LYNCH INTERACTIVE CORP
Form 10-Q
May 15, 2003

SECURITIES & EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2003

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 May 14, 2003

Common Stock, $.0001 par value	2,787,551

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LYNCH INTERACTIVE CORPORATION AND SUBSIDIARIES i

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2003 (Unaudited)	December 31, 2002 (Note)	March 31 2002 (Unaudite
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 25,744	$ 23,356	$ 35,337
Receivables, less allowances of $303, $316 and $483, respectively	8,700	8,916	9,767
Material and supplies	3,470	3,351	3,453
Prepaid expenses and other current assets	1,583	1,451	2,406
TOTAL CURRENT ASSETS	39,497	37,074	50,963
PROPERTY, PLANT AND EQUIPMENT:			
Land	833	807	840
Buildings and improvements	12,908	12,741	10,858
Machinery and equipment	198,772	195,015	184,401
	212,513	208,563	196,099
Accumulated Depreciation	(92,744)	(88,201)	(78,434
	119,769	120,362	117,665
GOODWILL, NET	60,884	60,884	61,566
INVESTMENTS IN AND ADVANCES TO AFFILIATED ENTITIES	9,491	9,343	13,785
OTHER ASSETS	18,579	17,684	14,095
TOTAL ASSETS	$ 248,220	$ 245,347	$ 258,074
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable to banks	$ 10,639	$ 12,882	$ 9,804
Trade accounts payable	3,462	1,638	480
Accrued interest payable	362	384	1,690
Accrued liabilities	13,917	16,682	19,007
Current maturities of long-term debt	18,474	18,272	21,154
TOTAL CURRENT LIABILITIES	46,854	49,858	52,135
LONG-TERM DEBT	162,898	158,349	167,638
DEFERRED INCOME TAXES	6,573	6,621	8,117
OTHER LIABILITIES	690	736	843
MINORITY INTERESTS	7,228	7,151	6,752

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY

COMMON STOCK, $0.0001 PAR VALUE-10,000,000 SHARES AUTHORIZED; 2,824,766 ISSUED; 2,790,651, 2,792,651 and 2,814,151 outstanding	--	--	--
ADDITIONAL PAID-IN CAPITAL	21,456	21,406	21,406
RETAINED EARNINGS	3,292	1,879	720
ACCUMULATED OTHER COMPREHENSIVE INCOME	467	534	946
TREASURY STOCK, 34,115, 32,115 and 10,615 shares, at cost	(1,238)	(1,187)	(483
TOTAL SHAREHOLDER'S EQUITY	23,977	22,632	22,589
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 248,220	$ 245,347	$ 258,074

See accompanying notes.

LYNCH INTERACTIVE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share and share amounts)

	Three
	20
SALES AND REVENUES	$ 21,
COSTS AND EXPENSES:	
Operations, exclusive of depreciation and amortization	10,
Depreciation and amortization	4,
Selling and administrative	
OPERATING PROFIT	4,
Combined total	
Other income (expense):	
Investment income	
Interest expense	(3,
Equity in earnings of affiliated companies	
Gains on sales of subsidiary stock	-
	(2,
INCOME BEFORE INCOME TAXES, MINORITY INTERESTS AND OPERATIONS OF MORGAN GROUP HOLDING CO. DISTRIBUTED TO SHAREHOLDERS	2,
Provision for income taxes	(1,
Minority Interests	
INCOME FROM CONTINUING OPERATIONS	1,
Loss from operations of Morgan Group Holding Co. distributed to shareholders, net of income taxes of $-, and minority	

interests of $868	-
NET INCOME	$ 1,
Basic weighted average shares outstanding	2,791,
Diluted weighted average shares outstanding	2,791,
BASIC EARNINGS PER SHARE	
INCOME FROM CONTINUING OPERATIONS	$ 0
Loss from operations of Morgan Group Holding Co. distributed to shareholders	
NET INCOME	$
DILUTED EARNINGS PER SHARE	
INCOME FROM CONTINUING OPERATIONS	$
Loss from operations of Morgan Group Holding Co. distributed to shareholders	
NET INCOME	$

See accompanying notes.

