

## **LICT CORPORATION**

### **THE COMPANY AND ITS BUSINESS**

LICT Corporation (“LICT” or the “Company”), formerly known as Lynch Interactive Corporation prior to its March 14, 2007 name change, was incorporated in 1996 under the laws of the State of Delaware. On September 1, 1999, LICT was spun off by Lynch Corporation to its shareholders (the “Spin Off”) and became a public company. As a successor to certain businesses of Lynch Corporation, LICT, at that time, became a diversified holding company with subsidiaries primarily engaged in multimedia and transportation services. LICT spun off its ownership interest in Sunshine PCS to its shareholders in 2001 and its 63% interest in the Morgan Group, Inc. to its shareholders in 2002. LICT's executive offices are located at 401 Theodore Fremd Avenue, Rye, New York 10580-1430. Its telephone number is 914-921-8821.

The Company's business development strategy is to expand its existing operations through internal growth and acquisitions. It may also, from time to time, consider the acquisition of other assets or businesses that are not related to its present businesses. The Company currently operates in one business segment, multimedia, which consists of telecommunications, alarm services, cable television and broadcasting. As used herein, LICT includes subsidiaries.

### **LICT delisted in late 2005, trades in the “Pink Sheets”, and is not an SEC reporting company**

On November 10, 2005 the Company concluded a one-for-one-hundred reverse stock split as part of a “going dark” transaction, which had been approved by the shareholders on October 31, 2005 and by the Board of Directors on November 3, 2005. Under the terms of this transaction, holders of less than 100 shares received cash in lieu of fractional shares at a rate of \$29.9352 per (pre-split) shares. As part of the transaction the Company voluntarily delisted from the American Stock Exchange (“AMEX”) on December 22, 2005 and filed a Form 15 with the Securities and Exchange Commission (“SEC”) deregistering its shares. The Form 15 was filed on December 23, 2005 and the Company is no longer a reporting company under the Securities Exchange Act of 1934.

The Company's shares are quoted on the Pink Sheets<sup>®</sup> under the symbol “LICC”. The Company has approximately 225 record holders and disseminates quarterly and annual financial statements and press releases to the financial community.

The principal reason for taking this step was the cost required to comply with section 404 of the Sarbanes-Oxley Act of 2002. The Company is committed to having a system of controls in place and consistently improving those controls necessary to generate reliable financial statements. However, the documentation and testing process required by section 404 of Sarbanes-Oxley would likely impose considerable costs and a staffing strain on the Company and its subsidiaries.

### **MULTIMEDIA OPERATIONS**

#### **Wireline Telecommunications**

Operations. LICT conducts its telecommunications operations through subsidiary companies. The telecommunications group has been expanded through the selective acquisition of local exchange telephone companies serving rural areas and by offering additional services such as Internet access service, alarm services, long distance service and competitive local exchange carrier (“CLEC”) service. Since 1989, the Company has acquired fifteen telephone companies, whose operations range in size from approximately 800 to over 10,000 access lines. The Company's telephone operations are located in California, Iowa, Kansas, Michigan, Nevada, New Hampshire, New Mexico, New York, North Dakota, Oregon, Utah and Wisconsin. Our service areas are largely residential and not densely populated. As of December 31, 2006, total lines, including both access and DSL, were 57,918, 100% of which are served by digital switches.

**Principal Products and Services.** The principal business of LICT's telephone companies is to provide telecommunications services. These services fall into three major categories:

*Local network services.* We provide telephone wireline access services to residential and non-residential customers in our service areas. We provide our local network customers a number of calling features including call forwarding, conference calling, caller identification, voicemail and call waiting. We also offer packages of telecommunications services. These packages permit customers to bundle their basic telephone line with their choice of enhanced services, or to customize a set of selected enhanced features that fit their specific needs.

*Network access services.* We provide network access services to long distance carriers and other carriers which involve the use of our facilities to originate and terminate interstate and intrastate telephone calls. Such services are generally offered on a month-to-month basis and the service is billed on a minutes-of-use basis. Access charges to long distance carriers and other customers are based on access rates filed with the Federal Communications Commission ("FCC") for interstate services and with the respective state regulatory agency for intrastate services.

*Other Business.* LICT also provides non-regulated telephone-related services, including Internet access service and long distance resale service in certain of its telephone service (and adjacent) areas. In addition, the Company currently provides and intends to expand its provision of local telephone and other telecommunications services outside certain of its franchise areas, by establishing CLEC operations in nearby areas. In selected areas, LICT provides security installation and monitoring services to homes and businesses, and cable television services ("CATV").

**Product Status.** The Company is always trying to roll out new services based on technological advances. We expect future growth in telephone operations to be derived from the acquisition of additional telephone companies, from providing service to new customers or additional services to existing customers, from upgrading existing customers to higher grades of service, and from new service offerings. LICT is currently providing Voice over Internet Protocol ("VoIP") on a limited basis and is exploring options for expanding such service.

The following table summarizes certain information regarding LICT's multimedia operations:

	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Telecommunications operations			
Access lines (a)	50,803	51,895	49,984
DSL Lines	4,098	5,455	7,934
Total access lines	54,901	57,350	57,918
% Residential	76%	78%	78%
% Business	24%	22%	22%
Internet subscribers (including DSL)	20,240	19,973	19,931
Cable subscribers	3,630	6,071	6,385
<u>Total Multimedia Revenues</u>			
Local service	13%	13%	13%
Network access	63%	62%	62%
Other businesses	25%	25%	25%
Total multimedia revenues	100%	100%	100%

(a) An "access line" is a telecommunications circuit between the customer's establishment and the central switching office.

