

MANAGEMENT'S DISCUSSION OF OPERATIONS - 2006

This discussion should be read in conjunction with the Consolidated Financial Statements of LICT 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 IXCs who contract with LICT for billing services, the Company provides billing services and receives an administrative handling fee.

The following are material opportunities, challenges and risks that LICT’s executives are currently focused on, as well as actions that are being taken to address the concerns:

- Universal Service Reform - 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.

Settlement of Litigation

In July 2006, the Company along with the other defendants, reached a settlement with the United States Government and the “relator” regarding litigation described in Note 12 to the Consolidated Financial Statements and the Liquidity section below.

Year 2006 compared to 2005

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

	2006	2005	Increase (Decrease)
	(Unaudited)		
Revenues:			
Local access	\$ 13,133	\$ 12,115	\$ 1,018
Interstate access	45,838	43,741	2,097
Intrastate access	14,986	14,638	348
Other business	24,821	23,171	1,650
Total	98,778	93,665	5,113
Operating Cost and Expense:			
Cost of revenue, excluding depreciation	35,576	34,266	1,310
General and administrative costs at operations	15,139	14,668	471
Corporate office expenses	3,776	4,078	(302)
Litigation and settlement costs	27,849	3,780	24,069
Depreciation and amortization	21,895	3,780	92
Gain on sale of burglar alarm customers	-	(1,063)	1,063
Total	104,235	77,532	26,703
Operating profit (loss)	\$ (5,457)	\$ 16,133	\$ (21,590)

Total revenues in 2006 increased \$5.1 million, or 5.5%, to \$98.8 million compared to \$93.7 million in 2005. The inclusion of Cal-Ore for a full year in 2006 compared to four months in 2005 added \$4.7 million to revenue, including \$0.5 million local access, \$2.5 million interstate access, \$1.3 million intrastate access and \$0.4 million other business. The following explanations do not include the contributions to revenue from Cal-Ore. Local access revenue increased \$0.5 million resulting from a rate increase in Michigan and the sale of additional services and features offset by a decrease in access lines (December 31, 2006 compared to 2005 down 3.7%) . The decrease in access lines is due to the increase in cell phone usage, reduction in second lines as customers switch from dial-up Internet service to DSL and, in certain of our territories, competition from cable companies. Interstate access revenue decreased \$0.4 million in 2006 primarily due to an additional \$1.0 million of positive NECA settlements recognized in 2005. Somewhat offsetting, infrastructure development undertaken in 2002 and 2003 entitled the Company to increased network access primarily at the Haviland Telephone Company in Kansas. Intrastate network access revenue decreased \$1.0 million due to a loss of toll revenue for dial-up access to the internet at our Michigan telephone company, the gradual phase-out of a New York pool for small carriers, and a reduction of minutes of use at several of our companies. Other business revenues increased \$1.2 million primarily due to the recognition of \$1.0 million as a fee for providing services to a third party in an auction for spectrum in 1997. The fee was contingent and became payable in January 2006 based on the sale of such licenses. In addition, increased revenues from a March 2005 acquisition of cable television assets, as well as increased DSL penetration was offset by the reduction in alarm revenue due to the sale of alarm customers in 2005.

Total costs and expenses increased by \$26.7 million to \$104.2 million in 2006 primarily due to the litigation and settlement costs of \$27.8 million in 2006 compared to \$3.8 million of litigation costs in 2005 (see Note 12 to the Consolidated Financial Statements and the Liquidity section below). The inclusion of Cal-Ore in 2006 added \$3.0 million to cost, including \$1.2 million in cost of revenue, \$0.9 million of general and administrative costs and \$0.9 million of depreciation and amortization. The following explanations do not include the contributions to expense from Cal-Ore. Costs of revenue increased \$0.1 million, primarily due to costs generated by growth in the cable television operations that were acquired in March 2005. General and administrative costs incurred at the operations decreased \$0.4 million due to cost reductions at certain of our operations offset by recoveries in 2005 of \$0.3 million from the MCI bankruptcy. Corporate office expenses decreased \$0.3 million. Depreciation and amortization decreased \$0.9 million including \$0.3 million of goodwill amortization in 2005 resulting from the annual impairment testing.

As a result of the above, and a \$1.1 million gain on the sale of burglar alarm customers recognized in 2005, operating profit in 2006 decreased by \$21.6 million to an operating loss of \$5.5 million.