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

	Three Months Ended March 31, 2003	2002
OPERATING ACTIVITIES		
Net Income	$ 1,413	$ 2,385
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,915	4,811
Equity in earnings of affiliated companies	(260)	(204)
Minority interests	77	632
Stock option expense	50	--
Gain on sale of cellular partnership	--	(4,965)
Non-cash items and assets and operating liabilities.... from operations of Morgan Group Holding Co. distributed to shareholders	--	1,888
Changes in operating assets and liabilities:		
Receivables	216	270
Accounts payable and accrued liabilities	(1,039)	2,911
Other	(251)	(752)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,121	6,976

INVESTING ACTIVITIES		
Capital expenditures	(4,229)	(3,371)
Investment in and advances to affiliated entities	(34)	(476)
Proceeds from sale of available for sale securities	--	345
Proceeds from sale of cellular partnership	--	5,570
Other	(927)	254
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(5,190)	2,322
FINANCING ACTIVITIES		
Issuance of long term debt	7,773	603
Repayments of long term debt	(3,022)	(5,035)
Net repayments on lines of credit	(2,243)	(532)
Treasury stock transactions	(51)	(252)
Other	--	22
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,457	(5,194)
Net increase in cash and cash equivalents	2,388	4,104
Cash and cash equivalents at beginning of period	23,356	31,233
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 25,744	$ 35,337

See accompanying notes.

LYNCH INTERACTIVE CORPORATION & SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Subsidiaries of the Registrant

As of March 31, 2003, 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%

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Subsidiary	Owned by Lynch
Lynch Entertainment, LLC	100.0%
Lynch Entertainment Corporation II	100.0%
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 3G Communications Corporation.........	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%

B. Basis of Presentation

The Company consolidates the operating results of its telephone and cable television subsidiaries (81-100% owned at March 31, 2003, December 31, 2002 and March 31, 2002). 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 March 31, 2003 and December 31, 2002), Capital Communications Company, Inc. (49% owned at March 31, 2003, December 31, 2002 and March 31, 2002) and the cellular partnership operations in New Mexico (17% to 21% owned at March 31, 2003, December 31, 2002 and March 31, 2002).

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 for the three months ended March 31, 2002, 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 the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. 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.

As noted, in footnote H, in the first quarter of 2003, the Company issued stock options to its President and Chief Operating Officer. The Company has elected to account for these options under the provisions of FASB Statement No. 123 "Accounting and Disclosure of Stock-Based Compensation" and FASB Statement No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." Under the provisions of these two statements stock options are valued at fair value on the date of the grant and such amount is amortized as an expense over the vesting period.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement obligations." This standard provides accounting guidance for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction or development and (or) normal operation of that asset. According to the standard, the fair value of an asset retirement obligation (ARO liability) should be recognized in the period in which (1) a legal obligation to retire a long-lived asset exists and (2) the fair value of the obligation based on retirement cost and settlement date is reasonably estimable. Upon initial recognition of the ARO liability, the related asset retirement cost should be capitalized by increasing the carrying amount of the related long-lived asset. The Company adopted SFAS No. 143 on January 1, 2003. Although the Company generally has had no legal obligation to remove assets, depreciation rates of certain assets established by regulatory authorities for the Company's telephone operations subject to SFAS No. 71 have historically included a component for removal costs in excess of the related estimated salvage value. Under SFAS No. 71 the Company is not permitted to remove this accumulated liability for removal costs in excess of salvage value even though there is no legal obligation to remove the assets. For the Company's operations not subject to SFAS No. 71 the Company has not accrued a liability for anticipated removal costs in the past and will continue to expense the costs of removal as incurred since there is no legal obligation to remove such assets. Accordingly, the adoption of SFAS No. 143 had no impact on the Company's financial statements.

Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

C. Intangibles

The application of the non-amortization provisions of Statement No. 142, Goodwill and Other Intangible Assets, has increased net income in the first quarter of 2003 by approximately $0.6 million ($0.22 per basic share) and the first quarter of 2002 by $0.7 million ($0.24 per basic share).

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

	March 31, 2003	December 31, 2002	March 31, 2002
	Unaudited		Unaudited
		(000s)	
Intangible assets subject to amortization:			
Subscriber lists	$ 7,777	$ 7,284	$ 3,195
Accumulated amortization	(2,642)	(2,370)	(961)
	$ 5,135	$ 4,914	$ 2,234
Amortization expense for three months ended ..	$ 148	$ 406	
Intangible assets not subject for amortization			
Goodwill	$ 60,884	$ 60,884	$ 59,916
Cellular Licenses	1,650	1,650	1,650

Estimated aggregate amortization expense by year for Intangible assets subject to amortization:

	(000's)
2003	$552
2004	$552
2005	$547
2006	$547
2007	$547

D. Acquisitions and Dispositions

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. 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.

F. Investments in Affiliated Companies

Interactive has equity investments in both broadcasting and telecommunications companies.

