
LICT CORPORATION

Quarterly Report for period ended March 31, 2010

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

	March 31, 2010	December 31, 2009	March 31, 2009
		(Audited)	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 24,532	\$ 22,571	\$ 25,521
Receivables, less allowances of \$792, \$790 and \$827, respectively	8,517	9,585	8,867
Material and supplies	2,568	2,767	2,731
Income tax receivable	--	1,161	847
Prepaid expenses and other current assets	2,023	1,983	1,534
Total current assets	<u>37,640</u>	<u>38,067</u>	<u>39,500</u>
Property, plant and equipment:			
Land	1,116	1,116	1,117
Buildings and improvements	19,515	19,508	19,419
Machinery and equipment	288,258	286,068	283,268
	<u>308,889</u>	<u>306,692</u>	<u>303,804</u>
Accumulated depreciation	(209,485)	(205,150)	(199,924)
	<u>99,404</u>	<u>101,542</u>	<u>103,880</u>
Goodwill	62,115	62,115	62,115
Other intangibles	4,030	4,100	6,574
Investments in and advances to affiliated entities	5,780	5,723	4,678
Other assets	10,401	10,205	10,075
Total assets	<u>\$ 219,370</u>	<u>\$ 221,752</u>	<u>\$ 226,822</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2010	December 31, 2009	March 31, 2009
		(Audited)	(Unaudited)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable to banks	\$ 14,559	\$ 7,200	\$ 5,499
Trade accounts payable	2,963	3,966	4,129
Accrued interest payable	414	446	326
Accrued liabilities	8,728	8,421	7,698
Current maturities of long-term debt	22,050	14,784	14,853
Total current liabilities	48,714	34,817	32,505
Long-term debt	90,653	110,162	124,764
Deferred income taxes	10,294	10,245	10,069
Liability for unrecognized tax benefits	3,299	3,253	3,114
Other liabilities	5,394	5,369	4,317
Total liabilities	158,354	163,846	174,769
Commitments and contingencies			
Shareholders' equity			
Common stock, \$0.0001 par value-10,000,000 shares authorized; 26,637.50, issued; 24,290.37, 24,290.37 and 24,506.37 outstanding	--	--	--
Additional paid-in capital	16,586	16,586	16,586
Retained earnings	51,372	48,334	41,991
Accumulated other comprehensive income	(2)	(53)	(103)
Treasury stock, 2,347.13, 2,347.13 and 2,131.13 shares, at cost	(7,203)	(7,203)	(6,601)
Shareholders' equity attributable to LICT	60,753	57,664	51,873
Noncontrolling interests	263	242	180
Total shareholders' equity	61,016	57,906	52,053
Total liabilities and shareholders' equity	\$ 219,370	\$ 221,752	\$ 226,822

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	
	March 31,	
	2010	2009
Revenues	\$ 24,608	\$ 24,441
Costs and expenses:		
Cost of revenue, excluding depreciation	9,686	9,498
General and administrative costs at operations	3,674	3,990
Corporate office expenses	863	939
Depreciation and amortization	4,660	4,431
Total Expense	18,883	18,858
Operating profit	5,725	5,583
Other income (expense):		
Investment income	871	1,027
Interest expense	(1,955)	(1,996)
Equity in earnings of affiliated companies	346	219
	(738)	(750)
Income before income taxes	4,987	4,833
Provision for income taxes	(1,928)	(1,929)
Net income	3,059	2,904
Noncontrolling interests	(21)	(9)
Net income attributable to LICT	\$ 3,038	\$ 2,895
Basic and diluted weighted average shares outstanding	24,290.37	24,536.30
Basic and diluted earnings per share	\$ 125.07	\$ 117.99

