NU SKIN ENTERPRISES INC
Form 8-K
February 20, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

February 13, 2009
Date of Report (Date of earliest event reported)

NU SKIN ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

Delaware	001-12421	87-0565309
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

75 West Center Street
Provo, UT 84601
(Address of principal executive offices and zip code)

(801) 345-1000
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On February 13, 2009, the Compensation Committee (the Committee) of the Board of Directors of Nu Skin Enterprises, Inc. (the Company) met and approved several items related to executive officer compensation.

Executive Incentive Plan

The Committee approved the incentive targets and formulas for determining incentive awards under the Nu Skin Enterprises, Inc. 2006 Senior Executive Incentive Plan (the Plan) in 2009 (including the annual incentive and incentives for the second, third, and fourth quarters). Consistent with the targets that were previously approved for the first quarter of 2009, the Committee elected to make certain changes to the incentive targets and formulas used in the prior year. In 2008, cash incentive awards were based on the Company s achievement of earnings per share and revenue. For 2009, the Committee selected revenue and operating income as the objective business criteria for determining the amounts of cash incentive awards for Blake Roney, Truman Hunt, Ritch Wood, Joe Chang and Dan Chard. Incentive targets and formulas for 2009 will be calculated on a constant currency basis to eliminate fluctuations due to exchange rate volatility. Actual results will be calculated using the same exchange rates used to establish the targets. Targets and actual results will be calculated excluding restructuring charges. Bonus target percentages and other formula elements will not be changed from those used in 2008.

Bonus Payment

Incentive bonuses were not earned by the Named Executive Officers under the Company s cash incentive plan for the third and fourth quarters and for the annual period in 2008 because of foreign currency translation losses resulting from significant volatility in the currency markets related to the global financial and economic crisis. Although incentive bonuses were not earned as a result of these foreign currency losses, on February 13, 2009, the Committee approved the payment of discretionary bonuses based on third quarter and annual performance to executives based on various performance factors including the following:

Earnings per share increased approximately 18% from 2007 even after taking into consideration the large foreign currency losses in 2008 and excluding the restructuring charges in 2007;

Operating margin improved approximately 38% from 2007 even after excluding restructuring charges from 2007 results;

Management managed to grow revenue in difficult economic conditions by 8% in 2008; and

Significant improvement in G&A expenses as well as sales incentives and expenses.

The Committee also felt it was appropriate to grant discretionary bonuses as the performance targets would have been achieved except for the unusual currency swings. Based on historical experience, the Committee had capped the impact of swings in the yen under the performance targets. However, the Committee had not capped the impact of other currencies as they historically had generally been an offsetting factor against the yen when they moved in the same direction. The significant weakening of these currencies while the yen strengthened resulted in an impact that had not been anticipated at the time the performance targets were established.

The amount of the bonus for each executive was equal to the amount of bonuses the executive would have earned in the third quarter and annual incentive periods had the translation losses been excluded from operating results. No discretionary bonus was awarded based on fourth quarter performance. A portion of the bonuses will be paid in shares of the Company s stock. The amount of the bonus for each of the Named Executive Officers is as follows:

Truman Hunt	$ 408,552
Blake Roney	$ 245,131
Joe Chang	$ 163,421
Ritch Wood	$ 114,395
Dan Chard	$ 114,395

Option Grant

The Committee also approved an increase in the number of options to be granted to the Named Executive Officers in 2009. The options will be granted in one grant on February 27, 2009 rather than in two semi-annual grants. The increase in the number of options is not expected to increase the compensation expense for each executive officer based on the anticipated valuation of the options. The number of options that were approved for each of the Named Executive Officers is as follows:

Truman Hunt	250,000
Blake Roney	50,000

Ritch Wood	85,000
Dan Chard	85,000
Joe Chang	75,000

Salary Increase

The Committee also approved $25,000 increases in base salary for each of Ritch Wood, Chief Financial Officer and Dan Chard, Executive Vice President, Distributor Success.

SIGNATURE

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

NU SKIN ENTERPRISES, INC.
(Registrant)

