
LICT CORPORATION

Quarterly Report for period ended March 31, 2007

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

	March 31, 2007	December 31, 2006	March 31, 2006
	(Unaudited)	(Audited)	(Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 44,159	\$ 41,445	\$ 35,081
Receivables, less allowances of \$510, \$523 and \$435, respectively	9,133	10,517	9,066
Material and supplies	2,601	2,505	2,404
Prepaid expenses and other current assets	1,499	1,794	1,842
Total current assets	57,392	56,261	48,393
Property, plant and equipment:			
Land	1,120	1,120	1,116
Buildings and improvements	19,075	19,062	19,722
Machinery and equipment	246,947	245,312	234,471
	267,142	265,494	255,309
Accumulated depreciation	(155,869)	(150,498)	(136,262)
	111,273	114,996	119,047
Excess of cost over fair value of net assets acquired, net (goodwill)			
	64,765	64,765	60,708
Other intangibles	9,056	9,149	15,781
Investments in and advances to affiliated entities	8,324	8,225	8,452
Other assets	10,252	10,103	14,047
Total assets	\$ 261,062	\$ 263,499	\$ 266,428

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2007	December 31, 2006	March 31, 2006
	(Unaudited)	(Audited)	(Unaudited)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable to banks	\$ 18,700	\$ 20,205	\$ 10,122
Trade accounts payable	2,545	4,017	2,303
Accrued interest payable	800	649	936
Accrued liabilities	16,068	14,159	15,122
Current maturities of long-term debt	26,930	27,254	41,250
Total current liabilities	65,043	66,284	69,733
Long-term debt	143,166	146,533	135,544
Deferred income taxes	11,321	11,458	20,507
Other liabilities	5,068	5,090	2,812
Total liabilities	224,598	229,365	228,596
Minority interests	2,210	2,191	2,931
Commitments and contingencies			
Shareholders' equity			
Common stock, \$0.0001 par value-10,000,000 shares authorized; 26,637.50, issued; 25,210.35, 25,210.35 and 25,471.35 outstanding		--	--
Additional paid-in capital	16,586	16,586	16,586
Retained earnings	21,489	19,230	20,849
Accumulated other comprehensive income	36	(16)	778
Treasury stock, 1,427.15, 1,427.15 and 1,166.15 shares, at cost	(3,857)	(3,857)	(3,312)
Total shareholders' equity	34,254	31,943	34,901
Total liabilities and shareholders' equity	\$ 261,062	\$ 263,499	\$ 266,428

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,	
	2007	2006
Revenues	\$ 24,954	\$ 25,088
Costs and expenses:		
Cost of revenue, excluding depreciation	9,024	8,468
General and administrative costs at operations	3,670	3,902
Corporate office expenses	979	2,068
Depreciation and amortization	5,573	5,732
Total Expense	<u>19,246</u>	<u>20,170</u>
Operating profit	5,708	4,918
Other income (expense):		
Investment income	1,181	899
Interest expense	(3,831)	(3,532)
Equity in earnings of affiliated companies	1,101	892
Gain on sale of marketable securities	7	1,826
	<u>(1,542)</u>	<u>85</u>
Income before income taxes and minority interests	4,166	5,003
Provision for income taxes	(1,459)	(1,818)
Minority interests	(448)	(372)
Net income	<u>\$ 2,259</u>	<u>\$ 2,813</u>
Basic and diluted weighted average shares outstanding	25,210.35	25,636.60
Basic and diluted earnings per share	\$ 89.61	\$ 109.73

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Shares of Common Stock Out- standing	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2006	25,210.35	\$ 0	\$ 16,586	\$ 19,230	\$ (16)	\$ (3,857)	\$ 31,943
Net income for the period	--	--	--	2,259	--	--	2,259
Unrealized gain on available for sale securities, net	--	--	--	--	57	--	57
Reclass adjustment					(5)		(5)
Comprehensive income							2,311
Purchase of Treasury Stock	--	--	--	--	--	--	--
Balance at March 31, 2007	25,210.35	\$ 0	\$ 16,586	\$ 21,489	\$ 36	\$ (3,857)	\$ 34,254