Adjusted operating profit

Adjusted operating profit is used by our management as a supplemental financial measure to evaluate the operating performance of our business that, when viewed with our GAAP results and the accompanying reconciliations, we believe provides a more complete understanding of factors and trends affecting our business than the GAAP results alone. We also regularly communicate our adjusted operating profit to the public through our earnings releases because it is the financial measure commonly used by analysts that cover the telecommunications industry and our investor base to evaluate our operating performance. In addition, we routinely use adjusted operating profit as a metric for valuing potential acquisitions. We understand that analysts and investors regularly rely on non-GAAP financial measures, such as adjusted operating profit, to provide a financial measure by which to compare a company's assessment of its operating performance against that of other companies in the same industry. This non-GAAP financial measure is helpful in more clearly reflecting the sales of our products and services, as well as highlighting trends in our core business that may not otherwise be apparent when relying solely on GAAP financial measures, because this non-GAAP financial measure eliminates from earnings financial items that have less bearing on our performance.

LICT's management believes strongly in growing intrinsic value as a long-term prescription for managing an enterprise's 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.
- Gains 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:

	2006	2005	Increase (Decrease)
Adjusted operating profit from:			
Operating units	\$ 48,063	\$ 45,794	\$ 2,269
Corporate expense:			
Litigation and settlement costs	27,849	3,780	24,069
Other	3,776	4,078	(302)
Total corporate expenses	31,625	7,858	23,767
Adjusted operating profit	\$ 16,438	\$ 37,936	\$ (21,498)

Reconciliation to net income:

Adjusted operating profit	\$ 16,438	\$ 37,936	\$ 21,498
Depreciation and amortization	(21,895)	(21,803)	92
Investment income	2,500	1,700	800
Interest expense	(15,473)	(12,472)	(3,001)
Equity in income of affiliates	3,970	3,613	357
Gain on sale of investments	12,802	480	12,322
Income taxes (provision) benefit	4,381	(2,827)	7,208
Minority interests	(1,529)	(2,326)	797
Net income	\$ 1,194	\$ 4,301	\$ (3,107)

Other Income (Expense)

In 2006, investment income increased by \$0.8 million primarily due to higher cash balances and higher interest rates.

Interest expense increased by \$3.0 million in 2006 compared to 2005 due primarily to the debt issued in conjunction with the Cal-Ore acquisition, higher borrowings on the Corporate line of credit, higher interest rates on variable rate borrowings, and was partly offset by scheduled debt repayments.

Equity in earnings of affiliates in 2006 increased by \$0.4 million due to higher earnings at the Company's New Mexico cellular investments (RSA 3 and 5).

In 2006, the Company recognized a gain of \$9.4 million, included in gain on sale of investments in the Consolidated Statements of Operations, from the dissolution of the Rural Telephone Bank ("RTB"). Some portion of the gain may be subject to review by regulatory authorities who may require us to record a portion thereof as a regulatory liability.

In the 2006 and 2005 periods, the Company sold its holdings of the common stock of Hector Communications for \$4.5 million and \$0.7 million, respectively, resulting in pre-tax gains of approximately \$3.4 million and \$0.5 million, respectively. Such gains are included in gain on sale of investments in the Consolidated Statements of Operations.

Income Tax Provision

The income tax provision includes federal, as well as state and local, taxes. The tax provisions for 2006 and 2005 represent effective tax rates of 139% and 34.8%, respectively. The difference between these effective rates and the federal statutory rate is due to state income taxes: the non-deductibility of the litigation and settlement costs for state tax purposes and the effect of earnings attributable to different state jurisdictions. In addition, in 2006 LICT reversed certain tax reserves that were no longer required.

Minority Interests

Minority interests decreased earnings by \$1.5 million in 2006, as compared to \$2.3 million in 2005. The change was due to the elimination of the minority interest at two of our operations, somewhat offset by higher earnings from the Company's New Mexico cellular investments.

Net Income (Loss)

Net income in 2006 was \$1.2 million, or \$47.05 per share (basic and diluted), compared to a net income last year of \$4.3 million, or \$156.99 per share (basic and diluted). The Company has no dilutive instruments outstanding.

