

LYNCH INTERACTIVE CORP  
Form SC 13E3/A  
July 29, 2005  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

**SCHEDULE 13E-3**

(RULE 13e-100)

TRANSACTION STATEMENT UNDER SECTION 13(e) OF THE SECURITIES

EXCHANGE ACT OF 1934 AND RULE 13e-3 THEREUNDER

RULE 13e-3 TRANSACTION STATEMENT UNDER

SECTION 13(e) OF THE SECURITIES EXCHANGE ACT OF 1934

**LYNCH INTERACTIVE CORPORATION**

(Name of Issuer)

**LYNCH INTERACTIVE CORPORATION**

(Name of Person(s) Filing Statement)

**COMMON STOCK, PAR VALUE \$.0001 PER SHARE**

(Title of Class of Securities)

**551146103**

(CUSIP Number of Class of Securities)

**John A. Cole**

**Lynch Interactive Corporation**

**401 Theodore Fremd Avenue**

**Rye, New York 10580**

**(914) 921-8821**

Edgar Filing: LYNCH INTERACTIVE CORP - Form SC 13E3/A

(Name, Address and Telephone Number of Person Authorized to Receive

Notices and Communications on Behalf of Person(s) Filing Statement)

**Copy To:**

**David J. Adler, Esq.**

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This statement is filed in connection with (check the appropriate box):

- a.  The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14C, or Rule 13e-3(c) under the Securities Exchange Act of 1934.
- b.  The filing of a registration statement under the Securities Act of 1933.
- c.  A tender offer.
- d.  None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies.

Check the following box if the filing fee is a final amendment reporting the results of the transaction:

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**CALCULATION OF FILING FEE**

**TRANSACTION VALUATION(1)**

**AMOUNT OF FILING FEE**

**\$352,000**

**\$70.40**

(1) Calculated solely for purposes of determining the filing fee. This amount assumes the acquisition of approximately 11,000 shares of Common Stock for \$32.00 per share in cash in lieu of issuing fractional shares to holders of less than one share after the proposed reverse stock split.

x Check Box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount previously paid: \$70.40  
Form or Registration No.: Schedule 13E-3

Filing Party: Lynch Interactive Corporation  
Date Filed: April 18, 2005

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**INTRODUCTION**

This Rule 13e-3 Transaction Statement is being filed concurrently with the filing of a preliminary statement pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, which we refer to herein as the Proxy Statement. The information contained in the Proxy Statement, including all annexes thereto, is hereby expressly incorporated herein by reference. As of the date of this Schedule 13E-3, the Proxy Statement is in preliminary form and is subject to completion or amendment. Capitalized terms used but not defined in this Schedule 13E-3 shall have the meanings given to them in the Proxy Statement.

**ITEM 1. SUMMARY TERM SHEET.**

The information set forth in the Proxy Statement under the caption Summary Term Sheet is incorporated herein by reference.

**ITEM 2. SUBJECT COMPANY INFORMATION.**

(a) *Name and Address.* The name of the subject company is Lynch Interactive Corporation, a Delaware corporation (the Company). The Company's principal executive offices are located at 401 Theodore Fremd Avenue, Rye, New York 10580. The Company's telephone number is (914) 921-8821.

(b) *Securities.* The subject class of equity securities to which this Schedule relates is the Company's common stock, par value \$0.0001 per share (the Common Stock), of which 2,752,251 shares were issued and outstanding as of July 25, 2005.

(c) *Trading Market and Price.* The information set forth in the Proxy Statement under the caption Market Related Information Market for Common Stock is incorporated herein by reference.

(d) *Dividends.* The information set forth in the Proxy Statement under the caption Market Related Information Dividend Policy is incorporated herein by reference.

(e) *Prior Public Offerings.* The Company has not made an underwritten public offering of the Common Stock for cash during the three years preceding the date of the filing of this Schedule 13E-3.

(f) *Prior Stock Purchases.* During the two years preceding the date of the filing of this Schedule 13E-3 the Company purchased 38,400 shares in the open Market in accordance with a board authorized stock repurchase plan. The prices paid for the shares during this period ranged from \$20.10 to \$35.03. The average purchase price paid during each of quarter during this period was as follows:

<u>Period</u>	<u>Average Price of Stock Purchases</u>
1/1/05 to 3/31/05	\$31.53
10/1/04 to 12/31/04	\$32.07
7/1/04 to 9/30/04	\$32.53
4/1/04 to 6/30/04	\$33.97
1/1/04 to 3/31/04	\$26.11
10/1/03 to 12/31/03	\$22.27
7/1/03 to 9/30/03	\$25.67
4/1/03 to 6/30/03	\$21.65

**ITEM 3. IDENTITY AND BACKGROUND OF FILING PERSON.**

(a) *Name and Address.* The filing person, the Company, is also the subject company. The Company's address and telephone number are provided in Item 2(a) above. The executive officers and directors of the Company are set forth below. The address of each executive officer and director is c/o Lynch Interactive Corporation, 401 Theodore Fremd Avenue, Rye, New York 10580 and the telephone number is (914) 921-8821.

**Executive Officers**

Mario J. Gabelli, Chairman and Chief Executive Officer

Robert E. Dolan, Chief Financial Officer

Evelyn C. Jerden, Senior Vice President - Operations

John A. Cole, Vice President, Corporate Development, General Counsel and Secretary

**Directors**

Morris Berkowitz

Paul J. Evanson

John C. Ferrara

Mario J. Gabelli

Daniel R. Lee

Lawrence R. Moats

Salvatore Muoio

(b) *Business and Background of Entities.* Not applicable.

(c) *Business and Background of Natural Persons.* The information set forth in Item 3(a) above and in the Proxy Statement under Proposal No. 3 - Election of Directors is incorporated herein by reference. All of the Company's directors and executive officers are United States citizens. During the last five years and to the Company's knowledge, none of the Company's directors or executive officers has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors), or has been a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) as a result of which any such person was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, federal or state securities laws or a finding of any violation of those laws.

**ITEM 4. TERMS OF THE TRANSACTION.**

(a) *Material Terms.* The information set forth in the Proxy Statement under Summary Term Sheet, Proposal No. 1 - Amendment to Restated Certificate of Incorporation To Effect a Reverse Stock Split, Special Factors and Other Matters is incorporated herein by reference.

(c) *Different Terms.* The information set forth in the Proxy Statement under Summary Term Sheet and Special Factors Structure of Proposal is incorporated herein by reference.

(d) *Appraisal Rights*. The information set forth in the Proxy Statement under "Other Matters - Appraisal and Dissenters' Rights" is incorporated herein by reference.

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(e) *Provisions for Unaffiliated Security Holders.* The Company has not made any provision in connection with the transaction to grant unaffiliated security holders access to the Company's corporate files or to obtain counsel or appraisal services at the Company's expense.

(f) *Eligibility for Listing or Trading.* The information set forth in the Proxy Statement under Summary Term Sheet and Special Factors Structure of Proposal Effects on Lynch Interactive is incorporated herein by reference.

**ITEM 5. PAST CONTACTS, TRANSACTIONS, NEGOTIATIONS AND AGREEMENTS.**

(a) *Transactions.* The information set forth in the Proxy Statement under Transactions with Certain Affiliated Persons is incorporated herein by reference.

(b) *Significant Corporate Events.* Not applicable.

(c) *Negotiations or Contacts.* Not applicable.

(e) *Agreements Involving the Subject Company's Securities.* The information set forth in the Proxy Statement under Security Ownership of Certain Beneficial Owners and Management is incorporated herein by reference.

**ITEM 6. PURPOSES OF THE TRANSACTION AND PLANS OR PROPOSALS.**

(b) *Use of Securities Acquired.* The information set forth in the Proxy Statement under Summary Term Sheet and Special Factors Structure of the Proposal is incorporated herein by reference.

(c) *Plans.*

(1) None.

