

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

LYNCH INTERACTIVE CORP
Form 10-Q
November 14, 2002

=====
SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Edgarized from this one 11-13--2
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

or

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

For the transition period from to

Commission File No. 1-15097

LYNCH INTERACTIVE CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

06-1458056

State or other jurisdiction of incorporation or organization)

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

401 Theodore Fremd Avenue, Rye, New York

10580

(Address of principal executive offices)

(Zip Code)

(914) 921-8821

Registrant's telephone number, including area code

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

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

Class Outstanding at November 1, 2002
Common Stock, \$.0001 par value 2,794,351

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

INDEX

LYNCH INTERACTIVE CORPORATION AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets:

- September 30, 2002
- December 31, 2001

Condensed Consolidated Statements of Operations:

- Three months ended September 30, 2002 and 2001
- Nine months ended September 30, 2002 and 2001

Condensed Consolidated Statements of Cash Flows:

- Three months ended September 30, 2002 and 2001
- Nine months ended September 30, 2002 and 2001

Notes to Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits and Reports on Form 8-K

SIGNATURE

CERTIFICATIONS

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

i

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LYNCH INTERACTIVE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	September 30 2002
	----- (Unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 25,338
Restricted cash	10,598
Receivables, less allowances of \$345 and \$424, respectively	9,381
Material and supplies	3,739
Prepaid expenses and other current assets	2,472
Current assets of Morgan Group Holding Co. distributed to shareholders	--
TOTAL CURRENT ASSETS	51,528
PROPERTY, PLANT AND EQUIPMENT:	
Land	840
Buildings and improvements	10,952
Machinery and equipment	190,018

Accumulated Depreciation	(85,661)

GOODWILL	116,149
OTHER INTANGIBLE ASSETS, NET	60,889
INVESTMENTS IN AND ADVANCES TO AFFILIATED ENTITIES	7,087
OTHER ASSETS	8,223
NON CURRENT ASSETS OF MORGAN GROUP HOLDING CO DISTRIBUTED TO SHAREHOLDERS	9,741

TOTAL ASSETS	\$ 253,617
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Notes payable to banks	\$ 10,744
Trade accounts payable	801
Accrued interest payable	1,419
Accrued liabilities	19,322
Current maturities of long-term debt, includes \$10,500 of convertible notes due 2004, but subject to a put provision (See note G)	26,981
Current liabilities of Morgan Group Holding Co. distributed to shareholders	--

TOTAL CURRENT LIABILITIES	59,267
LONG-TERM DEBT	160,632
DEFERRED INCOME TAXES	5,721

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

OTHER LIABILITIES	752
MINORITY INTERESTS	6,999
NON CURRENT LIABILITIES AND MINORITY INTERESTS OF MORGAN GROUP HOLDING CO	
DISTRIBUTED TO SHAREHOLDERS	--
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY	
COMMON STOCK, \$0.0001 PAR VALUE-10,000,000	
SHARES AUTHORIZED; 2,824,766 ISSUED; 2,796,251	
and 2,820,051 outstanding	--
ADDITIONAL PAID-IN CAPITAL	21,40
RETAINED EARNINGS (DEFICIT)	(24
ACCUMULATED OTHER COMPREHENSIVE INCOME	18
TREASURY STOCK, 28,515 and 4,715 shares, at cost	(1,09

TOTAL SHAREHOLDER'S EQUITY	20,24

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 253,61
	=====

Note: The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying notes.

1

LYNCH INTERACTIVE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except per share and share amounts)

	Three Months Ended		
	September 30,		
	2002	2001	20

SALES AND REVENUES	\$ 22,983	\$ 23,934	\$
COSTS AND EXPENSES:			
Operations, exclusive of depreciation and amortization	10,928	9,931	
Depreciation and amortization	4,857	4,961	
Selling and administrative	1,307	677	
	-----	-----	
OPERATING PROFIT	5,891	8,365	
Other income (expense):			
Gain on sale of cellular partnership	--	--	
Investment income	162	200	
Interest expense	(3,240)	(3,865)	
Impairment of investment in Spinnaker Industries, Inc.	--	(1,294)	
Reserve for impairment of investment in spectrum license Holder	(5,479)	--	
Equity in earnings of affiliated companies, predominantly			

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

cellular	429	213	
	-----	-----	
	(8,128)	(4,746)	
	-----	-----	
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTERESTS AND OPERATIONS OF MORGAN GROUP HOLDING CO	(2,237)	3,619	
(Provision) benefit for income taxes	550	(1,649)	
Minority Interests	(185)	(185)	
	-----	-----	
INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,872)	1,785	
	-----	-----	
Income (loss) from operations of Morgan Group Holding Co. distributed to shareholders, net of income taxes of \$0, \$255, \$0 and \$255, respectively and minority interests of \$0, \$69 \$868 and \$31, respectively	--	(190)	
	-----	-----	
NET INCOME (LOSS)	\$ (1,872)	\$ 1,595	\$
	=====	=====	
Basic weighted average shares outstanding	2,799,000	2,822,000	
Diluted weighted average shares outstanding - used in earnings per share computation (if the shares to be issued on conversion of the convertible note were included, fully diluted shares would be 3,035,000; 3,057,000; 3,044,000; and 3,128,000 respectively)	2,799,000	2,822,000	
BASIC EARNINGS PER SHARE			
INCOME (LOSS) FROM CONTINUING OPERATIONS	\$ (0.67)	\$ 0.63	\$
Loss from operations of Morgan Group Holding Co. distributed to shareholders	0.00	(0.06)	
	-----	-----	
NET INCOME (LOSS)	\$ (0.67)	\$ 0.57	\$
	=====	=====	
DILUTED EARNINGS PER SHARE			
INCOME (LOSS) FROM CONTINUING OPERATIONS	\$ (0.67)	\$ 0.63	\$
Loss from operations of Morgan Group Holding Co.	0.00	(0.06)	
	-----	-----	
NET INCOME (LOSS)	\$ (0.67)	\$ 0.57	\$
	=====	=====	

See accompanying notes.