/s/ D. Matthew Dorny
D. Matthew Dorny
Vice President

Date: February 20, 2009

PENSATION COMMITTEE: The members of the Compensation Committee are Messrs. Cerutti (Chairman), Gray and Pustorino. All members of the Compensation Committee are "independent" in accordance with AMEX rules. The Compensation Committee met twice during 2004. The responsibilities of the Compensation Committee are to review and approve compensation and benefits policies and objectives, determine whether the Corporation's officers and directors are compensated in accordance with these policies and objectives and carry out the Board of Directors' responsibilities relating to compensation of the Corporation's executives. The Compensation Committee Charter is available at www.lynchcorp.com. NOMINATING COMMITTEE: The members of the Nominating Committee are Messrs. Gray (Chairman), Cerutti and Pustorino. All members of the Nominating Committee are "independent" in accordance with the rules of the AMEX. The Nominating Committee met twice during 2004. The responsibilities of the Nominating Committee are to identify individuals qualified to become Board members and recommend that the Board select director nominees for the annual meetings of shareholders. The Nominating Committee Charter is available at www.lynchcorp.com. 7 In evaluating and determining whether to nominate a candidate for a position on the Board of Directors, the Nominating Committee utilizes a variety of methods and considers criteria such as high professional ethics and values, relevant management and/or manufacturing experience and a commitment to enhancing shareholder value. Candidates may be brought to the attention of the Nominating Committee by current Board members, shareholders, officers or other persons. The Nominating Committee will review all candidates in the same manner regardless of the source of the recommendation. The Nominating Committee will consider nominees recommended by shareholders when properly submitted. Shareholder recommendations should include the nominee's name, the nominee's business and professional experience and membership on other boards sufficient to demonstrate qualifications to serve on the Corporation's Board of Directors and the shareholder's name and address. Shareholder recommendations should be addressed to Corporate Secretary, Lynch Corporation, 140 Greenwich Ave, 4th Floor, Greenwich, Connecticut 06830. For purposes of potential nominees to be considered at the 2006 Annual Meeting of Shareholders, the Corporate Secretary must receive this information by December 5, 2005. Shareholders may communicate with the Board of Directors, including the non-management directors, by sending an e-mail to ghynes@lynchcorp.com or by sending a letter to Lynch Corporation, 140 Greenwich Ave, 4th Floor, Greenwich, Connecticut 06830. The Corporate Secretary will submit such correspondence to the Chairman of the Board or to any specific director to whom the correspondence is directed. CODE OF ETHICS: The Corporation has adopted a code of ethics as part of its Amended and Restated Business Conduct Policy, that applies to all employees of the Corporation including its principal executive, financial and accounting officers. COMPENSATION OF DIRECTORS A director who is an employee of the Corporation is not compensated for services as a member of the Board of Directors or any committee thereof. In 2004, Directors who were not employees received (i) a cash retainer of $5,000 per quarter; (ii) a fee of $2,000 for each meeting of the Board of Directors attended in person or telephonically that has a duration of at least one hour; (iii) a fee of $1,500 for each Audit Committee meeting attended in person or telephonically that has a duration of at least one hour; and (iv) a fee of $750 for each Compensation Committee, each Executive Committee and each Nominating Committee meeting attended in person. In addition, the Audit Committee Chairman receives an additional $4,000 annual cash retainer and the Nominating and Compensation Committee Chairmen receive an additional $2,000 annual retainer. Marc Gabelli, the Chairman, receives a $100,000 annual stipend, payable in equal quarterly installments (of which $27,446 was paid in 2004). Mario J. Gabelli, formerly the Vice Chairman of the Board of Directors, was entitled to receive a $50,000 annual stipend in equal quarterly installments (of which $37,500 was paid in 2004). 