>	<C>	<C>
Notes payable to banks	\$ 9,622	\$ 5,904
Trade accounts payable	20,147	11,999
Accrued interest payable	1,146	565
Accrued liabilities	23,612	15,759
Customer advances	3,787	7,400
Current maturities of long-term debt	39,708	29,545
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	98,022	71,172
LONG-TERM DEBT	138,029	62,745
DEFERRED INCOME TAXES	17,912	10,397
MINORITY INTERESTS	12,964	11,065
SHAREHOLDERS' EQUITY:		
Common Stock, no par or stated value:		
Authorized 10 million shares		
Issued 1,471,191 shares	5,139	5,139
Additional paid-in capital	7,873	8,037
Retained earnings	23,776	18,631
Treasury stock of 92,528 and 92,533 shares, at cost	(1,276)	(1,276)
	<hr/>	<hr/>
TOTAL SHAREHOLDERS' EQUITY	35,512	30,531
	<hr/>	<hr/>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$302,439	\$185,910
	=====	=====

</TABLE>

See accompanying notes.

LYNCH CORPORATION AND SUBSIDIARIES
Consolidated STATEMENTS OF INCOME

LYNCH CORPORATION AND SUBSIDIARIES

<TABLE>

<CAPTION>

(Dollars In Thousands,
Except per Share Amounts)

<S>	Year ended December 31		
	1995	1994	1993
	<hr/>	<hr/>	<hr/>
<S>	<C>	<C>	<C>
SALES AND REVENUES:			
Multimedia	\$ 23,597	\$ 20,144	\$ 16,206
Services	122,303	101,880	82,829
Manufacturing	192,266	66,678	28,004

	338,166	188,702	127,039
COSTS AND EXPENSE:			
Multimedia	17,889	14,239	11,084
Services	111,672	92,155	75,243
Manufacturing	152,568	50,064	19,243
Selling and administrative	36,722	21,449	14,851
	<u>318,851</u>	<u>177,907</u>	<u>120,421</u>
OPERATING PROFIT	----- 19,315	----- 10,795	----- 6,618
Other income (expense):			
Investment income	3,070	2,446	2,112
Interest expense	(10,892)	(6,526)	(5,686)
Share of operations of affiliated companies	398	(301)	(69)
Gain on sales of subsidiary and affiliate stock	59	190	4,326
	<u>11,950</u>	<u>6,604</u>	<u>7,301</u>
INCOME BEFORE INCOME TAXES, MINORITY INTERESTS, EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	11,950	6,604	7,301
Provision for income taxes	(4,686)	(2,652)	(2,448)
Minority interests	(2,119)	(1,360)	(737)
	<u>5,145</u>	<u>2,592</u>	<u>4,116</u>
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	5,145	2,592	4,116
Loss on early extinguishment of debt, net of income tax benefit of \$135 and \$106	--	(264)	(206)
Cumulative effect to January 1, 1993 of change in accounting for income taxes	--	--	(957)
NET INCOME	<u>\$ 5,145</u>	<u>\$ 2,328</u>	<u>\$ 2,953</u>
	=====	=====	=====

LYNCH CORPORATION AND SUBSIDIARIES
Consolidated STATEMENTS OF INCOME (Cont'd)

Weighted average shares and share equivalents outstanding	1,407,000	1,337,000	1,226,000
Primary earnings per share:			

Income before extraordinary item and cumulative effect change	\$ 3.66	\$ 1.94	\$ 3.36
Extraordinary item	--	(.20)	(.17)
Cumulative effect change	--	--	(.78)
NET INCOME	<u>\$ 3.66</u>	<u>\$ 1.74</u>	<u>\$ 2.41</u>
	=====	=====	=====

Fully diluted earnings per share:

Income before extraordinary item and cumulative effect change	\$ 3.66	\$ 1.88	\$ 2.98
Extraordinary item		(.16)	(.12)
Cumulative effect change		--	(.57)
NET INCOME	<u>\$ 3.66</u>	<u>\$ 1.72</u>	<u>\$ 2.29</u>
	=====	=====	=====

</TABLE>

See accompanying notes.

LYNCH CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows

LYNCH CORPORATION AND SUBSIDIARIES

<TABLE>

<CAPTION>

(Dollars In Thousands)

	Year ended December 31		
	1995	1994	1993
	<u><C></u>	<u><C></u>	<u><C></u>
Operating activities			
Net income	\$ 5,145	\$ 2,328	\$ 2,953
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,276	7,497	5,893
Net effect of (purchases) and sales of trading securities	2,079	5,450	--
Deferred taxes	201	(1,505)	1,830
Share of operations of affiliated companies	(398)	301	69
Minority interests	2,119	1,360	618

Gain on Morgan \	--	--	(3,851)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Receivables	(3,704)	(11,243)	(340)
Inventories	1,539	(949)	416
Accounts payable and accrued liabilities	10,417	12,234	2,062
Other	(1,496)	(1,026)	(379)
Other	--	109	479
	-----	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	27,178	14,556	9,750
	-----	-----	-----
INVESTING ACTIVITIES			
Acquisitions (total cost less debt assumed and cash equivalents acquired):			
Central Products Company	(85,072)	--	--
CLR Video	(5,242)	--	--
Transport Drivers, Inc.	(2,806)	--	--
Personal Communications Services Partnerships	(7,010)	--	--
Brown-Bridge Industries Inc.	--	(29,071)	--
Haviland Telephone Company	--	(2,854)	--
JBN Telephone Company	--	--	(6,698)
Other	--	--	(1,141)
Capital expenditures	(19,569)	(11,598)	(4,356)
Sales (purchases) of marketable securities, net	--	--	(4,724)
Net investment in Capital Communications, Inc.	3,000	(2,541)	(26)
Other	(1,349)	(288)	(291)
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(118,048)	(46,352)	(17,236)
	-----	-----	-----

</TABLE>

See accompanying notes.