2

LYNCH INTERACTIVE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Three Months Ended September 30,		
	2002	2001	
	-----	-----	-----
OPERATING ACTIVITIES			
Net Income (Loss)	(\$ 1,872)	\$ 1,595	\$
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,857	4,961	1
Net effect of purchases and sales of trading securities ...	--	768	

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

Deferred Taxes	(1,863)	0	(
Equity in earnings of affiliated companies	(429)	(213)	
Minority interests	185	185	
Impairment of investment in Spinnaker Industries, Inc.	--	1,294	
Reserve for the impairment of investment in spectrum license holder	5,479	--	
Gain on sale of cellular partnership	--	--	(
Gain on sale of available for sale securities	--	(142)	
Non-cash items and assets and operating liabilities			
from operations of Morgan Group Holding Co.	--	(1,867)	
distributed to shareholders			
Changes in operating assets and liabilities:			
Receivables	(399)	(581)	
Accounts payable and accrued liabilities	2,085	2,888	
Other	(81)	711	(
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,962	9,599	1
INVESTING ACTIVITIES			
Capital expenditures	(6,580)	(5,427)	(1
Investment in and advances to affiliated entities	2,013	1	
Proceeds from sale of available for sale securities	--	253	
Proceeds from sale of cellular partnership	--	--	
Acquisition of Central Utah Telephone Company (total cost, less debt assumed and cash equivalents acquired)	--	--	
Investing activities of operations of Morgan Group Holding Co. distributed to shareholders	--	(3,582)	
Other	(127)	(255)	
NET CASH USED IN INVESTING ACTIVITIES	(4,694)	(9,010)	(
FINANCING ACTIVITIES			
Issuance of long term debt	3,076	(220)	
Repayments of long term debt	(3,047)	(2,775)	(1
Net repayments (borrowings) lines of credit	(2,032)	5,047	
Treasury stock transactions	(172)	11	
Investment in restricted cash	(46)	--	(
Financing activities of operations of Morgan Group Holding Co. distributed to shareholders	--	3,200	
Other	--	--	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(2,221)	5,263	(9
Net increase in cash and cash equivalents	1,047	5,852	1
Cash and cash equivalents at beginning of Period	24,291	25,139	2
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 25,338	\$ 30,991	\$ 2

See accompanying notes.

LYNCH INTERACTIVE CORPORATION & SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Subsidiaries of the Registrant

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

As of September 30, 2002, the Subsidiaries of the Registrant are as follows:

Subsidiary	Owned by Lynch
Brighton Communications Corporation	100.0%
Lynch Telephone Corporation IV	100.0%
Bretton Woods Telephone Company	100.0%
World Surfer, Inc.	100.0%
Lynch Broadband Corporation	100.0%
Lynch Telephone Corporation VI	98.0%
JBN Telephone Company, Inc.	98.0%
JBN Finance Corporation	98.0%
CLR Video, L.L.C	98.0%
Giant Communications, Inc.	100.0%
Lynch Telephone Corporation VII	100.0%
USTC Kansas, Inc.	100.0%
Haviland Telephone Company, Inc.	100.0%
Haviland Finance Corporation	100.0%
DFT Communications Corporation	100.0%
DFT Telephone Holding Company, L.L.C	100.0%
Dunkirk & Fredonia Telephone Company	100.0%
Cassadaga Telephone Company	100.0%
Macom, Inc.	100.0%
Comantel, Inc.	100.0%
Erie Shore Communications, Inc.	100.0%
D&F Cellular Telephone, Inc.	100.0%
DFT Long Distance Corporation	100.0%
DFT Local Service Corporation	100.0%
DFT Security Services, Inc.	100.0%
LMT Holding Corporation	100.0%
Lynch Michigan Telephone Holding Corporation	100.0%
Upper Peninsula Telephone Company	100.0%
Alpha Enterprises Limited	100.0%
Upper Peninsula Cellular North, Inc. .	100.0%
Upper Peninsula Cellular South, Inc. .	100.0%
Lynch Telephone Corporation IX	100.0%
Central Scott Telephone Company	100.0%
CST Communications Inc.	100.0%
Global Television, Inc.	100.0%
Inter-Community Acquisition Corporation	100.0%
Lynch Telephone Corporation X	100.0%
Central Utah Telephone, Inc.	100.0%
Central Telecom Services, LLC	100.0%
Cache Valley Wireless, LC	100.0%

4

Subsidiary	Owned by Lynch
Lynch Entertainment, LLC	100.0%
Lynch Entertainment Corporation II	100.0%

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

Lynch Multimedia Corporation	100.0%
Lynch Paging Corporation	100.0%
Lynch PCS Communications Corporation	100.0%
Lynch PCS Corporation A	100.0%
Lynch PCS Corporation F	100.0%
Lynch PCS Corporation G	100.0%
Lynch PCS Corporation H	100.0%
Lynch Telephone Corporation	83.1%
Western New Mexico Telephone Company, Inc.	83.1%
Interactive Networks Corporation	83.1%
WNM Communications Corporation	83.1%
WNM Interactive, L.L.C	83.1%
Wescel Cellular, Inc.	83.1%
Wescel Cellular of New Mexico, L.P.	42.4%
Wescel Cellular, Inc. II	83.1%
Enchantment Cable Corporation	83.1%
Lynch Telephone II, LLC	100.0%
Inter-Community Telephone Company, LLC ...	100.0%
Valley Communications, Inc.	100.0%
Lynch Telephone Corporation III	81.0%
Cuba City Telephone Exchange Company	81.0%
Belmont Telephone Company	81.0%

5

B. Basis of Presentation

The Company consolidates the operating results of its telephone and cable television subsidiaries (81-100% owned at September 30, 2002 and December 31, 2001). All material intercompany transactions and balances have been eliminated. Investments in affiliates in which the Company does not have a majority voting control are accounted for in accordance with the equity method. The Company accounts for the following affiliated companies on the equity basis of accounting: Coronet Communications Company (20% owned at September 30, 2002 and December 31, 2001), Capital Communications Company, Inc. (49% owned at September 30, 2002 and December 31, 2001) and the cellular partnership operations in New Mexico (17% to 21% owned at September 30, 2002 and December 31, 2001).

On January 24, 2002, Interactive spun off its interest in The Morgan Group, Inc. ("Morgan"), its only services subsidiary, via a tax-free dividend to its shareholders of the stock of Morgan Group Holding Co., a corporation that was formed to serve as a holding company for Interactive's controlling interest in Morgan. Morgan Group Holding Co. is now a public company. Accordingly, the amounts for Morgan are reflected on a one-line basis in the condensed consolidated financial statements as of December 31, 2001 and for the three and nine months ended September 30, 2002 and 2001, as amounts "distributed to shareholders."

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Articles 10 and 11 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine-month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. 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 effect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain 2001 amounts have been reclassified to conform to the 2002 presentation.

C. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Statement 141 required that the purchase method of accounting be used for all business combinations initiated after September 30, 2001. Statement 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142 prohibits the amortization of goodwill and assets with indefinite lives. Statement 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.

The Company tests goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of impairment, if any. The Company performed the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the second quarter of 2002 and determined that there are no impairments at the current time.

6

The application of the non-amortization provisions of Statement No. 142 has increased net income in the third quarter of 2002 by approximately \$0.6 million (\$0.22 per basic share) whereas the similar amortization charge for the quarter in 2001 was approximately \$0.7 million (\$0.23 per basic share). For the nine months ended September 30, 2002 and 2001, the amounts were \$1.9 million, or \$0.68 in basic earning per share, and \$1.7 million, or \$0.61 in basic earning per share, respectively.