(2) None

(3) The information set forth in the Proxy Statement under Summary Term Sheet and Special Factors Structure of the Proposal is incorporated herein by reference.

(4) None.

(5) None.

(6)-(8) The information set forth in the Proxy Statement under Summary Term Sheet, Special Factors Background of the Proposal, Special Factors Purpose of Proposal, Special Factors Structure of the Proposal, Special Factors Advantages of the Proposal and Special Factors Disadvantages of the Proposal is incorporated herein by reference.

**ITEM 7. PURPOSES, ALTERNATIVES, REASONS AND EFFECTS.**

(a) *Purposes.* The information set forth in the Proxy Statement under Special Factors Purpose of the Proposal is incorporated herein by reference.

(b) *Alternatives.* The information set forth in the Proxy Statement under Special Factors Alternative Transactions Considered is incorporated herein by reference.

(c) *Reasons.* The information set forth in the Proxy Statement under Summary Term Sheet, Special Factors Purpose of the Proposal and Special Factors Advantages of the Proposal is incorporated herein by reference.





(d) *Effects*. The information set forth in the Proxy Statement under Summary Term Sheet, Proposal No. 1 Amended Restated Certificate of Incorporation to Effect Reverse Stock Split, Special Factors Purpose of the Proposal, Special Factors Structure of the Proposal and Other Matters Federal Income Tax Consequences, is incorporated herein by reference.

**ITEM 8. FAIRNESS OF THE TRANSACTION.**

(a) *Fairness* and (b) *Factors Considered in Determining Fairness*. The information set forth in the Proxy Statement under Summary Term Sheet, Special Factors Opinion of Financial Advisor, and Special Factors Fairness of the Reverse Stock Split is incorporated herein by reference.

(c) *Approval of Security Holders*, (d) *Unaffiliated Representatives* and (e) *Approval of Directors*. The information set forth in the Proxy Statement under Special Factors Fairness of the Reverse Stock Split is incorporated herein by reference.

(f) *Other Offers*. Not applicable.

**ITEM 9. REPORTS, OPINIONS, APPRAISALS AND NEGOTIATIONS.**

(a) *Report, Opinion or Appraisal*, (b) *Preparer and Summary of the Report, Opinion or Appraisal* and (c) *Availability of Documents*. The information set forth in the Proxy Statement under Special Factors Opinion of Financial Advisor is incorporated herein by reference.

**ITEM 10. SOURCE AND AMOUNTS OF FUNDS OR OTHER CONSIDERATION.**

(a) *Source of Funds*, (b) *Conditions*, (c) *Expenses* and (d) *Borrowed Funds*. The information set forth in the Proxy Statement under Other Matters Costs/Source of Funds and Expenses is incorporated herein by reference.

**ITEM 11. INTEREST IN SECURITIES OF THE SUBJECT COMPANY.**

(a) *Securities Ownership*. The information set forth in the Proxy Statement under Security Ownership of Certain Beneficial Owners and Management is incorporated herein by reference.

(b) *Securities Transactions*. The Company has not and to the best of the Company's knowledge, none of its directors or executive officers has, effected any transaction in the Common Stock during the 60 days preceding the date of filing this Schedule 13E-3.

**ITEM 12. THE SOLICITATION OR RECOMMENDATION.**

(d) *Intent to Tender or Vote in a Going-Private Transaction* and (e) *Recommendations of Others*. The information set forth in the Proxy Statement under Other Matters Special Interests of Affiliated Persons in the Transaction and Other Matters Recommendation of Our Board of Directors is incorporated herein by reference.

**ITEM 13. FINANCIAL STATEMENTS.**

(a) *Financial Information*. The audited financial statements and unaudited interim financial statements are incorporated by reference in the Proxy Statement from the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on April 1, 2005.

(b) *Pro Forma Information*. Not applicable.



**ITEM 14. PERSONS/ASSETS, RETAINED, EMPLOYED, COMPENSATED OR USED.**

(a) *Solicitations or Recommendations* and (b) *Employees and Corporate Assets*. The information set forth in the Proxy Statement under *Cost of Proxy Solicitation* is incorporated herein by reference.

**ITEM 15. ADDITIONAL INFORMATION.**

The information contained in the Proxy Statement, including all appendices attached thereto, is incorporated herein by reference.

**ITEM 16. EXHIBITS.**

(a) Preliminary Proxy Statement of the Company, together with the proxy card.

(b) Not applicable

(c)(1) Opinion of Caymus Partners LLC, dated April 17, 2005 (set forth as Exhibit B to the Proxy Statement).

(c)(2) Draft Report of Caymus Partners LLC, dated April 12, 2005.

(c)(3) Final Report of Caymus Partners LLC, dated April 20, 2005.

(f) Not applicable.

(g) Not applicable.

**SIGNATURE**

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: July 26, 2005

/s/ Robert E. Dolan

Name: Robert E. Dolan

Title: Chief Financial Officer

**EXHIBIT INDEX**

<b><u>EXHIBIT</u></b>	<b><u>DESCRIPTION</u></b>
(a)	Proxy Statement, together with the proxy card.*
(c)(1)	Opinion of Caymus Partners LLC, dated April 17, 2005 (set forth as Exhibit B to the Proxy Statement).*
(c)(2)	Draft Report of Caymus Partners LLC, dated April 12, 2005.
(c)(3)	Final Report of Caymus Partners LLC, dated April 20, 2005.
(d)	Voting Agreement between MJG-IV Limited Partnership and Mario Gabelli to vote 480,000 shares of common stock.**

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\*Incorporated by reference to the Company's Schedule 14A, filed with the Securities and Exchange Commission on April 19, 2005.

\*\*Incorporated by reference to the Company's Schedule 13E3/A, filed with the Securities and Exchange Commission on April 19, 2005.

April 12, 2005

Presentation to the Board of Directors

CONFIDENTIAL

**DRAFT**

Confidential

*The following presentation and its analyses are solely for the use of the Board of Directors of Lynch Interactive Corporation and are not intended to, nor should they be, relied upon by any other party, including the shareholders of Lynch Interactive Corporation. The consent of Caymus Partners LLC is required prior to the disclosure of this presentation, its analyses, the assessment made by Caymus Partners LLC or any other documentation provided by Caymus Partners LLC to any third party.*

*These materials are based only on information contained in publicly available documents and certain other information provided to Caymus Partners LLC by Lynch Interactive Corporation. Caymus Partners LLC relied upon the accuracy and completeness of the information from these public documents and other information supplied by Lynch Interactive Corporation; Caymus Partners LLC has not attempted to investigate or verify the accuracy or completeness of such publicly available information or other information provide to Caymus Partners LLC.*

*These materials should be considered only in connection with the presentation being provided by Caymus Partners LLC in connection herewith. The preparation of these materials was completed on April 12, 2005 and based on information publicly available or provided to Caymus Partners LLC through such date. Caymus Partners LLC is not obligated to update this presentation or its analyses except as outlined in the engagement letter dated March 21, 2005 to reflect any information that becomes publicly available or that is provided to Caymus Partners LLC after such date.*

Disclosure

**DRAFT**

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Confidential

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I. Transaction Overview

**DRAFT**

Introduction

Transaction Overview

Confidential

The Board of Directors of Lynch Interactive Corporation ( Interactive or the Company ) has retained Caymus Partners LLC ( Caymus Partners ) as its financial advisor to render an opinion as to the fairness (the Opinion ), from a financial point of view, to the public stockholders of Interactive of the proposed cash consideration paid to holders of less than one whole share following the Company s reverse stock split (the Transaction ).

Holders of less than 100 shares prior to the Company s proposed 1-for-100 reverse stock split would be entitled to a cash payment equal to 120% of the average of the closing prices for the 20 trading days on which the stock traded immediately preceding the date of the Transaction.