LYNCH CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)

LYNCH CORPORATION AND SUBSIDIARIES
<TABLE>
<CAPTION>
(Dollars In Thousands)

Year ended December 31
1995 1994 1993

FINANCING ACTIVITIES			
<S>	<C>	<C>	<C>
Issuance of long-term debt	90,167	31,477	6,688
Payments to reduce long-term debt	(4,720)	(3,439)	(7,979)
Debenture redemption/conversion	--	(11,835)	(6,144)
Net borrowings, lines of credit	3,718	3,957	285
Sale of treasury stock	--	2,290	--
Conversion of debentures into common stock	--	1,597	--
Minority interest transactions	(220)	906	8,597
Other	(164)	305	(152)
NET CASH PROVIDED BY FINANCING ACTIVITIES	88,781	25,258	1,295
Net decrease in cash and cash equivalents	(2,089)	(6,538)	(6,191)
Cash and cash equivalents at beginning of year	18,010	24,548	30,739
Cash and cash equivalents at end of year	\$15,921	\$18,010	\$24,548

</TABLE>

Consolidated Statements of Shareholders' Equity

<TABLE>

<CAPTION>

(Dollars In Thousands)

	Shares of Common Stock Outstanding	Additional Common Stock	Paid-in Capital	Retained Earnings
<S>	<C>	<C>	<C>	<C>
Balance at January 1, 1993	1,225,660	\$3,542	\$7,126	\$13,350
Purchase of treasury stock	(13)	--	--	--
Issuance of treasury stock	30	--	--	--
Net income for the year	--	--	--	2,953
Balance at December 31, 1993	1,225,677	3,542	7,126	16,303
Sale of stock to Officer	100,000	--	910	--
Conversion of Debentures	52,881	1,597	--	--
Issuance of treasury stock	100	--	1	--
Net income for the year	--	--	--	2,328

Balance at December 31, 1994	1,378,658	5,139	8,037	18,631
Issuance of treasury stock	5	--	--	--
Capital transactions of The Morgan Group Inc.	--	--	(164)	--
Net income for the year	--	--	--	5,145
Balance at December 31, 1995	<u>1,378,663</u>	<u>\$5,139</u>	<u>\$7,873</u>	<u>\$23,776</u>

</TABLE>

See accompanying notes.

Lynch Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1995

1. Accounting and Reporting Policies principles of Consolidation: The consolidated financial statements include the accounts of Lynch Corporation ("Company" or "Lynch") and entities in which it has majority voting control. Investments in affiliates in which the Company does not have majority voting control are accounted for in accordance with the equity method. All material intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Cash Equivalents: Cash equivalents consist of highly liquid investments with a maturity of less than three months when purchased.

At December 31, 1995 and 1994, assets of \$7.9 million and \$13.4 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.

Marketable Securities and Short-Term Investments: On January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (Statement No. 115). Under Statement No. 115, the accounting for investments depends on the classification of such securities as either held-to-maturity, available-for-sale, or trading.

Marketable securities and short-term investments consist principally of U.S. Treasury obligations, preferred and common stocks and bonds. At December 31, 1995, all marketable securities and United States Treasury money market funds

classified as cash equivalents were classified as trading, with the exception of an equity security with a carrying value of \$0.9 million which was classified as available-for-sale. Trading and available-for-sale securities are stated at fair value with unrealized gains or losses on trading securities included in earnings and unrealized gains or losses on available-for-sale securities included in a separate component of shareholders' equity. Unrealized gains (losses) of \$408,000, and (214,000) for December 31, 1995 and 1994 on trading securities have been included in earnings. There was no adjustment to shareholders' equity for the available-for-sale security at December 31, 1995.

The cost of marketable securities sold is determined on the specific identification method. Realized gains of \$529,000 and \$293,000, and realized losses of \$108,000 and \$233,000 are included in other income for the years ended December 31, 1995 and 1994.

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

Excess of Cost Over Net Assets of Companies Acquired: Excess of cost over net assets of companies acquired (goodwill) is being amortized on a straight-line basis over periods not exceeding forty years. The Company periodically reviews goodwill to assess recoverability, and impairments would be recognized in operating results if a permanent diminution in value were to occur. The Company measures the potential impairment of recorded goodwill by the undiscounted value of expected future operating cash flows in relation to its net capital investment in the subsidiary. The Company does not believe that an impairment of its goodwill has occurred.

Multimedia: Multimedia revenues include local and intrastate telephone company service revenues which are subject to review and approval by state public utility commissions, and long distance network revenues, which are based upon charges to long distance carriers through a tariff filed by the National Exchange Carriers Association with the Federal Communications Commission. Revenues are based on cost studies for the Company's exchanges, and have been estimated pending completion of final cost studies.

Services: Service revenues and related estimated costs of transportation are recognized when transportation of the manufactured housing, recreational vehicle or other product is completed.

Liability insurance is maintained with a deductible amount for claims resulting from personal injury and property damage. Provisions are made for the estimated liabilities for the self-insured portion of such claims as incurred.

Manufacturing: Manufacturing revenues, with the exception of certain long-term contracts discussed below, are recognized on shipment.

Research and Development Costs: Research and development costs are charged to operations as incurred. Such costs approximated \$1,673,000 in 1995, \$1,231,000 in 1994 and \$622,000 in 1993.

Earnings Per Share: Earnings per common and common equivalent share amounts are based on the average number of common shares outstanding during each period, assuming the exercise of all stock options having an exercise price less than the average market price of the common stock using the treasury stock method. Fully diluted earnings per share reflect the effect, where dilutive, of the debentures when outstanding and the exercise of all stock options having an exercise price less than the greater of the average or the closing market price of the Common Stock of the Company at the end of the period using the treasury stock method.

Accounting for Long-Term Contracts: Lynch Machinery, Inc., a 90% owned subsidiary of the Company, produces specialized machines under long-term contracts. Because of the specialized nature of these machines and the period of time needed to complete production and shipping, Lynch Machinery accounts for these contracts using the percentage of completion method.

