
LICT CORPORATION

Quarterly Report for period ended September 30, 2009

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

	September 30, 2009	December 31, 2008	September 30, 2008
	(Unaudited)	(Audited)	(Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 24,135	\$ 29,743	\$ 34,706
Receivables, less allowances of \$957, \$807 and \$834, respectively	9,304	9,530	10,455
Material and supplies	2,938	2,604	3,036
Income tax receivable	261	2,411	--
Prepaid expenses and other current assets	1,411	1,475	1,506
Total current assets	<u>38,049</u>	<u>45,763</u>	<u>49,703</u>
Property, plant and equipment:			
Land	1,116	1,117	1,107
Buildings and improvements	19,430	19,401	19,197
Machinery and equipment	282,334	282,329	261,558
	<u>302,880</u>	<u>302,847</u>	<u>281,862</u>
Accumulated depreciation	<u>(201,507)</u>	<u>(196,296)</u>	<u>(176,762)</u>
	101,373	106,551	105,100
Excess of cost over fair value of net assets acquired, net (goodwill)			
	62,115	62,115	64,765
Other intangibles	6,432	6,647	6,842
Investments in and advances to affiliated entities	5,235	4,468	4,078
Other assets	10,076	9,902	9,879
Total assets	<u>\$ 223,280</u>	<u>\$ 235,446</u>	<u>\$ 240,367</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2009	December 31, 2008	September 30, 2008
	(Unaudited)	(Audited)	(Unaudited)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable to banks	\$ 5,900	\$ 12,299	\$ 14,250
Trade accounts payable	3,064	3,355	2,929
Accrued interest payable	470	648	452
Accrued liabilities	7,842	8,648	11,337
Current maturities of long-term debt	20,151	15,059	21,068
Total current liabilities	37,427	40,009	50,036
Long-term debt	110,290	128,518	126,172
Deferred income taxes	10,958	10,102	7,861
Liability for unrecognized tax benefits	3,218	3,062	5,263
Other liabilities	4,289	4,398	4,008
Total liabilities	166,182	186,089	193,340
Minority interests	207	171	168
Commitments and contingencies			
Shareholders' equity			
Common stock, \$0.0001 par value-10,000,000 shares authorized; 26,637.50, issued; 24,290.37, 24,598.37 and 24,737.35 outstanding	--	--	--
Additional paid-in capital	16,586	16,586	16,586
Retained earnings	47,575	39,096	36,101
Accumulated other comprehensive income	(67)	(124)	(48)
Treasury stock, 2,347.13, 2,039.13 and 1,900.15 shares, at cost	(7,203)	(6,372)	(5,780)
Total shareholders' equity	56,891	49,186	46,859
Total liabilities and shareholders' equity	\$ 223,280	\$ 235,446	\$ 240,367

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenues	\$ 25,637	\$ 26,045	\$ 74,319	\$ 76,159
Costs and expenses:				
Cost of revenue, excluding depreciation	9,668	9,501	28,949	27,900
General and administrative costs at operations	3,555	3,895	11,393	11,592
Corporate office expenses	434	1,248	2,418	3,022
Depreciation and amortization	4,548	4,860	13,345	15,018
Total Expense	<u>18,205</u>	<u>19,504</u>	<u>56,105</u>	<u>57,532</u>
Operating profit	7,432	6,541	18,214	18,627
Other income (expense):				
Investment income	77	235	1,223	1,584
Interest expense	(1,954)	(2,587)	(5,914)	(8,439)
Equity in earnings of affiliated companies	338	174	864	546
Gain on sale of investments	--	16	--	7,559
Loss on impairment of investments	--	(681)	--	(681)
	<u>(1,539)</u>	<u>(2,843)</u>	<u>(3,827)</u>	<u>569</u>
Income before income taxes and minority interests	5,893	3,698	14,387	19,196
Minority interests	(17)	(20)	(36)	(37)
Provision for income taxes	(2,468)	(1,609)	(5,872)	(7,685)
Net income	<u>\$ 3,408</u>	<u>\$ 2,069</u>	<u>\$ 8,479</u>	<u>\$ 11,474</u>
Basic and diluted weighted average shares outstanding	24,318	24,936	24,450	25,035
Basic and diluted earnings per share	\$ 140.15	\$ 82.97	\$ 346.80	\$ 458.31

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	--	--	--	8,479	--	--	8,479
Unrealized gain on available for sale securities, net	--	--	--	--	57	--	57
Comprehensive income							8,536
Purchase of Treasury Stock	(308.00)	--	--	--	--	(831)	(831)
Balance at March 31, 2009	24,290.37	\$ 0	\$ 16,586	\$ 47,575	\$ (67)	\$ (7,203)	\$ 56,891