(b) Other Businesses includes Internet, alarm services, CLEC, CATV and other non-regulated revenues.

Telephone Acquisitions. LICT pursues an active program of acquiring operating telephone companies. Since 1989, the Company has acquired fifteen telephone companies serving a total of approximately 45,600 access lines, at the time of these acquisitions, for an aggregate consideration totaling approximately \$153.6 million. Such acquisitions are summarized in the following table:

	<b>Year of Acquisition</b>	<b>Number of Access Lines Yr. Of Acq.</b>	<b>Number of Access Lines 12/31/05</b>	<b>Ownership Percentage</b>
Western New Mexico Telephone Co.	1989	4,200	7,000	100.0 <sup>(c)</sup>
Inter-Community Telephone Co.	1991	2,550 <sup>(a)</sup>	2,501	100.0
Cuba City Telephone Co. & Belmont Telephone Co.	1991	2,200	2,533	100.0 <sup>(d)</sup>
Bretton Woods Telephone Co.	1993	250	908	100.0
JBN Telephone Co.	1993	2,300 <sup>(b)</sup>	2,587	98.0
Haviland Telephone Co.	1994	3,800	3,585	100.0
Dunkirk & Fredonia Telephone Co. & Cassadaga Telephone Co.	1996	11,100	11,286	100.0
Upper Peninsula Telephone Co.	1997	6,200	7,080	100.0
Central Scott Telephone Co.	1999	6,000	5,761	100.0
Central Utah Telephone Co./Skyline Telephone Company/Bear Lake Telephone Company	2001	7,000	7,217	100.0
California-Oregon Telephone Co.	2005	2,500	2,557	100%

(a) Includes 1,350 access lines acquired in 1996.

(b) Includes 354 access lines acquired in 1996.

(c) In January 2006, the Company acquired the remaining 16.9% minority interest.

(d) In July 2006, the Company acquired the remaining 19% minority interest.

LICT continually evaluates acquisition opportunities targeting domestic rural telephone companies with a strong market position, good growth potential and predictable cash flow. In addition, the Company generally seeks companies with excellent local management already in place who will remain active with their company. At times, certain large telephone companies have offered certain of their rural telephone exchanges for sale, often on a statewide or larger area basis. LICT has, and in the future may, bid on such groups of exchanges. Telephone holding companies and others actively compete for the acquisition of telephone companies and such acquisitions are subject to the consent or approval of regulatory agencies in most states. While management believes it will be successful in making additional acquisitions, any acquisition program is subject to various risks, including being able to find and complete acquisitions at an attractive price and being able to integrate and operate successfully any acquisition made.

Related Services and Investments. All fifteen of LICT's telephone companies now offer Internet access service, either directly or through affiliated companies. At December 31, 2006, Internet access customers totaled 19,931 compared to 19,973 at December 31, 2005. LICT companies have substantially increased DSL customers, but this growth has been more than offset by a decrease in dial up service and competition from cable companies. Affiliates of seven of LICT's telephone companies now offer long distance service, and affiliates of five of our telephone companies now offer CLEC services. Several more are in the process of setting up long distance, VoIP and CLEC operations.

An affiliate of Dunkirk & Fredonia Telephone Company ("DFT") provides CLEC service on a resale basis in neighboring Dunkirk, New York, certain areas of Buffalo, New York, and two other western New York counties. Some of DFT's CLEC services are being provided via an unbundled network element platform (UNE-P), which allows for increased margins over a resale CLEC business model. In addition, in 2005 DFT started offering VoIP and CLEC services through its own facilities.

Giant Communications, Inc. provides CLEC services in Northeast Kansas and is beginning to provide VoIP services to end users.

CS Technologies, Inc. provides CLEC services, as well as VoIP and other data services, in Mount Joy, Bettendorf and Davenport, Iowa through its own facilities.

Central Telcom Services, LLC ("CTS"), a 100% owned subsidiary of the Company based in Fairview, Utah, acquired three cable television systems in February 2004, March 2005 and August 2006, serving some twenty counties. The Company is providing cable modem service in five communities and is in the process of rebuilding additional systems to provide two-way service. As of December 31, 2006, CTS had approximately 4,150 cable TV subscribers and 700 cable modem customers. These acquisitions position the Company to promote additional services to its customer base. In addition, CTS has obtained approval and is operating as a CLEC in Nevada, and is in the process of obtaining approval to establish CLEC operations in Utah.

DFT Security Systems, Inc. (which is 63.6% owned by LICT), another affiliate of DFT, acquired American Alarm Company in December 2001. DFT Security Systems provides alarm services to western New York, including the Buffalo area. In 2005, the Company sold 62% of its customer accounts to an investment company for which the Company continues to act as a service provider. At December 31, 2006, the Company served approximately 2,250 customers of its own in addition to those for which it is the service provider.

A subsidiary of Inter-Community Telephone Company in North Dakota, and Western New Mexico Telephone Company in New Mexico, have filed with their respective state regulatory commissions to provide CLEC services in those states. Final plans to offer CLEC service in areas adjacent to LICT's telephone operations in those states have not been completed. There is no assurance that LICT can successfully develop these businesses or that these new or expanded businesses can be made profitable within a reasonable period of time. Such businesses, in particular any CLEC business, would be expected to operate at losses initially and for a period of time.

Regulatory Environment. Operating telephone companies are regulated by state regulatory agencies with respect to intrastate telecommunications services and by the FCC with respect to interstate telecommunications services.