The following table discloses what the effects of the non-amortization of goodwill and indefinite lived intangible assets would be for income and per share amounts for the periods displayed:

	Three Months Ended September 30, 2002 2001		Nine Months Ended September 30, 2002 2001	
	(000s)		(000s)	
As reported:				
Income (loss) from continuing operations .	\$ (1,872)	\$ 1,785	\$3,306	\$ 3,366
(Loss) from operations of Morgan	--	(190)	(1,888)	(143)
Net Income (loss)	\$ (1,872)	\$ 1,595	\$1,418	\$ 3,223
Adjustment from non-amortization				
Continuing operations net of income taxes				

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

of \$0, \$74, \$0, \$221 and minority interest of \$0, \$15, \$0, \$31, respectively	--	\$ 678	--	\$ 1,719
Operations of Morgan, net of minority interests and income taxes	--	\$ 73	--	\$ 214
As adjusted:				
Income (loss) from continuing operations .	\$ (1,872)	\$ 2,463	\$3,306	\$ 5,085
Income (loss) from operations of Morgan ..	--	(117)	(1,888)	71
	-----	-----	-----	-----
Net income	\$ (1,872)	\$ 2,346	\$1,418	\$ 5,156
	=====	=====	=====	=====
Basic earnings per share				
Income (loss) from continuing operations .	\$ (0.67)	\$ 0.87	\$ 1.18	\$ 1.80
Income (loss) from operations of Morgan ..	--	(0.04)	(0.68)	0.03
	-----	-----	-----	-----
Net Income (loss)	\$ (0.67)	\$ 0.83	\$ 0.50	\$ 1.83
	=====	=====	=====	=====
Diluted earnings per share				
Income (loss) from continuing operations .	\$ (0.67)	\$ 0.87	\$ 1.18	\$ 1.80
Income (loss) from operations of Morgan ..	--	(0.04)	(0.68)	0.03
	-----	-----	-----	-----
Net income (loss)	\$ (0.67)	\$ 0.83	\$ 0.50	\$ 1.83
	=====	=====	=====	=====

7

The following tables display the details of goodwill and intangible assets as of the dates shown.

	(000s)			
	September 30, 2002		December 31, 2002	
Intangible assets subject to amortization:	Assets	Accumulated Amortization	Assets	Accumulated Amortization
Subscriber lists	\$7,629	\$2,192	\$7,194	

	2002	2001
	-----	-----
Total amortization expense for		
the three months ended September 30 .	\$ 422	\$ 764
	=====	=====
Total amortization expense for the nine months ended September 30	\$1,206	\$1,991
	=====	=====

2003 2004 2005 2006 2007

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

Estimated aggregate amortization expense by year	\$ 1,691	\$ 1,580	\$ 275	\$ 213	\$ 213
--	----------	----------	--------	--------	--------

	September 30, 2002 -----	December 31, 2001 -----
Intangible assets not subject to amortization:		
Goodwill	\$60,889	\$60,889
Cellular licenses	1,650	1,650

In October 2001, the FASB issued Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective for fiscal years beginning after December 15, 2001. The FASB's new rules on asset impairment supersede FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, and provide a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of FASB Statement No. 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. The new rules also will supersede the provisions of APB Opinion 30 with regard to reporting the effects of a disposal of a segment of a business and will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the periods in which the losses are incurred (rather than as of the measurement date as presently required by APB 30). In addition, more dispositions will qualify for discontinued operations treatment in the income statement. The Company has determined that there is no effect of FASB Statement No. 144 on the earnings and financial position of the Company.

D. Acquisitions and Dispositions

On June 22, 2001, Lynch Telephone Corporation X, a subsidiary of Interactive, acquired Central Utah Telephone, Inc. and its subsidiaries, and Central Telecom Services, LLC, a related entity, for approximately \$15.6 million in cash and notes. The Company has recorded approximately \$11.5 million in goodwill.

The above acquisition was accounted for as a purchase, and accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair market values on the date of acquisition.

8

The operating results of the acquired companies are included in the Statements of Operations from the acquisition date. The following unaudited pro forma information shows the results of the Company's operations as though the acquisition of Central Utah and related entities and the distribution of Morgan were made at the beginning of 2001. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been made at this date nor is it necessarily indicative of future results of operations. (In thousands of dollars, except per share data).

Nine Months
Ended

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

September 30,
2001

Sales and revenues	\$	62,321
Income from continuing operations		3,511
Basic earnings per share		1.24
Diluted earnings per share		1.24

In March 2002, the Company sold its 20.8% interest in the New Mexico cellular partnership, RSA #1B, to Verizon Wireless for \$5.6 million (\$5 million pre-tax gain) and repaid \$2.6 million of outstanding indebtedness to Verizon.

E. Sunshine PCS Corporation

In October 2002, the Company agreed to restructure its investment in Sunshine PCS Corporation ("Sunshine") by exchanging \$18.5 million of the subordinate notes receivable from Sunshine for two separate classes of preferred stock of Sunshine, one with a liquidation value of \$12.5 million and a second with a liquidation value of \$2.0 million. The second class of preferred stock will be convertible into Sunshine's Class A Common Stock at \$1.00 per share. As the book value of the Company's investment in Sunshine, including the subordinate notes, is \$3.0 million no profit or loss was recorded as a result of this exchange.

In February 2002, Sunshine PCS Corporation issued rights to its shareholders to purchase up to 1,531,593 shares of its Class A Common Stock at a price of \$1.00 per share. On May 3, 2002, the rights offering expired and on May 7, 2002, Sunshine announced that the rights offering was oversubscribed. As the holder of 235,294 shares of Sunshine, Interactive exercised its rights (but did not oversubscribe) to purchase 58,824 shares of Class A Common Stock in the rights offering.

F. Investment in Spectrum Holders

The Company has made loans to and has investments in PTPMS Communications, LLC II, totaling \$6.1 million. PTPMS II acquired wireless spectrum in an auction conducted by the Federal Communications Commission in 2000 called the 700 MHz Guard Band Auction. In a recently conducted FCC auction for similar spectrum, which ended on September 18, 2002, the Lower 700 MHz Band Auction, the price per MHz of population was materially lower than the price paid by PTPMS II in 2000. Accordingly, during the third quarter of 2002, Interactive provided a reserve for impairment for its investment in PTPMS II of \$5.5 million, resulting in a net book value, at September 30, 2002, of \$0.7 million.

