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**LICT CORPORATION**

Quarterly Report for period ended March 31, 2009

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**LICT CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share amounts)

	<b>March 31, 2009</b>	<b>December 31, 2008</b>	<b>March 31, 2008</b>
		(Audited)	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 25,521	\$ 29,743	\$ 41,088
Receivables, less allowances of \$827, \$807 and \$736, respectively	8,867	9,530	8,966
Material and supplies	2,731	2,604	2,849
Income tax receivable	847	2,411	--
Prepaid expenses and other current assets	1,534	1,475	1,377
Total current assets	<u>39,500</u>	<u>45,763</u>	<u>54,280</u>
Property, plant and equipment:			
Land	1,117	1,117	1,107
Buildings and improvements	19,419	19,401	19,108
Machinery and equipment	283,268	282,329	254,215
	<u>303,804</u>	<u>302,847</u>	<u>274,430</u>
Accumulated depreciation	(199,924)	(196,296)	(168,315)
	<u>103,880</u>	<u>106,551</u>	<u>106,115</u>
Excess of cost over fair value of net assets acquired, net (goodwill)			
	62,115	62,115	64,765
Other intangibles	6,574	6,647	7,708
Investments in and advances to affiliated entities	4,678	4,468	3,792
Other assets	10,075	9,902	10,256
Total assets	<u>\$ 226,822</u>	<u>\$ 235,446</u>	<u>\$ 246,916</u>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**LICT CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share amounts)

	<b>March 31, 2009</b>	<b>December 31, 2008</b>	<b>March 31, 2008</b>
		(Audited)	(Unaudited)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Notes payable to banks	\$ 5,499	\$ 12,299	\$ 10,058
Trade accounts payable	4,129	3,355	3,253
Accrued interest payable	326	648	807
Accrued liabilities	7,698	8,648	11,929
Current maturities of long-term debt	14,853	15,059	21,429
Total current liabilities	32,505	40,009	47,476
Long-term debt	124,764	128,518	137,362
Deferred income taxes	10,069	10,102	7,467
Liability for unrecognized tax benefits	3,114	3,062	5,051
Other liabilities	4,317	4,398	6,140
Total liabilities	174,769	186,089	203,496
Minority interests	180	171	146
Commitments and contingencies			
Shareholders' equity			
Common stock, \$0.0001 par value-10,000,000 shares authorized; 26,637.50, issued; 24,506.37, 24,598.37 and 25,111.35 outstanding	--	--	--
Additional paid-in capital	16,586	16,586	16,586
Retained earnings	41,991	39,096	30,921
Accumulated other comprehensive income	(103)	(124)	(26)
Treasury stock, 2,131.13, 2,039.13 and 1,526.15 shares, at cost	(6,601)	(6,372)	(4,207)
Total shareholders' equity	51,873	49,186	43,274
Total liabilities and shareholders' equity	\$ 226,822	\$ 235,446	\$246,916

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**LICT CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

*(in thousands, except per share data)*

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
Revenues	\$ 24,441	\$ 25,374
Costs and expenses:		
Cost of revenue, excluding depreciation	9,498	8,984
General and administrative costs at operations	3,990	3,785
Corporate office expenses	939	868
Depreciation and amortization	4,431	5,247
Total Expense	<u>18,858</u>	<u>18,884</u>
Operating profit	5,583	6,490
Other income (expense):		
Investment income	1,027	1,130
Interest expense	(1,996)	(3,347)
Equity in earnings of affiliated companies	219	143
Gain on sale of investments	--	5,615
	<u>(750)</u>	<u>3,541</u>
Income before income taxes and minority interests	4,833	10,031
Minority interests	(9)	(15)
Provision for income taxes	(1,929)	(3,722)
Net income	<u>\$ 2,895</u>	<u>\$ 6,294</u>
Basic and diluted weighted average shares outstanding	24,536.30	25,111.75
Basic and diluted earnings per share	\$ 117.99	\$ 250.64

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**LICT CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Unaudited)  
*(in thousands, except share data)*

	Shares of Common Stock Out- standing	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2008	24,598.37	\$ 0	\$ 16,586	\$ 39,096	\$ (124)	\$ (6,372)	\$ 49,186
Net income for the period	--	--	--	2,895	--	--	2,895
Unrealized gain on available for sale securities, net	--	--	--	--	21	--	21
Comprehensive income							2,916
Purchase of Treasury Stock	(92)	--	--	--	--	(229)	(229)
Balance at March 31, 2009	24,506.37	\$ 0	\$ 16,586	\$ 41,991	\$ (103)	\$ (6,601)	\$ 51,873