Impairments: In 1995, the Financial Accounting Standards Board ("FASB") issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which is effective for fiscal years beginning after December 15, 1995. The Company is studying this Statement but does not believe its adoption will have a material impact on the financial statements.

Stock Based Compensation: Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation was issued in October 1995 and is effective for fiscal years beginning after December 15, 1995. The Statement establishes financial accounting and reporting standards for stock based compensation plans. Companies may elect to account for such plans under the fair value method or to continue previous accounting and disclose proforma net earnings and earnings per share as if the fair value method was applied. The Company has not yet determined the potential financial statement impact of this Statement, nor has it determined how it will initially adopt this Statement.

Fair Value of Financial Instruments Cash and cash equivalents, trade accounts receivable, short-term borrowings, trade accounts payable and accrued liabilities are carried at cost which approximates fair value due to the short-term maturity of these instruments. The carrying amount 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 all other long-term obligations approximate cost based on discounted cash flows using the Company's incremental borrowing rate for similar instruments.

Reclassifications: Certain amounts in the 1994 and 1993 financial statements have been reclassified to conform to the 1995 presentation.

2. Acquisitions

On October 4, 1995, Central Products Acquisition Corp., a wholly-owned subsidiary of Spinnaker Industries, Inc. (an 83% owned subsidiary of Lynch) acquired from Alco Standard Corporation ("Alco"), the assets and stock of Central Products Company. Central Products manufactures and markets a wide variety of carton sealing tapes and related equipment. The cost of the acquisition was \$80.0 million. As a result of this transaction, the Company recorded \$27.2 million in goodwill which is being amortized over 25 years.

On September 26, 1994, Lynch Telephone Corporation VII, a wholly-owned subsidiary of Lynch, acquired all of the outstanding shares of Haviland Telephone Company, Inc. a local exchange Company in Kansas, from InterDigital Communications Corporation. The total cost of this transaction was \$13.4 million. As a result of this transaction, the Company recorded \$8.2 million in goodwill which is being amortized over 25 years.

On September 19, 1994, Brown-Bridge Industries, Inc., an 80.1% owned subsidiary of Spinnaker Industries, Inc., acquired from Kimberly-Clark Corporation the net assets associated with its Brown-Bridge operation, a manufacturer of adhesive coated stock for labels and related applications. The cost of the transaction was \$29.1 million, plus \$6.9 million in current liabilities assumed.

On March 1, 1994, Capital Communications Corporation, 49% owned by Lynch, acquired certain assets associated with the operations of Station WOI-TV from Iowa State University. Station WOI is an ABC affiliate serving the Des Moines, Iowa market. The total cost of the transaction was \$13.0 million.

On November 30, 1993, Lynch Telephone VI ("Lynch Tel VI"), a 98% owned subsidiary of Lynch, acquired all of the outstanding shares of J.B.N. Telephone Company, Inc. ("JBN"), a local exchange Company in Kansas from GTE Corporation. The total cost of the transaction was \$9.4 million.

All of the above transactions were accounted for as purchases, and accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair market values.

The operating results of the acquired companies are included in the consolidated statements of income from their respective acquisition dates. The following unaudited combined pro forma information shows the results of the Company's operations presented as though the purchases of Central Products were made at the beginning of 1994, and Haviland, Brown-Bridge, Station WOI-TV and JBN had been made at the beginning of 1993.

<TABLE>
<CAPTION>

Year Ended		
December 31		
1995	1994	1993
-----	-----	-----

(In Thousands,
Except per Share Data)

<S>	<C>	<C>	<C>
Sales and revenues	\$429,435	\$364,388	\$216,331
Income before extraordinary item and cumulative effect of accounting change	5,186	2,525	5,176
Net income	5,186	2,261	4,013
Income per share before extraordinary item and cumulative effect of accounting change	3.69	1.89	4.22
Net income per share	3.69	1.69	3.27

On January 25, 1995, a contract was signed for \$4.7 million with US West Communications Inc. to acquire 1,400 access lines in North Dakota. On November 4, 1995, a contract was signed for \$22.0 million, subject to certain conditions, to acquire Dunkirk & Fredonia Telephone Co., a local exchange Company in New York, with 10,700 access lines. These transactions are expected to close during 1996.

3. Inventories

Inventories are stated at the lower of cost or market value. Inventories valued using the last-in, first-out (LIFO) method comprised approximately 58% and 23% of consolidated inventories at December 31, 1995 and 1994. Inventories at Brown-Bridge, 38% and 68% of inventories at December 31, 1995 and 1994, are valued using the specific identification method. The balance of inventories are valued using the first-in first-out (FIFO) method.

<TABLE>
<CAPTION>

	December 31	
	1995	1994
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
Raw materials and supplies	\$ 10,676	\$ 5,560
Work in process	10,286	7,745
Finished goods	12,273	5,650
Total	\$ <u>33,235</u>	\$ <u>18,955</u>
	=====	=====

</TABLE>

Current cost exceeded the LIFO value of inventories by \$905,000 and \$961,000 at December 31, 1995 and 1994, respectively.

4. Investment in and Advances to Affiliated Companies Certain subsidiaries of Lynch are limited partners with a 49.9% equity interest in five partnerships which filed applications on November 6, 1995 with the Federal Communications Commission to bid in the FCC's C-Block Auction on Basic Trading Area licenses

for 30 MHz of spectrum to be used for broadband wireless personal communications services ("PCS"). Lynch has advances outstanding to these partnerships of \$7.0 million on December 31, 1995. The Company has also committed to loan these partnerships an additional \$35.3 million over the next seven years, based on the outcome of the Auction.