Summarized financial information for companies accounted for by the equity method as of and for the three months ended March 31, 2003 and 2002 and as of December 31, 2002 is as follows:

	Broadcasting Combined Information		
	March 31, 2003	December 31, 2002	March 31, 2002
Current assets	$ 5,666	$ 6,181	$ 5,424
Property, plant & equipment, intangibles & other	10,514	11,260	13,339
Total assets	$ 16,180	$ 17,441	$ 18,763
Current liabilities	$ 3,356	$ 3,790	$ 4,367
Long term liabilities	17,456	18,069	19,826
Equity	(4,632)	(4,418)	(5,430)

Total liabilities & equity	$ 16,180	$ 17,441	$ 18,763
Three months ended			
Revenues	$ 2,838		$ 2,623
Gross profit	673		683
Net loss	(205)		(224)

At March 31, 2003 and December 31, 2002, the Company's investment in Coronet Communications Company ("Coronet") was carried at a negative $821,000 and a negative $791,000, respectively, due to the Company's guarantee of $3.8 million of Coronet's third party debt. Long-term debt of Coronet, at March 31, 2003, totaled $10.5 million due to a third party lender which is due quarterly through December 31, 2005.

	Telecommunications Combined Information		
	March 31, 2003	December 31, 2002	March 31, 2002
Current assets	$ 9,194	$14,102	$12,888
Property, plant & equipment, intangibles & other	28,501	27,849	25,894
Total assets	$37,695	$41,951	$38,782
Current liabilities	$ 5,556	$ 9,211	$ 8,661
Long term liabilities	12,089	11,869	15,838
Equity	20,050	20,871	14,283
Total liabilities & equity	$37,695	$41,951	$38,782
Three months ended			
Revenues	$10,411		$ 9,833
Gross profit	3,428		2,559
Net income	2,501		1,914

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G. Indebtedness

The parent company maintains a short-term line of credit facility totaling $10.0 million. Borrowings under this facility were $7.5 million and $10.0 million at March 31, 2003 and December 31, 2002, respectively. This facility will expire on August 31, 2003. Long-term debt consists of (all interest rates are at March 31, 2003):

March 31, 2003 December 31,

	(Unaudited)	2002
		(In thousands)
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, secured by assets of the telephone companies of $152.8 million).......	$ 58,800	$ 58,119
Bank Credit facilities utilized by certain telephone and telephone holding companies through 2016, $29.7 million at fixed interest rates averaging 7.9% and $54.9 million at variable interest rates averaging 4.3%	84,556	80,166
Unsecured notes issued in connection with acquisitions through 2006, at fixed interest rates of 10.0%	34,690	34,749
Convertible note due in December 2007 at a fixed interest rate of 10%	--	--
Other	3,326	3,587
	181,372	176,621
Current maturities	(18,474)	(18,272)
	$ 162,898	$ 158,349

H. Stock Options

The Company has a stock option plan which calls for 83,000 options to be issued, a maximum option term of ten years and vesting at the discretion of the Option Committee.

On February 10, 2003, the Company issued stock options to its newly hired President and Chief Operating Officer, covering 55,000 shares. The exercise prices are as follows: 20,000 at $26.06 (market price at date of grant), 20,000 at $36.06 and 15,000 at $46.06. These options vest at one year, three years and four years from February 10, 2003 and expire on February 10, 2008. The estimated fair value of these options at the date of grant was $650,000, using the Black-Scholes Option Pricing model with the following assumptions: risk free interest rate of 3%, dividend yield of 0% and volatility factor of the estimated market price of the Company's common stock of .582 and an expected life of the options of five years. $50,000 of expense was recognized in the first quarter of 2003 for these options - $30,000 net of tax. No options were exercised or forfeited during the quarter.

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 March 31, 2003, December 31, 2002 and March 31, 2002 are as follows (in thousands):

	Unrealized Gain (Loss)	Tax Effect	Net
Balance at December 31, 2002 ...	$ 915	$ (381)	$ 534
Current period unrealized losses	(115)	48	(67)
Balance at March 31, 2003	$ 800	$ (333)	$ 467
Balance at March 31, 2002	1,605	(659)	946

Comprehensive income, for the three month periods ended March 31, 2003 and 2002 are as follows (in thousands):

	Three Months Ended March 31,	
	2003	2002
Net income for the period	$ 1,413	$ 2,385
Reclassification adjustment-net of income tax benefit of $-- and $126	--	(196)
Unrealized losses on available for sale securities - net of income tax benefit as of $48 and $272 respectively	(67)	(400)
Comprehensive income	$ 1,346	$ 1,789

J. Earnings per share

The following table set forth the computation of basic and diluted earnings per share for the periods indicated: During the three months ended March 31, 2003, the Company purchased 2,000 shares of its common stock for treasury. Subsequent to March 31, 2003, the Company acquired an additional 1,000 shares at an average cost of $20.43 per share. Stock options outstanding have excluded from the earnings per share computation because their inclusion would have been anti-dilutive.