In addition the Company has an investment in separate affiliates who acquired wireless spectrum in a different auction in 2000, the 39 GHz Auction. The Company's loans to investment in this affiliate is \$1.5 million. While trading in the public markets for companies that own and operate wireless Spectrum has declined substantially since the end of these Auctions, there is no indication that the value of this Spectrum has declined due in part, to the limited trading of these licenses. The Company will closely monitor the results of future auctions and non auction sales and will provide a reserve for impairment should the results warrant.

During the quarter ended September 30, 2002, the Company, through a wholly-owned subsidiary, participated in an auction for wireless spectrum, the above noted Lower 700 MHz Band Auction. The Company was high bidder for licenses with a total cost of \$1.1 million. The Company has on deposit \$0.2 million for these licenses and will be required to pay the remainder when the FCC issues the

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

licenses which should occur in 2002 or early 2003.

G Spin-off of Morgan

On January 24, 2002, Interactive spun off its interest in The Morgan Group, Inc., its only services subsidiary, via a tax-free dividend to its shareholders of the stock of Morgan Group Holding Co., a corporation that was formed to serve as a holding company for Interactive's controlling interest in The Morgan Group, Inc. Morgan Group Holding Co. is now a public company. Morgan's revenues were \$46.4 million (\$5.4 million to date of spin-off) in the first nine months of 2002 and \$81.7 million in the first nine months of 2001. The net assets of Morgan distributed at the spin-off were approximately \$3.5 million.

Accordingly, prior period financial statements have been restated to reflect the amounts for Morgan on a one-line basis as "distributed to shareholders."

The report of Ernst & Young LLP, Morgan's independent auditors at the time, with respect to its financial statements as of December 31, 2001 and 2000, and for each of the three years in the period ended December 31, 2001 contained an explanatory paragraph which expresses substantial doubt as to Morgan's ability to continue as a going concern.

On October 18, 2002, Morgan and two of its operating subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Indiana, South Bend Division, for the purpose of conducting an orderly liquidation of its assets.

H. Indebtedness

The parent company maintains a short-term line of credit facility totaling \$10.0 million. Borrowings under this facility were \$7.9 million and \$7.6 million at September 30, 2002 and December 31, 2001, respectively. This facility will expire on August 31, 2003. Long-term debt consists of (all interest rates are at September 30, 2002):

10

	September 30, 2002 (Unaudited)
	----- (In
Rural Electrification Administration (REA) and Rural Telephone Bank (RTB) notes payable through 2027 at fixed interest rates ranging from 2% to 7.5% (5% weighted average at September 30, 2002), secured by assets of the telephone companies of \$152.8 million	\$ 57,379
Bank Credit facilities utilized by certain telephone and telephone holding companies through 2016, \$31.2 million at fixed interest rates averaging 7.9% and \$50.8 million at variable interest rates averaging 4.8%	82,007
Unsecured notes issued in connection with acquisitions through 2006, at fixed interest rates of 10.0%	34,903
Convertible subordinated note due in December 2004 at a fixed interest rate of 6%.....	10,000
Other	3,324

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

Current maturities	187,613
	(26,981)

	\$ 160,632
	=====

On December 12, 1999, the Company completed the private placement of a \$25 million 6% five-year note, convertible into Interactive common stock at \$42.50 per share. At that time, to assist the Company with the private placement to Cascade Investment LLC ("Cascade"), the Chairman and CEO of Interactive agreed to give the acquirer of the note a one-time option to sell the note to him at 105% of the principal amount thereof. The exercise period was from November 15, 2000 to December 1, 2000. The obligation of the Chairman under this option to sell agreement was secured by a bank letter of credit, which, in turn, was secured by a pledge of certain securities of the Chairman. The Company also agreed to reimburse the Chairman for the cost of the letter of credit plus his counsel fees in connection with the option to sell agreement and obtaining the letter of credit.

On January 16, 2001, the option to sell agreement between Cascade and the Company's Chairman was modified and extended. As a condition to such modification and extension, Cascade demanded and obtained the right to sell up to \$15 million of the notes back to the Chairman at any time prior to January 31, 2001 and the right to sell the remaining \$10 million of the notes to the Chairman between November 15 and December 1, 2002 (the "Put"). The Put is at 105% of principal amount sold plus accrued and unpaid interest and is secured by a fully collateralized letter of credit.

In order to induce the Chairman to grant the Put, the Company entered into an agreement in December 2000 with its Chairman whereby it agreed (i) to pay for and acquire, on the same terms and conditions, any portion of the note sold by Cascade under the Put, (ii) to reimburse the Chairman for the costs for extending and maintaining the letter of credit and (iii) to pay the Chairman or his assigns a collateral maintenance fee of 10% per annum for any collateral provided by them.

During January 2001, Cascade exercised the Put with regard to the \$15 million of the notes and on February 14, 2001, the Company transferred \$15.9 million to Cascade, including the 5% premium plus accrued and unpaid interest, in exchange for \$15.0 million of the notes held by Cascade.

11

The option to sell the remaining \$10 million continues to be secured by a collateralized letter of credit. Until March 31, 2002, all or a portion of the collateral for the letter of credit was provided by an affiliate of the Chairman and, as noted above, the Company had agreed to pay all legal fees, letter of credit fees and a 10% per annum collateral fee on the amount of collateral provided. As the Company has always had the right to substitute its collateral for that provided, as of March 31, 2002, the Company had replaced all of the \$10.5 million of the collateral provided by an affiliate of the Chairman with \$10.5 million of the Company's U.S. Treasury Bills, which have been pledged to the issuers of the letter of credit and are classified as "Restricted Cash" on the Company's balance sheet.

The balance of the convertible subordinated note is classified as current at September 30, 2002, and December 31, 2001, as the holder has the ability to demand payment of such amount, plus the \$0.5 million premium, prior to December 31, 2002. It is Management's belief that the Put will be exercised with respect to the remaining \$10 million of notes outstanding prior to December 31, 2002.