*Telecommunications Act of 1996.* In recent years, various aspects of federal and state telephone regulation have been subject to re-examination and on-going modification. In February 1996, the Telecommunications Act of 1996 (the "1996 Act"), which is the most substantial revision of communications regulations since the 1930's, became law. The 1996 Act is intended generally to allow telephone, cable, broadcast and other telecommunications providers to compete in each other's businesses, while loosening regulation of those businesses. Among other things, the 1996 Act (i) allows major long distance telephone companies and cable television companies to provide local exchange telephone service; (ii) allows new local telephone service providers to connect into existing local telephone exchange networks and purchase services at wholesale rates for resale; (iii) provides for a commitment to universal service for high-cost, rural areas and authorizes state regulatory commissions to consider their status on certain competition issues; (iv) allows the Regional Bell Operating Companies ("RBOCs") to offer long distance telephone service and enter the alarm services and electronic publishing businesses; (v) removes rate regulation over non-basic cable service; and (vi) increases the number of television stations that can be owned by one party. The 1996 Act had dual goals of fostering local and intrastate competition while ensuring universal service to rural America.

*National Exchange Carrier Association.* For interstate services, LICT's telephone subsidiaries participate in the National Exchange Carrier Association ("NECA") common line and traffic sensitive tariffs and access revenue pools. The NECA pools are intended to compensate local exchange carriers ("LECs"), such as LICT's operating telephone companies, for the costs, including a fair rate-of-return, of facilities furnished in originating and terminating interstate and intrastate long distance services.

LICT's subsidiaries are compensated for their intrastate costs through billing and keeping intrastate access charge revenues (without participating in an access pool). Intrastate access charge revenues are based on intrastate access rates filed with the state regulatory agency.

*Intercarrier Compensation Reform.* The FCC released a Further Notice of Proposed Rulemaking ("FNPRM") on March 3, 2005 to examine all aspects of intercarrier compensation including access charges, reciprocal compensation, transport and transiting services, and various other network interconnection issues. Currently, the rate for intercarrier compensation depends on the type of traffic at issue, the types of carriers involved, and the end points of the communication. Many believe these rate differentials create both opportunities for regulatory arbitrage and incentives for inefficient investment and deployment decisions. The intent of this proceeding is to replace the existing patchwork of intercarrier compensation rules with a unified approach. This proceeding is continuing.

*Universal Service Fund.* The FCC has completed numerous regulatory proceedings required to implement the 1996 Act. For certain issues, the FCC bifurcated the proceedings between price-cap and rate-of-return companies, or in the case of the Universal Service Fund ("USF") mechanisms, between rural and non-rural companies. All of LICT's telephone subsidiaries are rural, rate-of-return companies for interstate regulatory purposes. Rate-of-return companies receive support based on their costs while price cap companies receive support based on the prices of communications services. USF is intended, among other things, to provide special support funds to high cost rural LECs so that they can provide affordable services to their customers, notwithstanding their high cost due to low population density.

On February 25, 2005, the FCC adopted measures addressing the minimum requirements for a telecommunications carrier to be designated as an eligible telecommunications carrier ("ETC") and thus be eligible to receive federal USF. All of LICT's companies are already designated as ETCs. New carriers seeking ETC designation must now:

- Provide a five-year plan demonstrating how high-cost USF support will be used to improve its coverage, service quality or capacity throughout the service area for which it seeks designation.
- Demonstrate its ability to remain functional in emergency situations.
- Demonstrate that it will satisfy consumer protection and service quality standards.
- Offer local usage plans comparable to those offered by the incumbent local exchange carrier ("ILEC") in the areas for which it seeks designation.
- Acknowledge that it may be required to provide equal access, if all other ETCs in the designated service area relinquish their designations.

The FCC also made these same requirements applicable to existing ETCs, and encouraged states that have jurisdiction over ETC designations to adopt the requirements.

In May 2006, the FCC extended the May 2001 Rural Task Force ("RTF") order that continued the use of actual embedded costs as the basis for USF support for rural carriers. This extension will be in effect until the FCC adopts new USF high-cost support rules for RLECs, which date is indeterminate at this time. In the 2001 RTF Order, the FCC had emphasized that it would provide predictability, certainty and stability to rural LECs for five years, so as to allow rural carriers to continue to provide supported telecommunications services at affordable rates to American consumers. On June 28, 2004, the FCC had referred the issue of what modifications rural carriers will need in a post-RTF USF mechanism to a Federal-State Joint Board on Universal Service. The FCC and the Federal-State Joint Board are still examining possible USF reform alternatives.

The federal and state USF mechanisms, including those for the support which the Company receives, are subject to considerable scrutiny and possible modification by the FCC and the state regulatory

commissions. It is not possible to predict what modifications the FCC or state regulatory agencies may adopt regarding USF, the timing of such modifications or the impact of those modifications on the Company.

*Voice over Internet Protocol.* LICT's local exchange carrier telephone operations have limited wireline competition at the present time. However, wireless usage and VoIP are continuing to increase across the nation, including in the areas served by LICT, which could have substantial detrimental impact on future revenues and create additional uncertainty for the Company. It is not possible to predict the extent to which these complementary or substitutable services might impact LICT's revenues. Because of the rural nature of their operations and related low population density, LICT's RLEC subsidiaries are primarily high cost operations, which receive substantial federal and state support. However, the regulatory environment for RLEC operations has begun to change. VoIP usage is increasing as both a transport facility to haul traffic between switching centers, and as a means to serve the end user customer's voice telephone needs. As a transport facility, it is expected to decrease the overall cost of transport in the long run. LICT is analyzing whether VoIP could be utilized for transport in a cost effective manner in the most rural portions of the nation, such as those served by the Company, and has implemented VoIP services in several locations as part of our CLEC operations.