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**LICT CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
*(in thousands)*

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities:</b>		
Net Income	\$ 2,895	\$ 6,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,431	5,247
Equity in earnings of affiliated companies	(219)	(143)
Distributions received from affiliated companies	6	--
Gain on sale of spectrum	--	(5,615)
Minority interests	9	15
Changes in operating assets and liabilities:		
Accounts receivables	598	741
Income tax receivable	1,564	--
Accounts payable and accrued liabilities	(276)	1,332
Other	(356)	(348)
Net cash provided by operating activities	8,652	7,523
<b>Investing activities:</b>		
Capital expenditures	(1,304)	(4,211)
Acquisition of cable television assets	(658)	--
Proceeds for sale of spectrum	--	6,600
Other	33	6
Net cash (used in) provided by investing activities	(1,929)	2,395
<b>Financing activities:</b>		
Repayments of long term debt	(3,916)	(3,760)
Net repayment on lines of credit	(6,800)	(6,371)
Purchase of treasury stock	(229)	(17)
Net cash used in financing activities	(10,945)	(10,148)
Net decrease in cash and cash equivalents	(4,222)	(230)
Cash and cash equivalents at beginning of period	29,743	41,318
Cash and cash equivalents at end of period	\$ 25,521	\$ 41,088
<b>Cash paid for:</b>		
Interest expense	\$ 2,288	\$ 3,199
Income taxes	488	1,730
<b>Non cash transactions:</b>		
Purchases of property, plant and equipment included in payables or accruals at:		
- End of period	140	680
- Beginning of period	345	1,002

*See accompanying Notes to Condensed Consolidated Financial Statements.*

## LICT CORPORATION AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### A. Basis of Presentation

LICT Corporation (“LICT” or the “Company”) consolidates the operating results of its subsidiaries. All material intercompany transactions and balances have been eliminated. Investments in affiliates in which the Company does not have a majority voting control, but has the ability to significantly influence management decisions, are accounted for in accordance with the equity method. The Company accounts for the following affiliated companies on the equity basis of accounting: a cellular partnership in California (25% owned at March 31, 2009, December 31, 2008 and March 31, 2008) and telecommunications operations in North Dakota, Iowa and New York (5% to 14% owned).

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they are not audited and do not include all of the information and footnotes required for complete financial statements. These consolidated financial statements and footnotes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s annual report for the year ended December 31, 2008. 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, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### B. Investments in Affiliated Companies

A subsidiary of LICT owns a 25% partnership interest in a cellular telephone provider in northern California, California RSA #2. As of March 31, 2009, December 31, 2008 and March 31, 2008, the net investment in the partnership was \$2.9 million, \$2.8 million and \$2.4 million, respectively. The Company’s share of income, included in Equity in Earnings of Affiliated Companies was \$0.1 million in both 2009 and 2008.

#### C. Gains on sale of investments

In March 2008, the Company sold four of its existing 700 MHz licenses for an aggregate price of \$6.6 million. Such licenses were acquired by the Company in the FCC Auction 44 during 2002 for \$1.0 million, resulting in a \$5.6 million gain in the first quarter of 2008.

#### D. Acquisitions

In February 2009, LICT’s subsidiary in Utah acquired five cable television systems in rural Nevada and Utah for a purchase price of approximately \$0.7 million

#### E. Indebtedness

LICT maintains a short-term line of credit facility totaling \$17.5 million through June 30, 2010. Borrowings under this and earlier facilities were \$5.5 million, \$12.3 million and \$10.1 million at March 31, 2009, December 31, 2008 and March 31, 2008, respectively. Borrowing under the line of credit facility are

included in Notes payable to banks. Long-term debt consists of (all interest rates are at March 31, 2009) (in thousands):