The Company s common stock is publicly traded on the AMEX market under the symbol LIC. Interactive has approximately 2.75 million shares of Common Stock outstanding as of their most recent 10-K (dated April 1, 2005).

**DRAFT**

Summary of Proposed Transaction Terms

Transaction Overview

Confidential

**Transaction:**

1

-

for

-

100 reverse stock split, wherein

holders of record owning less than 100

shares will receive cash.

**Purpose:**

Reduce number of shareholders of

record to less than 300.

**Purchaser:**

Lynch Interactive Corporation

**Securities:**

Shares

of Common Stock, \$

0

.0

00

1 par

value.

**Purchase Price Per Share**

(Less

**Than 100 Shares)**

:

120% of the a

verage of the closing

prices of the Co

mmon Stock during the

2

0

trading

day

s

i

n which the stock

traded

preceding the effective date

.

**Total**

**Approximate**

**Purchase**

**of**

**Fractional Shares:**

\$32

0,000

**Assumed**

**Effective**

**Date**

**(1)**

:

April 11

, 2005

**Investment Banking Fee:**

None

**(1) For purposes of the analyses herein, as if Transaction occurred on April 11, 2005.**

**DRAFT**

Sensitivity of Total Company Cost of Purchasing Shares

Transaction Overview  
Confidential

**DRAFT**

## Background and Events Leading to Proposed Transaction

### Transaction Overview

#### Confidential

The Company was incorporated in 1996 under the laws of the State of Delaware and has principal executive offices in Rye, New York.

Interactive was spun off by Lynch Corporation on September 1, 1999 to its shareholders as a diversified holding company with multimedia and transportation subsidiaries.

Through numerous subsidiary companies, Interactive provides local exchange carrier telephone services focused on rural areas of the United States. As of December 31, 2004, the Company had 54,901 total lines.

The Company is considering a 1-for-100 reverse stock split of its common stock in order to reduce the number of shareholders of record to under 300.

The Management of Interactive believes that this transaction will allow the Company to deregister its shares, thereby reducing the administrative burden and associated expense of filing periodic reports and complying with various requirements, such as those required under the Sarbanes-Oxley Act. Management estimates that the cost savings will approximate \$1.7 million per year.

**DRAFT**

Scope of Engagement

Transaction Overview

Confidential

In arriving at its Opinion, Caymus Partners took into account its assessment of general economic, market and financial conditions as well as its experience in connection with similar transactions and securities valuations generally and among other things:

Reviewed and analyzed transaction documents provided by the Company;

Reviewed publicly available financial information and other data including the Company's most recent audited financial statements (Form 10-K);

Reviewed and analyzed certain financial characteristics of companies that were deemed to have characteristics comparable to the Company;

Reviewed and analyzed certain financial terms of transactions involving target companies deemed to have characteristics comparable to the Company

Reviewed and discussed with representatives or management of the Company certain financial and operating information furnished by them, including assumptions with respect to the business, operations and prospects of the Company;

Considered the historical financial results and present financial condition of Interactive; and

Performed such other analyses and examinations as we have deemed appropriate.

**DRAFT**



Scope of Engagement (cont.)

Transaction Overview

Confidential

The Opinion of Caymus Partners is necessarily based upon market, economic and other conditions, as they exist on, and could be evaluated by April 11, 2005. Accordingly, although subsequent developments may affect its opinion, Caymus Partners does not assume any obligation to update, review or reaffirm its opinion.

Caymus Partners assumes, with the consent of the Company, that the Transaction will be consummated in accordance with the terms described to Caymus Partners and as generally set forth in the proposed proxy statement (Schedule 14A), without any further amendments thereto, and without material changes to any of the conditions to any obligations or, in the alternative, that any such amendments, revisions or changes thereto will not be detrimental to Interactive.

Caymus Partners has not made a physical inspection of the properties and facilities of the Company and has not made or obtained any evaluations or appraisals of the assets and liabilities (contingent or otherwise) of the Company. Further, Caymus Partners' analyses does not address the liquidation value of the Company [because the Company is a going concern and is not being liquidated].

**DRAFT**

Scope of Engagement (cont.)

Transaction Overview

Confidential

Caymus Partners has relied upon and assumed the accuracy and completeness of all of the financial and other information provided to it by the Company without assuming any responsibility for an independent verification of any such information and has further relied upon the assurance of the Company's management that it is not aware of any facts or circumstances that would make any such information inaccurate or misleading.

To the extent applicable for a transaction of this kind, Caymus Partners assumes that the Transaction will be consummated in a manner that complies in all material respects with the applicable provisions of the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations.

Caymus Partners has not been requested to opine as to, and the opinion does not in any manner address, the underlying business decision of the Company to proceed with or affect the Transaction.

**DRAFT**

Scope of Engagement (cont.)

Transaction Overview

Confidential

Caymus Partners was not asked to consider, and its opinion does not address, the relative merits of the Transaction as compared to any alternative business strategy that might exist for the Company. Caymus Partners was not engaged to seek alternatives to the Transaction that might exist for Interactive.

This Opinion is for the use and benefit of the Board of Directors of the Company in connection with its consideration of the Transaction and is not intended to be and does not constitute a recommendation to any shareholder of the Company. The foregoing in this presentation is not meant to and does not express any opinion as to the value of Interactive for other purposes, such as a sale, merger or liquidation of the Company.

**DRAFT**

II. Industry Overview

**DRAFT**

Telecommunications Local Exchange Carrier Market

Industry Overview

Confidential

The Telecommunications industry is one of the largest segments of the United States economy and generates approximately \$300 billion in revenues. Of this amount, approximately \$127 billion is derived from local exchange carrier (telephone) service.

The local exchange carrier market is comprised of the four regional Bell operating companies, several mid-sized companies and a large number of smaller, independent competitors.

A majority of the small local exchange carriers operate in rural areas and generally experience stable revenues and predictable cash flows due their strong customer bases and limited wireline competition. Compared to urban operators, rural local exchange carriers generally have limited wireline competition because of the lower customer density in their service areas and the high residential percentage of their subscriber base.

Many of the Company's competitors and potential competitors have substantially greater financial, technological and marketing resources than Interactive does. However, the Company seeks to focus on rural areas that are not densely populated and thus not susceptible to competitive forces inherent in more densely populated areas.

**DRAFT**

III. Lynch Interactive Corporation

**DRAFT**

## Business Overview

### Lynch Interactive Corporation

#### Confidential

Lynch Interactive Corporation (AMEX: LIC) is a publicly traded company that provides local exchange and related wireline telecommunications services in rural residential markets. The Company also provides wireless and other multimedia services, such as Internet service, alarm services, long distance service and competitive local exchange carrier service.

The Company operates through a number of regional subsidiary companies, many of which are defined as rural local exchange carriers ( RLECs ). The Company s telephone operations are located in Iowa, Kansas, Michigan, New Hampshire, New Mexico, New York, North Dakota, Utah and Wisconsin.

Interactive has historically grown through acquisitions of selected RLECs. Since 1989, the Company has acquired 14 telephone companies with aggregate consideration of \$154 million. The Company s business development strategy is to expand its existing operations through internal growth as well as selective acquisitions of rural carriers providing similar services.

In March 2004, the Company signed an agreement to acquire California-Oregon Telecommunications Company ( Cal-Ore ), which is the incumbent service provider for a rural area along the Northern California border with Oregon with approximately 2,500 access lines. This transaction is subject to California and other regulatory approvals and is currently scheduled to close in or about June 2005.