8 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT The following table sets forth, as of April 14, 2004, certain information with respect to all persons known to the Corporation to own beneficially more than 5% of the Common Stock of the Corporation, which is the only class of voting stock of the Corporation outstanding. The table also sets forth information with respect to the Corporation's Common Stock beneficially owned by directors, each of the executive officers named in the Summary Compensation Table herein, and by all directors and executive officers as a group. The number of shares beneficially owned is determined under rules of the SEC. Under such rules, beneficial ownership includes any shares as to which a person has sole or shared voting or investment power or any shares that such person can acquire within 60 days (E.G., through exercise of stock options or conversion of securities). Except as otherwise indicated, the shareholders listed in the table have sole voting and investment power with respect to the Common Stock indicated. The following information is reflected in filings with the SEC. AMOUNT AND NATURE OF NAME AND ADDRESS OF BENEFICIAL PERCENT BENEFICIAL OWNER(1) OWNERSHIP OF CLASS(2) ------------------ ------------ ------------ Marc Gabelli..................................... 337,884(3) 20.5% Mario J. Gabelli................................. 270,641(4) 16.4% E. Val Cerutti.................................... 1,000(5) * John C. Ferrara.................................. 414 * Avrum Gray.. 8,900(6) * Eugene Hynes...................................... 0 * Ralph R. Papitto................................. 180,952(7) 9.9% Anthony R. Pustorino.............................. 1,000 * ------------ ------------ All Directors and Executive Officers as a group (8 in total)........................... 800,791 43.8% ============ ============ ---------- * Represents holdings of less than 1% (1) The address of each holder of more than 5% of the Common Stock is as follows: Both Mario J. Gabelli and Marc Gabelli -- 401 Theodore Fremd Ave., Rye, New York 10580-1430, and Ralph Papitto -- Sailfish Point, 6863 S.E. Isle Way, Stuart, Florida 34996. (2) The applicable percentage of ownership for each beneficial owner is based on 1,649,834 shares of Common Stock outstanding as of April 14, 2005. Shares of Common Stock issuable upon exercise of options, warrants or other rights beneficially owned that are exercisable within 60 days are deemed outstanding for the purpose of computing the percentage ownership of the person holding such securities and rights but are not deemed outstanding for computing the percentage ownership of any other person. (3) Includes (i) 1,000 shares of Common Stock owned directly by Marc Gabelli and (ii) 336,884 shares beneficially owned by Venator Merchant Fund, L.P. ("Venator Fund") and Venator Global, LLC ("Venator LLC"). Venator Global, which is the sole general partner of Venator Fund, is deemed to have beneficial ownership of the securities owned beneficially by Venator Fund. Marc Gabelli is the President of Venator Fund. (4) Includes (i) 183,541 shares of Common Stock owned directly by Mario J. Gabelli (including 8,768 held for the benefit of Mario J. Gabelli under the Lynch Interactive Corporation ("LIC") 401(k) Savings Plan); (ii) 800 shares owned by a charitable foundation of which Mario J. Gabelli is a 9 trustee; (iii) 70,000 shares owned by a limited partnership in which Mario J. Gabelli is the general partner and has an approximate 5% interest; and (iv) 16,300 shares owned by LIC, of which Mario J. Gabelli is Chairman and Chief Executive Officer and the beneficial officer of approximately 23% of the outstanding common stock. Mario J. Gabelli disclaims beneficial ownership of the shares owned by such charitable foundation, by LIC and by such limited partnership, except to the extent of his 5% interest in such limited partnership. (5) 1,000 shares are jointly owned with his wife, with whom he shares voting and investment power. (6) Includes (i) 3,400 shares owned by Mr. Gray; (ii) 500 shares owned by a partnership of which Mr. Gray is the general partner; (iii) 1,600 shares owned by a partnership of which Mr. Gray is one of the general partners; (iv) 1,400 shares owned by Mr. Gray's wife; and (v) 2,000 shares owned by a partnership of which Mr. Gray's wife is one of the general partners. (7) Includes 180,000 shares issuable upon the exercise of options held by Mr. Papitto at a $17.50 per share exercise price. 10 EXECUTIVE COMPENSATION The following table sets forth the compensation received in the Corporation's last three fiscal years by the Corporation's former and current Chief Executive Officers and the four most highly compensated executive officers. SUMMARY COMPENSATION TABLE ANNUAL COMPENSATION OTHER ANNUAL SALARY BONUS COMPENSATION NAME AND