	<b>March 31, 2009</b>	<b>December 31, 2008</b>	<b>March 31, 2008</b>
Rural Electrification Administration (“REA”) and Rural Telephone Bank (“RTB”) notes payable due quarterly through 2027 at fixed interest rates ranging from 2% to 7.5%. (5.2% weighted average, secured by assets of the telephone companies with a net book value of \$150 million)	\$ 36,300	\$ 37,441	\$ 40,966
Bank Credit facilities utilized by certain telephone and telephone holding companies due through 2017, at variable interest rates averaging 3.2%	61,253	63,884	72,990
Unsecured notes issued in connection with acquisitions through 2008, \$30.0 million at fixed interest rates averaging 8.5% and \$9.7 million at variable interest rates averaging 8.2%	39,701	39,747	41,882
Other	2,963	2,505	2,953
	<u>139,617</u>	<u>143,577</u>	<u>158,791</u>
Current maturities	(4,853)	(15,059)	(21,429)
	<u>\$ 124,764</u>	<u>\$ 128,518</u>	<u>\$ 137,362</u>

#### F. Comprehensive Income

Other comprehensive income, net of tax, which consists of unrealized gains (losses) on available for sale securities, as of March 31, 2009, December 31, 2008 and March 31, 2008 are as follows (in thousands):

	<b>Unrealized Gain (Loss)</b>	<b>Tax Effect</b>	<b>Net</b>
	<i>(in thousands)</i>		
Balance at December 31, 2008	\$ (188)	\$ 64	\$ (124)
Unrealized gains on available for sale securities, net	32	(11)	21
Balance at March 31, 2009	<u>\$ (156)</u>	<u>\$ 53</u>	<u>(103)</u>
Balance at March 31, 2008	<u>\$ (39)</u>	<u>\$ 13</u>	<u>\$ (26)</u>

#### G. Litigation

LICT is a party to routine litigation incidental to its business. Based on information currently available, the Company 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.

#### H. Related Party Transactions

At March 31, 2009, December 31, 2008 and March 31, 2008, assets of \$22.2 million, \$26.2 million and \$30.7 million, which are classified as cash and cash equivalents, are invested in United States Treasury money market funds for which an affiliate of the Company’s Chairman serve as investment manager to the respective fund.

## **MANAGEMENT'S DISCUSSION OF OPERATIONS**

This discussion should be read together with the Consolidated Financial Statements of LICT Corporation and the notes thereto.

### **RESULTS OF OPERATIONS**

#### **Overview**

LICT has grown primarily through the selective acquisition of rural local exchange carriers ("RLECs") and by offering additional services such as Internet service, cable TV service, alarm services, long distance service and competitive local exchange carrier ("CLEC") service. From 1989 through the current reporting period, LICT (and its predecessor corporations) acquired fifteen telephone companies, whose operations range in size from approximately 800 to 7,500 access lines. The Company's telecommunications operations are located in California, Iowa, Kansas, Michigan, Nevada, New Hampshire, New Mexico, New York, North Dakota, Oregon, Utah and Wisconsin.

The telecommunications industry in general and the RLECs that comprise LICT's business face a number of economic or industry-wide issues and challenges.

- Regulatory- The Telecommunications Act of 1996 and other federal and state legislation and regulations have a significant impact on the industry and on rural carriers in particular. LICT's telephone companies are all RLECs serving very high cost areas with a significant portion of their revenues being derived from federal or state support mechanisms, which are referred to as Universal Service Funds ("USF"). The revenues and margins of our RLEC subsidiaries are largely dependent on the continuation and level of such support mechanisms.
- Competition- The effects of competition from other telecommunications providers including cable television companies, CLECs, internet, wireless service, and Voice over Internet Protocol ("VoIP") is an industry-wide issue that is felt to varying degrees by our RLECs.
- The economy- Unemployment, building starts, business bankruptcies and the overall health of the economy have a significant effect on demand for our services.
- Market challenges- Our RLECs are required to comply with industry-wide initiatives such as local number portability and the requirements of the Communications Assistance for Law Enforcement Act ("CALEA") that are expensive to implement and that in some cases have limited demand in our markets.

LICT generates cash and earns telecommunications revenues primarily from local network access, intrastate and interstate access revenue and from state and federal USF support mechanisms. The Company's regulated telephone operations, revenues and operating expenses are relatively stable period to period, but are subject to increasing competitive pressures.