Year 2005 compared to 2004

The following is a breakdown of revenues and operating costs and expenses for 2005 and 2004:

	2005	2004	Increase (Decrease)
	(Unaudited)		
Revenues:			
Local access	\$ 12,115	\$ 11,851	\$ 264
Interstate access	43,741	39,644	4,097
Intrastate access	14,638	15,263	(625)
Other business	23,171	21,036	2,135
Total	<u>93,665</u>	<u>87,794</u>	<u>5,871</u>
Operating Cost and Expense:			
Cost of revenue, excluding depreciation	34,266	29,992	4,273
General and administrative costs at operations	14,668	13,800	868
Corporate office expenses	7,858	6,401	1,457
Depreciation and amortization	21,803	21,870	(67)
Gain or sale of burglar alarm customers	(1,063)	-	(1,063)
Total	<u>77,532</u>	<u>72,063</u>	<u>5,468</u>
Operating profit	<u>\$ 16,133</u>	<u>\$ 15,731</u>	<u>\$ 403</u>

Total revenues in 2005 increased \$5.9 million, or 6.7%, to \$93.7 million compared to \$87.8 million in 2004. The inclusion of Cal-Ore since August 29, 2005 added \$2.7 million to revenue as shown in the above table. The following explanations do not include the contributions to revenue from Cal-Ore. Local access revenue was relatively unchanged resulting from a 0.7% 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 \$2.6 million in 2005 primarily due to a temporary increase in customer traffic in Utah. In addition, infrastructure development undertaken in 2002 and 2003 at the Haviland Telephone Company in Kansas entitled the Company to increased network access and USF support. The effects of 2005 infrastructure development at our Michigan telephone company also resulted in increased network access revenue. Intrastate network access revenue decreased \$1.1 million due to a loss of toll revenue for dial-up access to the Internet at our Michigan telephone company, the gradual phase-out of a New York pool for small carriers, and a reduction of minutes of use at several of our companies. Other business revenues increased \$1.6 million due to revenues from an acquisition of cable television assets that was completed in March 2005, as well as increased DSL penetration. In addition, other business revenue in the 2004 period included \$0.3 million due to the sale of telecommunications equipment to an Iowa school district.

Total costs and expenses increased by \$5.5 million to \$77.5 million in 2005. The inclusion of Cal-Ore since August 29, 2005 added \$1.9 million to cost as shown in the above table. The following explanations do not include the additional expense from Cal-Ore. Costs of revenue increased \$3.6 million, or 11.9%, due to costs generated by the cable television operations acquired in March 2005, additional operating costs related to the infrastructure development in Haviland and the 2005 spending in Michigan. In addition, it was affected by the absence of costs incurred in 2004 relating to the sale of equipment to the Iowa school district. General and administrative costs incurred at the operations increased \$0.3 million primarily due to increased costs relating to the Haviland infrastructure development, increased professional fees associated with the rate filing for the expanded local calling area in Michigan and increased audit fees. Corporate office expenses increased \$1.5 million primarily resulting from \$3.8 million of legal costs incurred defending litigation (see Note 12 to the Consolidated Financial Statements and the Liquidity section below)

in 2005 compared to \$3.3 million in 2004. In addition, the Company incurred legal and consulting costs in conjunction with a shareholder proposal to deregister as a public company. Depreciation and amortization decreased \$0.7 million including an increase of \$0.1 million in depreciation and a decrease of \$0.8 million of amortization expense. The decrease in amortization resulted from the Company's 2004 annual test of goodwill and other indefinite life intangible assets for impairment in accordance with SFAS No.142. LICT recorded a \$0.7 million impairment of its investments in certain 10MHz PCS licenses in Las Cruces, NM and Logan, UT. Such impairment was based on a February 2005 FCC auction of similar spectrum in which the MHz price per unit of population was materially lower than the price LICT previously paid for such spectrum. In addition, in 2004, \$0.5 million of goodwill was considered to be impaired and was written off in amortization expense compared to a write-off of \$0.3 million from the 2005 SFAS 142 test. In July 2005, the Company sold 62% of its burglar alarm customers resulting in a gain of \$1.1 million.

As a result of the above, operating profit in 2005 increased by \$0.4 million to \$16.1 million compared to 2004.