The interexchange carriers ("IXCs") would like to have access minutes that are transported over VoIP exempt from paying access charges. If the IXCs were exempted from paying access charges on traffic transported over VoIP, it would have a significant detrimental impact to the Company's access charge revenues. While the FCC has initially determined that computer-to-computer VoIP traffic should not be considered a telecommunications service, it is not possible to predict the FCC's actions regarding the transport issue since the FCC has not issued a decision on this matter. The FCC has issued several orders dealing with particular aspects of VoIP, but it currently is conducting an ongoing, comprehensive proceeding to determine the overall extent VoIP should be subject to regulation.

In addition to transport, companies are increasing the use of VoIP in providing voice services to the end user. The VoIP end user traffic requires the use of a broadband service, such as DSL or cable, in order to receive the low price (or free) VoIP voice service. Since DSL cannot be purchased from the ILEC without the customer first purchasing a traditional local access line service, the ILEC still receives the DSL and the local service revenue as long as the end user purchases the DSL from the ILEC. Obviously, if the end user purchases the broadband service from a competitor, such as a cable or wireless broadband company, the ILEC loses all revenue associated with the customer switching to VoIP. Of greater concern is the fact that the Company loses the access charge revenue associated with intrastate calls that previously were provided through the Company's switched network. It is not possible to determine the potential lost revenue from calls that are handled by VoIP rather than the public switched network. This is very similar to revenue losses due to wireless usage where minutes of use are being removed from the Company's switching platform to the wireless carrier's switch, thus reducing the Company's access revenues.

Competition. Competition in the telecommunications industry is increasing. Competition in our specific wireline telecommunications markets is becoming more significant in the areas closest to larger towns or metropolitan areas. Although all of LICT's current telephone companies have historically been monopoly wireline providers in their respective area for local telephone exchange service, except to a very limited extent in Iowa, the regulatory landscape has begun to change and we now experience competition from long distance carriers, from cable companies and Internet service providers with respect to Internet access, from cable telephony, and from wireless carriers. Competition may result in a progressively greater loss of access lines and minutes of use, and in the conversion of retail lines to wholesale lines, which negatively affects revenues and margins from those lines. Competition also puts pressure on the prices we are able to charge for some services, particularly for some non-residential services. The total number of competitors is difficult to estimate since many of the companies do not have a local presence, but instead compete for services via the Internet using VoIP or through wireless operations.

As a result of the 1996 Act, followed by FCC and state regulatory initiatives and judicial decisions aimed at increasing competition, certain telecommunications providers have attempted to bypass local exchange carriers to connect directly with high-volume toll customers. For example, in the last few years, the states

of New Mexico, New York, Michigan, Wisconsin and Kansas passed or amended telecommunications bills intended to reduce regulations and introduce more competition among providers of local services. In addition, regulatory authorities in certain states, such as New York, have taken steps to promote competition in local telephone exchange service by requiring certain companies to offer wholesale rates to resellers. To date, however, no substantial impact has been seen on LICT's telephone subsidiaries, which do not consider this a significant near-term competitive threat due to the limited number of high-volume customers they serve.

### **Other Multimedia Services**

LICT has several other multimedia interests, which contribute value to the Company but are not within its core RLEC operations.

### **Broadcasting**

*Station WHBF-TV* – Lynch Entertainment, L.L.C. ("Lynch Entertainment I"), a wholly-owned subsidiary of LICT, and Lombardo Communications, Inc., wholly-owned by Philip J. Lombardo, are the general partners of Coronet Communications Company ("Coronet"). Lynch Entertainment I has a 20% interest in Coronet and Lombardo Communications, Inc. has an 80% interest. In addition, on the sale of the stations, LICT is entitled to an additional fee of 5% of the Capital Proceeds (as defined in the partnership agreement). Coronet owns CBS-affiliated television station WHBF-TV, which serves Rock Island and Moline, Illinois, and Davenport and Bettendorf, Iowa.

*Station WOI-TV* – Lynch Entertainment Corporation II ("LEC-II"), a wholly-owned subsidiary of LICT, owns 49% of the outstanding common shares of Capital Communications Corporation ("Capital") and convertible preferred stock which, when converted, would bring LEC-II's common share ownership to 50%. Capital owns ABC-affiliated television station WOI-TV, which serves the Ames/Des Moines, Iowa market. Lombardo Communications, Inc. II, controlled by Philip J. Lombardo, has the remaining share interest in Capital.

WHBF-TV and WOI-TV became full power High Definition television stations (HDTV) as of July 2005. The stations will continue to broadcast in analog and digital through February 2009. Beginning February 2009, the stations will relinquish their analog licenses and continue broadcasting in digital.

The Company's investments in broadcasting are carried on the equity basis and do not materially impact our current operating results.

Based upon a multiple of twelve times 2006 projected broadcast cash flow, plus cash, less debt, LICT estimates its value in these stations at approximately \$19 million, as compared to the net book value of these investments of a negative \$0.8 million. It is not assured that the results of these stations will continue at the current level or that they could be sold at twelve times cash flow.

Operations. Revenues of a local television station depend to some extent upon its relationship with an affiliated television network. In general, the affiliation contracts of WHBF-TV and WOI-TV with CBS and ABC, respectively, provide that the network will offer to the affiliated station the programs it generates, and the affiliated station will transmit a number of hours of network programming each month. The programs transmitted by the affiliated station generally include advertising originated by the network, for which the network is compensated by its advertisers.