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

I. Comprehensive Income

Balances of accumulated other comprehensive income, net of tax, which consists of unrealized gains (losses) on available for sale of securities, at September 30, 2002 and December 31, 2001 are as follows (in thousands):

	Unrealized Gain (Loss)	Tax Effect	Net
Balance at December 31, 2001 ...	\$ 2,599	\$(1,057)	\$ 1,542
Reclassification adjustment	(374)	146	(228)
Current period unrealized losses	(1,918)	785	(1,133)
	-----	-----	-----
Balance at September 30, 2002	\$ 307	\$ (126)	\$ 181
	=====	=====	=====

The comprehensive income (loss), for the three and nine month periods ended September 30, 2002 and 2001 are as follows (in thousands):

	Three Months Ended September 30,	
	2002	2001
Net income (loss) for the period	\$ (1,872)	\$ 1,599
Reclassification adjustment-net of income tax benefit of \$326	--	(44)
Unrealized gains (losses) on available for sale securities - net of income tax (provision) (benefit) of \$206 and \$(498), respectively	(286)	68
	-----	-----
Comprehensive income (loss)	\$ (2,158)	\$ 1,831
	=====	=====

	Nine Months Ended September 30,	
	2002	2001
Net income for the period	\$ 1,418	\$ 3,229
Reclassification adjustment-net of income tax benefit of \$146 and \$1,099, respectively	(228)	(1,511)
Unrealized gains (losses) on available for sale securities - net of income tax (provision) benefit of \$785 and \$462, respectively	(1,133)	63
	-----	-----
Comprehensive income	\$ 57	\$ 2,341
	=====	=====

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

J. Earnings per share

The following table set forth the computation of basic and diluted earnings per share for the periods indicated: During the nine months ended September 30, 2002, the Company purchased 23,800 shares of its common stock for treasury. Subsequent to September 30, 2002, the Company purchased an additional 1,900 shares of Treasury stock.

	Three Months Ended September 30,		Nine Months End September 30,	
	2002	2001	2002	2001
Basic earnings per share				
Numerator:				
Net Income (Loss)	\$ (1,872,000)	\$ 1,595,000	\$ 1,418,000	\$ 3,223,000
Denominator:				
Weighted average shares outstanding ..	2,799,000	2,822,000	2,809,000	2,822,000
Earnings per share:				
Net income (loss)	\$ (0.67)	\$ 0.57	\$ 0.50	\$ 1.17
Diluted earnings per share				
Numerator:				
Net Income (loss)	\$ (1,872,000)	\$ 1,595,000	\$ 1,418,000	\$ 3,223,000
Interest saved on assumed conversion of convertible notes - net of tax	--	--	--	--
Net Income (Loss)	\$ (1,872,000)	\$ 1,595,000	\$ 1,418,000	\$ 3,223,000
Denominator:				
Weighted average shares outstanding ..	2,799,000	2,822,000	2,809,000	2,822,000
Shares issued on assumed conversion of convertible note	--	--	--	--
Weighted average shares and share equivalents	2,799,000	2,822,000	2,809,000	2,822,000
Earnings per share:				
Net income (loss)	\$ (0.67)	\$ 0.57	\$ 0.50	\$ 1.17

For all periods presented, the 235,294 shares to be issued on conversion of the Company's convertible note (see note H) have been excluded because their inclusion would be anti-dilutive.

K. Segment Information

As a result of the decision to spin-off its investment in Morgan (see Note G), the Company is engaged in one business segment: multimedia. All businesses are located domestically, and substantially all revenues are domestic. The Company's operations include local telephone companies, a cable TV company, investment in PCS entities and investment in two network-affiliated television stations. The Company's primary operations are located in the states of Iowa, Kansas, Michigan, New Hampshire, New Mexico, New York, North Dakota, Utah and Wisconsin. 75% of the Company's telephone customers are residential. The remaining

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

customers are businesses.

EBITDA (before corporate allocation) for operating segments is equal to operating profit before interest, taxes, depreciation, amortization and allocated corporate expenses. EBITDA is presented because it is a widely accepted financial indicator of value and ability to incur and service debt. Management uses EBITDA to evaluate the operating performance of the Company's operations. EBITDA is not a substitute for operating income or cash flows from operating activities in accordance with generally accepted accounting principles.

13

Operating profit (loss) is equal to revenues less operating expenses, including unallocated general corporate expenses and excluding, interest and income taxes. The Registrant allocates a portion of its general corporate expenses to its operating segment. Such allocation was \$327,000 and \$301,000 for the three months ended September 30, 2002 and 2001, respectively and \$982,000 and \$903,000 for the nine months ended September 30, 2002 and 2001, respectively.

	Three Months Ended September 30,		Nine Mont Septemb
	2002	2001	2002

	Unaudited		
	(In thousands)		
Sales and revenues:	\$ 22,983	\$ 23,934	\$ 65,055
	=====	=====	=====
EBITDA (before corporate allocation):			
Operations	\$ 11,579	\$ 13,950	\$ 32,316
Corporate expenses, gross	(831)	(624)	(2,276)
	-----	-----	-----
Combined total	\$ 10,748	\$ 13,326	\$ 30,040
	=====	=====	=====
Operating profit:			
Operations	\$ 6,429	\$ 8,657	\$ 16,928
Corporate expenses, net	(538)	(292)	(1,336)
	-----	-----	-----
Combined total	\$ 5,891	\$ 8,365	\$ 15,592
	=====	=====	=====
Operating profit	\$ 5,891	\$ 8,365	\$ 15,592
Other income (expense):			
Gain on sale of cellular partnership	--	--	4,965
Investment income	162	200	1,394
Interest expense	(3,240)	(3,865)	(9,911)
Impairment of investment in Spinnaker Industries, Inc.	--	(1,294)	--
Reserve for impairment of investment in Spectrum license holder	(5,479)	--	(5,479)
Equity in earnings of affiliated companies, predominantly cellular operations	429	213	857
	-----	-----	-----
Income (loss) before income taxes, minority interests and operations of Morgan Group Holding Co. distributed to shareholders	(\$ 2,237)	\$ 3,619	\$ 7,418

L. Litigation

Taylor Litigation. Interactive and several other parties, including our Chief Executive Officer, and Fortunet Communications, L.P., which was Sunshine PCS Corporation's predecessor-in-interest, 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. At the initiative of one of the defendants, the seal was lifted on January 11, 2002. Under the False Claims Act, a private plaintiff, termed a "relator," may file a civil action on the U.S. government's behalf against another party for violation of the statute. In return, the relator receives a statutory bounty from the government's litigation proceeds if he is successful.

The relator in this lawsuit is R.C. Taylor III, an individual who, to the best of our knowledge, has no relationship to any of the Lynch entities and affiliates that have been named parties in this litigation. Indeed at the time of his filings, and to the best of our knowledge, Mr. Taylor was a lawyer at Gardner, Carton & Douglas.

14

Thereafter, we believe he was a lawyer with a Washington, D.C., law firm. We do not know his current status. We issued a press release dealing with this litigation on January 16, 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 certain 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.

Interactive strongly believes that this lawsuit is completely without merit, and intends to defend the suit vigorously. The U.S. Department of Justice has notified the court that it has declined to intervene in the case. Nevertheless, we cannot predict the ultimate outcome of the litigation, nor can we predict the effect that the lawsuit or its outcome will have on our business or plan of operation.

Interactive was formally served with the complaint on July 10, 2002. On September 19, 2002, Interactive filed two motions with the United States District Court for the District of Columbia: a motion to dismiss the lawsuit and a motion to transfer the action to the Southern District of New York. The relator has until November 25, 2002, to respond to Interactive's motions.