PRINCIPAL POSITION YEAR ($) ($) ($) -------------------------- ---- ------ ----- ------------- Marc Gabelli................................ 2004 0 0 36,369(2) Chairman of the Board (1) John C. Ferrara............................. 2004 79,808 0 0 President and Chief Executive Officer (3) Eugene C. Hynes............................. 2004 43,269 0 0 Vice President, Secretary and Treasurer (4) Ralph R. Papitto............................. 2004 187,500 0 0 Chairman of the Board and 2003 250,000 0 0 Chief Executive Officer (5) 2002 270,000 0 0 Raymond H. Keller............................ 2004 67,500 60,000 0 Vice President, Chief Financial Officer 2003 91,000 0 0 and Secretary (6) 2002 70,475 0 0 Richard E. McGrail........................... 2004 67,500 60,000 0 President and Chief Operating Officer (7) 2003 94,000 0 0 2002 73,430 0 0 ---------- (1) Marc Gabelli was elected Chairman of the Board of Directors on September 20, 2004. (2) Includes Chairman's fee of $27,446 and non-employee director's fees of $8,923. (3) Mr. Ferrara was elected as President and Chief Executive Officer of the Corporation on October 1, 2004. (4) Mr. Hynes was appointed as Vice President, Secretary and Treasurer of the Corporation on October 1, 2004. (5) Mr. Papitto resigned as Chairman of the Board of Directors on September 20, 2004 and resigned as Chief Executive Officer of the Corporation on October 1, 2004. (6) Mr. Keller resigned as Secretary of the Corporation on October 1, 2004 and resigned as Vice President and Chief Financial Officer of the Corporation on November 12, 2004. (7) Mr. McGrail resigned as President and Chief Operating Officer of the Corporation on October 1, 2004. 11 OPTION GRANTS IN LAST FISCAL YEAR There were no option grants in 2004. AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES The following table presents information regarding the fiscal year-end value of the named executive officers' unexercised options. There were no options exercised by the named executive officers during 2004. In 2004, Mr. Keller and Mr. McGrail resigned from their respective positions with the Company. As a result, any options that remained unvested at the time of their respective resignations were cancelled, effective three months after their date of resignation. NUMBER OF SECURITIES UNDERLYING UNEXERCISED VALUE OF UNEXERCISED IN- OPTIONS AT FISCAL YEAR- THE-MONEY OPTIONS END AT FISCAL YEAR-END (#) ($) NAME EXERCISABLE/UNEXERCISABLE EXERCISABLE/UNEXERCISABLE ---- ------------------------ ------------------------ Marc Gabelli........................ 0/0 0/0 John C. Ferrara..................... 0/0 0/0 Eugene Hynes........................ 0/0 0/0 Ralph R. Papitto.................... 180,000/0 0/0 Raymond H. Keller................... 22,000/0 0/0 Richard E. McGrail.................. 22,000/0 0/0 COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION OVERVIEW AND PHILOSOPHY The Compensation Committee of the Board of Directors is responsible for developing and making recommendations to the Board of Directors with respect to the Corporation's executive compensation policies and administering the various executive compensation plans. In addition, the Compensation Committee recommends to the Board of Directors the annual compensation to be paid to the Chief Executive Officer and each of the other executive officers of the Corporation, as well as to other key employees. EXECUTIVE OFFICER COMPENSATION PROGRAM The objectives of the Corporation's executive compensation program are to: o Support the achievement of desired corporate performance; o Provide compensation that will attract and retain superior talent and reward performance; o Ensure that there is appropriate linkage between executive compensation and the enhancement of shareholder value; and o Evaluate the effectiveness of the Corporation's incentives for key executives. 12 The executive compensation program is designed to provide an overall level of compensation opportunity that is competitive with companies of comparable size, capitalization and complexity. Actual compensation levels, however, may be greater or less than average competitive levels based upon annual and long-term corporate performance, as well as individual performance. The Compensation Committee uses its discretion to recommend executive compensation at levels warranted in its judgment by corporate and individual performance. The Corporation's executive officer compensation program comprises base salary, cash bonus compensation, 401(k) Savings Plan, and other benefits generally available to employees of the Corporation. BASE SALARY Base salary levels for the Corporation's executive officers are intended to be competitive. In recommending salaries, the Compensation Committee also takes into account individual experience and performance and specific issues relating to the Corporation. A summary of the compensation awarded to the Chief Executive Officer and the other executive officers is set forth in the Summary Compensation Table herein. Initial salaries for the Corporation's executive officers were based upon a variety of factors, including their respective proposed responsibilities with the Corporation, their background and experience and the size and nature of the Corporation's business. BONUS PLAN The Corporation has in place a bonus plan that is based on an objective measure of corporate performance and on subjective evaluation of individual performance for its executive officers and other key personnel. In general, the plan provides for an annual bonus pool equal to 20% of the excess of the consolidated pre-tax profits of the Corporation for a calendar year over