The affiliation contract has historically provided that the network will pay to the affiliated station an amount which is determined by negotiation, based upon the market size and rating of the affiliated station. Recently, however, the networks have begun in some instances to charge affiliated stations for certain programming. Typically, the affiliated station also makes available a certain number of hours each month for network transmission without compensation to the local station, and the network makes available to the affiliated station certain programs, which will be broadcast without advertising, usually public information

programs. Some network programs also include "slots" of time in which the local station is permitted to sell spot advertising for its own account. The affiliate is permitted to sell advertising spots preceding, following, and sometimes during network programs.

A network affiliation is important to a local station because network programs, in general, have higher viewer ratings than non-network programs and help to establish a solid audience base and acceptance within the market for the local station. Because network programming often enhances a station's audience ratings, a network-affiliated station is often able to charge higher prices for its own advertising time. In addition to revenues derived from broadcasting network programs, local television stations derive revenues from the sale of advertising time for spot advertisements, which vary from 10 seconds to 120 seconds in length, and from the sale of program sponsorship to national and local advertisers. Advertising contracts are generally short in duration and may be canceled upon two weeks notice. WHBF-TV and WOI-TV are represented by a national firm for the sale of spot advertising to national customers, but have local sales personnel covering the service area in which each is located. National representatives are compensated by a commission based on net advertising revenues from national customers.

Competition. WHBF-TV and WOI-TV compete for revenues with local television and radio stations, CATV, and other advertising media, such as newspapers, magazines, billboards and direct mail. Generally, television stations such as WHBF-TV and WOI-TV do not compete with stations in other markets.

CATV systems carry television broadcast signals by wire or cable to subscribers who pay a fee for this service. CATV systems retransmit programming originated by broadcasters, as well as providing additional programming that is not originated on, or transmitted from, conventional broadcasting stations. Direct Broadcast Services ("DBS") use satellites to provide video services to a growing percentage of the population in the United States. In addition, some alternative media operators provide, for a fee or on a subscription basis, programming that is not a part of regular television service. Additional program services are provided by low-power television stations as well.

Federal Regulation. Television broadcasting is subject to the jurisdiction of the FCC under the Communications Act of 1934, as amended (the "Communications Act"). The Communications Act, and/or the FCC's rules, among other things, (i) prohibit the assignment of a broadcast license or the transfer of control of a corporation holding a license without the prior approval of the FCC; (ii) prohibit the common ownership of a television station and a daily newspaper in the same market; (iii) restrict the total number of broadcast licenses which can be held by a single entity or individual or entity with attributable interests in the stations and prohibits such individuals and entities from operating or having attributable interests in most types of stations in the same service area (loosened in the 1996 Act); and (iv) limit foreign ownership of FCC licenses under certain circumstances. In June 2003, the FCC adopted substantial rule changes that relax many of the prohibitions on the ownership of broadcast licenses. Currently, however, these rule changes are being challenged in federal court. In calculating media ownership interests, the Company's interests may be aggregated under certain circumstances with certain other interests of Mr. Mario J. Gabelli, Chairman of the Company, and certain of his affiliates.

Television licenses are issued for terms of eight years and are renewable for terms of eight years. The current licenses for WHBF-TV and WOI-TV expired on December 1, 2005 and February 1, 2006, respectively. License renewal applications were filed with the FCC on a timely basis. We are currently waiting for renewal notification from the FCC.

## **Wireless Licenses**

RSA Cellular Interests. LICT owns minority interests in certain entities that provide wireless cellular telephone service in two Rural Service Areas ("RSAs") in New Mexico, two RSA's in North Dakota, and an RSA in California covering areas with a total population of approximately 238,000. Equity in earnings from these two operations was \$3.5 million in 2006 on a combined basis and the combined book value of these entities was \$5.1 million at December 31, 2006. LICT's proportional shares of these operations'

combined revenues and operating profits were \$5.7 million and \$1.9 million respectively, for the year ended December 31, 2006, and we received \$1.8 million in cash distributions, net of cash paid to minority interests, from these investments in 2006. The entities have no debt and LICT's proportional share of their cash equivalents is \$0.8 million.

Las Cruces, NM PCS License. Another subsidiary of LICT, Lynch PCS Corporation G ("LPCSG") holds a 10 MHz PCS license for the Basic Trading Area (BTA) covering Las Cruces, New Mexico. Las Cruces is the principal city in the BTA, which covers a population of approximately 249,902 (as of the 2000 census). In April 2002, LPCSG completed a build-out of the licensed area sufficient to meet the FCC requirement that it provide service coverage to at least one-quarter of the population in this BTA. In a February 2005 FCC auction for similar spectrum, the price per MHz of population was materially lower than the price paid by LICT for this spectrum. Accordingly, at December 31, 2004, LICT recorded a \$0.3 million impairment of this investment, which is included in amortization expense.

Logan, UT PCS License. As part of the acquisition of Central Utah Telephone Company by LICT in June 2001, LICT acquired Central Telecom Services, LLC, a related entity that now owns a 10 MHz PCS license in the Logan, Utah, BTA, which has a population of approximately 102,702 (as of 2000 census). Similar to LPCSG, Central Telecom Services has completed a build-out sufficient to meet the FCC requirement that service coverage be available to at least one-quarter of the population in this BTA. Out of respect for the traditions of many staff members and former owners, LICT committed to donate 20% of the net profits (as defined in the donation letter) from any sale of the Logan license to the Church of Jesus Christ of Latter Day Saints. In a February 2005 FCC auction for similar spectrum, the price per MHz of population was materially lower than the price paid by LICT for this spectrum. Accordingly, at December 31, 2004, LICT recorded a \$0.4 million impairment of this investment, which is included in amortization expense.