M. Write-off of Uncollectible Receivables

During the nine months ended September 30, 2002, the Company wrote off \$0.9 million of receivables, classified as a "Selling and Administrative Expenses", relating to the bankruptcy of MCI/Worldcom and Global Crossing, \$0.2 million of which was written off during the three months ended September 30, 2002.

15

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Sales And Revenues

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

Revenues for the three months ended September 30, 2002 decreased by \$1.0 million to \$23.0 million from the third quarter of 2001. During the third quarter of 2001, Interactive recorded a \$2.8 million contingent administrative fee for services it had previously performed in an auction for wireless spectrum. Interactive sporadically has recorded this type of fee over the years. Apart from this variance, revenues increased by \$1.8 million, attributable to higher regulated telephone service, including regulatory true-ups, and the provision of non-traditional telephone services such as: Internet, long distance service and local exchange carrier service. The acquisition of American Alarm Company, which occurred on November 30, 2001 contributed \$0.8 million in revenues to the current year's quarter.

For the nine months ended September 30, 2002, revenues were \$65.1 million, an increase of \$6.5 million from the \$58.6 million recorded in the first nine months of 2001. The acquisition of Central Utah Telephone, Inc. and its subsidiaries, and Central Telecom Services, L.L.C., a related entity, which were acquired on June 22, 2001, contributed \$5.2 million to the increase and the acquisition of American Alarm added \$2.2 million to the increase. Offsetting these increases the absence of an administration fee in 2002, decreased current years revenues from the prior years period. In addition, as a result of certain regulatory initiatives in some of the states in which our companies operate, it is possible that revenues at certain telecommunication operations may be reduced in the near future.

Operating Profit

Operating profit for the three months ended September 30, 2002 decreased by \$2.5 million to \$5.9 million from the third quarter of 2001. The administration fee of \$2.8 million was the major cause of the variance. The acquisition of American Alarm reduced operating profit by \$0.2 million during the quarter due to the amortization of customer contracts of \$0.4 million recorded during the quarter. The absence of \$0.6 million of amortization expense as a result of the implementation of SFAS 142 improved the quarter's results. Also, during the quarter the Company recorded \$0.2 million in allowance for doubtful accounts associated with the recent bankruptcy of MCI/Worldcom. The bankruptcy filings may adversely impact the interstate revenues pools administered by the National Exchange Carrier Association ("NECA") of which all of the Company's telephone operating subsidiaries participate. If the Company's access settlements from NECA are reduced, the Company's operating results in the remainder of 2002 could be materially affected.

For the nine months ended September 30, 2002, operating profits decreased by \$0.7 million to \$15.6 million, also reflecting the absence of the administrative fee of \$2.8 million in 2002. The Central Utah acquisition increased operating profit by \$1.7 million. American Alarm reduced operating profit by \$0.2 million, due to the amortization of customer contracts of \$1.1 million and the non-amortization of goodwill added \$2.0 million of operating profit in comparison to the previous year. The recording of \$0.9 million of write-offs of receivables also affected the nine month activity.

Other Income (Expense)

The Company has made loans to and has investments in PTPMS Communications, LLC II, totaling \$6.1 million. PTPMS II acquired wireless spectrum in an auction conducted by the Federal Communications Commission in 2000 called the 700 MHz Guard Band Auction. In a recently conducted FCC auction for similar spectrum, which ended on September 18, 2002, the Lower 700 MHz Band Auction, the price per MHz of population was materially lower than the price paid by PTPMS II in 2000. Accordingly, during the third quarter of 2002, Interactive provided a reserve for impairment for its investment in PTPMS II of \$5.5 million, resulting in a net book value, at September 30, 2002, of \$0.7 million.

In addition the Company has an investment in separate affiliates who acquired wireless spectrum in a different auction in 2000, the 39 GHz Auction. The Company's loans to investment in this affiliate is \$1.5 million. While trading in the public markets for companies that own and operate wireless spectrum has declined substantially since the end of these Auctions, there is no indication that the value of this spectrum has declined due in part, to the limited trading of these licenses. The Company will closely monitor the results of future auctions and non auction sales and will provide a reserve for impairment should the results warrant.

For the three months ended September 30, 2002 investment income was down slightly from the previous year due to lower treasury rates. For the nine months ended September 30, 2002, investment income decreased by \$1.2 million from the prior year period primarily due to the unrealized gains recorded in 2001 in connection with Tremont Advisers, Inc. All of the Company's interest in Tremont was sold in October 2001. Offsetting these 2001 gains, there was higher dividend income on the Company's ownership of bank stocks in 2002.

During the first quarter, the Company sold its interest in a cellular partnership in New Mexico (RSA 1 (North)) for \$5.6 million resulting in a pre-tax gain of \$5.0 million.

Interest expense decreased by \$0.6 million in the third quarter due primarily to reduced interest rates, lower levels of borrowings and the absence, in 2002, of a collateral fee associated with a Put on the Company's convertible debt outstanding. Interest expense decreased by \$0.8 million for the nine months ended September 30, 2002, for essentially the same reasons as the quarter, but these reductions were offset by increased interest expense associated debt incurred for the acquisitions of Central Utah and American Alarm.

Income Tax Provision

The income tax provision includes federal as well as state and local taxes. The tax provision for the nine months ended September 30, 2002 and 2001, represent effective tax rates of 43.6% and 47.8%, respectively. The causes of the difference from the federal statutory rate are principally the effect of state income taxes, including the effect of earnings and losses attributable to different state jurisdictions, and the amortization of non-deductible goodwill in 2001.

Minority Interests

Minority interests decreased earnings by \$185,000 for the three months ended September 30, 2002 and \$185,000 a year earlier as increased minority interests on earnings of telephone operations was offset by minority interest in losses associated with American Alarm.

For the nine months ended September 30, 2002, minority interest decreased earnings by \$0.9 million versus \$0.5 million for the period last year. The Change was principally due to minority interest associated with the gain from the sale of RSA 1 (North) in New Mexico.

Net Income (Loss)

The Company recorded a loss from continuing operations for the three months ended September 30, 2002 of \$1.9 million, \$0.67 per share (basic and diluted), for the third quarter of 2002 compared to income from continuing operations for the same period last year of \$1.8 million, or \$0.63 per share (basic and diluted). The reserve for impairment of PCS license holder was the primary cause

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

of the loss in 2002.

17

For the nine months ended September 30, 2002 income from continuing operations was \$3.3 million, or \$1.18 per share (basic and diluted), as compared to income from continuing operations in 2001 of \$3.4 million, or \$1.19 per share (basic and diluted). Factors contributing to this increase were: the gain from the sale of RSA 1 (North) in New Mexico, (\$2.5 million, after tax and minority interests effects) offset by the reserve for impairment of wireless spectrum license holder (\$3.6 million, after tax effects).