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	Non- controlling Interest	Total
Balance at December 31, 2009	24,290.37	\$ 0	\$ 16,586	\$ 48,334	\$ (53)	\$ (7,203)	\$ 242	\$ 57,906
Net income for the period	--	--	--	3,038	--	--	21	3,059
Unrealized gain on available for sale securities, net	--	--	--	--	51	--	--	51
Comprehensive income	--	--	--	--	--	--	--	3,110
Purchase of Treasury Stock	--	--	--	--	--	--	--	--
Balance at March 31, 2010	24,290.37	\$ 0	\$ 16,586	\$ 51,372	\$ (2)	\$ (7,203)	\$ 263	\$ 61,016

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31,	
	2010	2009
Operating activities:		
Net Income	\$ 3,059	\$ 2,904
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,660	4,431
Equity in earnings of affiliated companies	(346)	(219)
Distributions received from affiliated companies	290	6
Changes in operating assets and liabilities:		
Accounts receivables	1,068	598
Income tax receivable	1,161	1,564
Accounts payable and accrued liabilities	(379)	(276)
Other	171	(356)
Net cash provided by operating activities	9,684	8,652
Investing activities:		
Capital expenditures	(2,779)	(1,304)
Acquisition of cable television assets	--	(658)
Other	24	33
Net cash used in investing activities	(2,755)	(1,929)
Financing activities:		
Issuance of long term debt	2,475	--
Repayments of long term debt	(14,712)	(3,916)
Net borrowing (repayment) on lines of credit	7,359	(6,800)
Purchase of treasury stock	--	(229)
Net cash used in financing activities	(4,968)	(10,945)
Net increase (decrease) in cash and cash equivalents	1,961	(4,222)
Cash and cash equivalents at beginning of period	22,571	29,743
Cash and cash equivalents at end of period	\$ 24,532	\$ 25,521
Cash paid for:		
Interest expense	\$ 1,659	\$ 2,288
Income taxes	191	488
Non cash transactions:		
Purchases of property, plant and equipment included in payables or accruals at:		
- End of period	396	140
- Beginning of period	745	345

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) 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, 2009. 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, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2010, December 31, 2009 and March 31, 2009, the net investment in the partnership was \$3.8 million, \$3.7 million and \$2.9 million, respectively. The Company’s share of income, included in Equity in Earnings of Affiliated Companies was \$0.2 million and \$0.1 million in 2009 and 2008, respectively.

C. Acquisitions

On March 31, 2010, Sunshine PCS Corporation (“Sunshine”) acquired all of the interests of LICT’s subsidiary Lynch Telephone II, LLC, which owns 100% of Inter-Community Telephone Company, LLC and Valley Communications, Inc. Inter-Community is a rural independent local telephone company (“RLEC”) serving communities in southeastern North Dakota providing regulated telephone service and Valley provides internet and other non-regulated services. As consideration, Sunshine issued shares of its Class A common stock reflecting approximately 99% of its outstanding stock, to Lynch Telephone North L.L.C., the parent company of Lynch Telephone II. In order to effectuate the acquisition by Sunshine, LICT utilized \$7.4 million of its line of credit to pay-off the remaining balance of a loan with a bank at Lynch Telephone North that was partially secured by the assets of Lynch Telephone II. See Note H Subsequent Events.

In February 2009, LICT’s subsidiary in Utah acquired five cable television systems in rural Nevada and Utah with 1,500 customers for a purchase price of approximately \$0.6 million

D. Indebtedness

LICT maintains a short-term line of credit facility totaling \$17.5 million through June 30, 2011. Borrowings under this and earlier facilities were \$14.6 million, \$7.2 million and \$5.5 million at March 31, 2010, December 31, 2009 and March 31, 2009, 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, 2010) (in thousands):

	March 31, 2010	December 31, 2008	March 31, 2009
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)	\$ 32,111	\$ 33,032	\$ 36,300
Bank Credit facilities utilized by certain telephone and telephone holding companies due through 2017, at variable interest rates averaging 3.8%	40,184	51,324	61,253
Unsecured notes issued in connection with acquisitions at fixed interest rates averaging 8.4%	38,634	38,674	39,701
Other	1,734	1,916	2,963
	112,703	124,946	139,617
Current maturities	(13,694)	(14,784)	(4,853)
	<u>\$ 99,009</u>	<u>\$ 110,162</u>	<u>\$ 124,764</u>