Iowa PCS Licenses. Central Scott has a 10 MHz PCS license for its wireline territory covering a population of 11,470. Central Scott is also an approximately 14% minority owner of an entity that has a 10 MHz PCS license for portions of Clinton and Jackson Counties in Iowa, with a total population of 68,470.

Other Interests in Wireless Licenses. In 1997, LPCSG entered into an agreement with Bal/Rivgam LLC (in which an affiliate of the Chairman of the Board has a 49.9% equity interest), which won licenses in the FCC's Wireless Communications Services ("WCS") Auction in 1997, to receive a fee equal to 5% of the realized net profits of Bal/Rivgam (after an assumed cost of capital), in return for providing bidding and certain other services to Bal/Rivgam. Bal/Rivgam acquired and held 5 WCS licenses covering a population of approximately 42 million with an aggregate cost of \$0.7 million and certain Local Multipoint Distribution Services ("LMDS") licenses. In January 2006, such licenses were sold and the Company received \$1.0 million recorded as service fee revenue based on the successful sale of such licenses. Additional fees have been held in escrow and will be recorded in income when and if they are received in cash.

Another subsidiary of LICT is a 49.9% owner of PTPMS Communications, L.L.C. ("PTPMS"), which was a winning bidder in the FCC auction of licenses for fixed point-to-point microwave services, which was conducted in 2000. PTPMS won 22 licenses covering a population of 27.6 million for an aggregate cost of \$1.5 million. LICT's subsidiary has loaned PTPMS approximately \$1.4 million. LICT's subsidiary also has the right to receive a fee equal to 20% of the realized net profits of PTPMS (after an assumed cost of capital).

Another subsidiary of LICT is a 49.9% owner of PTPMS Communications II, L.L.C. ("PTPMS II"), which was a winning bidder in the FCC auction of licenses for 700 MHz Guard Band spectrum for wireless data transmission and wireless Internet services, which was conducted in 2000. PTPMS II won three licenses covering a population of 6.4 million in BTAs including the cities of Buffalo, NY, Des Moines-Quad-Cities, IA, and El Paso, TX, at an aggregate cost of approximately \$6.3 million. LICT has loaned PTPMS II approximately \$6.1 million. LICT's subsidiary has the right to receive a fee equal to 20% of the realized net profits of PTPMS II (after an assumed cost of capital). In a FCC auction conducted in September 2002 for similar spectrum, called the Lower 700 MHz Band Auction, the price per MHz of population was

materially lower than the price paid by PTPMS II in 2000. Accordingly, during 2002, LICT provided a reserve for impairment for its investment in PTPMS II of \$5.5 million.

Another subsidiary of LICT, Lynch 3G Communications Corporation, participated in the Lower 700 MHz auction conducted in August 2002. Lynch 3G won eight 12 MHz licenses in the following areas: Reno, NV; Santa Barbara, CA; Des Moines, IA; Quad Cities area of Davenport and Bettendorf, IA and Rock Island and Moline, IL; Las Cruces, NM; Elmira, NY; and two RSAs in the western part of New Mexico. The total population covered by these licenses is approximately 1.7 million. Lynch 3G paid \$1.1 million for these licenses.

In June 2003, Lynch 3G participated in a re-auction of Lower 700 MHz spectrum that was not licensed in the August 2002 auction and won four 12 MHz licenses in the following areas: Dubuque, IA, Gogebic, MI, San Juan, NM, and Chautauqua, NY. The total population covered by these licenses is approximately 1.1 million. Lynch 3G paid \$620,000 for these licenses.

In July 2004, Lynch 3G participated in the Auction for 24 GHz Spectrum and was high bidder for two licenses, Buffalo – Niagara, NY and Davenport, IA – Moline, IL, for a total cost of \$49,000.

In February 2005, Lynch 3G participated in Auction 58 for PCS Spectrum and was high bidder for two licenses, Marquette, MI, and Klamath Falls, OR, for a total cost of \$0.5 million.

In September 2006, Lynch AWS participated in the Advanced Wireless Services Auction No. 66 and was high bidder for a license in Topeka, KS, for a cost of \$0.5 million.

LICT expects to continue to participate in the spectrum auctions being conducted by the FCC in order to have the flexibility to accommodate present and future needs of existing and future customers, as well as establish high bandwidth opportunities.

In addition to the build-out requirements for PCS licenses, FCC rules impose build-out requirements for WCS, LMDS, paging licenses, point-to-point microwave services and the licenses granted in 700 MHz (guard band) and Lower 700 MHz spectrum. There are also substantial restrictions on the transfer of control of licensed spectrum.

There are many risks relating to PCS and other FCC wireless licenses, including without limitation the high cost of PCS and certain other licenses; the fact that this involves start-up businesses; raising the substantial funds required to pay for the licenses and the build out; determining the best way to develop the licenses and which technology to utilize; the small size and limited resources of our companies compared to other potential competitors; existing and changing regulatory requirements; additional auctions of wireless telecommunications spectrum; and actually building out and operating new businesses profitably in a highly competitive environment (including already established cellular telephone operators and other new PCS licensees). There can be no assurance that any licenses granted to entities in which subsidiaries of LICT have interests can be successfully sold or financed or developed, thereby allowing LICT's subsidiaries to recover their debt and equity investments.