25% of the Corporation's average shareholders equity at the beginning of such year. Shareholders' equity is the average of shareholders equity at the beginning of the period and at the beginning of the two preceding years. The Compensation Committee in its discretion may take into consideration other factors and circumstances in determining the amount of the bonus pool and awarding bonuses such as progress toward achievement of strategic goals and qualitative aspects of management performance. The breakdown of the bonus pool is not based upon a formula but upon judgmental factors. In 2004, bonuses were paid to Mr. McGrail and Mr. Keller of $60,000 each. LYNCH CORPORATION 401(K) SAVINGS PLAN All employees of the Corporation and certain of its subsidiaries are eligible to participate in the Lynch Corporation 401(k) Savings Plan, after having completed one year of service (as defined therein) and having reached the age of 18. The 401(k) Savings Plan permits employees to make contributions by deferring a portion of their compensation. Participating employees also share in contributions made by their respective employers. The annual mandatory employer contribution to each participant's account is equal to 62.5% of the first $800 of the participant's contribution. In addition, the employer may make a discretionary contribution of up to 37.5% of the first $800 of the participant's contribution. A participant's interest in both employee and employer contributions and earnings thereon are fully vested at all times. Employee and 13 employer contributions are invested in guaranteed investment contracts, certain mutual funds or Common Stock of the Corporation, as determined by the participants. The Corporation's executive officers were not participants in the 401(k) Savings Plan in 2004. OTHER BENEFITS The Corporation provides medical, life insurance and disability benefits to the executive officers that are generally available to Corporation employees. COMPENSATION OF CHAIRMAN OF THE BOARD At a meeting of the Board of Directors on September 20, 2004, based upon the recommendation of the Nominating Committee, the Board unanimously elected Marc Gabelli Chairman of the Board of Directors. The Committee recommended a Chairman's fee of $100,000 per year, payable quarterly. COMPENSATION OF CHIEF EXECUTIVE OFFICER Ralph R. Papitto served as the Chief Executive Officer during the past fiscal year until he resigned on October 1, 2004. Mr. Papitto was entitled to receive a base salary of $250,000 per year (of which $187,500 was paid in 2004). At a meeting of the Board of Directors on October 6, 2004, based upon the recommendation of the Nominating Committee, the Board unanimously (with Mr. Ferrara abstaining) elected John C. Ferrara as President and Chief Executive Officer, effective October 1, 2004. The Committee recommended an annual salary of $250,000 for Mr. Ferrara. COMPENSATION COMMITTEE E. Val Cerutti (CHAIRMAN) Avrum Gray (MEMBER) Anthony R. Pustorino (MEMBER) 14 COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION From December 10, 2001 through March 18, 2004, the members of the Compensation Committee were Mr. Mario J. Gabelli (Chairman), Mr. Cerutti and Mr. Papitto. Mr. Papitto served as the Chief Executive Officer of the Corporation from August 17, 2001 through October 1, 2004. Since March 18, 2004, the Compensation Committee comprises Messrs. Cerutti, Gray and Pustorino, all of whom are non-employee independent directors. PERFORMANCE GRAPH The graph below compares the cumulative total shareholder return on the Common Stock of the Corporation for the last five fiscal years ended December 31, 2004, with the cumulative total return over the same period (i) on the broad market, as measured by the AMEX Market Value Index, and (ii) on a peer group, as measured by a composite index based on the total returns earned on the stock of the publicly traded companies included in the Media General Financial Services database under the two Standard Industrial Classification (SIC) codes within which the Corporation conducts the bulk of its business operations: SIC Code 355, Special Industry Machinery; and SIC Code 367, Electronic Components Accessories. The data presented in the graph assumes that $100 was invested in the Corporation's Common Stock and in each of the indexes on December 31, 1999 and that all dividends were reinvested. INSERT CHART HERE FISCAL YEAR ENDING ----------------- 12/31/1999 12/29/2000 12/31/2001 12/31/2002 12/31/2003 12/31/2004 ----------- ---------- ----------- ----------- ----------- ----------- Lynch Corporation................. $100.00 $ 166.59 $ 69.73 $ 30.02 $ 40.48 $ 56.17 AMEX Market Index................ $100.00 $ 98.77 $ 94.22 $ 90.46 $ 123.12 $ 140.99 Peer Group (355, 367)............. $100.00 $ 70.02 $ 63.47 $ 34.61 $ 63.28 $ 49.62 15 TRANSACTIONS WITH CERTAIN AFFILIATED PERSONS On October 15, 2004, the Corporation entered into a Securities Purchase Agreement (the "Purchase Agreement") with Venator Fund. Under the Purchase Agreement, the Corporation sold to Venator Fund, pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 promulgated thereunder, 136,643 shares of its Common Stock for $13.173 per share, or an aggregate purchase price of approximately $1,800,000. Venator Fund is an investment limited partnership controlled by the Corporation's Chairman of the Board, Marc Gabelli. The per share purchase price for the Common Stock is equal to the average of the closing prices of the Common Stock during the 60-trading day period ended on October 13, 2004.