**DRAFT**

Ownership, Management and Employees

***Significant***

***Ownership***

***Executive  
Management***

***Employees***

Lynch Interactive Corporation  
Confidential

MJG-IV Limited Partnership

22.50%

Kinetic Asset Management

7.60%

All Directors and Officers

26.10%

All Others

73.90%

***Executive Officers and Directors***

Mario J. Gabelli

Morris Berkowitz

*Chairman & Chief Executive Officer*

*Director*

Robert E. Dolan

Paul J. Evanson

*Chief Financial Officer*

*Director*

Evelyn C. Jerden

John C. Ferrara



*Senior Vice President - Operations*

*Director*

John A. Cole

Daniel R. Lee

*Vice President, Corporate Development,*

*Director*

*General Counsel, and Secretary*

Lawrence R. Moats

*Director*

Salvatore Muoio

*Director*

The Company and its subsidiaries had 356 employees as of December 31, 2004

**DRAFT**

Historical Stock Price Performance (12 mo. and YTD)

Lynch Interactive Corporation  
Confidential

**DRAFT**

**12-Month Price and Volume History**

**Year-to-Date Price and Volume History**

Historical Stock Price Performance (Last 20 Trading Days)

Lynch Interactive Corporation  
Confidential

Price as of April 11, 2005: \$29.28

5-Day Trailing Average (1): \$26.41

10-Day Trailing Average (1): \$25.36

20-Day Trailing Average (1): \$24.72

**Proposed Price Paid to Fractional Holders (2): \$29.66**

(1) Based on trailing average through April 11, 2005 on days on which the stock was traded.

(2) Based on 20-day trailing average price of \$25.53 as of April 7, 2005 plus 20% premium.

**DRAFT**

IV. Valuation Analyses

**DRAFT**

A. Overview of Analyses

**DRAFT**

## Overview of Analyses

### Valuation Analyses

#### Confidential

Based upon a review of the Company's public filings, historical financial data, and certain other qualitative factors, Caymus Partners utilized several valuation methods to determine a range of values in order to analyze the value of Interactive.

Caymus Partners did not form a conclusion solely based on any individual analysis to support an opinion as to the fairness, from a financial point of view, of the Transaction.

Caymus Partners did not apply any particular weight on any individual analysis, but instead formed a conclusion based upon all analyses taken as a whole. Accordingly, the analyses must be considered as a whole. By selecting any portion of the analyses or the factors considered, without considering all analyses and factors collectively, one could create an incomplete and incorrect view of the process underlying the analyses in connection with the preparation of this Opinion.

**DRAFT**

## Overview of Analyses

### Valuation Analyses

#### Confidential

The financial analyses included in this presentation are included in tabular format. However, to fully understand Caymus Partners financial review and analyses, the tables included must be considered along with the accompanying text of the presentation. The tables alone are not a complete description of the financial review and analyses, and considering the tables alone could create a misleading or incomplete view of Caymus Partners financial review and analyses.

The methodologies utilized by Caymus Partners included, but was not limited to, the following:

A review and comparison of trading multiples for publicly traded companies deemed comparable to the Company;

A review and comparison of multiples in transactions involving targets deemed comparable to the Company;

A review and analysis of the Company's discounted cash flows

Projected financial statements were provided by the Company and were used in the analyses herein as it relates to the Transaction and the Opinion of Caymus Partners.

**DRAFT**

Illustrative Indicated Share Price Ranges

Valuation Analyses  
Confidential

Summary of Analyses

**DRAFT**



Summary of Analyses

Valuation Analyses  
Confidential

Tabular Indicated Share Price Ranges

**DRAFT**

B. Comparable Public Company Analysis

**DRAFT**

## Comparable Public Company Analysis Methodology

### Valuation Analyses

#### Confidential

The Comparable Public Company approach is based upon the theory that the stock price of publicly-traded companies reflects all readily available information. In other words, the market continuously evaluates each company and determines a current value as reflected by the bids and offers for the company's stock.

Using this technique, publicly-traded companies are reviewed in order to identify a peer group similar to the subject company. Once the peer group is identified, valuation multiples based upon Revenue, EBITDA, etc. are calculated for each of the comparable companies.

The financial statements of the public companies must be adjusted to account for any variations between them and the subject company. Examples of such adjustments include revenue recognition policy and non-operating assets. Once the adjusted multiples are calculated, they are applied to the subject company to determine its value.

When using the Comparable Public Company approach, it is often difficult to find perfectly comparable public companies. However, in most cases it is possible to identify a peer group that is reasonably similar. This technique is dependent upon the degree of comparability between the subject company and the companies on which the analysis is based. The higher the degree of correlation between the operations of the peer group and the subject company, the more effective the valuation.

**DRAFT**

Valuation Analyses  
Confidential

Caymus Partners identified seven companies it deemed comparable to Interactive ( Comparable Companies ).

Caymus Partners calculated enterprise values for the Comparable Companies to obtain multiples of last 12-month ( LTM ) Revenue and EBITDA.

Enterprise value equals market value of equity plus net debt and minority interest.

Market value of equity equals the stock price times the number of shares of common stock outstanding.

Net debt equals total debt minus cash.

Caymus Partners applied a range of these multiples to the LTM EBITDA of the Company to obtain an enterprise valuation range for the Company. EBITDA was chosen because it is a more reliable indicator of value than other factors such as revenue.

Caymus Partners then calculated an equity value for the Company by subtracting net debt, minority interest and preferred stock from the enterprise value.

*The implied equity value per share for the Company ranged from \$24.53 to \$31.36 (mean value of \$27.95 per share) using comparable Small LECs*

*The implied equity value per share for the Company ranged from \$19.07 to \$27.26 (mean value of \$23.17) using a more defined list of four (4) Core LEC companies.*

Comparable Public Company Analysis

**DRAFT**

Descriptions of Comparable Publicly Held Companies

Core LEC Grouping (1)

Valuation Analyses

Confidential

(1) Caymus Partners evaluated a total of 23 LEC companies, of which 14 were small LECs. Of this Small LEC grouping, four (4) companies were chosen as the most representative comparable companies to Interactive based on various financial and operating measurements and are herein referred to as the Core LEC grouping.

**DRAFT**

Recent Trading History of Core LEC Comparable Public  
Companies (Last 12 Months)

Valuation Analyses  
Confidential

**DRAFT**

Recent Trading History of Core LEC Comparable Public  
Companies (Year-to-Date)

Valuation Analyses  
Confidential

**DRAFT**

Comparable Public Company Valuation Analysis

Valuation Analyses  
Confidential

Sources: CapitalIQ

(Dollars in thousands, except per share prices)

**DRAFT**



Comparable Public Company Operating Statistics

Valuation Analyses  
Confidential

Sources: CapitalIQ

(Dollars in thousands)

**DRAFT**

C. Comparable Transactions Analysis

**DRAFT**

Valuation Analyses  
Confidential

Comparable transaction multiples may also be used to determine the value of a company. In this approach, merger, acquisition and asset purchase transactions involving similar companies are identified and their purchase price multiples are used to assess the subject company's value. The terms of comparable transactions must often be adjusted in much the same manner as in the public comparables approach to accurately reflect the operations of the subject company.

In the transaction multiples approach, the valuation multiples are based upon similar, completed transactions. Thus, a premium over market value is already included in the purchase price.

In our analysis herein, we reviewed transactions (acquisitions) of companies involving 100% control. Transactions involving partial control, including minority control positions, buybacks of stock, etc., were not reviewed due to the inability to gather such appropriate data.

The greatest impediment to finding comparable transactions is the absence of available information on comparable sales. In addition to the lack of information on comparable sales, available information on public companies may be outdated or incomplete. The more recent the transaction and the more complete the data, the more effective is this technique.

Comparable Transactions Analysis Methodology

**DRAFT**

Valuation Analyses  
Confidential

Comparable Transactions Analysis generally provides a wide range of values due to the varying importance of an acquisition to a buyer (i.e., a strategic buyer willing to pay more than a financial buyer) in addition to the potential differences in the transaction process (i.e., competitiveness among potential buyers).

Information is typically not disclosed for transactions involving a private seller, even when the buyer is a public company, unless the acquisition is deemed to be material for the acquirer. As a result, the selected Comparable Transactions Analysis is typically limited to transactions involving the acquisition of a public company, or substantially all of its assets, or the acquisition of a large private company, or substantially all of its assets, by the public company.