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,	
	2007	2006
Operating activities:		
Net Income	\$ 2,259	\$ 2,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,573	5,732
Equity in earnings of affiliated companies	(1,101)	(892)
Distributions received from affiliated companies	1,072	22
Gain on sale of marketable securities	(7)	(1,826)
Minority interests	448	372
Changes in operating assets and liabilities:		
Receivables	1,384	85
Accounts payable and accrued liabilities	1,356	673
Other	(83)	(804)
Net cash provided by operating activities	10,901	6,175
Investing activities:		
Capital expenditures	(2,599)	(2,192)
Acquisition of businesses	---	(9,373)
Proceeds from sale of marketable securities	71	2,440
Proceeds from the sale of an affiliate	---	3,392
Other	9	74
Net cash used in investing activities	(2,519)	(5,659)
Financing activities:		
Proceeds from the issuance of long term debt	---	9,356
Repayments of long term debt	(3,734)	(3,509)
Net proceeds (repayment) on lines of credit	(1,505)	(2,511)
Purchase of treasury stock	---	(772)
Distributions to partners	(429)	---
Net cash provided by (used in) financing activities	(5,668)	2,564
Net increase in cash and cash equivalents	2,714	3,080
Cash and cash equivalents at beginning of period	41,445	32,001
Cash and cash equivalents at end of period	\$ 44,159	\$ 35,081
Cash paid for:		
Interest expense	\$ 3,482	\$ 3,449
Income taxes	\$ 493	\$ 450

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: Coronet Communications Company (20% owned at March 31, 2007, December 31, 2006 and March 31, 2006), Capital Communications Company, Inc. (49% owned at March 31, 2007, December 31, 2006 and March 31, 2006; we note, however, that LICT owns a convertible preferred stock which, if converted, would increase its ownership in Capital Communications to 50%), two cellular partnership operations in New Mexico (both 33% owned at March 31, 2007, December 31, 2006 and March 31, 2006), cellular partnership in California (25% owned at March 31, 2007, December 31, 2006 and March 31, 2006) 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, 2006. 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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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. Recently Issued Accounting Pronouncements

No new accounting standards were issued during the quarter which are expected to impact the Company.

C. Acquisitions and Dispositions

On January 11, 2006, the Company acquired the 17% minority interest in Lynch Telephone Corporation from the management of Western New Mexico Telephone Company Inc. To effectuate the transaction, the Company acquired the remaining 63% interest in an entity (KMG) that it had previously acquired a 37% interest in April 2004. KMG’s principal asset consists of a \$6.0 million subordinated note and the 17% equity interest in Lynch Telephone Corporation. The Company issued \$9.4 million of 8.0% five-year subordinated notes to acquire such interest. The allocation of the purchase price includes \$0.2 million to goodwill, which is not expected to be deductible for income tax purposes.

On February 16, 2006, Cal-Ore completed the sale of its 17% interest in a cellular partnership. The sale was anticipated in the purchase price allocation.

D. Investments in Affiliated Companies

LICT has equity investments in both broadcasting and telecommunications companies.