Lynch Entertainment Corporation ("LENCO"), a wholly-owned subsidiary of the Company, has a 20% investment in Coronet Communications Company ("Coronet"), which operates television station WHBF-TV, a CBS affiliate in Rock Island, Illinois. Lynch Entertainment Corporation II ("LENCO II"), a wholly-owned subsidiary of the Company, has a 49% investment in Capital Communications Company ("Capital"), which operates television station WOI-TV, an ABC affiliate in Des Moines, Iowa, which it acquired on March 1, 1994. The following represents condensed financial information of Coronet as of and for the years ended December 31, 1995, 1994 and 1993 and of Capital for the years ended December 31, 1995 and 1994, both derived from audited financial statements of the respective companies:

<TABLE>

<CAPTION>

	Coronet		
	1995	1994	1993
	-----	-----	-----
	(In Thousands)		
<S>	<C>	<C>	<C>
Current assets	\$ 4,670	\$ 3,892	\$ 2,627
Property and other assets	6,842	7,108	7,134
	-----	-----	-----
Total assets	\$11,512	\$11,000	\$ 9,761
	=====	=====	=====
Current liabilities, including current portion of long-term debt	\$ 4,752	\$ 3,681	\$ 2,481
Long-term debt and other liabilities	16,186	17,555	18,442
Partners' equity (deficit)	(9,426)	(10,236)	(11,162)
	-----	-----	-----
	\$11,512	\$11,000	\$ 9,761
	=====	=====	=====
Revenues	\$ 7,195	\$ 7,069	\$ 5,951
Expenses	(6,385)	(6,144)	(6,299)
	-----	-----	-----
Income (loss)	\$ 810	\$ 925	\$ (348)
	=====	=====	=====

</TABLE>

Coronet's results include depreciation and amortization expense of \$389,193, \$364,377, and \$493,088 for 1995, 1994, and 1993, respectively.

<TABLE>
<CAPTION>

	Capital	
	1995	1994
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
Current assets	\$ 5,045	\$ 3,961
Property and other assets	9,837	11,361
	-----	-----
Total assets	\$14,882	\$15,322
	=====	=====
Current liabilities, including current portion of long-term debt	2,818	1,996
Long-term debt and other liabilities	13,052	12,738
Shareholder's equity (deficit)	(988)	588
	-----	-----
	\$14,882	\$15,322
	=====	=====
Revenues	\$ 9,217	\$ 7,034
Expenses	(9,704)	(8,549)
	-----	-----
Loss before taxes	(487)	(1,515)
Tax benefit	98	606
	-----	-----
Net loss	\$ (389)	\$ (909)
	=====	=====

</TABLE>

Capital's results include depreciation and amortization expense of \$1,842,684 and \$2,153,000 for 1995 and 1994, respectively. The long-term debt of Coronet at December 31, 1995 is comprised of \$14.5 million due to a third party lender and \$2.8 million due to LENC0. The third party debt is due in February 1997, and is at an average interest rate of 9.26%. The debt to LENC0 is due June 15, 1997 and is at a fixed rate of 10%, composed of a quarterly cash payment of 6% and a payment-in-kind of 4%, compounded annually. The Company recorded interest income on this debt of \$276,000, \$265,000, and \$261,000 for the years ended December 31, 1995, 1994, and 1993, respectively. LENC0 has a \$980,000 net investment in Coronet at December 31, 1995 and has guaranteed \$4.0 million of \$11.7 million of Coronet's third party debt. The subordinated debt and Preferred Stock A provided by LENC0 II to acquire the assets of Station WOI-TV on March 1, 1994, was fully paid off on December 15, 1995. The third party financing agreement between Capital Communications, Inc. ("Capital") was refinanced during 1995 with the principal sum increasing to \$14 million. The loan is to be paid off in consecutive, quarterly principal payments until December 31,

2002 at which time the remaining balance of the debt, \$5.0 million becomes due. Interest shall be paid at a rate per annum equal to the Prime Rate adjusted monthly on the first business day of each month. The interest rate at December 31, 1995 was 8.75%. LENCO II also owns \$10,000 of Preferred Stock B of Capital, which is convertible at any time into the Common Stock of Capital in a sufficient amount to bring LENCO II's ownership to 50%. LENCO II's investment in Capital at December 31, 1995 has been reduced to zero as its share of net losses would have exceeded its net investment.

On October 31, 1993, Tremont Advisers, Inc. ("Tremont") exercised its option to acquire 1,000,000 shares of Tremont's Class B Common Stock, \$.01 par value, from Lynch at \$.40 per share. This sale and the proceeds from the option resulted in a gain of \$475,000, for which there is no tax provision, or \$.39 per share which is included in the 1993 gain on sale of subsidiary and affiliate stock.

5. Intangible Assets

Intangible assets include acquisition intangibles of \$53.1 million and \$26.4 million, net of accumulated amortization of \$5.5 million and \$2.9 million, at December 31, 1995 and 1994, respectively.

6. Notes Payable and Long-term Debt

The Company maintains lines of credit with banks which aggregate \$35.8 million, of which \$18.5 million was available at December 31, 1995. These lines are secured by operating assets of the related subsidiaries (\$38.1 million). The line of credit agreements expire in 1996, are renewable annually, and are at interest rates ranging from prime less .25%, to prime plus 1%. The Company's outstanding balances under these lines of credit and standby letters of credit totaled approximately \$5.9 million at December 31, 1995, securing various insurance obligations and customer advances. Several of the credit agreements contain covenants restricting distributions. At December 31, 1995 and 1994, \$5.6 million and \$5.7 million, respectively, of subsidiaries' retained earnings were restricted under these agreements.

Spinnaker Industries, Inc. also maintains lines of credit with banks for working capital needs at each subsidiary which aggregate \$45.5 million. Spinnaker had cash advances of \$27 million outstanding under the lines of credit as of December 31, 1995. Interest on all outstanding borrowings bear interest at variable rates related to the prime interest rate or the lender's base rate. At December 31, 1995, the interest rates in effect ranged from 8.5% to 11%. Credit availability under the lines of credit are subject to certain variables, such as the amount of inventory and receivables eligible to be included in the borrowing base. These lines are secured by the operating assets of certain Spinnaker subsidiaries. Spinnaker is required to comply with various covenants including a limitation on capital expenditures, interest and fixed charge coverage, and minimum levels of operating earnings, as well as various other financial covenants. Certain of the lines of credit require the payment of a fee based upon the face amount of each letter of credit issued. The line of credit agreements expire in 1997 for Entoleter, 2000 for CPC, and 1997 for Brown-Bridge and are renewable annually.