Net loss for the three months ended September 30, 2002 was \$1.9 million or \$0.67 per share (basic and diluted) as compared to net income of \$1.6 million, or \$0.57 per share (basic and diluted), in the previous years' three-month period. For the nine months ended September 30, 2002 net income was \$1.4 million or \$0.50 per share (basic and diluted), as compared to \$3.2 million or \$1.14 per (basic and diluted) share in the previous year. In addition to the factors influencing the change in income from continuing operations, the operating result of Morgan impacted the net income results.

Morgan Spin-Off

On January 24, 2002, Interactive spun off its investment in The Morgan Group, Inc. ("Morgan"), its only services subsidiary, via a tax-free dividend to its shareholders of the stock of Morgan Group Holding Co., a corporation that was formed to serve as a holding company for Interactive's controlling interest in Morgan. Morgan Group Holding Co. is now a public company. The Company retains 234,294 shares of Morgan Group Holding Co. in escrow to be provided to the holder(s) of the Company's convertible notes at the time of the conversion. Accordingly, the amounts for Morgan are reflected on a one-line basis in the condensed financial statements as of December 31, 2001, and for the periods ended September 30, 2002 and 2001 as "distributed to shareholders."

FINANCIAL CONDITION

Liquidity/Capital Resources

As of September 30, 2002, the Company had current assets of \$51.6 million and current liabilities of \$59.3 million. Working capital deficiency was therefore \$7.7 million as compared to \$10.3 million at December 31, 2001, net of Morgan amounts.

For the nine months, capital expenditures were \$14.4 million in 2002 versus \$13.0 million in 2001.

At September 30, 2002, total debt was \$198.4 million, which was \$5.2 million lower than the \$203.5 million at the end of 2001. At September 30, 2002, there was \$134.7 million of fixed interest rate debt averaging 7.0% and \$63.7 million of variable interest rate debt averaging 4.9%. Debt at year-end 2001 included \$137.1 million of fixed interest rate debt, at an average interest rate of 7.0%, and \$66.4 million of variable interest rate debt, at an average interest rate of 4.8%.

Cascade Investment, LLC has the right to elect to sell the outstanding \$10 million in principal amount of the Company's 6% convertible notes to the Company's Chairman between November 15 and December 1, 2002 (the "Put"). In order to induce the Chairman to grant the Put, Company entered into an agreement in December 2000 with its Chairman whereby it agreed to pay for and acquire, on the same terms and conditions, any portion of the note sold by Cascade under the Put. Based on recent communications between Cascade and the Company's Chairman, the Company expects Cascade to exercise the Put. The Put is at 105% of principal

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

amount sold plus accrued and unpaid interest and, accordingly, the Company expects to reacquire the outstanding notes for approximately \$10.5 million in December 2002.

As of September 30, 2002, Interactive, the parent company, had \$2.1 million available under a \$10 million short-term line of credit facility, which expires on August 31, 2003.

18

Lynch has not paid any cash dividends on its common stock since 1989. Interactive does not expect to pay cash dividends on its Common Stock in the foreseeable future. Interactive currently intends to retain its earnings, if any, for use in its business. Future financings may limit or prohibit the payment of dividends.

During the quarter ended September 30, 2002, the Company, through a wholly-owned subsidiary, participated in an auction for wireless spectrum, the Lower 700 MHz Band Auction. The Company was high bidder for licenses with a total cost of \$1.1 million. The Company has on deposit \$0.2 million for these licenses and will be required to pay the remainder when the FCC issues the licenses which should occur in 2002 or late 2003.

Interactive has a high degree of financial leverage. As of September 30, 2002, the ratio of total debt to equity was 9.8 to 1. Certain subsidiaries also have high debt to equity ratios. In addition, the debt at subsidiary companies contains restrictions on the amount of readily available funds that can be transferred to the respective parent of the subsidiaries.

The Company has a need for resources primarily to fund future long-term growth objectives. Interactive considers various alternative long-term financing sources: debt, equity, or sale of an investment asset. While management expects to obtain adequate financing resources to enable the Company to meet its obligations, there is no assurance that such can be readily obtained or at reasonable costs.

The Company is obligated under long-term debt provisions and lease agreements to make certain cash payments over the term of the agreements. The following table summarizes these contractual obligations for the period shown:

	Payments Due by Period (In thousands)				
	Total	1 year (b)	Less than 2 - 3 years	4 - 5 years	After
	-----	-----	-----	-----	-----
Long-term Debt (a)	\$187,613	\$ 26,981	\$ 45,564	\$ 48,609	\$ 66,4
Operating Leases	1,306	321	564	321	1
	-----	-----	-----	-----	-----
Total Contractual Cash Obligations	\$188,919	\$ 27,302	\$ 46,128	\$ 48,930	\$ 66,5
	=====	=====	=====	=====	=====

(a) Does not include interest payments on debt

(b) Includes \$10 million of

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

convertible subordinated debt due in 2004, that has a put option that if exercised, as management currently expects would accelerate the debt to the last quarter of 2002.

The company has certain financing commitments from banks and other financial institutions that provide liquidity. The following table summarizes the expiration of these commitments for the periods shown:

	Amount of Commitment Expiration Per Period (In thousands)				
	Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	Over 5 years
Other Commercial Commitments					
Lines of Credit	\$10,744	\$10,744	-	-	-
Standby Letter of Credit ...	10,500	10,500	-	-	-
Total Commercial Commitments	\$21,244	\$21,244	-	-	-

19

The Company has initiated an effort to monetize certain of its assets, including selling a portion or all of certain in vestment and/or certain of its operating entities. These may include minority interest in network affiliated television stations and certain telephone operations where growth opportunities are not readily apparent. There is no assurance that all or any part of this program can be effectuated on acceptable terms. In March 2002, the Company sold its 20.8% interest in the New Mexico cellular property, RSA 1 (North), to Verizon Wireless for \$5.6 million and repaid certain outstanding indebtedness to Verizon.

Critical Accounting Policies and Estimates

General

Interactive's discussion and analysis of its financial condition and results of operations are based upon its 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 Interactive 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 ongoing basis, Interactive evaluates its estimates, including those related to revenue recognition, carrying value of its investments in the spectrum entities and long-lived assets, purchase price allocations, and contingencies and litigation. Interactive 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. Actual results may differ from these estimates under different assumptions or conditions.

Interactive believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

financial statements.

Revenue Recognition

The principal business of Interactive's telephone companies is to provide telecommunications services. These services fall into four major categories: local network, network access, long distance and other non-regulated telecommunications services. Toll service to areas outside franchised telephone service territory is furnished through switched and special access connections with intrastate and interstate long distance networks.