**Other Patents, Licenses, Franchises.** While LICT holds other licenses of various types, LICT does not believe they are significant to the focus of its basic business and ongoing operations, which are its RLEC companies.

**Environmental Compliance.** The capital expenditures, earnings and competitive position of LICT have not been materially affected by compliance with current federal, state, and local laws and regulations relating to the protection of the environment; however, LICT cannot predict the effect of future laws and regulations.

**Seasonality.** No portion of the business of LICT is regarded as seasonal. While LICT's New Hampshire and Michigan operations' usage varies during the year due to tourism and vacation homes in their areas, this is not material for LICT's telephone operations as a whole.

**Dependence on Customers.** LICT does not believe that its multimedia business is dependent on any single customer of local telephone service. Most LECs, including LICT's RLECs, received a significant amount of revenues in the form of access fees from IXCs. Bankruptcy of a significant IXC or of several IXCs in the same period could have a material adverse effect on LICT. LICT cannot predict which, if any, IXCs may go bankrupt in the future.

**Government Contracts.** LICT provides service to the government under tariff or special contract. LICT's government contracts are not significant and it would not adversely impact its operations if those contracts were eliminated.

**Employees.** LICT had a total of 365 employees at December 31, 2006, including 7 corporate employees with the remainder responsible for providing rural telephone services, compared to 370 employees at December 31, 2005.

### **EXECUTIVE OFFICERS**

The following list of executive officers sets forth the names and ages of all executive officers of the Company indicating all positions and offices with the Company held by each such person and each such person's principal occupations or employment during the past five years.

<u>Name</u>	<u>Offices and Positions Held</u>	<u>Age</u>
Mario J. Gabelli	Chairman since December 2004; Chief Executive Officer of Lynch Interactive from December 2004 to November 2005 (and also from September 1999 to December 2002) and Vice Chairman and Chief Executive Officer from December 2002 to December 2004. He is also Chairman of the Board of Directors and Chief Executive Officer of GAMCO Investors Inc. and its predecessors (since November 1976) (and in connection with those responsibilities, he serves as director or trustee and/or an officer of registered investment companies managed by subsidiaries of GAMCO Investors Inc.); and Chairman and Chief Executive Officer of GGCP, Inc., a private company.	64
Robert E. Dolan	Interim Chief Executive Officer since May 2006; Chief Financial Officer (since January 2004); Chief Financial Officer and Controller from September 1999 to January 2004; Chief Financial Officer (1992-2000) and Controller (1990-2000) of Lynch Corporation.	55
Evelyn C. Jerden	Senior Vice President-Operations (since September 2003); Vice President-Regulatory Affairs (2002-2003); Director of Revenue Requirements of Western New Mexico Telephone Company, Inc. (since 1992).	49
Thomas J. Hearity	Vice President, General Counsel and Corporate Secretary (since January 2007); Deputy General Counsel and Chief Compliance Officer, Celanese Corporation, November 2005 to January 2007; Senior Vice President and Associate General Counsel, Charter Communications, September 2003 to November 2005; private	59

practice of law in the telecommunications industry, 1996 to September 2003 .

The executive officers of the Company are elected annually by the Board of Directors and hold office until the organizational meeting in the next subsequent year and until their respective successors are chosen and qualified.

### **PROPERTIES**

LICT leases approximately 3,300 square feet of office space from an affiliate of its Chairman for its executive offices in Rye, New York. The lease expires at the end of 2010.

Western New Mexico Telephone Company ("Western") owns a total of 16.9 acres at 15 sites located in southwestern New Mexico. Its principal operating facilities are located in Silver City, where Western owns one building comprising a total of 6,480 square feet housing its administrative offices and certain storage facilities and another building comprising 216 square feet, which houses core network equipment. In Cliff, New Mexico, Western owns six buildings with a total of 16,238 square feet which contain additional offices and storage facilities, as well as a vehicle shop, a fabrication shop, and central office switching equipment. Smaller facilities, used mainly for storage and for housing central office switching equipment, with a total of 9,984 square feet, are located in Lordsburg, Reserve, Magdalena and five other localities in New Mexico. In addition, Western leases 1.28 acres on which it has constructed four microwave towers and a 120 square-foot equipment building. Western has the use of 46 other sites under permits or easements at which it has installed various equipment either in small company-owned buildings (totaling 2,403 square feet) or under protective cover. Western also owns 3,843 miles of copper cable and 527 miles of fiber optic cable running through rights-of-way within its 15,000 square mile service area. All of these properties are encumbered under mortgages held by the Rural Utilities Service ("RUS") and the National Bank for Co-Operatives ("CoBank").

Inter-Community Telephone Company owns 12 acres of land at 10 sites. Its main office at Nome, North Dakota, contains 4,326 square feet of office and storage space. In addition, it has 4,400 square feet of garage space and 5,035 square feet utilized for its switching facilities. Inter-Community has 2,048 miles of copper cable and 243 miles of fiber optic cable. All of these properties are encumbered under mortgages held by CoBank.

Cuba City Telephone Company is located in a 3,800 square-foot brick building on 0.4 acre of land. The building serves as the central office, commercial office, and garage for vehicle storage. The company also owns a 0.1 acre site with a 1,400 square foot cement block building and a 600 square foot metal building for storage of materials and equipment. Belmont Telephone Company is located in a cement block building of 800 square feet on 0.5 acre of land in Belmont, Wisconsin. The building houses the central office equipment for Belmont. The companies own a combined total of 310 miles of copper cable and 56 miles of fiber optic cable. All of Cuba City's and Belmont's properties described above are encumbered under mortgages held by Co-Bank.