Summarized financial information for broadcasting companies accounted for by the equity method as of and for the three months ended March 31, 2007 and 2006 and as of December 31, 2006, is as follows:

	Broadcasting Combined		
	March 31, 2007	December 31, 2006	March 31, 2006
	<i>(in thousands)</i>		
Current assets	\$ 3,711	\$ 4,370	\$ 3,858
Property, plant & equipment, intangibles & other	8,569	8,617	10,486
Total Assets	\$ 12,280	\$ 12,987	\$ 14,344
Current liabilities	\$ 2,663	\$ 2,899	\$ 2,724
Long term liabilities	15,852	15,825	16,926
Equity	(6,235)	(5,737)	(5,306)
Total liabilities & equity	\$ 12,280	\$ 12,987	\$ 14,344
Revenues	\$ 2,846		\$ 3,035
Gross profit	591		861
Net income	(498)		(266)

A wholly owned subsidiary of the Company has a 20% investment in Coronet Communications Company ("Coronet"), which operates television station WHBF-TV, a CBS affiliate in Rock Island, Illinois. A second wholly owned subsidiary of the Company has a 49% investment in Capital Communications Company, Inc. ("Capital"), which operates television station WOI-TV, an ABC affiliate in Des Moines, Iowa. At March 31, 2007, December 31, 2006 and March 31, 2006, the investment in Coronet was carried at a negative \$0.9 million, \$0.7 million and \$0.6 million, respectively, due to the subsidiary's guarantee of \$3.8 million of Coronet's third party debt. The guarantee is in effect for the duration of the loan which expires on December 31, 2010 and would be payable if the equity investee fails to make such payment in accordance with the terms of the loan. Long-term debt of Coronet, at March 31, 2007, totaled \$9.6 million payable quarterly through December 31, 2010 to a third party lender.

At March 31, 2007, December 31, 2006 and March 31, 2006, the investment in Capital is carried at zero as its share of net losses recognized to date have exceeded its net investment and the Company has no further commitment to Capital. The Company's shares in Capital have been pledged as security for Capital's long term debt.

Summarized financial information for telecommunications companies which includes the cellular telephone providers, spectrum license holders, and other telecommunication operations accounted for by the equity method as of and for the three months ended March 31, 2007 and 2006 and as of December 31, 2006 is as follows (in thousands):

	Telecommunications Combined		
	March 31, 2007	December 31, 2006	March 31, 2006
	<i>(in thousands)</i>		
Current assets	\$ 12,604	\$ 14,781	\$ 17,430
Property, plant & equipment, intangibles & other	45,536	44,891	37,800
Total Assets	\$ 58,140	\$ 59,672	\$ 55,230
Current liabilities	\$ 6,450	\$ 8,678	\$ 8,213
Long term liabilities	9,920	10,144	6,578
Equity	41770	40,850	40,439
Total liabilities & equity	\$ 58,140	\$ 59,672	\$ 55,230
Revenues	\$ 18,979		\$ 16,153
Gross profit	9,160		7,961
Net income	3,911		4,383

LICT owns a one-third interest in two cellular telephone providers in New Mexico: New Mexico RSA 3 and RSA 5. The Company's net investment in these partnerships was \$5.1million, \$5.1million and \$5.6 million at March 31, 2007, December 31, 2006 and March 31, 2006, respectively and included in Investment in and advances to affiliated entities.

LICT owns a 25% partnership interest in a cellular telephone provider in northern California, California RSA #2. The Company's net investment in the partnership was valued at \$2.3 million, \$2.2 million and \$2.0 million as of March 31, 2007, December 31, 2006 and March 31, 2006, respectively and included in Investment in and advances to affiliated entities.

E. Indebtedness

LICT maintains a short-term line of credit facility totaling \$17.5 million through June 30, 2008. Borrowings under this and earlier facilities, were \$15.6 million, \$17.1 million and \$6.2 million at March 31, 2007, December 31, 2006 and March 31, 2006, respectively. In addition, the Company had a margin loan secured by its investments in available-for-sale securities of \$0.6 million at March 31, 2006. Borrowing under both the line of credit facility and the margin loan are included in Notes payable to banks. Long-term debt consists of (all interest rates are at March 31, 2007) (in thousands):