Long-term debt consists of (all interest rates at December 31, 1995):

<TABLE>

<CAPTION>

	December 31	
	1995	1994
	----	----
	(In Thousands)	
<S>	<C>	<C>
Rural Utilities Service and Rural Telephone Bank notes payable in equal quarterly installments through 2023 at fixed interest rates ranging from 2% to 7% (3.0% weighted average), secured by assets of the telephone companies of \$67.1 million	\$ 27,543	\$ 24,283
Bank credit facilities utilized by certain telephone and telephone holding companies through 2010, \$17.4 million at a fixed interest rate averaging 10.4% and \$10.9 million at variable interest rates averaging 8.6%	28,255	24,158
Unsecured notes issued in connection with telephone company acquisitions at an interest rate of 10% due from 1996 to 2003	16,149	16,266
Bank Debt associated with Central Products:		
Revolving line of credit at interest rate of (9.75%) expiring in 2000	14,126	--
Term loan at interest rate of (9.5%), due in installments through 2002	19,625	--
Term loan at interest rate of (10.5%), due in installments through 2002	16,000	--
Notes issued to seller:		
Term loan due 2003 at fixed interest rates of (8%) see below	15,000	--
Term loan due in installments through 2002 at fixed interest rate of (11%) see below	10,000	--
Subordinated loan due in installments through 1998 at fixed interest rate of (0%)	5,000	--
Bank debt associated with Brown-Bridge:		
Revolving line of credit at interest rate of prime plus 1.25% (9.75%) expiring in 1999	12,646	13,180
Term loan at interest rate of prime plus 1.25% (9.75%), due in installments through 1999	6,691	9,000
Other	6,702	5,403
	-----	-----
	177,737	92,290

Current maturities

(45,208) (29,545)

\$132,529 \$ 62,745

=====

</TABLE>

As part of Spinnaker's acquisition of Central Products Company from Alco Standard on October 4, 1995 (see note 2), Alco provided two loans totaling \$25 million and received the right to sell these notes to Spinnaker and demand payment (the "Put Agreements"). Lynch agreed to guarantee the notes and provide funds for the Put Agreement. As of January 2, 1996, Alco exercised its rights under the Put Agreements to sell the notes back to Spinnaker and in connection therewith, as described below, Spinnaker entered into a new financing agreement with the seller and a third party to make a partial principal payment on the note and replace the balance with a new financing arrangement.

On April 5, 1996, Spinnaker entered into an agreement with a third party for an \$8.5 million bridge loan. The bridge loan is due on December 30, 1996 and if not paid will convert into a 5 year term loan. The third party will be entitled to receive a warrant to purchase 2.5% of the common equity of Spinnaker for each quarter the term loan is outstanding up to 20% on a fully diluted basis, of the common equity of Spinnaker. The bridge loans bears interest at the greater of the LIBOR reference rate or the Treasury rate plus 5% for the first 90 days, then incrementally increasing by .25% for every subsequent 90 day period.

On April 5, 1996 the rate in effect was 10.4%. Spinnaker may also fix the rate at 18% if the floating rate increases to or above that rate. The bridge loan and term loan include a payment in kind ("PIK") feature that allows Spinnaker to pay any interest in excess of 16% (the maximum cash interest) by issuing additional bridge notes. Also on April 5, 1996, an entity affiliated with Richard J. Boyle and Ned N. Fleming III ("BF"), the Company's Chairman and Chief Executive Officer and President, respectively, exercised warrants to purchase 187,467 shares of Spinnaker's common stock resulting in proceeds of \$500,000 which will be used by the Company to make scheduled interest payments on the bridge and term loans. The agreement requires BF to continue to exercise its warrants to provide funds to satisfy the outstanding interest that will be due on the bridge and term loans. Spinnaker is pursuing actively various alternatives to refinance the indebtedness of Spinnaker and its subsidiaries, including refinancing the bridge loan before it matures. There can be no assurance that Spinnaker can successfully complete any such refinancing.

Concurrently with the closing of the bridge loan, Spinnaker paid Alco \$7.5 million of which \$5.5 million was a principal payment on the \$25 million note, approximately \$1.0 million related to accrued interest, and \$1.0 million was applied toward a \$1.75 million purchase price for a warehouse facility in Denver, Colorado. The unpaid balance of the \$25 million note, together with the balance due on the warehouse facility was restructured into a series of new convertible subordinated notes consisting of the following:

(a) A 7%, \$6 million convertible subordinated note that automatically converts

including accrued interest, into Spinnaker common stock 30 days after the execution of the note at a conversion price per share of approximately \$35. After conversion, Alco is entitled to sell the shares. If the proceeds of this sale are less than \$6 million, Spinnaker is required to pay the difference between \$6 million and the sales proceeds to Alco either in cash or an equivalent number of common shares;

(b) A 7%, \$7 million convertible subordinated note due April 1997. The note contains a PIK feature that allows Spinnaker, at its option, to satisfy the interest by increasing the principal amount of the note. However, if Spinnaker selects the PIK option, the interest rate on the note is 9%. All or any part of this note can be converted at Alco's option into shares of Spinnaker's common stock after April 1, 1997 at the then market price; and (c) A 7%, \$7.25 million convertible subordinated note due April 1998. The note contains a PIK feature that allows Spinnaker, at its option, to satisfy the interest by increasing the principal amount of the note. However, if Spinnaker selects the PIK option, the interest rate on the note is 9%. All or any part of this note can be converted at Alco's option into shares of Spinnaker's stock after April 1, 1998 at the then current market price.

The Company has pledged its shares of Spinnaker stock to secure the new convertible subordinated notes and bridge loan. Based on the terms of the bridge loan and the restructured subordinated notes with Alco, the Company has classified the \$25 million subordinated notes to Alco as long-term.