Adjusted operating profit

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

	2005	2004	Increase (Decrease)
Adjusted operating profit from:			
Operating units	\$ 45,794	\$ 44,002	\$ 1,792
Corporate expense:			
False Claims Act litigation	(3,780)	(3,250)	(530)
Other	(4,078)	(3,151)	(927)
Total corporate expenses	(7,858)	(6,401)	(1,457)
Adjusted operating profit	<u>\$ 37,936</u>	<u>\$ 37,601</u>	<u>\$ 335</u>
Reconciliation to net income:			
Adjusted operating profit	\$ 37,936	\$ 37,601	\$ 335
Depreciation and amortization	(21,803)	(21,870)	67
Investment income	2,180	1,474	706
Interest expense	(12,472)	(11,204)	(1,268)
Equity in income of affiliates	3,613	3,564	49
Income tax	(2,827)	(3,078)	251
Minority interests	(2,326)	(2,021)	(305)
Net income	<u>\$ 4,301</u>	<u>\$ 4,466</u>	<u>\$ (165)</u>

Other Income (Expense)

In 2005, investment income increased by \$0.7 million primarily due to an increase in CoBank patronage refunds and a \$0.1 million one time dividend from Iowa Network Services. Included in 2004 is a gain from the sale of an investment.

Interest expense increased by \$1.3 million in 2005 compared to 2004 due primarily to the debt issued in conjunction with the Cal-Ore acquisition, higher borrowings on the Corporate line of credit, higher interest rates on variable rate borrowings, and was partly offset by scheduled debt repayments.

Equity in earnings of affiliates in 2005 increased slightly due to consistently high earnings at the Company's New Mexico cellular investments (RSA 3 and 5).

Income Tax Provision

The income tax provision includes federal, as well as state and local, taxes. The tax provisions for 2005 and 2004, represent effective tax rates of 34.8% and 36.8%, 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. In addition, in both December 2005 and 2004 LICT reversed certain tax reserves that were no longer required.

Minority Interests

Minority interests decreased earnings by \$2.3 million in 2005, as compared to \$2.0 million in 2004. The change was due to higher earnings from the Company's New Mexico cellular investments.

Net Income

Net income in 2005, was \$4.3 million, or \$156.99 per share (basic and diluted), compared to net income in 2004 of \$4.5 million, or \$161.26 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 \$0.4 million available as of December 31, 2006. 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 December 31, 2006, the Company has a \$10.0 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)	\$ 173,787	\$ 39,359	\$ 36,440	\$ 48,560	\$ 49,428
Operating leases	1,924	416	668	452	388
Notes payable to banks	20,205	20,205	--	--	--
Guarantees	3,750	--	--	3,750	--
Total contractual cash obligations and commitments	\$ 199,666	\$ 59,980	\$ 37,108	\$ 52,762	\$ 49,816

(a) Does not include interest payments on debt.

A subsidiary of the Company has guaranteed \$3.8 million of an equity investees' 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 December 31, 2006, was \$41.4 million, an increase of \$9.4 million compared to 2005, primarily due to proceeds from the RTB dissolution. In 2006, net cash provided by operations of \$29.3 million, excluding the \$25 million litigation settlement, was used to invest in plant and equipment, to invest in cable assets and repay debt. In 2005, net cash provided by operations of \$27.7 million was primarily used to invest in plant and equipment and to repay debt. The acquisition of Cal-Ore was financed with additional

borrowings. In 2004, net cash provided by operations of \$28.6 million, and \$7.6 million proceeds from the sale of LICT's investment in Sunshine PCS, were used to invest in plant and equipment and repay debt.

Capital expenditures were \$13.1 million in 2006, \$10.2 million in 2005 and \$16.5 million in 2004 which are 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 December 31, 2006, 1,427 shares had been purchased at an average investment of \$2,702 per share including 617 shares purchased in 2006 at an average investment of \$2,135 per share.

In the second quarter of 2006, the Rural Telephone Bank ("RTB") was dissolved based on the process and terms established in the Budget for fiscal year 2006 for the United States of America. Accordingly, the holders of its Class B and Class C stock were paid the par value of their stock, which totaled \$13.7 million for LICT's subsidiaries, resulting in a pre-tax gain of \$9.4 million. The Company's New York subsidiary deferred \$1.9 million of intrastate gain in accordance with a March 2006 New York State commission ruling. Management believes that, except for its New York subsidiary, amounts received upon the dissolution of the RTB will not need to be refunded to ratepayers. However, public service commissions in several states, where we do not have operations, have been reviewing the proper disposition of such RTB proceeds, but have reached no final conclusions. Therefore, some portion of the recorded gain, while not estimable at this time, may be subject to review by other regulatory authorities who may require us to record a portion thereof as a regulatory liability.

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