Accordingly, an analysis of comparable business combinations is not mathematical; rather it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable transactions.

Comparable Transactions Analysis Methodology (cont.)

**DRAFT**

Valuation Analyses  
Confidential

Caymus Partners identified six (6) transactions announced and closed in the last 3.5 years involving target companies in the local exchange carrier industries (the Comparable Transactions ).

Based on the information disclosed with respect to the target in each of the Comparable Transactions, Caymus Partners calculated and compared total purchase price as a multiple of LTM EBITDA. EBITDA was chosen because it is a more reliable indicator of value than other factors such as revenue.

Caymus Partners adjusted the mean and median EBITDA multiples of comparable transactions to account for an already implied control premium of 20% since the acquisitions were for 100% control. After discounting the EBITDA multiples, Caymus Partners applied a range of these multiples to the LTM EBITDA of the Company to obtain an enterprise value for the Company, assuming less than 100% control.

Caymus Partners then calculated an equity value for the Company by subtracting net debt, minority interest and preferred stock from the enterprise value.

*The implied equity per share value for the Company ranged from \$21.80 to \$30.00 (mean value of \$25.90 per share).*

Comparable Transactions Analysis Methodology (cont.)

**DRAFT**

Comparable Transactions Analysis

Valuation Analyses  
Confidential

Source: CapitalIQ

(Dollars in millions)

**DRAFT**

D. Discounted Cash Flow Analysis

**DRAFT**

The discounted cash flow analysis estimates value based upon a company's projected future free cash flow discounted at a rate reflecting risks inherent in its business and capital structure. Unlevered free cash flow represents the amount of cash generated and available for principal, interest and dividend payments after providing for ongoing business operations.

While the discounted cash flow analysis is the most scientific of the methodologies, it is dependent on projections and is further dependent on numerous industry-specific and macroeconomic factors.

Caymus Partners utilized forecasts provided by Interactive and its subsidiaries' management to show an increase in Operating Income from approximately \$20.5 million in 2005 to \$20.9 million in 2009 (the terminal year).

Discounted Cash Flow Analysis Methodology

Valuation Analyses  
Confidential

**DRAFT**



The discounted cash flow analysis presented herein incorporates estimates provided by the Company's management of cash flows during 2005 and for the next four succeeding years. These estimates, in turn, are based on assumptions, projections and forecasts, including without limitation business conditions, financial markets and regulatory actions and initiatives. As a result, there is no assurance that any such estimates will be met and such estimates are subject to uncertainties, risks and inaccuracies, any or all of which could be substantial. Caymus Partners performed the discounted cash flow analysis on the preliminary cash flow of the Company.

To arrive at a present value of the free cash flow, Caymus Partners utilized discount rates ranging from 11.0% to 13.0%.

EBITDA Terminal Multiple: A range of terminal multiples between and including 5.50x and 6.00x were utilized in this analysis. This range is in line with EBITDA multiples for Interactive's comparable companies.

A range of enterprise values was derived. The enterprise values were reduced by net debt to arrive at an equity value. The Company's net debt is estimated to be approximately \$147 million (as of December 31, 2004).

***The implied equity per share value for the Company ranged from \$24.05 to \$33.96 (mean value of \$29.00).***

Discounted Cash Flow Analysis Methodology (cont.)

Valuation Analyses  
Confidential

**DRAFT**

Discounted Cash Flow Analysis

Valuation Analyses  
Confidential

Source: Company estimates

(Dollars in thousands, except per share prices)

**DRAFT**

Discounted Cash Flow Analysis (cont.)

Valuation Analyses  
Confidential

Source: Company estimates

(Dollars in thousands, except per share prices)

**DRAFT**

E. Fractional Share Cash-Out Values of Select  
Reverse Stock Splits

**DRAFT**

Fractional Share Cash-Out Values of Selected Reverse  
Stock Splits

Valuation Analyses  
Confidential

An analysis of other going dark transactions associated with reverse stock splits provides information related to how other companies have paid for fractional shares.

This analysis is heavily dependent on a small number of companies that may or may not be related to Interactive and that have varying transactional circumstances, market capitalizations, profitability and future growth opportunities.

Caymus Partners aggregated selected reverse stock split transactions in conjunction with pending going dark transactions to determine the cash premiums paid, if any, of fractional shares

Caymus Partners concluded that, based on the difficulty in obtaining going dark transactions, the lack of data provided for those transactions and the lack of data related to companies paying fractional share premiums, an analysis of reverse stock split data is not useful for purposes of opining on the value to be paid by Interactive in this Transaction.

**DRAFT**

Analysis of Fractional Share Cash-Out Values of Selected  
Reverse Stock Splits

Valuation Analyses  
Confidential

Source: Company estimates

**DRAFT**

F. Non-Cash Generating Assets

**DRAFT**

Non-Cash Generating Assets

Valuation Analyses

Confidential

**DRAFT**

Caymus Partners reviewed the Company's non-cash generating assets in its determination of value. The Company's non-cash generating assets consist of equity investments, spectrum licenses and various marketable securities, totaling approximately \$20.1 million based on a private market valuation performed by Company management.

Caymus Partners also reviewed the non-cash assets of comparable publicly traded companies in the Core LEC grouping, including CT Communications, D&E Communications, Hickory Tech. Corp, and North Pittsburgh Systems. Non-cash assets for these companies ranged from \$4.8 million to \$167 million with a mean of \$61 million and median of \$36 million.

Caymus Partners has concluded that the value of non-cash assets for Interactive, as well as for other comparable companies, has been reflected in the respective market capitalizations and implied comparable EBITDA multiples.



Non-Cash Generating Assets Lynch Interactive

Valuation Analyses  
Confidential

**DRAFT**

Non-Cash Generating Assets Comparable Core LEC  
Companies

Valuation Analyses  
Confidential

**DRAFT**

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**DRAFT**

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April 20, 2005

Presentation to the Board of Directors

CONFIDENTIAL

Confidential

*The following presentation and its analyses are solely for the use of the Board of Directors of Lynch Interactive Corporation and are not intended to, nor should they be, relied upon by any other party, including the shareholders of Lynch Interactive Corporation. The consent of Caymus Partners LLC is required prior to the disclosure of this presentation, its analyses, the assessment made by Caymus Partners LLC or any other documentation provided by Caymus Partners LLC to any third party.*

*These materials are based only on information contained in publicly available documents and certain other information provided to Caymus Partners LLC by Lynch Interactive Corporation. Caymus Partners LLC relied upon the accuracy and completeness of the information from these public documents and other information supplied by Lynch Interactive Corporation; Caymus Partners LLC has not attempted to investigate or verify the accuracy or completeness of such publicly available information or other information provide to Caymus Partners LLC.*

*These materials should be considered only in connection with the presentation being provided by Caymus Partners LLC in connection herewith. The preparation of these materials was completed on April 20, 2005 and based on information publicly available or provided to Caymus Partners LLC through April 19, 2005. Caymus Partners LLC is not obligated to update this presentation or its analyses except as outlined in the engagement letter dated March 21, 2005 to reflect any information that becomes publicly available or that is provided to Caymus Partners LLC after such date.*

Disclosure

Confidential

*In April 2003, an entity controlled by the Chairman and CEO, Mario J. Gabelli, of Lynch Interactive Corporation, made a \$100,000 investment in five-year callable preferred return securities issued by Caymus Partners LLC. The investment constituted approximately 25% of the outside (non-member) capital raised by Caymus Partners and is intended to yield 10% per annum (plus a 5% profit interest under certain circumstances). Mr. Gabelli also serves on Caymus Partners Board of Advisors, which is an advisory body without management or control functions. In addition, Lynch Interactive Corporation retained Caymus Securities LLC, an affiliate of Caymus Partners, in March 2005 to assist in locating and negotiating a new line of credit to replace an existing line of credit with First National Bank of Omaha. If successful, Caymus Securities may receive up to a maximum fee of approximately \$100,000 in connection with the engagement. Caymus Partners LLC does not believe that any of these relationships is material or compromises the independence of Caymus Partners with respect to the fairness opinion of the proposed transaction (as described in more detail herein).*

Disclosure (cont.)