	March 31, 2007	December 31, 2006	March 31, 2006
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%. (5.1% weighted average, secured by assets of the telephone companies with a net book value of \$150 million)	\$ 46,787	\$ 47,869	\$ 50,988
Bank Credit facilities utilized by certain telephone and telephone holding companies due through 2017, \$68.5 million at variable interest rates averaging 8.0% and \$6.9 million at fixed interest rates averaging 8.3%	73,823	76,244	75,442
Unsecured notes issued in connection with acquisitions through 2008, \$37.9 million at fixed interest rates averaging 8.8% and \$9.7 million at variable interest rates averaging \$9.1%	47,566	47,563	48,475
Other	1,920	2,111	1,889
	170,096	173,787	176,794
Current maturities	(26,930)	(27,254)	41,250
	<u>\$ 143,166</u>	<u>\$ 146,533</u>	<u>\$ 135,544</u>

F. Comprehensive Income

Other comprehensive income, net of tax, which consists of unrealized gains (losses) on available for sale securities, as of March 31, 2007, December 31, 2006 and March 31, 2006 are as follows (in thousands):

	Unrealized Gain (Loss)	Tax Effect	Net
	<i>(in thousands)</i>		
Balance at December 31, 2006	\$ (25)	\$ 9	\$ (16)
Unrealized gains on available for sale securities, net	87	(30)	57
Reclassification adjustment	(7)	2	(5)
Balance at March 31, 2007	<u>\$ 55</u>	<u>\$ (19)</u>	<u>\$ 36</u>
Balance at March 31, 2006	<u>\$ 1,186</u>	<u>\$ 408</u>	<u>\$ 778</u>

G. Litigation

LICT is a party to routine litigation incidental to its business. Based on information currently available, the Company believes that none of this ordinary routine litigation, either individually or in the aggregate, will have a material effect on its financial condition and results of operations.

H. Related Party Transactions

At March 31, 2007, December 31, 2006 and March 31, 2006, assets of \$31.5 million, \$31.0 million and \$25.7 million, which are classified as cash and cash equivalents, are invested in United States Treasury money market funds for which affiliates of the Company’s CEO serve as investment managers to the respective funds.

MANAGEMENT'S DISCUSSION OF OPERATIONS – MARCH 31, 2007

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

RESULTS OF OPERATIONS

Overview

LICT has grown primarily through the selective acquisition of rural local exchange carriers (“RLECs”) and by offering additional services such as Internet service, alarm services, long distance service and competitive local exchange carrier (“CLEC”) service. From 1989 through the current reporting period, LICT (and its predecessor corporations) acquired fifteen telephone companies, whose operations range in size from approximately 800 to 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.

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 Internet providers including cable television companies, CLECs, 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. Due to the nature of the Company's regulated telephone operations, revenues and operating expenses are relatively stable period to period.

- 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 IXC's 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 - The Federal-State Joint Board on Universal Service ("Joint Board") and the FCC have been considering several potential changes to USF support mechanisms for the last few years. This includes, but is not limited to, the method of how USF contributions would be collected. The Company participates with the RLEC industry in comments to the FCC regarding the potential impact on customers and RLECs in rural America from changes in USF support mechanisms. Total USF support payments are material to the Company's financial results.
- Intercarrier Compensation and Access Charge Reform - The Company is actively participating in the RLEC industry's efforts to determine how intercarrier compensation and access charges should be modified without causing revenue losses for RLECs.
- Loss of Access Revenues from VoIP and wireless usage - The Company is experiencing revenue losses as usage transfers from landline service provided by the Company's subsidiaries to either VoIP or wireless services. VoIP traffic currently does not pay access charges or contribute to universal service. The FCC has several proceedings underway to determine whether VoIP traffic should pay access charges and contribute to USF. The Company is participating in the RLEC industry efforts to have VoIP traffic contribute for use of the underlying network on which the VoIP call travels. To offset revenue losses from traditional voice services, LICT is installing more broadband services and is exploring how to best incorporate VoIP into its business model.
- Intrastate revenue at our Michigan telephone company has been adversely affected by a state requirement to expand the local calling area. The Company filed and received approval in 2005 from the state commission to recover a portion of the revenue deficiency resulting from this change.