- Local Revenues - The number of access lines is the primary driver of local network access revenues. In addition, the ratio of business to residential lines, as well as the number of features subscribed to by customers, are secondary drivers.
- Intrastate access revenues - Customer usage, primarily based on minutes of use, and the number of access lines are the primary drivers of intrastate access revenues since the Company's RLECs are on a "bill-and-keep" basis.
- Interstate Access Revenues - All of our RLECs participate in both the common line and traffic-sensitive National Exchange Carrier Association ("NECA") access pools. Interstate access revenues depend upon whether the RLEC has elected to be "cost-based" or has remained an

“average schedule” carrier. The revenues of our ten cost-based carriers directly correlate to the rate-of-return on regulated net investment earned by the NECA access pools plus the interstate portion of regulated operating expenses including taxes. The revenues of the Company’s five average schedule subsidiaries are derived based on national formulas with usage based measurements such as access lines, interstate minutes-of-use, and the number and mileage of different types of circuits. The average schedule formulas are intended to be a proxy for cost-based recovery.

- USF subsidies - The primary drivers of USF subsidies are investments in specific types of infrastructure, as well as certain operating expenses and taxes of the Company. Interstate and intrastate USF subsidies are included in the respective interstate and intrastate access revenue captions in the breakdown of revenue and operating expenses which follows.
- Other business revenue - LICT’s companies also provide non-regulated telecommunications related services, including Internet access service, wireless and long distance resale service, in certain of its telephone service and adjacent areas. LICT also provides and intends to provide more local telephone and other telecommunications service outside certain of its incumbent local exchange carrier (“ILEC”) areas by establishing CLEC or high speed data operations in selected nearby areas. In addition, certain of LICT’s companies have expanded into cable and security businesses in the areas in which they operate.
- Long Distance revenues are only retained by the Company if it is providing the long distance service to the end user customer as the toll provider. For unaffiliated IXCs who contract with LICT for billing services, the Company provides billing services and receives an administrative handling fee.

The following are material opportunities, challenges and risks that LICT’s executives are currently focused on, as well as actions that are being taken to address the concerns:

- Universal Service Reform - No significant reform of USF transpired for RLECs in 2008 or to date in 2009. Currently, the FCC is undergoing a complete transformation resulting from the election of President Obama; therefore, it is not anticipated that the FCC will make significant reforms to USF in the very near future. Congress has held hearings on USF and may require the FCC to consider items such as the method USF contributions are collected, what competitive eligible telecommunications carriers should receive, whether reverse auctions should be used to determine the level of USF a carrier receives, and whether separate funds should be differentiated. The Company participates with the RLEC industry in comments to the FCC regarding the potential impact on customers and RLECs from changes in USF support mechanisms. Total USF support payments comprise a substantial percentage of the Company’s revenues.
- Intercarrier Compensation and Access Charge Reform - No intercarrier compensation reform was enacted by the FCC in 2008 or to date in 2009 and due to the change in Presidential Administrations, none is anticipated in the near future. The Company is monitoring potential access charge reform changes and participating in the RLEC industry’s efforts to determine how intercarrier compensation and access charges should be modified without causing revenue losses for RLECs.
- Loss of Access Revenues from VoIP and wireless usage - The Company is experiencing revenue losses as usage transfers from landline service provided by the Company’s subsidiaries to either VoIP or wireless services. VoIP traffic currently does not pay access charges or contribute to universal service. The FCC has several proceedings underway to determine whether VoIP traffic should pay access charges and contribute to USF. The Company is participating in the RLEC industry efforts to have VoIP traffic contribute for use of the underlying network on which the VoIP call travels. To offset revenue losses from

traditional voice services, LICT is installing more broadband services and is exploring how to best incorporate VoIP into its business model.

- As a result of the Company's California telephone company's rate proceeding, California high cost loop fund revenues, pending an application for a re-hearing, are reduced \$0.8 million annually starting in 2009.

**First quarter ended March 31, 2009 compared to 2008**

The following is a breakdown of revenues and operating costs and expenses (in thousands):

	Three months ended March 31,		Increase (Decrease)
	2009	2008	
	(Unaudited)		
Revenues:			
Local access	\$ 3,176	\$ 3,308	\$ (132)
Interstate access	10,945	11,846	(901)
Intrastate access	3,260	3,611	(351)
Other business	7,060	6,609	451
Total	24,441	25,374	(933)
Operating Cost and Expense:			
Cost of revenue, excluding depreciation	9,498	8,984	514
General and administrative costs at operations	3,990	3,785	205
Corporate office expenses	939	868	71
Depreciation and amortization	4,431	5,247	(816)
Total	18,858	18,884	(26)
Operating profit	\$ 5,583	\$ 6,490	\$ (907)

Total revenues in 2009 decreased \$0.9 million, or 3.7%, to \$24.4 million compared to \$25.4 million in 2008. Local access revenue decreased \$0.1 million resulting from a 5.1% decrease in access lines offset by the sale of additional services and features. The decrease in access lines is due to the increase in cell phone usage and reduction in second lines as customers switch from dial-up internet service to DSL. Interstate access revenue decreased \$0.9 million in 2009 primarily due to a reduction of minutes of use in the 2009 period and \$0.5 million of Interstate out-of-period adjustment revenue in the 2008 period. Intrastate network access revenue decreased \$0.4 million due to a reduction of minutes of use at several of our companies and an unfavorable state commission ruling for our California operation. Other business revenues increased \$0.5 million due to increased broadband penetration, both DSL and cable.