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A. Overview of Analyses

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D. Discounted Cash Flow Analysis

E. Fractional Share Cash-Out Values of Select Reverse  
Stock Splits

F. Non-Cash Generating Assets

Confidential

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I. Transaction Overview



Introduction

Transaction Overview

Confidential

The Board of Directors of Lynch Interactive Corporation ( Interactive or the Company ) has retained Caymus Partners LLC ( Caymus Partners ) as its financial advisor to render an opinion as to the fairness (the Opinion ), from a financial point of view, to the public stockholders of Interactive of the proposed cash consideration paid to holders of less than one whole share following the Company s reverse stock split (the Transaction ).

Holders of less than 100 shares prior to the Company s proposed 1-for-100 reverse stock split would be entitled to a cash payment per share equal to the greater of a) \$29.00 or b) 120% of the average of the closing prices for the 20 trading days on which the stock traded immediately preceding the effective date of the Transaction.

The Company s common stock is publicly traded on the AMEX market under the symbol LIC. Interactive has approximately 2.75 million shares of Common Stock outstanding as of their most recent 10-K (dated April 1, 2005).

Summary of Proposed Transaction Terms

Transaction Overview  
Confidential

**Transaction:**

1

-

for

-

100 reverse stock split, wherein  
holders of record owning less than 100  
shares will receive cash.

**Purpose:**

Reduce number of shareholders of  
record to less than 300.

**Purchaser:**

Lynch Interactive Corporation

**Securities:**

Shares  
of Common Stock, \$

0

.0

00

1 par

value.

**Purchase Price Per Share**

(Less

**Than 100 Shares)**

:

T

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of

a) \$29.00 or b)

120% of

the a

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Co

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2

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trading

day

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n which the stock traded

immediately

preceding the effective

date

.

**Total**

**Approximate**

**Purchase**

**of**

**Fractional Shares:**

\$3

49

,000

**Assumed**

**Effective**

**Date**

**(1)**

**:**

April 1

9

, 2005

**Investment Banking Fee:**

None

**(1) For purposes of the analyses herein, as if Transaction occurred on April 1**

**9**

**, 2005.**

Sensitivity of Total Company Cost of Purchasing Shares

Transaction Overview

Confidential

## Background and Events Leading to Proposed Transaction

### Transaction Overview

#### Confidential

The Company was incorporated in 1996 under the laws of the State of Delaware and has principal executive offices in Rye, New York.

Interactive was spun off by Lynch Corporation on September 1, 1999 to its shareholders as a diversified holding company with multimedia and transportation subsidiaries.

Through numerous subsidiary companies, Interactive provides local exchange carrier telephone services focused on rural areas of the United States. As of December 31, 2004, the Company had 54,901 total lines.

The Company is considering a 1-for-100 reverse stock split of its common stock in order to reduce the number of shareholders of record to under 300.

The Management of Interactive believes that this transaction will allow the Company to deregister its shares, thereby reducing the administrative burden and associated expense of filing periodic reports and complying with various requirements, such as those required under the Sarbanes-Oxley Act. Management estimates that the cost savings will approximate \$1.7 million per year.

Scope of Engagement

Transaction Overview

Confidential

In arriving at its Opinion, Caymus Partners took into account its assessment of general economic, market and financial conditions as well as its experience in connection with similar transactions and securities valuations generally and among other things:

Reviewed and analyzed transaction documents provided by the Company;

Reviewed publicly available financial information and other data including the Company's most recent audited financial statements (Form 10-K);

Reviewed and analyzed certain financial characteristics of companies that were deemed to have characteristics comparable to the Company;

Reviewed and analyzed certain financial terms of transactions involving target companies deemed to have characteristics comparable to the Company;

Reviewed and discussed with representatives or management of the Company certain financial and operating information furnished by them, including assumptions with respect to the business, operations and prospects of the Company;

Considered the historical financial results and present financial condition of Interactive; and

Performed such other analyses and examinations as we have deemed appropriate.

Scope of Engagement (cont.)

Transaction Overview

Confidential

The Opinion of Caymus Partners is necessarily based upon market, economic and other conditions, as they exist, and could be evaluated, on April 19, 2005. Accordingly, although subsequent developments may affect its opinion, Caymus Partners does not assume any obligation to update, review or reaffirm its Opinion.

Caymus Partners assumes, with the consent of the Company, that the Transaction will be consummated in accordance with the terms described to Caymus Partners and as generally set forth in the proposed proxy statement (Schedule 14A), without any further amendments thereto, and without material changes to any of the conditions to any obligations or, in the alternative, that any such amendments, revisions or changes thereto will not be detrimental to Interactive.

Caymus Partners has not made a physical inspection of the properties and facilities of the Company and has not made or obtained any evaluations or appraisals of the assets and liabilities (contingent or otherwise) of the Company. Further, Caymus Partners' analyses does not address the liquidation value of the Company, since the Company is a going concern and is not being liquidated.



Scope of Engagement (cont.)

Transaction Overview

Confidential

Caymus Partners has relied upon and assumed the accuracy and completeness of all of the financial and other information provided to it by the Company without assuming any responsibility for an independent verification of any such information and has further relied upon the assurance of the Company's management that it is not aware of any facts or circumstances that would make any such information inaccurate or misleading.

To the extent applicable for a transaction of this kind, Caymus Partners assumes that the Transaction will be consummated in a manner that complies in all material respects with the applicable provisions of the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations.

Caymus Partners has not been requested to opine as to, and the opinion does not in any manner address, the underlying business decision of the Company to proceed with or effect the Transaction.

Scope of Engagement (cont.)

Transaction Overview

Confidential

Caymus Partners was not asked to consider, and its Opinion does not address, the relative merits of the Transaction as compared to any alternative business strategy that might exist for the Company. Caymus Partners was not engaged to seek alternatives to the Transaction that might exist for Interactive.

This Opinion is for the use and benefit of the Board of Directors of the Company in connection with its consideration of the Transaction and is not intended to be and does not constitute a recommendation to any shareholder of the Company. The foregoing in this presentation is not meant to and does not express any opinion as to the value of Interactive for other purposes, such as a sale, merger or liquidation of the Company.

II. Industry Overview

## Telecommunications Local Exchange Carrier Market

### Industry Overview

#### Confidential

The Telecommunications industry is one of the largest segments of the United States economy and generates approximately \$300 billion in revenues. Of this amount, approximately \$127 billion is derived from local exchange carrier (telephone) service.

The local exchange carrier market is comprised of the four regional Bell operating companies, several mid-sized companies and a large number of smaller, independent competitors.

A majority of the small local exchange carriers operate in rural areas and generally experience stable revenues and predictable cash flows due to their strong customer bases and limited wireline competition. Compared to urban operators, rural local exchange carriers generally have limited wireline competition because of the lower customer density in their service areas and the high residential percentage of their subscriber base.

Many of the Company's competitors and potential competitors have substantially greater financial, technological and marketing resources than Interactive does. However, the Company seeks to focus on rural areas that are not densely populated and thus not susceptible to competitive forces inherent in more densely populated areas.

III. Lynch Interactive Corporation

## Business Overview

### Lynch Interactive Corporation

#### Confidential

Lynch Interactive Corporation (AMEX: LIC) is a publicly traded company that provides local exchange and related wireline telecommunications services in rural residential markets. The Company also provides wireless and other multimedia services, such as Internet service, alarm services, long distance service and competitive local exchange carrier service.