RUS debt of \$27.5 million bearing interest at 2% has been reduced by a purchase price allocation of \$3.6 million reflecting an imputed interest rate of 5%. Unsecured notes issued in connection with the telephone company acquisitions are predominantly held by members of management of the telephone operating companies.

In July 1986, the Company issued \$23.0 million principal amount of 8% convertible subordinated debentures. These debentures were unsecured obligations of the Company and were convertible into Common Stock at a price of \$31 per share prior to maturity. Through September 21, 1994, the Company had either purchased on the open market or redeemed \$11.2 million of the original issuance. At that date, in accordance with the terms of the debenture indenture, the Company called for redemption all of the remaining debentures outstanding, at 101.6% of their face amount plus accrued interest. The redemption was completed on October 24, 1994, and \$10,195,000 of the debentures were redeemed and \$1.6 million were converted into 52,881 shares of Common Stock at \$31 per share before allocation of related expenses. As a result of the redemption, the Company recognized in 1994 an extraordinary loss of \$264,000, net of taxes. On October 18, 1993, the Company redeemed \$6.0 million principal amount of debentures at 102.4% of face value plus accrued interest to that date. As a result of this redemption, the Company recognized in 1993 an extraordinary loss of \$206,000, net of taxes.

Cash payments for interest were \$10.6 million, \$6.2 million and \$5.5 million for the years ended December 31, 1995, 1994 and 1993, respectively.

Aggregate principal maturities of long-term debt for each of the next five years

are as follows: 1996 - \$64.7 million, 1997 - \$8.9 million; 1998 - \$11.6 million, 1999 - \$11.8 million, and 2000 - 14.1 million.

7. Minority Interests and Related Party Transactions

In October 1989, Lynch Telephone Corporation, an 80.1% owned subsidiary, purchased 100% of the capital stock of Western New Mexico Telephone Company, Inc. ("Western"), an independent local telephone company serving southwestern New Mexico. The sellers of Western own 19.9% of Lynch Telephone Corporation and have been granted an option to acquire stock equal to an additional 30.1% interest of the shares currently outstanding, which was extended in 1993 to become exercisable during a three month period commencing October 19, 1996, at a formula price. In addition, during 1993, Lynch secured the right to acquire stock equal to 15% of Lynch Telephone Corporation at terms similar to the sellers' option.

On July 22, 1993, Morgan completed an initial public offering ("IPO") of 1,100,000 shares of its Class A Common Stock, \$.015 par value, at \$9.00 per share. In accordance with Lynch's policy of recognizing a gain or loss on the sale of stock by a subsidiary, a pre-tax gain of approximately \$3.9 million (\$2.2 million after tax, \$1.84 per share) was recorded in connection with Morgan's IPO. Lynch's ownership of 150,000 Class A shares (acquired during 1995) and 1,200,000 Class B shares of Morgan entitles it to a voting control and, therefore, Lynch consolidates Morgan's results in its financial statements. In accordance with FASB Statement No. 109, a deferred tax liability is recognized for the difference between the financial reporting basis and the tax basis of the Company's investment in Morgan. On June 4, 1993, the Board of Directors of Morgan approved the adoption of a stock option plan which provides for the granting of incentive or nonqualified stock options to purchase up to 200,000 shares of Class A Common Stock to officers, including members of Morgan's Board of Directors, and other key employees. No options may be granted under this plan at less than the fair market value of the Common Stock at the date of the grant, except for certain nonemployee directors. Three nonemployee directors were granted nonqualified stock options to purchase a total of 24,000 shares of Class A Common Stock at prices ranging from \$6.80 to \$9.00 per share. Although the exercise period is determined when options are actually granted, an option shall not be exercised later than 10 years and one day after it is granted. Stock options granted will terminate if the grantee's employment terminates prior to exercise for reasons other than retirement, death, or disability. Employees have been granted nonqualified stock options to purchase 163,500 shares of Class A Common Stock at an exercise price from \$7.50 to \$8.75 per share. These options will vest over a four year period pursuant to the terms of the plan. As of December 31, 1995, options to purchase 61,000 shares were exercisable.

On June 13, 1994, Spinnaker entered into a series of agreements with Boyle, Fleming & Co., Inc. ("BF"), of whom a former Director of the Corporation is a principal, for BF to assume the management of Spinnaker. As part of these arrangements, BF received warrants to purchase 678,945 shares of Spinnaker Common Stock (equating to a 20% ownership of Spinnaker) at a price of \$2.67 per share (adjusted for a 3 for 2 stock split which was effective December 29,

1995) at any time prior to or before June 10, 1999, subject to certain conditions. On April 5, BF exercised warrants to purchase 187,476 shares of Spinnaker's Common Stock at the 2.67 per share. BF may also, on the occurrence of an equity offering by Spinnaker Industries, Inc., receive warrants to acquire additional shares of Spinnaker at terms to be determined at the time of the offering.

During 1994, Brown-Bridge granted certain of its key executives options to purchase up to 71,065 shares of Brown-Bridge's common stock at various prices between \$7.16 and \$14.69 per share. Brown-Bridge currently has 1,000,000 common shares outstanding. The options become exercisable (i) in cumulative installments of one-fifth each year if certain levels of profitability, as defined in the plan, are met, or (ii) seven years from the date of grant. The options were issued at not less than 100% of the fair market value of the common stock at the date of grant. The Company, pursuant to Indiana law and the Company's Articles of Incorporation, has reimbursed its Chairman and Chief Executive Officer, for \$392,000 of legal fees incurred in connection with a regulatory inquiry. Amounts relating to this reimbursement were charged to the Company's results of operations for the years ended December 31, 1994 (\$317,000) and 1993 (\$75,000).

On January 19, 1994, Lynch sold 100,000 shares of common stock held in its treasury to its Chairman and Chief Executive Officer at \$22.875 per share, the closing price in trading of Lynch common stock on The American Stock Exchange on that date. The transaction was approved by the Company's shareholders at its annual meeting held on May 5, 1994.