E. Comprehensive Income

Other comprehensive income, net of tax, which consists of unrealized gains (losses) on available for sale securities, as of March 31, 2010, December 31, 2009 and March 31, 2009 are as follows (in thousands):

	Unrealized Gain (Loss)	Tax Effect	Net
	<i>(in thousands)</i>		
Balance at December 31, 2009	\$ (80)	\$ 27	\$ (53)
Unrealized gains on available for sale securities, net	77	(26)	51
Balance at March 31, 2010	<u>\$ (3)</u>	<u>\$ 1</u>	<u>\$ (2)</u>
Balance at March 31, 2009	<u>\$ (156)</u>	<u>\$ 53</u>	<u>\$ (103)</u>

F. 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.

G. Related Party Transactions

At March 31, 2010, December 31, 2009 and March 31, 2009, assets of \$21.0 million, \$20.0 million and \$22.2 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.

H. Subsequent Events

On May 28, 2010, the Company distributed shares of Sunshine (and cash in lieu of fractional shares at the rate of \$50 per share) to its shareholders, spinning off the North Dakota operations to them. Such assets do not qualify for presentation as discontinued operation because of ongoing control. Consequently,

established accounting principles preclude presentation as discontinued operations. Therefore, the operating results of Lynch Telephone II are presented within continuing operations. Summarized financial information for Lynch Telephone II included in the consolidated financial statements for the three months ended and as of March 31, is as follows:

	2010	2009
Statement of Operations:	<i>(in thousands)</i>	
Revenue	\$ 1,066	\$ 1,073
Operating income	233	264
Equity in earnings of affiliated companies	66	64
Net income	123	141
Balance Sheet:		
Investment in affiliated companies	1,068	
Net Property, plant and equipment	4,762	
Total assets	9,726	

On May 20, 2010, the Company purchased a cable communications company providing cable television, broadband and voice telephone services to approximately 1,800 customers in rural communities throughout southeastern Kansas for \$2.1 million. The operations will complement an existing CLEC business as well as one of our RLEC operation in southeastern Kansas. Giant Cable had previously been owned by a subsidiary of LICT, and was spun off from LICT as part of the CIBL spin-off in November 2007.

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's telecommunications operations consist of fifteen rural local exchange carriers ("RLECs"), located in California, Iowa, Kansas, Michigan, Nevada, New Hampshire, New Mexico, New York, North Dakota, Oregon, Utah and Wisconsin. The RLECs operations range in size from approximately 800 to 7,500 access lines and in addition to telephone service, offering additional services such as Internet service, cable TV service, alarm services, long distance service and competitive local exchange carrier ("CLEC") service.

On March 31, 2010, Sunshine PCS Corporation ("Sunshine") acquired all of the interests of the Company's North Dakota operations (Sunshine Acquisition"). As consideration, Sunshine issued shares of its Class A common stock reflecting approximately 99% of its outstanding stock, to a subsidiary of the Company. On May 28, 2010, LICT distributed shares of Sunshine (and cash in lieu of fractional shares at the rate of \$50 per share) to its shareholders, spinning off the North Dakota operations to them.

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 2009. In 2009, the FCC was focusing its efforts on the National Broadband Plan (“NBP”) as required by the American Recovery and Reinvestment Act. On March 17, 2010, the FCC delivered the NBP to Congress setting the roadmap for achieving universal broadband by

2020. The plan recommends a comprehensive reform of the current universal service mechanisms to support the deployment of broadband including ensuring that low-income Americans can afford broadband. On April 21, 2010, the FCC released a Notice of Inquiry (“NOI”) and a Notice of Proposed Rulemaking (“NPRM”) initiating USF reform as outlined in the NBP. 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 2009. In addition to USF reform, the NBP recommends comprehensive intercarrier compensation reform by reducing per minute charges over a transitional period of time. The NBP includes possible options to allow carriers time to adjust and recover lost access charge revenue from other sources. The future NOI and NPRM process will determine how intercarrier compensation reform is effectuated. The Company will participate with the RLEC industry in comments to the FCC regarding the potential impact on customers and RLECs from changes in intercarrier compensation which comprises a substantial percentage of the Company’s revenues.
- 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.