First quarter ended March 31, 2007 compared to 2006

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

	<u>Three months ended March 31,</u>		<u>Increase (Decrease)</u>
	<u>2007</u>	<u>2006</u>	
	(Unaudited)		
Revenues:			
Local access	\$ 3,172	\$ 3,208	\$ (36)
Interstate access	11,785	11,590	195
Intrastate access	3,709	3,504	205
Other business	<u>6,288</u>	<u>6,785</u>	<u>(498)</u>
Total	<u>24,954</u>	<u>25,088</u>	<u>(134)</u>
Operating Cost and Expense:			
Cost of revenue, excluding depreciation	9,024	8,468	556
General and administrative costs at operations	3,670	3,902	(232)
Corporate office expenses	979	2,068	(1,089)
Depreciation and amortization	<u>5,573</u>	<u>5,732</u>	<u>(159)</u>
Total	<u>19,246</u>	<u>20,170</u>	<u>(924)</u>
Operating profit	<u>\$ 5,708</u>	<u>\$ 4,918</u>	<u>\$ 790</u>

Total revenues in 2007 decreased \$0.1 million, or 0.5%, to \$25.0 million compared to \$25.1 million in 2006. Local access revenue was relatively unchanged resulting from a 3.7% 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 increased \$0.2 million in 2007 primarily due to favorable NECA settlements at several of our operating telephone companies. Intrastate network access revenue increased \$0.2 million due to a new state USF program in New Mexico, somewhat offset by a reduction of minutes of use at several of our companies. Other business revenues decreased \$0.5 million due to the inclusion in the 2006 period of a \$1.0 million fee for providing services to a third party in an auction for spectrum in 1997, offset by increased internet and cable TV revenues in Utah, as well as increased DSL penetration in 2007. The 2006 service provider fee was contingent and became payable in January 2006 based on the sale of such licenses.

Total costs and expenses decreased by \$0.9 million to \$19.2 million in 2007. Costs of revenue increased \$0.6 million, or 6.6%, primarily due to a reduction in capitalized labor at several of the telephone companies resulting from inclement weather and delayed startup of capital projects. Increased costs of revenue also resulted from the growing internet and cable television operations. General and administrative costs incurred at the operations decreased \$0.2 million. Corporate office expenses decreased \$1.1 million due to \$1.2 million of litigation cost in the first quarter of 2006. Depreciation and amortization decreased by \$0.2 million.

As a result of the above, operating profit in 2006 increased by \$0.8 million to \$5.7 million compared to 2006.

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.

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

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

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

- The amount of interest expense we incur is significant and reduces the amount of funds otherwise available to use in our business and, therefore, is important for investors to consider. However, management does not consider the amount of interest expense when evaluating our core operating performance.
- Investment income is considered to be similar to interest expense. Although it is important for investors to consider, management does not consider the amount of investment income when evaluating our core operating performance.
- Management does not consider income tax expense when considering the profitability of our core operations. Nevertheless, the amount of taxes we are required to pay reduces the amount of funds otherwise available for use in our business and thus may be useful for an investor to consider.
- Depreciation and amortization are important for investors to consider, even though they are non-cash charges, because they represent generally the wear and tear on our property, plant and equipment, which produce our revenue. We do not believe these charges are indicative of our core operating performance.
- Income from equity investments relates to our proportionate share of income or loss from the entities in which we hold minority interests. We do not control these entities and, as such, do not believe the income we receive from such entities is indicative of our core operating performance.
- Minority interest in (income) loss of subsidiaries relates to our minority investors' proportionate share of income or losses in our non-wholly owned subsidiaries, which generated non-cash charges to our operating results. Operating results attributable to these minority investors' investments do not necessarily result in any actual benefit or detriment to us and, therefore, we believe it would be more helpful for an investor to exclude such items as being more reflective of our core operating performance.