	Three Months Ended March 31,	
	2003	2002

Basic earnings per share		
Numerator:		
Net Income	$1,413,000	$2,385,000
Denominator:		
Weighted average shares outstanding ..	2,791,000	2,818,000
Earnings per share:		
Net income	$ 0.51	$ 0.85
Diluted earnings per share		
Numerator:		
Net Income	$1,413,000	$2,385,000
Interest saved on assumed conversion of convertible notes - net of tax	--	161,000
Net Income	$1,413,000	$2,546,000
Denominator:		
Weighted average shares outstanding ..	2,791,000	2,818,000
Shares issued on assumed conversion of convertible note	--	235,000
Weighted average shares and share Equivalents	2,791,000	3,053,000
Earnings per share:		
Net Income	$ 0.51	$ 0.83

K. Segment Information

The Company is engaged in one business segment: multimedia. All operating units 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 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 accounting principles generally accepted in the United States.

Operating profit 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 $333,000 and $327,000 for the three months ended March 31, 2003 and 2002, respectively.

	Three Months Ende March 31, 2003	200
Sales and revenues:	$ 21,303	$ 20,
EBITDA (before corporate allocation):		
Operations	$ 10,457	$ 10,
Corporate expenses, gross	(768)	(
Combined total	$ 9,689	$ 10,
Operating profit:		
Operations	$ 5,211	$ 5,
Corporate expenses, net	(437)	(
Combined total	$ 4,774	$ 5,
Operating profit	$ 4,774	$ 5,
Other income (expense):		
Gain on sale of cellular partnership	--	4,
Investment income	558	
Interest expense	(3,026)	(3,
Equity in earnings of affiliated companies	260	
Income before income taxes, minority interests and operations of Morgan Group Holding Co. distributed to shareholders	$ 2,566	$ 8,

L. 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 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.

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. On November 25, 2002, the relator filed an opposition reply to our motion to dismiss and on December 5, 2002, Interactive filed a reply in support of its motion to dismiss.

In addition to the litigation described above, Interactive is a party to routine litigation incidental to its business. Based on information currently available, Interactive believes that none of this ordinary routine litigation, either individually or in the aggregate, will have a material effect on its financial condition and results of operations.

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

Sales And Revenues

Revenues for the three months ended March 31, 2003 increased by $0.3 million to $21.3 million from the first quarter of 2002. Increases in the current quarter are the result of additional deregulated revenues and increased regulated telephone revenues from one of the Company's telephone operations that is in the process of a significant capital upgrade program. Notwithstanding the overall increase in revenues for the period, lower intrastate revenues were recorded by certain operations during the first quarter of 2003.

Operating Profit

Operating profit for the three months ended March 31, 2003 decreased by $0.5 million to $4.8 million from the first quarter of 2002 reflecting the above noted lower intrastate revenues, higher depreciation associated with capital spending programs, and increased expenses as compared to the previous year. The Company's security operation in upstate New York recorded less amortization expense during the first quarter of 2003 as compared to the first quarter of 2002 as it changed the amortization period of customer lists from three to ten years in the fourth quarter of 2002.

Other Income (Expense)

For the three months ended March 31, 2003 investment income was down by $0.4 million from the same period in the prior year due to lower investment balances and lower dividends from bank stocks.

During the first quarter of 2002, 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 $0.3 million in the first quarter due primarily to lower variable interest rates.

Income Tax Provision

The income tax provision includes federal as well as state and local taxes. The tax provision for the three months ended March 31, 2003 and 2002, represent effective tax rates of 41.9% and 38.9%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes, including the effect of earnings and losses attributable to different state jurisdictions.

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Minority Interests

Minority interests decreased earnings by $77,000 for the three months ended March 31, 2003 as compared to $632,000 for the three months ended March 31, 2002 primarily due to minority interest recorded on the gain from the sale of the cellular minority interest.