The Company operates through a number of regional subsidiary companies, many of which are defined as rural local exchange carriers ( RLECs ). The Company s telephone operations are located in Iowa, Kansas, Michigan, New Hampshire, New Mexico, New York, North Dakota, Utah and Wisconsin.

Interactive has historically grown through acquisitions of selected RLECs. Since 1989, the Company has acquired 14 telephone companies with aggregate consideration of \$154 million. The Company s business development strategy is to expand its existing operations through internal growth as well as selective acquisitions of rural carriers providing similar services.

In March 2004, the Company signed an agreement to acquire California-Oregon Telecommunications Company ( Cal-Ore ), which is the incumbent service provider for a rural area along the Northern California border with Oregon with approximately 2,500 access lines. This transaction is subject to California and other regulatory approvals and is currently scheduled to close in or about June 2005.

Pending Litigation

Lynch Interactive Corporation

Confidential

Interactive and several other parties, including Interactive's CEO, have been named as defendants in a lawsuit brought under the so-called qui tam provisions of the federal False Claims Act in the United States District Court for the Southern District of New York.

The main allegation in the case is that the defendants participated in the creation of sham bidding entities that allegedly defrauded the federal Treasury by enabling Interactive to improperly participate in certain FCC spectrum auctions restricted to small businesses, as well as obtaining bidding credits in other spectrum auctions allocated to small and very small businesses. While the complaint seeks to recover an unspecified amount of damages, which would be subject to mandatory trebling under the statute, a document filed by the relator (i.e., the plaintiff) with the Court discloses an initial computation of damages of not less than \$88 million resulting from bidding credits awarded to the defendants in FCC auctions and \$120 million of unjust enrichment through the sale or assignment of licenses obtained by the defendants in FCC auctions, in each case prior to trebling. Later computations have increased this amount. Interactive strongly believes that this lawsuit is completely without merit and that relator's damage computations are without basis, and intends to defend the suit vigorously.

Pending Litigation (cont.)

Lynch Interactive Corporation  
Confidential

Because of the state of uncertainty concerning the outcome of this litigation and the extensive disclosure already made about it by Interactive, we believe the markets have already factored this case into their valuation of the Company's stock to the extent it is possible to do so.

Private Market valuations do not include the effects of this case on Company stock values.



Ownership, Management and Employees

***Significant***

***Ownership***

***Executive  
Management***

***Employees***

Lynch Interactive Corporation  
Confidential

MJG-IV Limited Partnership

22.50%

Kinetic Asset Management

7.60%

All Directors and Officers

26.10%

All Others

73.90%

***Executive Officers and Directors***

Mario J. Gabelli

Morris Berkowitz

*Chairman & Chief Executive Officer*

*Director*

Robert E. Dolan

Paul J. Evanson

*Chief Financial Officer*

*Director*

Evelyn C. Jerden

John C. Ferrara

*Senior Vice President - Operations*

*Director*

John A. Cole

Daniel R. Lee

*Vice President, Corporate Development,*

*Director*

*General Counsel, and Secretary*

Lawrence R. Moats

*Director*

Salvatore Muoio

*Director*

The Company and its subsidiaries had 356 employees as of December 31, 2004

Historical Stock Price Performance (12 mo. and YTD)

Lynch Interactive Corporation  
Confidential

**12-Month Price and Volume History**

**Year-to-Date Price and Volume History**

Historical Stock Price Performance (Last 20 Trading Days)

Lynch Interactive Corporation  
Confidential

Price as of April 19, 2005: \$27.06

5-Day Trailing Average (1): \$28.46

10-Day Trailing Average (1): \$28.06

20-Day Trailing Average (1): \$26.47

**Proposed Price Paid to Fractional Holders (2): \$31.76**

(1) Based on trailing average through April 19, 2005 on days on which the stock was traded.

(2) Based on 20-day trailing average price of \$26.47 as of April 19, 2005 plus 20% premium.

IV. Valuation Analyses

A. Overview of Analyses

## Overview of Analyses

### Valuation Analyses

#### Confidential

Based upon a review of the Company's public filings, historical financial data, and certain other qualitative factors, Caymus Partners utilized several valuation methods to determine a range of values in order to analyze the value of Interactive.

Caymus Partners did not form a conclusion solely based on any individual analysis to support an opinion as to the fairness, from a financial point of view, of the Transaction.

Caymus Partners did not apply any particular weight on any individual analysis, but instead formed a conclusion based upon all analyses taken as a whole. Accordingly, the analyses must be considered as a whole. By selecting any portion of the analyses or the factors considered, without considering all analyses and factors collectively, one could create an incomplete and incorrect view of the process underlying the analyses in connection with the preparation of this Opinion.

## Overview of Analyses

### Valuation Analyses

#### Confidential

The financial analyses included in this presentation are included in tabular format. However, to fully understand Caymus Partners financial review and analyses, the tables included must be considered along with the accompanying text of the presentation. The tables alone are not a complete description of the financial review and analyses, and considering the tables alone could create a misleading or incomplete view of Caymus Partners financial review and analyses.

The methodologies utilized by Caymus Partners included, but was not limited to, the following:

A review and comparison of trading multiples for publicly traded companies deemed comparable to the Company;

A review and comparison of multiples in transactions involving targets deemed comparable to the Company;

A review and analysis of the Company's discounted cash flows

Projected financial statements were provided by the Company and were used in the analyses herein as it relates to the Transaction and the Opinion of Caymus Partners.



Illustrative Indicated Share Price Ranges

Valuation Analyses  
Confidential

Summary of Analyses

Summary of Analyses

Valuation Analyses  
Confidential

Tabular Indicated Share Price Ranges

B. Comparable Public Company Analysis

## Comparable Public Company Analysis Methodology

### Valuation Analyses

#### Confidential

The Comparable Public Company approach is based upon the theory that the stock price of publicly-traded companies reflects all readily available information. In other words, the market continuously evaluates each company and determines a current value as reflected by the bids and offers for the company's stock.

Using this technique, publicly-traded companies are reviewed in order to identify a peer group similar to the subject company. Once the peer group is identified, valuation multiples based upon Revenue, EBITDA, etc. are calculated for each of the comparable companies.

The financial statements of the public companies must be adjusted to account for any variations between them and the subject company. Examples of such adjustments include revenue recognition policy and non-operating assets. Once the adjusted multiples are calculated, they are applied to the subject company to determine its value.

When using the Comparable Public Company approach, it is often difficult to find perfectly comparable public companies. However, in most cases it is possible to identify a peer group that is reasonably similar. This technique is dependent upon the degree of comparability between the subject company and the companies on which the analysis is based. The higher the degree of correlation between the operations of the peer group and the subject company, the more effective the valuation.

Valuation Analyses  
Confidential

Caymus Partners identified seven companies it deemed comparable to Interactive ( Comparable Companies ).

Caymus Partners calculated enterprise values for the Comparable Companies to obtain multiples of last 12-month ( LTM ) Revenue and EBITDA.

Enterprise value equals market value of equity plus net debt and minority interest.

Market value of equity equals the stock price times the number of shares of common stock outstanding.

Net debt equals total debt minus cash.

Caymus Partners applied a range of these multiples to the LTM EBITDA of the Company to obtain an enterprise valuation range for the Company. EBITDA was chosen because it is a more reliable indicator of value than other factors such as revenue.

Caymus Partners then calculated an equity value for the Company by subtracting net debt, minority interest and preferred stock from the enterprise value.

*The implied equity value per share for the Company ranged from \$24.53 to \$31.36 (mean value of \$27.95 per share) using comparable Small LECs*

*The implied equity value per share for the Company ranged from \$19.07 to \$27.26 (mean value of \$23.17) using a more defined list of four (4) Core LEC companies.*

Comparable Public Company Analysis

Descriptions of Comparable Publicly Held Companies

Core LEC Grouping (1)

Valuation Analyses

Confidential

(1) Caymus Partners evaluated a total of 23 LEC companies, of which 14 were small LECs. Of this Small LEC grouping, four (4) companies were chosen as the most representative comparable companies to Interactive based on various financial and operating measurements and are herein referred to as the Core LEC grouping.