Total costs and expenses were \$18.9 million in both 2009 and 2008. Costs of revenue increased \$0.5 million as increased costs from the growing internet and cable television operations as well as start up costs for certain CLEC operations. General and administrative costs incurred at the operations increased \$0.2 million. Corporate office expenses increased \$0.1 million. Depreciation and amortization decreased by \$0.8 million.

As a result of the above, operating profit in 2009 decreased by \$0.9 million to \$5.6 million compared to 2008.

### **Adjusted operating profit**

Adjusted operating profit is used by our management as a supplemental financial measure to evaluate the operating performance of our business that, when viewed with our GAAP results and the accompanying reconciliations, we believe provides a more complete understanding of factors and trends affecting our business than the GAAP results alone. We also regularly communicate our adjusted operating profit to the public through our earnings releases because it is the financial measure commonly used by analysts that cover the telecommunications industry and our investor base to evaluate our operating performance. In addition, we routinely use adjusted operating profit as a metric for valuing potential acquisitions. We understand that analysts and investors regularly rely on non-GAAP financial measures, such as adjusted operating profit, to provide a financial measure by which to compare a company's assessment of its operating performance against that of other companies in the same industry. This non-GAAP financial measure is helpful in more clearly reflecting the sales of our products and services, as well as highlighting trends in our core business that may not otherwise be apparent when relying solely on GAAP financial measures, because this non-GAAP financial measure eliminates from earnings financial items that have less bearing on our performance.

LICT's management believes strongly in growing intrinsic value as a long-term prescription for managing an enterprises health. Our local management teams run their respective businesses as stand-alone, entrepreneurial units. We believe that adjusted operating profit is the clearest indicator of the cash flow generating ability and long-term health of such units. We value potential acquisitions on the same basis.

The term "adjusted operating profit" refers to, for any period, net income (loss) before all components of "Other income (expense)" (consisting of investment income, interest expense, equity in earnings of affiliates, gains and losses on disposition of or impairment of assets), income taxes, depreciation, amortization, minority interests and income or loss from discontinued operations.

Set forth below are descriptions of the financial items that have been excluded from net income (loss) to calculate adjusted operating profit and the material limitations associated with using this non-GAAP financial measure as compared to the use of the most directly comparable GAAP financial measure:

- The amount of interest expense we incur is significant and reduces the amount of funds otherwise available to use in our business and, therefore, is important for investors to consider. However, management does not consider the amount of interest expense when evaluating our core operating performance.
- Investment income is considered to be similar to interest expense. Although it is important for investors to consider, management does not consider the amount of investment income when evaluating our core operating performance.
- Management does not consider income tax expense when considering the profitability of our core operations. Nevertheless, the amount of taxes we are required to pay reduces the amount of funds otherwise available for use in our business and thus may be useful for an investor to consider.
- Depreciation and amortization are important for investors to consider, even though they are non-cash charges, because they represent generally the wear and tear on our property, plant and equipment, which produce our revenue. We do not believe these charges are indicative of our core operating performance.
- Income from equity investments relates to our proportionate share of income or loss from the entities in which we hold minority interests. We do not control these entities and, as such, do not believe the income we receive from such entities is indicative of our core operating performance.

- Minority interest in (income) loss of subsidiaries relates to our minority investors' proportionate share of income or losses in our non-wholly owned subsidiaries, which generated non-cash charges to our operating results. Operating results attributable to these minority investors' investments do not necessarily result in any actual benefit or detriment to us and, therefore, we believe it would be more helpful for an investor to exclude such items as being more reflective of our core operating performance.
- Gain or losses on the disposition of assets or impairment of investments may increase or decrease the cash available to us and thus may be important for an investor to consider. We are not in the business of acquiring or disposing of assets and, therefore, the effect of the dispositions of assets may not be comparable from year-to-year. We believe such gains or losses recorded on the disposition of an asset do not reflect the core operating performance of our business.