8. Shareholders' Equity

In 1987, 1988 and 1992, the Board of Directors authorized the purchase of up to 300,000 shares of Common Stock. Through December 31, 1995, 230,861 shares had been purchased at an average cost of \$13.15 per share. In January 1994, two officers were granted stock options to purchase up to 86,000 shares of Lynch common stock. Approximately 24,500 options were granted at an exercise price of \$23.125, the closing price on the American Stock Exchange on January 18, 1994. These options are fully vested and outstanding. During 1995, the balance of the options were canceled.

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 is fixed, and the conversion to common stock is based upon the market price at the end of the previous year. In February, 1996, the Company awarded 1,428 shares under this program. Such shares will vest during 1996.

On February 29, 1996, the Company adopted a Phantom Stock Option Plan for certain employees. To date, 7,400 of Phantom Stock Options ("PSO") have been granted at a price of \$63 per share. Upon the exercise of a PSO, the holder is entitled to receive an amount equal to the amount by which the market value of the Company's common stock on the exercisable date exceeds the exercise price of the PSO.

9. Income Taxes

The Company changed its method of accounting for income taxes in 1993 from the deferred method to the liability method required by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). The adoption of SFAS 109, which resulted in a cumulative effect charge of \$957,000 or \$.78 per share, is reported in the 1993 Consolidated Statement of Income. Accordingly, prior years' financial statements have not been restated to apply the provisions of SFAS 109.

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Cumulative temporary differences and carry forwards at December 31, 1995 and 1994 are as follows:

<TABLE>

<CAPTION>

	December 31, 1995		December 31, 1994	
	Deferred Tax		Deferred Tax	
	Asset	Liability	Asset	Liability
	-----	-----	-----	-----
	(In Thousands)			
<S>	<C>	<C>	<C>	<C>
Inventory reserve	\$ 485	--	\$ 500	--
Fixed assets written up under purchase accounting and tax over book depreciation	--	\$12,438	--	\$ 5,622
Discount on long-term debt	--	1,398	--	1,511
Basis difference in subsidiary and affiliate stock	85	1,750	165	1,686
Partnership tax losses in excess of book losses	--	1,249	--	1,139
Other reserves and accruals	2,620	--	2,331	--
Other	952	1,077	154	439
	-----	-----	-----	-----
Valuation allowance	4,142	17,912	3,150	10,397
	(198)	--	(278)	--
	-----	-----	-----	-----
Total deferred income taxes	\$3,944	\$17,912	\$2,872	\$10,397
	=====	=====	=====	=====

</TABLE>

The provision for income taxes is summarized as follows:

<TABLE>
<CAPTION>

	1995	1994	1993
	-----	-----	-----
	(In Thousands)		
Current payable taxes:			
<S>	<C>	<C>	<C>
Federal	\$4,235	\$3,203	\$1,239
State and local	957	954	455
	-----	-----	-----
	5,192	4,157	1,694
	-----	-----	-----
Deferred taxes:			
Federal	(446)	(1,223)	397
State and local	(60)	(282)	357
	-----	-----	-----
	(506)	(1,505)	754
	-----	-----	-----
	\$4,686	\$2,652	\$2,448
	=====	=====	=====

</TABLE>

A reconciliation of the provision for income taxes and the amount computed by applying the statutory federal income tax rate to income before income taxes, minority interest, extraordinary item, and cumulative effect of accounting change follows:

<TABLE>
<CAPTION>

	1995	1994	1993
	-----	-----	-----
	(In Thousands)		
<S>	<C>	<C>	<C>
Tax at statutory rate	\$4,063	\$2,245	\$2,482
Increases (decreases):			
State and local taxes, net of federal benefit	592	449	536
Amortization of excess of acquired net assets cost, net	64	1	(1)
Unremitted earnings of domestic subsidiary	91	109	50
Deferred tax asset recognized from prior years	--	--	(262)
Sale of subsidiary stock	--	(65)	(193)
Losses of unconsolidated affiliates	--	224	--
Reduction attributable to special election by captive insurance			

company	(223)	(202)	(300)
Other	99	(109)	136
	-----	-----	-----
	\$4,686	\$2,652	\$2,448
	=====	=====	=====

</TABLE>

Net cash payments for income taxes were \$4.2 million, \$2.3 million and \$1.8 million for the years ended December 31, 1995, 1994 and 1993, respectively.

10. Contingencies

Lynch has pending claims incurred in the normal course of business. Management believes that the ultimate resolution of these claims will not have a material adverse effect on the consolidated financial position or the results of operations of Lynch.

Pursuant to the Acquisition Agreement with Alco (see Note 2), Central Products assumed sponsorship of a defined benefit pension plan for union employees. Central Products also agreed to establish a new defined benefit plan for its non-union employees. Alco retained the defined benefit pension obligation for non-union retirees as of September 30, 1995 and any non-union employees not hired by Central Products.

The agreement requires Alco to transfer assets to Central's plans equal to the present value of accrued benefits as of September 30, 1995, as defined in the Agreement plus a defined rate of interest to the transfer date.

Central Products' management believes that it was the intent of Alco that the defined benefit pension obligations for the union and non-union employees be "fully funded" by Alco. Accordingly, Central Products has not recorded the unfunded projected benefit obligation of \$1.5 million as a liability when recording the purchase accounting entries.

11. Segment Information

The Company is principally engaged in three business segments: multimedia, services and manufacturing. All businesses are located domestically, and export sales were approximately \$41 million in 1995, \$16.5 million in 1994 and \$9.3 million in 1993. The Company does not believe it is dependent on any single customer. The multimedia segment includes local telephone companies and investments in two network-affiliated television stations. The services segment includes transportation and related services. \$11.8 million of the Company's accounts receivable are related to the services segment and are principally due from companies in the mobile home and recreational vehicle industry located throughout the United States, including several located in the Midwest and Southeast. Services provided to one major mobile home manufacturer accounted for approximately \$29.4 million, \$27.5 million, and \$18.8 million in revenues of the services segment for the years ended December 31, 1995, 1994, and 1993, respectively. The manufacturing segment includes the manufacture and sale of adhesive coated stock for labels and related applications, glass forming, impact

milling, adhesive tapes, and other machinery and related replacement parts, as well as quartz crystals and oscillators. There were no intersegment sales or transfers.