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
	2010	2009	(Decrease)
	(Unaudited)		
Revenues:			
Local access	\$ 3,148	\$ 3,176	\$ (28)
Interstate access	10,673	10,945	(272)
Intrastate access	3,122	3,260	(138)
Other business	7,665	7,060	605
Total	24,608	24,441	167
Operating Cost and Expense:			
Cost of revenue, excluding depreciation	9,686	9,498	188
General and administrative costs at operations	3,674	3,990	(316)
Corporate office expenses	863	939	(76)
Depreciation and amortization	4,660	4,431	229
Total	18,883	18,858	25
Operating profit	\$ 5,725	\$ 5,583	\$ 142

Total revenues in 2010 increased \$0.2 million, or 0.7%, to \$24.6 million compared to \$24.4 million in 2009. Local access revenue decreased less than \$0.1 million resulting from a 5.3% 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, reduced USF funding due to a lower rate base at several of our operations, and partially offset by \$0.4 million of additional Interstate out-of-period adjustment revenue in the 2010 period. Intrastate network access revenue decreased \$0.1 million due to a reduction of minutes of use at several of our companies. Other business revenues increased \$0.6 million due to increased broadband penetration, both DSL and cable.

Total costs and expenses were \$18.9 million in both 2010 and 2009. 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 \$0.1 million. Depreciation and amortization decreased by \$0.2 million.

As a result of the above, operating profit in 2010 increased by \$0.1 million to \$5.7 million compared to 2009.

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.

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

	Three months ended March 31,		Increase (Decrease)
	2010	2009	
Adjusted operating profit from:			
Operating units	\$ 11,248	\$ 10,953	\$ 295
Corporate expense	(863)	(939)	76
Adjusted operating profit	<u>\$ 10,385</u>	<u>\$ 10,014</u>	<u>\$ 371</u>
Reconciliation to net income:			
Adjusted operating profit	\$ 10,385	\$ 10,014	371
Depreciation and amortization	(4,660)	(4,431)	(229)
Investment income	871	1,027	(156)
Interest expense	(1,955)	(1,996)	41
Equity in income of affiliates	346	219	127
Income tax	(1,928)	(1,929)	1
Net income	<u>\$ 3,059</u>	<u>\$ 2,904</u>	<u>\$ 155</u>

Other Income (Expense)

In 2010, investment income decreased by \$0.2 million primarily due to a reduction in patronage dividends and a reduction in interest income primarily due to lower cash balances and interest rates.

Interest expense decreased by less than \$0.1 million in 2010. The 2010 period included a \$0.1 million write-off of unamortized debt issuance cost due to the pay-off of the remaining balance of a note with a bank on March 31, 2010. Excluding such amortization, interest expense decreased by \$0.2 million due primarily to a reduction in debt outstanding due to scheduled debt repayments.

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

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2010 and 2009, represent effective tax rates of 38.7% and 39.9%, 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 2010, was \$3.0 million, or \$125.07 per share (basic and diluted), compared to a net income last year of \$2.9 million, or \$117.99 per share (basic and diluted). The Company has no dilutive instruments outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The debt at 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, dividends, 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's \$17.5 million line of credit facility with a bank was scheduled to expire on June 30, 2010. On June 24, 2010, such line of credit was extended to July 31, 2011 at the same terms. Management believes such extension will provide adequate liquidity for at least the next twelve months. Outstanding under the line of credit facility, classified in notes payable to banks, was \$14.6 million, \$7.2 million and \$5.5 million at March 31, 2010, December 31, 2009 and March 31, 2009, respectively.