Management compensates for the above-described limitations of using a non-GAAP financial measure by using this non-GAAP financial measure only to supplement our GAAP results to provide a more complete understanding of the factors and trends affecting our business. Adjusted operating profit should not be considered to be a substitute for net income or (loss) as an indicator of the Company's operating performance.

The following table provides the components of Adjusted Operating Profit and reconciles it to net income:

	Three months ended March 31,		Increase (Decrease)
	2009	2008	
Adjusted operating profit from:			
Operating units	\$ 10,952	\$ 12,606	\$ (1,654)
Corporate expense	(939)	(868)	(71)
Adjusted operating profit	\$ 10,013	\$ 11,738	(1,725)
<b>Reconciliation to net income:</b>			
Adjusted operating profit	\$ 10,013	\$ 11,738	(1,725)
Depreciation and amortization	(4,431)	(5,247)	816
Investment income	1,027	1,130	(103)
Interest expense	(1,996)	(3,347)	1,351
Equity in income of affiliates	219	143	76
Gain on sale of marketable securities	--	5,615	(5,615)
Income tax	(1,929)	(3,659)	1,793
Minority interests	(9)	(15)	6
Net income	\$ 2,895	\$ 6,357	\$ (3,399)

#### **Other Income (Expense)**

In 2008, investment income decreased by \$0.1 million as increased patronage dividends were offset by a reduction in interest income primarily due to lower interest rates and cash balances.

Interest expense decreased by \$1.4 million in 2009 due primarily to sharply lower interest rates on variable rate borrowings and a reduction in debt outstanding due to scheduled debt repayments. The 2008 period also included \$0.3 million of interest expense resulting from borrowing \$12.5 million in January 2008 from an affiliate of its Chairman at an interest rate of 10% to participate in FCC Auction 73. The Company acquired no licenses in the auction and repaid the loan in March 2008.

Equity in earnings of affiliates in 2008 increased by \$0.1 million.

In March 2008, the Company sold four of its existing 700 MHz licenses for an aggregate price of \$6.6 million. Such licenses were acquired by the Company in the FCC Auction 44 during 2002 for \$1.0 million, resulting in a \$5.6 million gain in the first quarter of 2008.

### **Income Tax Provision**

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2009 and 2008, represent effective tax rates of 39.9% and 37.1%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes.

### **Net Income**

Net income in the first quarter of 2009, was \$2.9 million, or \$117.99 per share (basic and diluted), compared to a net income last year of \$6.3 million, or \$250.64 per share (basic and diluted). However, the 2008 quarter included a \$5.6 million gain on the sale 700 MHz licences, or \$141 per share, net of income tax. The Company has no dilutive instruments outstanding.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

The debt at each of LICT's subsidiary companies contains restrictions on the amount of funds that can be transferred to their respective parent companies. LICT receives cash to meet its obligations primarily through management fees charged to its subsidiaries, a tax sharing agreement with its subsidiaries, usage of a line of credit facility, and has obtained additional liquidity by refinancing certain subsidiary debt and by the sale of assets.

The Company has a \$17.5 million line of credit facility, which had \$12.0 million available as of March 31, 2009. Such line expires on June 30, 2010.

In March 2008, the Company completed the sale of four of its existing 700MHz licenses for an aggregate price of \$6.6 million. Such licenses were acquired by the Company in the FCC Auction 44 during 2002 for \$1.0 million.

The Company has a need for resources in excess of its current facilities to fund its ongoing operations as well as future long-term growth initiatives. The Company is working on various alternative long-term financing sources: sale of operating and other assets, and/or the refinancing of some or all of the Company's debt agreements. Management expects to obtain adequate financing resources to enable the Company to meet its obligations, but there cannot be complete assurance that such can be obtained readily or at reasonable costs.

The Company's RLECs and other businesses need cash to fund their current operations, as well as future long-term growth initiatives. Each RLEC and other business finances its cash needs with cash generated from operations, by utilizing existing borrowing capacity or by entering into new long-term debt agreements. New business acquisitions are generally financed with a combination of new long-term debt, secured by the acquired assets, and cash from LICT. While management expects that both LICT and the operating subsidiaries will be able to obtain adequate financing resources to enable the Company to meet its obligations, there cannot be complete assurance that such can be obtained readily or at reasonable costs.