Local service revenues are derived from providing local telephone exchange services. Local service revenues are based on rates filed with various state telephone regulatory bodies.

Revenues from long distance network services are derived from providing certain long distance services to the Company's local exchange customers and are based on rates filed with various state regulatory bodies.

Revenue from intrastate access is generally billed monthly in arrears based on intrastate access rates filed with various state regulatory bodies. Interactive recognizes revenue from intrastate access service based on an estimate of the amounts billed to interexchange carriers in the subsequent month. Estimated revenues are adjusted monthly as actual revenues become known.

Revenue from interstate access is derived from settlements with the National Exchange Carrier Association ("NECA"). NECA was created by the FCC to administer interstate access rates and revenue pooling on behalf of small local exchange carriers who elect to participate in a pooling environment. Interstate settlements are determined based on the various subsidiaries' cost of providing interstate telecommunications service. Interactive recognizes interstate access revenue based on an estimate of the current year cost of providing service. Estimated revenue is adjusted to actual upon the completion of cost studies in the subsequent period.

20

Other ancillary revenues derived from the provision of directory advertising and billing and collection services are billed monthly based on rates under contract.

Purchase Price Allocation

Interactive's business development strategy is to expand its existing operations through internal growth and acquisition. From 1989 through 2001, the Company has acquired twelve telephone companies. Significant judgments and estimates are required to allocate the purchase price of acquisitions to the fair value of tangible assets acquired and identifiable intangible assets and liabilities assumed. Any excess purchase price over the above fair values is allocated to goodwill. Additional judgments and estimates are required to determine if identified intangible assets have finite or indefinite lives and the period of their lives.

Depreciation and Amortization

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and intangible assets. Although Interactive believes it is unlikely that any significant changes to the useful lives of its tangible or intangible assets will occur in the near term, rapid changes in technology, the discontinuance of accounting under SFAS No. 71 by the Company's wireline subsidiaries, or changes in market conditions could result in revisions to such estimates that could

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

materially affect the carrying value of these assets and the Company's future consolidated operating results.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to market risk relating to changes in the general level of U.S. interest rates. Changes in interest rates affect the amounts of interest earned on the Company's cash and cash equivalents (\$35.9 million at September 30, 2002 and \$31.2 million at December 31, 2001).

The Company generally finances the debt portion of the acquisition of long-term assets with fixed rate, long-term debt. The Company generally maintains the majority of its debt as fixed rate in nature either by borrowing on a fixed long-term basis or, on a limited basis, entering into interest rate swap agreements. The Company does not use derivative financial instruments for trading or speculative purposes. Management does not foresee any significant changes in the strategies used to manage interest rate risk in the near future, although the strategies may be reevaluated as market conditions dictate.

At September 30, 2002, approximately \$63.7 million, or 32% of the Company's long-term debt and notes payable bears interest at variable rates. Accordingly, the Company's earnings and cash flows are affected by changes in interest rates. Assuming the current level of borrowings for variable rate debt and assuming a one percentage point change in the 2002 average interest rate under these borrowings, it is estimated that the Company's 2002 nine-month interest expense would have changed by less than \$0.4 million. In the event of an adverse change in interest rates, management would likely take actions to further mitigate its exposure. However, due to the uncertainty of the actions that would be taken and their possible effects, the analysis assumes no such actions. Further, the analysis does not consider the effects of the change in the level of overall economic activity that could exist in such an environment.

21

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our chief executive officer and chief financial officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934 (the "Act")) as of a date within 90 days of the filing date of this quarterly report (Evaluation Date). They have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission.

(b) Changes in internal controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date, nor were there any significant deficiencies or material weaknesses in these controls requiring corrective actions.

22

FORWARD LOOKING INFORMATION

Included in this Management Discussion and Analysis of Financial Condition and

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

Results of Operations are certain forward looking financial and other information, including without limitation, the Company's effort to monetize certain assets, Liquidity and Capital Resources and Market Risk. It should be recognized that such information are estimates or forecasts based upon various assumptions, including the matters, risks, and cautionary statements referred to therein, as well as meeting the Registrant's internal performance assumptions regarding expected operating performance and the expected performance of the economy and financial markets as it impacts Registrant's businesses. As a result, such information is subject to uncertainties, risks and inaccuracies, which could be material.

23

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Taylor Litigation. Interactive and several other parties, including our Chief Executive Officer, and Fortunet Communications, L.P., which was Sunshine PCS Corporation's predecessor-in-interest, 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. At the initiative of one of the defendants, the seal was lifted on January 11, 2002. Under the False Claims Act, a private plaintiff, termed a "relator," may file a civil action on the U.S. government's behalf against another party for violation of the statute. In return, the relator receives a statutory bounty from the government's litigation proceeds if he is successful.

The relator in this lawsuit is R.C. Taylor III, an individual who, to the best of our knowledge, has no relationship to any of the Lynch entities and affiliates that have been named parties in this litigation. Indeed at the time of his filings, and to the best of our knowledge, Mr. Taylor was a lawyer at Gardner, Carton & Douglas. Thereafter, we believe he was a lawyer with a Washington, D.C., law firm. We do not know his current status. We issued a press release dealing with this litigation on January 16, 2002.

Interactive strongly believes that this lawsuit is completely without merit, and intends to defend the suit vigorously. The U.S. Department of Justice has notified the court that it has declined to intervene in the case. Nevertheless, we cannot predict the ultimate outcome of the litigation, nor can we predict the effect that the lawsuit or its outcome will have on our business or plan of operation.

Interactive was formally served with the complaint on July 10, 2002. On September 19, 2002, Interactive filed two motions with the United States District Court for the District of Columbia: a motion to dismiss the lawsuit and a motion to transfer the action to the Southern District of New York. The relator has until November 25, 2002, to respond to Interactive's motions.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibit 99.1 - Chief Executive Officer Section 906 Certification.
Exhibit 99.2 - Chief Financial Officer Section 906 Certification.
- (b) None.

24

SIGNATURE

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

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

LYNCH INTERACTIVE CORPORATION
(Registrant)

By: /s/Robert E. Dolan

Robert E. Dolan
Chief Financial Officer

November 14, 2002

25

CERTIFICATIONS

I, Mario J. Gabelli, the Chief Executive Officer of the Registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lynch Interactive Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
- b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

committee of Registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Mario J. Gabelli

Mario J. Gabelli
Chief Executive Officer of
Lynch Interactive Corporation

November 14, 2002

26

I, Robert E. Dolan, the Chief Financial Officer of the Registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lynch Interactive Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:

- a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
- b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the

Edgar Filing: LYNCH INTERACTIVE CORP - Form 10-Q

effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Robert E. Dolan

Robert E. Dolan
Chief Financial Officer of
Lynch Interactive Corporation

November 14, 2002