Recent Trading History of Core LEC Comparable Public  
Companies (Last 12 Months)

Valuation Analyses  
Confidential

Recent Trading History of Core LEC Comparable Public  
Companies (Year-to-Date)

Valuation Analyses  
Confidential



Comparable Public Company Valuation Analysis

Valuation Analyses  
Confidential

Sources: CapitalIQ

(Dollars in thousands, except per share prices)

Comparable Public Company Operating Statistics

Valuation Analyses  
Confidential

Sources: CapitalIQ

(Dollars in thousands)

C. Comparable Transactions Analysis

Valuation Analyses  
Confidential

Comparable transaction multiples may also be used to determine the value of a company. In this approach, merger, acquisition and asset purchase transactions involving similar companies are identified and their purchase price multiples are used to assess the subject company's value. The terms of comparable transactions must often be adjusted in much the same manner as in the public comparables approach to accurately reflect the operations of the subject company.

In the transaction multiples approach, the valuation multiples are based upon similar, completed transactions. Thus, a premium over market value is already included in the purchase price.

In our analysis herein, we reviewed transactions (acquisitions) of companies involving 100% control. Transactions involving partial control, including minority control positions, buybacks of stock, etc., were not reviewed due to the inability to gather such appropriate data.

The greatest impediment to finding comparable transactions is the absence of available information on comparable sales. In addition to the lack of information on comparable sales, available information on public companies may be outdated or incomplete. The more recent the transaction and the more complete the data, the more effective is this technique.

Comparable Transactions Analysis Methodology

Valuation Analyses  
Confidential

Comparable Transactions Analysis generally provides a wide range of values due to the varying importance of an acquisition to a buyer (i.e., a strategic buyer willing to pay more than a financial buyer) in addition to the potential differences in the transaction process (i.e., competitiveness among potential buyers).

Information is typically not disclosed for transactions involving a private seller, even when the buyer is a public company, unless the acquisition is deemed to be material for the acquirer. As a result, the selected Comparable Transactions Analysis is typically limited to transactions involving the acquisition of a public company, or substantially all of its assets, or the acquisition of a large private company, or substantially all of its assets, by the public company.

Accordingly, an analysis of comparable business combinations is not mathematical; rather it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable transactions.

Comparable Transactions Analysis Methodology (cont.)

Valuation Analyses  
Confidential

Caymus Partners identified six (6) transactions announced and closed in the last 3.5 years involving target companies in the local exchange carrier industries (the Comparable Transactions ).

Based on the information disclosed with respect to the target in each of the Comparable Transactions, Caymus Partners calculated and compared total purchase price as a multiple of LTM EBITDA. EBITDA was chosen because it is a more reliable indicator of value than other factors such as revenue.

Caymus Partners adjusted the mean and median EBITDA multiples of comparable transactions to account for an already implied control premium of 20% since the acquisitions were for 100% control. After discounting the EBITDA multiples, Caymus Partners applied a range of these multiples to the LTM EBITDA of the Company to obtain an enterprise value for the Company, assuming less than 100% control.

Caymus Partners then calculated an equity value for the Company by subtracting net debt, minority interest and preferred stock from the enterprise value.

*The implied equity per share value for the Company ranged from \$21.80 to \$30.00 (mean value of \$25.90 per share).*

Comparable Transactions Analysis Methodology (cont.)

Comparable Transactions Analysis

Valuation Analyses  
Confidential

Source: CapitalIQ

(Dollars in millions)

D. Discounted Cash Flow Analysis



The discounted cash flow analysis estimates value based upon a company's projected future free cash flow discounted at a rate reflecting risks inherent in its business and capital structure. Unlevered free cash flow represents the amount of cash generated and available for principal, interest and dividend payments after providing for ongoing business operations.

While the discounted cash flow analysis is the most scientific of the methodologies, it is dependent on projections and is further dependent on numerous industry-specific and macroeconomic factors.

Caymus Partners utilized forecasts provided by Interactive and its subsidiaries' management to show an increase in Operating Income from approximately \$20.5 million in 2005 to \$20.9 million in 2009 (the terminal year).

#### Discounted Cash Flow Analysis Methodology

Valuation Analyses

Confidential

The discounted cash flow analysis presented herein incorporates estimates provided by the Company's management of cash flows during 2005 and for the next four succeeding years. These estimates, in turn, are based on assumptions, projections and forecasts, including without limitation business conditions, financial markets and regulatory actions and initiatives. As a result, there is no assurance that any such estimates will be met and such estimates are subject to uncertainties, risks and inaccuracies, any or all of which could be substantial. Caymus Partners performed the discounted cash flow analysis on the preliminary cash flow of the Company.

To arrive at a present value of the free cash flow, Caymus Partners utilized discount rates ranging from 11.0% to 13.0%.

EBITDA Terminal Multiple: A range of terminal multiples between and including 5.50x and 6.00x were utilized in this analysis. This range is in line with EBITDA multiples for Interactive's comparable companies.

A range of enterprise values was derived. The enterprise values were reduced by net debt to arrive at an equity value. The Company's net debt is estimated to be approximately \$147 million (as of December 31, 2004).

*The implied equity per share value for the Company ranged from \$24.05 to \$33.96 (mean value of \$29.00).*

Discounted Cash Flow Analysis Methodology (cont.)

Valuation Analyses  
Confidential

Discounted Cash Flow Analysis

Valuation Analyses  
Confidential

Source: Company estimates

(Dollars in thousands, except per share prices)

Discounted Cash Flow Analysis (cont.)

Valuation Analyses  
Confidential

Source: Company estimates

(Dollars in thousands, except per share prices)

E. Fractional Share Cash-Out Values of Select  
Reverse Stock Splits

Fractional Share Cash-Out Values of Selected Reverse  
Stock Splits

Valuation Analyses  
Confidential

An analysis of other going dark transactions associated with reverse stock splits provides information related to how other companies have paid for fractional shares.

This analysis is heavily dependent on a small number of companies that may or may not be related to Interactive and that have varying transactional circumstances, market capitalizations, profitability and future growth opportunities.

Caymus Partners aggregated selected reverse stock split transactions in conjunction with pending going dark transactions to determine the cash premiums paid, if any, of fractional shares

Caymus Partners concluded that, based on the difficulty in obtaining going dark transactions, the lack of data provided for those transactions and the lack of data related to companies paying fractional share premiums, an analysis of reverse stock split data is not useful for purposes of opining on the value to be paid by Interactive in this Transaction.

Analysis of Fractional Share Cash-Out Values of Selected  
Reverse Stock Splits

Valuation Analyses  
Confidential

Source: Company estimates

F. Non-Cash Generating Assets



## Non-Cash Generating Assets

### Valuation Analyses

#### Confidential

Caymus Partners reviewed the Company's non-cash generating assets in its determination of value. The Company's non-cash generating assets consist of equity investments, spectrum licenses and various marketable securities, totaling approximately \$20.1 million based on a private market valuation performed by Company management.

Caymus Partners also reviewed the non-cash assets of comparable publicly traded companies in the Core LEC grouping, including CT Communications, D&E Communications, Hickory Tech. Corp, and North Pittsburgh Systems. Non-cash assets for these companies ranged from \$4.8 million to \$167 million with a mean of \$61 million and median of \$36 million.

Caymus Partners has concluded that the value of non-cash assets for Interactive, as well as for other comparable companies, has been reflected in the respective market capitalizations (equity values) and implied comparable EBITDA multiples.

Non-Cash Generating Assets Lynch Interactive

Valuation Analyses

Confidential

Non-Cash Generating Assets Comparable Core LEC  
Companies

Valuation Analyses  
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