In connection with the transaction, the Corporation obtained a fairness opinion from Caymus Partners, LLC. Prior to the Corporation's relocation of its principal executive offices to Greenwich, Connecticut, such offices were located in Providence, Rhode Island and shared with Avtek Inc. ("Avtek"), a private holding company co-owned by Mr. Papitto and Mario Gabelli until November 27, 2002 and now controlled by Mr. Papitto. Since August 2001, Avtek and the Corporation have shared, on an approximately equal basis, (i) all occupancy costs of the shared premises and (ii) the salary expense of certain persons employed by Avtek at the premises (including Mr. McGrail, the Corporation's President and Chief Operating Officer until his resignation on October 1, 2004 and Mr. Keller, the Corporation's Chief Financial Officer until his resignation on November 12, 2004, and other administrative and clerical personnel) whose services were provided to both the Corporation and Avtek. The Corporation's share of such occupancy and salary costs in 2004 was $433,625 a portion of which represents compensation to Mr. McGrail and Mr. Keller that is reported in the Summary Compensation Table herein. PROPOSAL NO. 2 APPROVAL OF AMENDMENTS TO THE CORPORATION'S 2001 EQUITY INCENTIVE PLAN PROPOSED AMENDMENTS On March 24, 2005, the Board of Directors approved, subject to shareholder approval, amendments to the 2001 Equity Incentive Plan (the "Plan") to increase the total number of shares of the Corporation's Common Stock available for issuance from 300,000 shares to 600,000 shares and to add provisions that require terms and conditions of awards to comply with Section 409A of the Internal Revenue Code of 1986 (the "Code"). No other changes are being made to the Plan. SUMMARY OF THE PLAN The purpose of the Plan is to advance the interests of the Corporation and its subsidiaries by enhancing their ability to attract and retain employees and other persons or entities who are in a position to make significant contributions to the success of the Corporation and its subsidiaries, and to reward participants for such contributions, through ownership of shares of Common Stock of the Corporation and cash incentives. The Board of Directors believes that in order to accomplish these goals, it is in the best interest of the Corporation and its shareholders to provide to such persons and entities the opportunity to participate in the value and/or appreciation in value of the shares of Common Stock. The Plan is intended to accomplish these goals by enabling the Corporation to grant awards in the form 16 of options, stock appreciation rights, restricted stock, unrestricted stock or deferred stock, or performance awards, or combinations thereof. The Plan is administered by the Corporation's Compensation Committee. Under the Plan, the Compensation Committee may grant stock options, stock appreciation rights, restricted stock, unrestricted stock, deferred stock, and performance awards (in cash or stock) (collectively, "Awards"), or combinations thereof, and may waive the terms and conditions of any award. A total of 300,000 shares of Common Stock are currently reserved for issuance under the Plan. Each key employee of the Corporation or any of its subsidiaries (an "Employee") and each other person or entity (including without limitation non-Employee directors of the Corporation or a subsidiary of the Corporation) who, in the opinion of the Compensation Committee, is in a position to make a significant contribution to the success of the Corporation or its subsidiaries is eligible to receive Awards under the Plan (each such Employee, person or entity receiving an Award, a "Participant"). A "subsidiary" for purposes of the Plan is a corporation in which the Corporation owns, directly or indirectly, stock possessing 50% or more of the total combined voting power of all classes of stock. There are currently five directors of the Corporation and approximately 20 employees who are eligible Participants under the Plan. Section 162(m) of the Code places annual limitations on the deductibility by public companies of compensation in excess of $1,000,000 paid to each of the chief executive officer and the other four most highly compensated officers, unless, among other things, the compensation is performance-based. For compensation attributable to stock options and stock appreciation rights to qualify as performance-based, the plan under which they are granted must state a maximum number of shares with respect to which options and rights may be granted to an individual during a specified period and must be approved by the Corporation's shareholders. To comply with these requirements, the Plan provides that the maximum number of shares as to which awards may be granted to any Participant in any one calendar year is 200,000. Section 409A of the Code, added by the American Jobs Creation Act of 2004, imposes interest and additional taxes on certain compensation paid under nonqualified deferred compensation plans. It is the intention of the Board that the Plan comply strictly with the provisions of Section 409A of the Code and Treasury Regulations and other Internal Revenue Service guidance promulgated thereunder ("Section 409A"). The Compensation Committee is directed to exercise its discretion in granting Awards under the Plan (and the terms of such Awards) in compliance with Section 409A. Accordingly, the Plan and any grant of an Award under the Plan may be amended from time to time (without, in the case of an Award, the consent of the Participant) as may be necessary or appropriate to comply with Section 409A. STOCK OPTIONS. The exercise price of an incentive stock option ("ISO") granted under the Plan or an option intended to qualify as performance-based compensation under Section 162(m) of the Code shall not be less than 100% of the fair market value of the Common Stock at the time of grant. The exercise price of a non-ISO granted under the Plan is determined by the Compensation Committee. Options granted under the Plan will expire and terminate 10 years from the date of grant. The exercise price may be paid in cash or by check, bank draft or money order payable to the order of the Corporation. Subject to certain additional limitations, the Compensation Committee may also permit the exercise price to be paid by tendering shares of Common Stock, by delivery to the Corporation of an undertaking by a broker to deliver promptly sufficient funds to pay the exercise price, or a combination of the foregoing. 