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2009	2008
Operating activities:		
Net Income	\$ 8,479	\$ 11,474
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,345	15,018
Equity in earnings of affiliated companies	(864)	(546)
Distributions received from affiliated companies	298	124
Gain on sale of investments	--	(6,878)
Minority interests	36	37
Changes in operating assets and liabilities:		
Accounts receivables	161	(748)
Income tax receivable	2,150	--
Accounts payable and accrued liabilities	(1,211)	621
Other	538	(103)
Net cash provided by operating activities	22,932	18,999
Investing activities:		
Capital expenditures	(7,368)	(13,432)
Acquisition of cable television assets	(658)	--
Proceeds from sale of spectrum	--	6,600
Investment in Affiliates	(203)	--
Return of loan investment		400
Other	56	(22)
Net cash used in investing activities	(8,173)	(6,454)
Financing activities:		
Repayments of long term debt	(13,137)	(15,388)
Net repayment on lines of credit	(6,399)	(2,179)
Purchase of treasury stock	(831)	(1,590)
Net cash used in financing activities	(20,367)	(19,157)
Net decrease in cash and cash equivalents	(5,608)	(6,612)
Cash and cash equivalents at beginning of period	29,743	41,318
Cash and cash equivalents at end of period	\$ 24,135	\$ 34,706
Cash paid for:		
Interest expense	\$ 5,367	\$ 8,441
Income taxes	2,811	5,541
Non cash transactions:		
Purchases of property, plant and equipment included in payables or accruals at:		
- End of period	402	120
- 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 25% owned partnership in a Northern California cellular telephone provider, California RSA #2 (“Modoc”) 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 and nine month periods ended September 30, 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

The net investment in the Modoc partnership was \$3.3 million, \$2.8 million and \$2.6 million, as of September 30, 2009, December 31, 2008 and September 30, 2008, respectively. The Company’s share of income, included in Equity in Earnings of Affiliated Companies was \$0.5 million in 2009 and \$0.3 million in 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 \$5.9 million, \$12.3 million and \$14.3 million at September 30, 2009, December 31, 2008 and September 30, 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 September 30, 2009) (in thousands):

	September 30, 2009	December 31, 2008	September 30, 2008
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)	\$ 34,007	\$ 37,441	\$ 38,617
Bank Credit facilities utilized by certain telephone and telephone holding companies due through 2017, at variable interest rates averaging 3.7%	55,639	63,884	66,103
Unsecured notes issued in connection with acquisitions through 2008, at fixed interest rates averaging 8.4%	38,714	39,747	39,893
Other	2,081	2,505	2,627
	130,441	143,577	147,240
Current maturities	(20,151)	(15,059)	(21,068)
	<u>\$ 110,290</u>	<u>\$ 128,518</u>	<u>\$ 126,172</u>

F. Comprehensive Income

Other comprehensive income, net of tax, which consists of unrealized gains (losses) on available for sale securities, as of September 30, 2009, December 31, 2008 and September 30, 2008 are as follows (in thousands):

	Unrealized Gain (Loss)	Tax Effect	Net
	<i>(in thousands)</i>		
Balance at December 31, 2008	\$ (188)	\$ 64	\$ (124)
Unrealized gains on available for sale securities, net	87	(30)	57
Balance at September 30, 2009	<u>\$ (101)</u>	<u>\$ 34</u>	<u>\$ (67)</u>
Balance at September 30, 2008	<u>\$ (73)</u>	<u>\$ 25</u>	<u>\$ (48)</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 September 30, 2009, December 31, 2008 and September 30, 2008, assets of \$20.4 million, \$26.2 million and \$32.7 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. Since 1989, 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.

- Broadband Stimulus - 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. The Company has applied for \$30 million from such programs and based on public filings, competitors have applied for funding in areas in which we provide regulated and un-regulated services. It is not possible to determine the extent to which we, or our competitors, will be successful obtaining such stimulus funding.
- 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, will be reduced \$0.8 million in 2009 compared to 2008.