J.B.N. Telephone Company owns a total of approximately 2.25 acres at fifteen sites located in northeast Kansas. Its administrative and commercial office consisting of 7,000 square feet is located in Holton, Kansas and a 3,000 square-foot garage warehouse facility is located in Wetmore, Kansas. In addition, J.B.N. owns thirteen smaller facilities housing central office switching equipment and over 1,225 miles of copper cable and 216 miles of fiber optic cable. All of these properties are encumbered under mortgages held by the RUS.

Giant Communications, LLC (formerly CLR Video) has its headquarters in Holton, Kansas, leased from J.B.N. Telephone Company. It also owns one small parcel of land and leases 13 small sites, which it uses for its cable receiving and transmission equipment. All of these properties are encumbered under a mortgage to CoBank.

Haviland Telephone Company owns a total of approximately 3.9 acres at 20 sites located in south central Kansas. Its administrative and commercial office consisting of 5,500 square feet is located in Haviland, Kansas. In addition, Haviland owns 19 smaller facilities housing garage, warehouse, and central office switching equipment, and has over 1,503 miles of copper cable and 529 miles of fiber optic cable. All of these properties are encumbered under a mortgage held by the RUS.

Dunkirk & Fredonia Telephone Company (including its affiliates) owns a total of approximately 15 acres at five locations in western New York. Its central office switching equipment and administrative and commercial offices, consisting of 18,297 square feet, are located in Fredonia, New York. In addition, Dunkirk & Fredonia owns four other properties, including a service garage, a paging tower site, a small central office in Cassadaga, New York, and a sales and service center in Jamestown, New York. Dunkirk & Fredonia also owns 355 miles of copper cable and 102 miles of fiber optic cable. All of these properties are encumbered under a mortgage held by the RUS.

Bretton Woods Telephone Co., Inc. leases approximately 2,800 square feet of business office space and garage/storage space located in Bretton Woods, New Hampshire. Bretton Woods Telephone owns a 444 square foot central office building also located in Bretton Woods, New Hampshire, which is built on leased land. Bretton Woods Telephone has 28 miles of copper cable and 6 miles of fiber optic cable.

Upper Peninsula Telephone Company owns a total of approximately 25 acres at 19 sites located principally in the Upper Peninsula of Michigan. Its host central office switching equipment and administrative and commercial offices, consisting of 11,200 square feet, are located in Carney, Michigan. In addition, Upper Peninsula owns 25 other smaller facilities housing garage, warehouse and central office switching equipment and over 2,128 miles of copper cable and 198 miles of fiber optic cable. All properties described herein are encumbered under mortgages held by the RUS and CoBank.

Central Scott Telephone Company owns 3 acres of land at 5 sites. Its main office in Eldridge, Iowa, contains 3,104 square feet of office and 341 square feet of storage space. In addition, it has 3,360 square feet of garage space and 2,183 square feet utilized for its switching facilities. Central Scott has 364 miles of copper cable and 38 miles of fiber optic cable. All of these properties are encumbered under mortgages held the First National Bank of Omaha.

Central Utah Telephone, Inc., and its subsidiaries and affiliates own a total of 9.8 acres at sixteen sites, and have an additional 3.8 acres at twenty-three sites which are under leases, permits or easements. These sites are located in the central, northeastern and mid-western areas of Utah. Central Utah Telephone's principal operating facilities are located in Fairview, Utah, where it owns a commercial office building containing 14,400 square feet, and a plant office and central office building containing 5,200 square feet. In addition, it has 1,604 square feet of office space, 2,795 square feet of warehouse space, 6,595 square feet of vehicle maintenance facilities, 4,252 square feet of protective cover and 3 rental homes. Central Utah Telephone owns smaller facilities used mainly for housing central office switching equipment with a total of 10,115 square feet in 26 various locations. In addition, Central Utah Telephone owns 946 miles of copper cable, 271 miles of coaxial cable and 354 miles of fiber optic cable running through rights-of-way within its 10,483 square mile service area. All of Central Utah Telephone's properties described herein are encumbered under mortgages held by the RUS, Far West Bank and CoBank.

Cal-Ore Telephone Company ("Cal-Ore") owns a total of 35.4 acres at 8 sites located in north central California. Its principal operating facilities are located in Dorris, California, where Cal-Ore owns three buildings comprising a total of 4,727 square feet housing its administrative offices and central office switching terminals, 11,500 square feet of maintenance shop with offices and truck bays, and another building which houses record storage. In Tulelake, California, Cal-Ore owns two buildings with a total of 1,913 square feet containing business offices, central office switching terminals and storage facilities, as well as a vehicle maintenance shop of 4,450 square feet. Smaller facilities, used mainly for storage and for housing central office switching equipment, with a total of 1,893 square feet, are located in Macdoel, Tennant and Newell. Cal-Ore has the use of 5 other sites under permits or easements at which it has constructed four microwave towers and installed various items of equipment either in small company-

owned buildings (totaling 824 square feet) or under protective cover. One of these sites is in Klamath Falls, Oregon. Cal-Ore also owns 571 miles of copper cable and 130 miles of fiber optic cable running through rights-of-way within its 850 square mile service area, with 46 miles of this fiber owned or leased in Oregon. All of these properties are encumbered under mortgages held by CoBank.

It is the Company's opinion that the facilities referred to above are in good operating condition and suitable and adequate for present uses.

#### **LEGAL PROCEEDINGS**

See Footnote 12 to the Company's Audited Financial Statements.