17 STOCK APPRECIATION RIGHTS (SARS). Stock appreciation rights ("SARs") may be granted either alone or in tandem with stock option grants. Each SAR entitles the holder on exercise to receive an amount in cash or Common Stock or a combination thereof (such form to be determined by the Compensation Committee) determined in whole or in part by reference to appreciation in the fair market value of a share of Common Stock. SARs may be based solely on appreciation in the fair market value of Common Stock or on a comparison of such appreciation with some other measure of market growth. The date as of which such appreciation or other measure is determined shall be the exercise date unless another date is specified by the Compensation Committee. If an SAR is granted in tandem with an option, the SAR will be exercisable only to the extent the option is exercisable. To the extent the option is exercised, the accompanying SAR will cease to be exercisable, and vice versa. STOCK AWARDS; DEFERRED STOCK. The Plan provides for awards of nontransferable shares of restricted Common Stock subject to forfeiture ("Restricted Stock"), as well as unrestricted shares of Common Stock. Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable period and the satisfaction of any other conditions or restrictions established by the Compensation Committee. Except as the Compensation Committee may otherwise determine, if a Participant dies or ceases to be an employee or ceases to continue the consulting or other similar relationship engaged in by such Participant with the Corporation for any reason during the restricted period, the Corporation may purchase the shares of Restricted Stock subject to certain restrictions and conditions. Other awards under the Plan may also be settled with Restricted Stock. The Plan also provides for deferred grants entitling the recipient to receive shares of Common Stock in the future at such times and on such conditions as the Compensation Committee may specify. PERFORMANCE AWARDS. The Plan provides for performance awards entitling the recipient to receive cash or Common Stock following the attainment of performance goals determined by the Compensation Committee. Performance conditions and provisions for deferred stock may also be attached to other awards under the Plan. In the case of any performance award intended to qualify for the performance-based remuneration exception described in Section 162(m) of the Code (an "Exempt Award"), the Compensation Committee will in writing pre-establish specific performance goals that are based upon any one or more operational, result or event-specific goals. The maximum Exempt Award payable to an individual in respect of any performance goal for any year cannot exceed $2,500,000. Payment of performance awards based upon a performance goal for calendar years 2008 and thereafter is conditioned upon re-approval by the shareholders of the Corporation no later than the first meeting of shareholders in 2007. TERMINATION. Except as otherwise provided by the Compensation Committee, if a Participant dies, options and SARs exercisable immediately prior to death may be exercised by the Participant's executor, administrator or transferee during a period of one year following such death (or for the remainder of their original term, if less). Options and SARs not exercisable at a Participant's death terminate. Outstanding awards of Restricted Stock must be transferred to the Corporation upon a Participant's death, and deferred stock grants, performance awards and supplemental awards to which a Participant is not irrevocably entitled will be terminated unless otherwise provided. In the case of termination for reasons other than death, options and SARs remain exercisable, to the extent they were exercisable immediately prior to termination, for three months (or for the remainder of their original term, if less), shares of Restricted Stock must be sold to the Corporation, and other awards terminate, except as otherwise provided. 18 In the case of certain mergers, consolidations or other transactions in which the Corporation is acquired or is liquidated, all outstanding awards will terminate. The Compensation Committee may, however, in its discretion cause unvested awards to vest or become exercisable, remove performance or other conditions on the exercise of or vested right to an award, or in certain circumstances provide for replacement awards. AMENDMENT. The Compensation Committee may amend the Plan or any outstanding award at any time, provided that no such amendment will, without the approval of the shareholders of the Corporation, effectuate a change for which shareholder approval is required in order for the Plan to continue to qualify for the award of ISOs under Section 422 of the Code or for the award of performance-based compensation under Section 162(m) of the