Third quarter ended September 30, 2009 compared to 2008

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

	<u>Three months ended September 30,</u>		<u>Increase (Decrease)</u>
	<u>2009</u>	<u>2008</u>	
	(Unaudited)		
Revenues:			
Local access	\$ 3,297	\$ 3,406	\$ (109)
Interstate access	11,770	12,053	(283)
Intrastate access	3,115	3,532	(417)
Other business	7,455	7,054	401
Total	<u>25,637</u>	<u>26,045</u>	<u>(408)</u>
Operating Cost and Expense:			
Cost of revenue, excluding depreciation	9,668	9,501	167
General and administrative costs at operations	3,555	3,895	(340)
Corporate office expenses	434	1,248	(814)
Depreciation and amortization	4,548	4,860	(312)
Total	<u>18,205</u>	<u>19,504</u>	<u>(1,299)</u>
Operating profit	<u>\$ 7,432</u>	<u>\$ 6,541</u>	<u>\$ 891</u>

Total revenues in 2009 decreased \$0.4 million, or 1.6%, to \$25.6 million compared to \$26.0 million in 2008. Local access revenue decreased \$0.1 million resulting from a 5.4% 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 \$0.3 million in 2009 primarily due to a reduction of minutes of use in the 2009 period and reduced USF funding due to a declining rate base at several of our operations, partially offset by \$0.3 million of Interstate out-of-period adjustment revenue in the 2009 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 \$0.4 million due to increased broadband penetration, both DSL and cable.

Total costs and expenses were \$18.2 million in 2009 compared to \$19.5 million in 2008. Costs of revenue increased \$0.2 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

decreased \$0.3 million. Corporate office expenses decreased \$0.8 million due primarily to a reduction in accrued audit cost resulting from the change in independent auditors. Depreciation and amortization decreased by \$0.3 million.

As a result of the above, operating profit in 2009 increased by \$0.9 million to \$7.4 million compared to \$6.5 million in 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:

	<u>Three months ended September 30</u>		Increase (Decrease)
	<u>2009</u>	<u>2008</u>	
Adjusted operating profit from:			
Operating units	\$ 12,414	\$ 12,649	\$ (235)
Corporate expense	<u>(434)</u>	<u>(1,248)</u>	<u>814</u>
Adjusted operating profit	<u>\$ 11,980</u>	<u>\$ 11,401</u>	<u>579</u>
Reconciliation to net income:			
Adjusted operating profit	\$ 11,980	\$ 11,401	\$ 579
Depreciation and amortization	(4,548)	(4,860)	312
Investment income	77	235	(158)
Interest expense	(1,954)	(2,587)	633
Equity in income of affiliates	338	174	164
Gain on sale of marketable securities	--	16	(16)
Impairment of marketable securities	--	(681)	681
Minority interests	(17)	(20)	3
Income tax	<u>(2,468)</u>	<u>(1,609)</u>	<u>(859)</u>
Net income	<u>\$ 3,408</u>	<u>\$ 2,069</u>	<u>\$ 1,339</u>

Other Income (Expense)

Investment income decreased \$0.2 million in 2009 primarily due to a reduction in interest income resulting from lower interest rates and cash balances.

Interest expense decreased by \$0.6 million in 2009 due primarily to sharply lower interest rates on variable rate borrowings and a reduction in debt outstanding due to debt repayments.

Equity in earnings of affiliates in 2008 increased by \$0.2 million.

In September 2008, the Company recognized an impairment loss of \$0.7 million on its investment in a company holding spectrum.

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 41.9% and 43.5%, 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 third quarter of 2009, was \$3.4 million, or \$140.15 per share (basic and diluted), compared to a net income last year of \$2.1 million, or \$82.93 per share (basic and diluted). The Company has no dilutive instruments outstanding.

Nine months ended September 30, 2009 compared to 2008

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

	<u>Nine months ended September 30,</u>		<u>Increase</u>
	<u>2009</u>	<u>2008</u>	<u>(Decrease)</u>
	<u>(Unaudited)</u>		
Revenues:			
Local access	\$ 9,720	\$ 10,070	\$ (350)
Interstate access	33,240	34,979	(1,739)
Intrastate access	9,566	10,678	(1,112)
Other business	21,793	20,432	1,361
Total	<u>74,319</u>	<u>76,159</u>	<u>(1,840)</u>
Operating Cost and Expense:			
Cost of revenue, excluding depreciation	28,949	27,900	1,049
General and administrative costs at operations	11,393	11,592	(199)
Corporate office expenses	2,418	3,022	(604)
Depreciation and amortization	13,345	15,018	(1,673)
Total	<u>56,105</u>	<u>57,532</u>	<u>(1,427)</u>
Operating profit	<u>\$ 18,214</u>	<u>\$ 18,627</u>	<u>\$ (413)</u>

Total revenues in 2009 decreased \$1.8 million, or 2.4%, to \$74.3 million compared to \$76.2 million in 2008. Local access revenue decreased \$0.4 million resulting from a 5.4% 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 \$1.7 million in 2009 primarily due to a reduction of minutes of use in the 2009 period, reduced USF funding due to a declining rate base at several of our operations. Intrastate network access revenue decreased \$1.1 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 \$1.4 million primarily due to increased broadband penetration, both DSL and cable.