The Company is obligated under long-term debt provisions and lease agreements to make certain cash payments over the term of the agreements. The following table summarizes, as of March 31, 2009 for the

periods shown, these contractual obligations and certain other financing commitments from banks and other financial institutions that provide liquidity:

	Payments Due by Period (In thousands)				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt (a)	\$ 139,617	\$ 14,838	\$ 50,096	\$ 27,194	\$ 47,489
Operating leases	2,730	646	1,025	515	544
FIN 48 obligation	185	--	185	--	--
Notes payable to banks	5,499	--	5,499	--	--
Total contractual cash obligations and commitments	\$ 148,031	\$ 15,484	\$ 56,805	\$ 27,709	\$ 48,033

(a) Does not include interest payments on debt.

At March 31, 2009, total debt (including notes payable to banks) was \$145.1 million, a decrease of \$10.8 million from December 31, 2008. At March 31, 2009, there was \$68.3 million of fixed interest rate debt outstanding, averaging 6.6%, and \$76.8 million of variable interest rate debt, averaging 4.0%. The debt at fixed interest rates includes \$30.0 million of subordinated notes at interest rates averaging 8.5% issued to sellers as part of acquisitions. The long-term debt facilities at certain subsidiaries are secured by substantially all of such subsidiaries' assets, while at other subsidiaries it is secured by the common stock of such subsidiaries. In addition, the debt facilities contain certain covenants restricting distribution to LICT. Substantially all of the subsidiaries' net assets are restricted.

The FIN 48 obligations shown in the table above represent uncertain tax positions related to temporary differences. The years for which the temporary differences related to the uncertain tax positions will reverse have been estimated in scheduling the obligations within the table. In addition to the FIN 48 obligations in the table above, approximately \$4.0 million of unrecognized tax benefits have been recorded as liabilities in accordance with FIN 48, and we are uncertain as to if or when such amounts may be settled. Related to the unrecognized tax benefits not included in the table above, the Company has also recorded a liability for potential penalties and interest of \$0.7 million.

As of March 31, 2009, LICT's financial leverage, the ratio of total debt to equity was 2.8 to 1. Certain subsidiaries have higher financial leverage.

As of March 31, 2009, LICT had current assets of \$39.5 million and current liabilities of \$32.5 million resulting in a working capital surplus of \$7.0 million compared to a surplus of \$5.8 million at December 31, 2008.

### **Sources and Uses of Cash**

Cash at March 31, 2008, was \$25.5 million, a decrease of \$4.2 million compared to December 31, 2008. In the first quarter of 2009, net cash provided by operations of \$8.7 million was used to invest in plant and equipment, acquire cable TV systems, and repay debt.

Capital expenditures were \$1.3 million in the first quarter of 2009 compared to \$4.2 million in the 2008 period, which is predominantly spent at the RLECs and will be included in their rate bases for rate setting purposes. The Company is analyzing the broadband stimulus programs whereby the National Telecommunications and Information Administration (NTIA) and the Rural Utilities Service (RUS) will be extending grants, loans and loan guarantees as part of the American Recovery and Reinvestment Act of 2009 to build high-speed broadband facilities. It is not possible to determine the extent to which we will be successful obtaining broadband stimulus funding which could have a significant impact on actual 2009 capital spending.

During the first quarter of 2009, the Company's Utah operations acquired five CATV systems in rural Nevada and Utah with 1,500 subscribers for \$0.7 million. This acquisition will complement our existing Utah CATV operation and our CLEC initiative in West Wendover, Nevada.

The Company has initiated an effort to monetize certain of its assets, including selling a portion or all of its investment in certain of its operating entities and equity investments. These initiatives may include the sale of 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.

The Company is currently evaluating terms regarding the potential acquisition of our North Dakota operations by Sunshine PCS Corporation through a merger in which shares of Sunshine's common stock may be issued to LICT. As a result of such a merger, Sunshine would be approximately 97% owned by LICT or a wholly-owned subsidiary thereof. No merger agreement has been drafted, no negotiation has taken place and no more specific terms have been determined. The potential merger remains subject to the negotiation of definitive terms and the approval of both Sunshine's and LICT's boards of directors.

The Company's Board of Directors has authorized the purchase of up to 3,000 shares of the Company's common stock. Through March 31, 2009 2,131 shares had been purchased at an average investment of \$3,097 per share.

The Company has not paid any cash dividends since its inception in 1999.