Code. In addition, the Plan and any grant of an Award under the Plan may be amended from time to time (without, in the case of an Award, the consent of the Participant) as may be necessary or appropriate to comply with Section 409A. NEW PLAN BENEFIT The future benefits or amounts that would be received under the Plan by the executive officers, the non-executive officer directors and the non-executive officer employees are discretionary and are therefore not determinable at this time. FEDERAL TAX EFFECTS The following discussion summarizes certain federal income tax consequences of the issuance and receipt of options under the Plan. The summary does not purport to cover federal employment tax or other federal tax consequences that may be associated with the Plan, nor does it cover state, local or non-U.S. taxes. INCENTIVE STOCK OPTIONS. In general, an optionee realizes no taxable income upon the grant or exercise of an ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With certain exceptions, a disposition of shares purchased under an ISO within two years from the date of grant or within one year after exercise produces ordinary income to the optionee (and a deduction to the Corporation) equal to the value of the shares at the time of exercise less the exercise price. Any additional gain recognized in the disposition is treated as a capital gain for which the Corporation is not entitled to a deduction. If the optionee does not dispose of the shares until after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which the Corporation is not entitled to a deduction. NONSTATUTORY (NON-ISO) OPTIONS. In general, in the case of a non-ISO, the optionee has no taxable income at the time of grant but realizes income in connection with exercise of the option in an amount equal to the excess (at the time of exercise) of the fair market value of the shares acquired upon exercise over the exercise price. A corresponding deduction is available to the Corporation. Upon a subsequent sale or exchange of the shares, appreciation or depreciation after the date of exercise is treated as capital gain or loss for which the Corporation is not entitled to a deduction. In general, an ISO that is exercised more than three months after termination of employment (other than termination by reason of death) is treated as a non-ISO. ISOs are also treated as non-ISOs to the extent they first become exercisable by an individual in any calendar year for shares having a fair market value (determined as of the date of grant) in excess of $100,000. 19 Under the so-called "golden parachute" provisions of the Code, the vesting or accelerated exercisability of awards in connection with a change in control of the Corporation may be required to be valued and taken into account in determining whether Participants have received compensatory payments, contingent on the change in control, in excess of certain limits. If these limits are exceeded, a substantial portion of amounts payable to the Participant, including income recognized by reason of the grant, vesting or exercise of awards under the Plan, may be subject to an additional 20% federal tax and may be nondeductible to the Corporation. THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE AMENDMENTS TO THE CORPORATION'S 2001 EQUITY INCENTIVE PLAN. INDEPENDENT AUDITORS Ernst & Young LLP audited the consolidated financial statements of the Corporation for the year ended December 31, 2004 and has reported the results of its audit to the Audit Committee of the Board of Directors. A representative of Ernst & Young LLP is expected to be present at the 2005 Annual Meeting of Shareholders, will have the opportunity to make a statement if the representative desires to do so and will be available to respond to appropriate questions from shareholders. The Corporation has not yet selected an independent auditor for the fiscal year ending on December 31, 2005, because it wanted to finalize the 2004 audit before considering auditors for 2005. AUDIT FEES The aggregate audit fees billed for each of the last two fiscal years by Ernst & Young LLP were $338,000 for 2004 and $262,450 for 2003. Audit fees include services relating to auditing the Corporation's annual financial statements, reviewing the financial statements included in the Corporation's quarterly reports on Form 10-Q and certain accounting consultations. AUDIT RELATED FEES The aggregate audit related fees billed for each of the last two fiscal years by Ernst & Young LLP totaled $156,812 for 2004 and $20,000 in 2003. Audit related fees include services relating to employee benefit plans and the Corporation's acquisition of Piezo Technology, Inc., in 2004. TAX FEES The aggregate tax fees billed for each of the last two fiscal years by Ernst & Young LLP totaled $75,233 for 2004 and $39,958 for 2003. Tax fees include services performed relating to tax compliance and customs services. ALL OTHER FEES The Corporation was not billed for any other services by Ernst & Young LLP during 2004 or 2003. 20 REPORT OF THE AUDIT COMMITTEE The members of the Audit Committee are Messrs. Pustorino, Cerutti and Gray. The Board of Directors has determined that all Audit Committee members are financially literate and independent under the current AMEX standards. Mr. Pustorino serves as Chairman and qualifies as an "audit committee financial expert." The Audit Committee operates under a revised written charter adopted by the Board of Directors on February 5, 2004. The Audit Committee has met and held discussions with management and the independent auditors. In our discussion, management has represented to the Audit Committee that the Corporation's consolidated financial statements were prepared in accordance with Generally Accepted Accounting Principles. The Audit Committee has reviewed and discussed the consolidated financial statements with both management and Ernst & Young LLP, the Corporation's independent auditors. The Audit Committee meets with our independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Corporation's internal controls and the overall quality of the Corporation's financial reporting. There were six such meetings in 2004. The Audit Committee discussed with the independent auditors, matters required to be discussed by Codification of Statements on Auditing Standards No. 61 (Communication with Audit Committees). The Corporation's independent auditors also provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee has considered and discussed with Ernst & Young the firm's independence and the compatibility of the non-audit services provided by the firm with its independence. Based on the Audit Committee's review of the audited financial statements and the various discussions noted above, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, and the Board has approved this recommendation. AUDIT COMMITTEE Anthony R. Pustorino (CHAIRMAN) E. Val Cerutti (MEMBER) Avrum Gray (MEMBER) SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires the Corporation's directors, executive officers and holders of more than 10% of the Corporation's Common Stock to file with the SEC and the AMEX initial reports of ownership and reports of changes in the ownership of Common Stock and other equity securities of the Corporation. Such persons are required to furnish the Corporation with copies of all Section 16(a) filings. Based solely on the Corporation's review of the copies of such filings it has received and written representations of directors and officers, the Corporation believes that during the fiscal year ended December 31, 2004, its officers, directors, and 10% shareholders are in compliance with all Section 16(a) filing requirements applicable to them. 21 PROPOSALS OF SHAREHOLDERS Proposals of shareholders intended to be presented at the 2006 Annual Meeting of Shareholders must be received by the Office of the Secretary, Lynch Corporation, 140 Greenwich Avenue, 4th Floor, Greenwich, Connecticut 06830, by no later than December 16, 2005, for inclusion in the Corporation's proxy statement and form of proxy relating to the 2006 Annual Meeting of Shareholders. The date after which notice of a shareholder proposal intended to be submitted for the 2006 Annual Meeting of Shareholders outside the processes of Rule 14a-8 will be considered untimely is March 1, 2006. If not received by that date, the persons named in the form of proxy accompanying the notice of meeting may vote on any such proposal in their discretion. MISCELLANEOUS The Board of Directors knows of no other matters which are likely to come before the 2005 Annual Meeting of Shareholders. If any other matters should properly come before the 2005 Annual Meeting of Shareholders, it is the intention of the persons named in the accompanying form of proxy to vote on such matters in accordance with their best judgment. The solicitation of proxies is made on behalf of the Board of Directors of the Corporation, and the cost thereof will be borne by the Corporation. The Corporation has employed the firm of Morrow & Co. Inc., 445 Park Avenue, 5th Floor, New York, New York, 10022 to assist in this solicitation at a cost of $4,000, plus out-of-pocket expenses. The Corporation will also reimburse brokerage firms and nominees for their expenses in forwarding proxy material to beneficial owners of the Common Stock of the Corporation. In addition, officers and employees of the Corporation (none of whom will receive any compensation therefor in addition to their regular compensation) may solicit proxies. The solicitation will be made by mail and, in addition, may be made by telegrams, personal interviews and the telephone. ANNUAL REPORT The Corporation's Annual Report to Shareholders for the fiscal year ended December 31, 2004, has been sent herewith to each shareholder. Such Annual Report, however, is not to be regarded as part of the proxy soliciting material. 22