Total costs and expenses were \$56.1 million in 2009 and \$57.5 million in 2008. Costs of revenue increased \$1.0 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 decreased \$0.2 million. Corporate office expenses decreased \$0.6 million due primarily to reduced audit cost resulting from the change in independent auditors. Depreciation and amortization decreased by \$1.7 million.

As a result of the above, operating profit in 2009 decreased by \$0.4 million to \$18.2 million compared to \$18.6 million in 2008.

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

	<u>Nine months ended September 30,</u>		Increase (Decrease)
	<u>2009</u>	<u>2008</u>	
Adjusted operating profit from:			
Operating units	\$ 33,977	\$ 36,667	\$ (2,690)
Corporate expense	(2,418)	(3,022)	604
Adjusted operating profit	<u>\$ 31,559</u>	<u>\$ 33,645</u>	<u>\$ (2,086)</u>
 Reconciliation to net income:			
Adjusted operating profit	\$ 31,559	\$ 33,645	\$ (2,086)
Depreciation and amortization	(13,345)	(15,018)	1,673
Investment income	1,223	1,584	(361)
Interest expense	(5,914)	(8,439)	2,525
Equity in income of affiliates	864	546	318
Gain on sale of investments	--	7,559	(7,559)
Loss on impairment of investments	--	(681)	681
Minority interests	(36)	(37)	1
Income tax	<u>(5,872)</u>	<u>(7,685)</u>	<u>1,813</u>
Net income	<u>\$ 8,479</u>	<u>\$ 11,474</u>	<u>\$ (2,995)</u>

Other Income (Expense)

Investment income decreased by \$0.4 million as increased patronage dividends were more than offset by a reduction in interest income primarily due to lower interest rates and cash balances.

Interest expense decreased by \$2.5 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 \$0.3 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.

In June 2008, the Company's New York subsidiary recognized a \$1.9 million gain, that had previously been deferred, on distributions received in 2006 and 2007 from the dissolution of the Rural Telephone Bank.

In September 2008, the Company recognized an impairment loss of \$0.7 million on its investment in a company holding spectrum.

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 40.8% and 40.0%, 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 nine months of 2009, was \$8.5 million, or \$346.80 per share (basic and diluted), compared to a net income last year of \$11.5 million, or \$458.31 per share (basic and diluted). 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 \$11.6 million available as of September 30, 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 September 30, 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)	\$ 130,441	\$ 20,151	\$ 41,166	\$ 26,056	\$ 43,068
Operating leases	2,730	646	1,025	515	544
FIN 48 obligation	185	--	185	--	--
Notes payable to banks	5,900	5,900	--	--	--
Total contractual cash obligations and commitments	\$ 139,256	\$ 26,697	\$ 42,376	\$ 26,571	\$ 43,612

(a) Does not include interest payments on debt.

At September 30, 2009, total debt (including notes payable to banks) was \$136.3 million, a decrease of \$19.5 million from December 31, 2008. At September 30, 2009, there was \$64.8 million of fixed interest rate debt outstanding, averaging 6.7%, and \$71.5 million of variable interest rate debt, averaging 4.4%. The debt at fixed interest rates includes \$38.7 million of subordinated notes at interest rates averaging 8.4% 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 September 30, 2009, LICT's financial leverage, the ratio of total debt to equity was 2.4 to 1. Certain subsidiaries have higher financial leverage.

As of September 30, 2009, LICT had current assets of \$37.8 million and current liabilities of \$37.2 million resulting in a working capital surplus of \$0.6 million compared to a surplus of \$5.8 million at December 31, 2008.

Sources and Uses of Cash

Cash at September 30, 2008, was \$24.1 million, a decrease of \$5.6 million compared to December 31, 2008. In the nine months of 2009, net cash provided by operations of \$23.1 million was used primarily to invest in plant and equipment, acquire cable TV systems, and repay debt.

Capital expenditures were \$7.5 million in the nine months of 2009 compared to \$13.4 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 expects full year 2009 capitalized spending to be approximately \$12.8 million. The Company has applied for approximately \$30 million from the NTIA and RUS broadband stimulus programs. 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 2010 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. The Company's bank covenants, however, further restrict share purchases. Through September 30, 2009, all of the 2,347 shares allowed under the bank covenants had been purchased at an average investment of \$3,069 per share. The Company is currently negotiating an allowance for further share repurchases as part of its overall re-negotiation of its \$17.5 million bank line of credit facility.

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