Net Income (Loss)

The Company recorded income from continuing operations for the three months ended March 31, 2003 of $1.4 million, or $0.51 per share (basic and diluted), compared to income from continuing operations for the same period last year of $4.3 million, or $1.52 per basic share and $1.45 per diluted share. The gain from the sale of the cellular property of $2.5 million or $0.89 per basic share after tax and minority interest effects was the primary cause for the difference in income from continuing operations for these periods

Net income for the three months ended March 31, 2003 was $1.4 million, or $0.51 per share (basic and diluted share), as compared to net income of $2.4 million, or $0.85 per basic share (and $0.83 diluted share), in the same period last year. Operating losses of Morgan of $1.9 million, or $0.67 per basic share, in the first quarter of 2002 offset the $2.5 million gain from the sale of the cellular property.

FINANCIAL CONDITION

Liquidity/ Capital Resources

As of March 31, 2003, the Company had current assets of $39.5 million and current liabilities of $46.9 million. Working capital deficiency was therefore $7.4 million as compared to $12.8 million at December 31, 2002. The addition of $7.7 million of long-term debt was the primary cause of the decrease.

For the three months ended March 31, 2003, capital expenditures were $4.2 million versus $3.4 million for the same period last year.

At March 31, 2003, total debt was $192.0 million, which was $2.5 million higher than the $189.5 million at the end of 2002. At March 31, 2003, there was $124.4 million of fixed interest rate debt averaging 7.0% and $67.6 million of variable interest rate debt averaging 4.4%. Debt at year-end 2002 included $124.7 million of fixed interest rate debt, at an average interest rate of 7.1%, and $64.8 million of variable interest rate debt, at an average interest rate of 4.4%.

As of March 31, 2003, Interactive, the parent company, had $2.5 million available under a $10 million short-term line of credit facility, which expires on August 31, 2003. Management currently expects that this line of credit facility will be renewed but there is no assurance it will be.

Interactive and its predecessor have 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.

Interactive has a high degree of financial leverage. As of March 31, 2003, the ratio of total debt to equity was 8.0 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 parent company.

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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 to enable the Company to meet its obligations, there is no assurance that such financing will be readily obtained at reasonable costs.

The Company is obligated under long-term debt 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	Less than 1 year (b)	2 - 3 years	4 - 5 years	After 5 year
Long-term Debt (a)	$181,372	$ 18,474	$ 39,342	$ 48,358	$ 75,198
Operating Leases	1,306	321	564	321	100
Total Contractual Cash Obligations	$182,678	$ 18,795	$ 39,906	$ 48,679	$ 75,298

(a) Does not include interest payments on debt

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)			
Other Commercial Commitments	Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	Over 5 years

Lines of Credit	$10,639	$10,639	--	--	--
Guarantees	3,750	3,750	--	--	--
Total Commercial Commitments	$14,389	$14,389	--	--	--

The Company has initiated an effort to monetize certain of its assets, including selling a portion or all of certain investments 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

In the first quarter of 2003, the Company issued stock options to its President and Chief Operating Officer. The Company has elected to account for these options under the provisions of FASB Statement No. 123 "Accounting and Disclosure of Stock-Based Compensation" and FASB Statement No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." Under the provisions of these two statements stock options are valued at fair value on the date of the grant and such amount is amortized as an expense over the vesting period.

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 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.

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 2002, the Company has acquired fourteen 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 materially affect the carrying value of these assets and the Company's future consolidated operating results.

Annually, the Company tests goodwill for impairment using the two-step process prescribed in SFAS No. 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 its required annual impairment tests of goodwill and other indefinite lived intangible assets.

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 ($25.7 million at March 31, 2003 and $23.4 million at December 31, 2002).

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 March 31, 2003, approximately $67.6 million, or 35%, 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 2003 average interest rate under these borrowings, it is estimated that the Company's 2003 three-month interest expense would have changed by less than $0.1 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.

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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 if 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.

FORWARD LOOKING INFORMATION

Included in this Management Discussion and Analysis of Financial Condition and Results of Operations are certain forward looking financial and other information, including without limitation, 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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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 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.

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. On November 25, 2002, the relator filed an opposition reply to our motion to dismiss and on December 5, 2002, Interactive filed a reply in support of its motion to dismiss.

In addition to the litigation described above, Interactive is a party to routine litigation incidental to its business. Based on information currently available, Interactive believes that none of this ordinary routine litigation, either individually or in the aggregate, will have a material effect on its financial condition and results of operations.

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) Current Report on Form 8-K filed on March 26, 2003 reporting rights offering under consideration.

SIGNATURE

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

May 13, 2003

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 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

May 13, 2003

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 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

May 13, 2003