- Gain or losses on the disposition of assets or impairment of investments may increase or decrease the cash available to us and thus may be important for an investor to consider. We are not in the business of acquiring or disposing of assets and, therefore, the effect of the dispositions of assets may not be comparable from year-to-year. We believe such gains or losses recorded on the disposition of an asset do not reflect the core operating performance of our business.

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

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

	Three months ended March 31,		Increase (Decrease)
	2007	2006	
Adjusted operating profit from:			
Operating units	\$ 12,260	\$ 12,718	\$ (458)
Corporate expense:			
Litigation cost	--	(1,153)	1,153
Other	(979)	(915)	(64)
Total corporate expenses	(979)	(2,068)	1,089
Adjusted operating profit	<u>\$ 11,281</u>	<u>\$ 10,650</u>	<u>\$ 631</u>
Reconciliation to net income:			
Adjusted operating profit	\$ 11,281	\$ 10,650	\$ 631
Depreciation and amortization	(5,573)	(5,732)	159
Investment income	1,180	899	281
Interest expense	(3,831)	(3,532)	(299)
Equity in income of affiliates	1,101	892	209
Gain on sale of marketable securities	8	1,826	(1,818)
Income tax	(1,459)	(1,818)	359
Minority interests	(448)	(372)	(76)
Net income	<u>\$ 2,259</u>	<u>\$ 2,813</u>	<u>\$ (554)</u>

Other Income (Expense)

In 2006, investment income increased by \$0.3 million primarily due to higher cash balances.

Interest expense increased by \$0.3 million in 2007 due primarily to higher borrowings on the Corporate line of credit, additional long term borrowings, higher interest rates on variable rate borrowings, and partly offset by scheduled debt repayments.

Equity in earnings of affiliates in 2006 increased by \$0.2 million due to higher earnings at the Company's New Mexico cellular investments (RSA 3 and 5).

In the 2006 period, the Company sold 85,000 shares of the common stock of Hector Communications for \$2.4 million, resulting in a pre-tax gain of approximately \$1.8 million.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2006 and 2005, represent effective tax rates of 39.1% and 39.2%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes, including the effect of earnings attributable to different state jurisdictions.

Minority Interests

Minority interests decreased earnings by \$.5 million in both 2007 and 2006 reflecting high earnings from the Company's New Mexico cellular investments in both years.

Net Income

Net income in the first quarter of 2007, was \$2.3 million, or \$89.61 per share (basic and diluted), compared to a net income last year of \$2.8 million, or \$102.68 per share (basic and diluted). The Company has no dilutive instruments outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

In July 2006, in order to finance the agreement to reimburse the federal government in the "qui tam" litigation, see Note 12, the Company's short term line of credit facility was increased from \$10 million to \$30 million. The expansion of the line was supported by a letter of credit by the Company's Chairman of the Board, at no fee to LICT. In September 2006, in conjunction with the refinancing of certain subsidiaries, such line was reduced from \$30 million to \$20 million. The entire line, as well as the letter of credit from LICT's Chairman, expired on December 15, 2006 and was replaced by a \$17.5 million line of credit facility, which had \$1.9 million available as of March 31, 2007. Such line was scheduled to be reduced to \$15 million on June 30, 2007 and expire December 31, 2007. In April 2007, LICT reached an agreement with the lender to extend the maturity date of the credit facility, at the \$17.5 million level, until June 30, 2008.

At March 31, 2007, the Company has a \$7.7 million working capital deficiency primarily due to the amounts included in Notes payable to banks and a \$12 million Term Loan, held by a subsidiary, which comes due on June 30, 2007. Such subsidiary has the financial resources but does not currently have the liquidity to satisfy this loan, which is secured by the subsidiary's assets, but not guaranteed by the Parent Company. Management is currently working with the lender on several alternatives to satisfy this debt and is confident that it will be able to repay or refinance this loan on terms that are acceptable to the lender, but there is no assurance that will be accomplished.