On March 31, 2010, LICT utilized \$7.4 million of its line of credit to pay-off the remaining balance of a loan with a bank at Lynch Telephone North that was partially secured by the assets of Lynch Telephone II, LLC, a subsidiary of LICT. Such loan pay-off was made in order to effectuate the acquisition by Sunshine PCS Corporation ("Sunshine") of all of the interests of Lynch Telephone II, which owns 100% of Inter-Community Telephone Company, LLC and Valley Communications, Inc. Inter-Community is a rural independent local telephone company ("RLEC") serving communities in southeastern North Dakota providing regulated telephone service and Valley provides internet and other non-regulated services. As consideration, Sunshine issued shares of its Class A common stock reflecting approximately 99% of its outstanding stock, to Lynch Telephone North L.L.C., the parent company of Lynch Telephone II. On May 28, 2010, the Company distributed the Sunshine Class A shares to its shareholders in the form of a dividend.

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, 2010 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, principal only	\$ 112,703	\$ 22,050	\$ 44,754	\$ 19,442	\$ 26,457
Operating leases	4,458	762	1,314	1,076	1,306
FIN 48 obligation	185	--	--	--	185
Notes payable to banks, principal only	14,559	14,559	--	--	--
Interest on debt and notes	30,894	6,740	9,140	7,232	7,782
Total contractual cash obligations and commitments	\$ 162,799	\$ 44,111	\$ 55,208	\$ 27,750	\$ 35,730

At March 31, 2010, total debt (including notes payable to banks) was \$127.3 million, a decrease of \$4.2 million from December 31, 2009. At March 31, 2010, there was \$72.3 million of fixed interest rate debt outstanding, averaging 6.9%, and \$54.9 million of variable interest rate debt, averaging 4.0%. The debt at fixed interest rates includes \$38.6 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 distributions 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, at December 31, 2009 approximately \$2.2 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 \$0.8 million.

LICT has a high degree of financial leverage. As of March 31, 2010, the ratio of total debt to equity was 2.4 to 1. Certain subsidiaries also have high debt to equity ratios.

As of March 31, 2010, LICT had current assets of \$37.6 million and current liabilities of \$48.7 million resulting in a working capital deficit of \$11.1 million compared to a surplus of \$3.3 million at December 31, 2009.

Sources and Uses of Cash

Cash at March 31, 2010, was \$24.5 million, an increase of \$1.9 million compared to December 31, 2009. In the first quarter of 2010, net cash provided by operations of \$9.7 million was used to invest in plant and equipment, acquire cable TV systems, and repay debt.

Capital expenditures were \$2.8 million in the first quarter of 2010 compared to \$1.3 million in the 2009 period, which is predominantly spent at the RLECs and, for our cost based companies, will be included in their rate bases for rate setting purposes.

On May 20, 2010, the Company purchased a cable communications company providing cable television, broadband and voice telephone services to approximately 1,800 customers in rural communities throughout southeastern Kansas for \$2.1 million in cash. The operations will complement an existing CLEC business as well as one of our RLEC operation in southeastern Kansas. Such cable company had previously been owned by a subsidiary of LICT, and was spun off from LICT as part of the CIBL spin-off in November 2007. The Company is in process of determining fair values.

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 \$0.6 million. This acquisition will complement our existing Utah CATV operation and our CLEC initiative in West Wendover, Nevada.

The company is considering a significant refinancing initiative which will enhance our ability to take the operational steps necessary to position the organization for future success. The Company is currently weighing its options in this regard and the implementation of this refinancing will be predicated on its ability to obtain acceptable terms.

The Company's Board of Directors has authorized the purchase of up to 3,000 shares of the Company's common stock. Prior to the extension of the bank credit agreement on June 24, 2010, the Company was further restricted by its bank covenants to the 2,347 shares that had been purchased through mid 2009. The new credit agreement allows for an additional \$1 million of share repurchases.

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