Operating profit (loss) is equal to revenues less operating expenses, excluding unallocated general corporate expenses, interest and income taxes. The Company allocates a portion of its general corporate expenses to its operating segments. Such allocation was \$965,000, \$790,000 and \$657,000 during the years ended December 31 1995, 1994 and 1993, respectively. Identifiable assets of each industry segment are the assets used by the segment in its operations excluding general corporate assets. General corporate assets are principally cash and cash equivalents, short-term investments and certain other investments and receivables.

<TABLE>

<CAPTION>

	Year ended December 31		
	1995	1994	1993
	-----	-----	-----
	(In Thousands)		
Revenues			
<S>	<C>	<C>	<C>
Multimedia	\$ 23,597	\$ 20,144	\$ 16,206
Services	122,303	101,880	82,829
Manufacturing	192,266	66,678	28,004
	-----	-----	-----
	\$338,166	\$188,702	\$127,039
	=====	=====	=====
Operating profit			
Multimedia	\$ 4,938	\$ 5,164	\$ 4,520
Services	3,371	3,434	2,270
Manufacturing	13,880	3,675	1,209
Unallocated corporate expense	(2,874)	(1,478)	(1,381)
	-----	-----	-----
	\$ 19,315	\$ 10,795	\$ 6,618
	=====	=====	=====
Capital expenditures			
Multimedia	\$ 14,051	\$ 8,410	\$ 2,138
Services	2,135	1,434	1,393
Manufacturing	3,373	1,743	825
General corporate	10	11	--
	-----	-----	-----
	\$ 19,569	\$ 11,598	\$ 4,356
	=====	=====	=====
Depreciation and amortization			
Multimedia	\$ 7,350	\$ 5,651	\$ 4,400
Services	1,264	915	803
Manufacturing	2,662	931	690
	-----	-----	-----

	\$ 11,276	\$ 7,497	\$ 5,893
	=====	=====	=====
Assets			
Multimedia	\$102,998	\$ 92,151	\$ 73,043
Services	30,796	28,978	24,519
Manufacturing	162,819	62,260	18,349
General corporate	5,826	2,521	14,061
	-----	-----	-----
	\$302,439	\$185,910	\$129,972
	=====	=====	=====

</TABLE>

12. Quarterly Results of Operations (unaudited) The following is a summary of the quarterly results of operations for the years ended December 31, 1995 and 1994 (in thousands, except per share amounts):

<TABLE>

<CAPTION>

	1995 Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Sales and revenues	\$69,788	\$76,874	\$81,546	\$109,958
Operating profit	4,034	4,278	4,763	6,240
Net income	1,125	1,156	1,293	1,571
Primary earnings per share:				
Net income	.80	.82	.92	1.13
Fully diluted earnings per share:				
Net income	.80	.82	.92	1.13

1994 Three Months Ended

	March 31	June 30	Sept. 30	Dec. 31
	-----	-----	-----	-----
Sales and revenues	\$36,071	\$39,678	\$44,687	\$68,265
Operating profit	1,740	2,351	3,011	3,693
Income before extraordinary item and cumulative effect of accounting change	641	206	835	910
Net income	641	206	571	910
Primary earnings per share:				
Income before extraordinary item and cumulative effect of accounting change	.49	.15	.63	.66
Net income	.49	.15	.43	.66
Fully diluted earnings				

per share:				
Income before extraordinary item and cumulative effect of accounting change	.47	.15	.52	.64
Net income	.47	.15	.38	.64

MARKET PRICE INFORMATION AND
COMMON STOCK OWNERSHIP (UNAUDITED)

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 past two years are as follows:

<TABLE>
<CAPTION>

1995	Three Months Ended 1995			
	March 31	June 30	Sept 30	Dec 31
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
High	39 1/8	47 3/4	84 3/4	80 1/8
Low	30 1/8	35 1/2	46 1/8	57 3/4
1994				

High	25 1/8	26 7/8	30 1/8	32 7/8
Low	22 3/4	25 1/8	25 1/8	28 5/8

</TABLE>

At March 15, 1996, the Company had 1,060 shareholders of record.

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") as of December 31, 1995 and 1994, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Central Products Company, a wholly-owned subsidiary of Spinnaker Industries, Inc. (an 83% owned subsidiary of Lynch Manufacturing, a wholly-owned subsidiary of Lynch Corporation), which statements reflect total assets of \$94,492,000 as of December 31, 1995 and total revenues of \$30,581,000 for the three month period ended December 31, 1995 and the financial statements of The Morgan Group, Inc. and subsidiaries, a subsidiary in which the Company has a 64% voting interest, which statements reflect total assets of \$30,796,000 and \$28,978,000

as of December 31, 1995 and 1994, respectively and total revenues of \$122,303,000 and \$101,880,000 for the years then ended and the financial statements of Coronet Communications Company and Capital Communications Company, Inc. (corporations in which the Company has a 20% and 49% interest, respectively). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Central Products Company, The Morgan Group, Inc. and subsidiaries, Coronet Communications Company and Capital Communications Company, Inc., is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. 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 and the reports of other auditors provide a reasonable basis for our opinion.

Since the date of completion of our audit of the accompanying financial statements and initial issuance of our report thereon dated February 29, 1996, which report contained an explanatory paragraph regarding the Company's ability to continue as a going concern, the Company, as discussed in Note 6, has completed a debt financing arrangement to refinance the \$25 million subordinated notes on a long-term basis. Therefore, the conditions that raised substantial doubt about whether the Company will continue as a going concern no longer exist.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lynch Corporation and subsidiaries at December 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 1994 the Company changed its method of accounting for marketable securities.

As discussed in Note 9 to the financial statements, in 1993 the Company changed its method of accounting for income taxes.

February 29, 1996, except for Note 6,
as to which the date is April 8, 1996