

# LYNCH INTERACTIVE CORPORATION

May 15, 2006

To Our Shareholders:

I am pleased to serve as the Interim Chief Executive Officer of Lynch Interactive Corporation. Having been a part of the management team for the past 15 years, my role is really an extension of my existing responsibilities. This is particularly true because we have always managed the Company using a team approach. We look forward to adding to the operational and marketing competencies of the corporate staff in the near future to supplement our field operations' efforts to continue growing in a challenging telecommunications environment.

During 2005, we continued to build upon our core strategies. Several initiatives were begun to broaden our line of deregulated offerings, and we extended our reach to the West Coast of the United States by successfully completing an acquisition in California. At the same time, unfortunately, False Claims Act litigation consumed too much of the energies of the corporate office.

Some of our key accomplishments in 2005 were:

**Profitable Year.** Overall, we enjoyed a profitable 2005. Our earnings for the year were \$4.3 million, or \$157 per share, about the same as 2004, despite a half million dollars (net of tax) of higher professional fees incurred in defense of our litigation.

**Acquisition of Cal-Ore Telephone Company.** After enduring an eighteen-month regulatory process, we were able to close on our acquisition of Cal-Ore Telephone Company, a 2,500 access line rural telephone company on the Northern California border. Our internal efforts, supplemented by the significant efforts of the management team of Cal-Ore, helped us through this challenging regulatory process, and we are extremely satisfied with the results. Cal-Ore is a great asset for us, and we welcome Ed Ormsbee and his team of professionals to our family of companies.

**Deregulated Activities.** During 2005, we acquired a CATV provider in Utah, expanding our service territory as well as providing alternatives to our existing customers. Our New York operation established a VoIP (Voice over Internet Protocol) network, selling VoIP services on a retail and wholesale basis. Cal-Ore is providing a new expansive housing development in Oregon with voice, video, and data services. In addition, several of our operations began providing wireless voice and satellite data services.

**Delisting.** Another step we took in 2005 was the delisting of our stock from the American Stock Exchange and eliminating our Securities and Exchange Commission reporting responsibilities. Management's decision to proceed down this path was predicated on the ongoing cost (both dollars and drain on our limited human resources) associated with remaining a public company – a cost which we felt was not commensurate with the benefits.

**Looking forward to 2006 and beyond.** In 2006, we will continue to look for ways to build shareholder value, both operationally, by intensifying our marketing efforts, and strategically, by effecting value-added transactions. Specifically, early in the year, we completed the acquisition of KMG Holdings, Inc., which eliminated the minority ownership in Western New Mexico Telephone Company. We have also received approximately \$14 million, before taxes, from the Rural Telephone Bank when it redeemed all holders, including us. Also, in several locations, we plan to have wireless data offerings over our 700 MHz spectrum licenses. Finally, during 2006, we expect to complete the spin-off of our non-core investments. This will continue our effort to further simplify our structure.

I want to thank all of our partners within the organization – local management and employees - for an outstanding effort. Each of our companies has substantial autonomy, thereby encouraging an entrepreneurial spirit. They are able, with little guidance from the corporate office; to grow and provide stellar services to the communities they serve.

I also would like to thank you, our shareholders, for supporting us through the delisting effort and for your continued support during this difficult period of the False Claims Act litigation.

Robert E. Dolan  
Interim Chief Executive Officer and  
Chief Financial Officer