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

The Company's RLECs and other businesses need cash to fund their current operations, as well as future long-term growth initiatives. Each RLEC and other business finances its cash needs with cash generated from operations, by utilizing existing borrowing capacity or by entering into new long-term debt

agreements. New business acquisitions are generally financed with a combination of new long-term debt, secured by the acquired assets, and cash from LICT. While management expects that both LICT and the operating subsidiaries will be able to obtain adequate financing resources to enable the Company to meet its obligations, there cannot be complete assurance that such can be obtained readily or at reasonable costs.

The Company is obligated under long-term debt provisions and lease agreements to make certain cash payments over the term of the agreements. The following table summarizes, as of December 31, 2006 for the periods shown, these contractual obligations and certain other financing commitments from banks and other financial institutions that provide liquidity:

	Payments Due by Period (In thousands)				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term debt (a)	\$ 170,096	\$ 26,930	\$ 34,538	\$ 47,568	\$ 61,060
Operating leases	1,924	416	668	452	388
Notes payable to banks	18,700	18,700	--	--	--
Guarantees	3,750	--	--	3,750	--
Total contractual cash obligations and commitments	\$ 194,490	\$ 46,046	\$ 35,206	\$ 51,770	\$ 61,447

(a) Does not include interest payments on debt.

A subsidiary of the Company has guaranteed \$3.8 million of an equity investee's total debt of \$9.6 million. The guarantee is in effect for the duration of the loan which expires on December 31, 2010 and would be payable if the equity investee fails to make such payment in accordance with the terms of the loan.

At December 31, 2006, total debt (including notes payable to banks) was \$173.8 million, a decrease of \$3.7 million from December 31, 2005. At December 31, 2006, there was \$89.5 million of fixed interest rate debt outstanding, averaging 6.9%, and \$84.3 million of variable interest rate debt, averaging 8.2%. The debt at fixed interest rates includes \$37.8 million of subordinated notes at interest rates averaging 9.0% issued to sellers as part of acquisitions. The long-term debt facilities at certain subsidiaries are secured by substantially all of such subsidiaries' assets, while at other subsidiaries it is secured by the common stock of such subsidiaries. In addition, the debt facilities contain certain covenants restricting distribution to LICT. At December 31, 2005 and 2006, substantially all of the subsidiaries' net assets were restricted.

LICT has a high degree of financial leverage. As of December 31, 2006, the ratio of total debt to equity was 6.0 to 1. Certain subsidiaries also have high debt to equity ratios.

As of December 31, 2006, LICT had current assets of \$56.3 million and current liabilities of \$76.3 million resulting in a working capital deficit of \$20.1 million compared to a deficit of \$27.3 million at December 31, 2005.

Sources and Uses of Cash

Cash at March 31, 2007, was \$44.2 million, an increase of \$2.7 million compared to December 31, 2006. In the first quarter of 2007, net cash provided by operations of \$10.9 million was used to invest in plant and equipment and repay debt.

Capital expenditures were \$2.6 million in the first quarter of 2007 compared to \$2.2 million in the 2006 period, which is predominantly spent at the RLECs and will be included in their rate bases for rate setting purposes. Capital expenditures in 2007 are expected to be approximately \$18 million, most of which will be added to the RLEC rate bases.

The Company has initiated an effort to monetize certain of its assets, including selling a portion or all of its investment in certain of its operating entities and equity investments. These initiatives may include the sale of certain telephone operations where growth opportunities are not readily apparent. There is no assurance that all or any part of this program can be effectuated on acceptable terms.

The Company's Board of Directors has authorized the purchase of up to 3,000 shares of the Company's common stock. Through March 31, 2007, 1,427 shares had been purchased at an average investment of \$2,702 per share.

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