

BUSINESS SECTION

BACKGROUND AND HISTORY OF LICT CORPORATION

LICT Corporation (“LICT” or the “Company”) was incorporated in 1996 under the laws of the State of Delaware. (LICT was formerly known as “Lynch Interactive Corporation,” and its name was changed to LICT Corporation on March 14, 2007.) LICT’s executive offices are located at 401 Theodore Fremd Avenue, Rye, New York 10580-1430. Its telephone number is 914-921-8821.

The Company’s business development strategy is to expand its existing operations through internal growth and acquisitions. It may also, from time to time, consider the acquisition of other assets or businesses that are not related to its present businesses. The Company currently operates across a broad range of the telecommunications business segment, including: voice telephony, both as a Rural Local Exchange Carrier (“RLEC”, an incumbent local telephone company serving a rural area) and a Competitive Local Exchange Carrier (“CLEC”, a local telecommunications provider which competes with the incumbent telephone company); high speed Internet access through the provision of copper-based digital subscriber line (“DSL”), fiber optic facilities and cable modems; cable television services; and several related activities. As used herein, LICT includes its subsidiaries.

On November 10, 2005 the Company concluded a one-for-one-hundred reverse stock split as part of a “going dark” transaction. The Company then voluntarily delisted from the American Stock Exchange and filed a Form 15 with the SEC deregistering its shares on December 23, 2005. Since that time, LICT has not been a reporting company under the Securities Exchange Act of 1934 (the “Exchange Act”) and is thus not subject to the Sarbanes Oxley Act of 2002 (“Sarbanes Oxley”).

The principal reason for the Company’s “going dark” was the cost required to comply with section 404 of Sarbanes-Oxley. The Company is committed to having an effective system of accounting and financial reporting controls in place. It is also committed to consistently reviewing and, if necessary, improving those controls in order to generate reliable financial statements. However, the formal documentation and testing process required by section 404 of Sarbanes-Oxley would be likely, at some point, to impose substantial costs and a staffing strain on the Company and its subsidiaries.

On November 19, 2007, the Company spun off to its shareholders, on a one-for-one basis, shares in a wholly-owned subsidiary named CIBL, Inc. (“CIBL”). The principal assets owned by CIBL included a cable communications company, interests in two television broadcast stations, and interests in two cellular communications partnerships. The shares of CIBL were initially subject to transfer restrictions at the time of the spin-off. Subsequently, on December 5, 2008, the Financial Industry Regulatory Authority (“FINRA”) authorized public trading in CIBL shares, and the shares trade on the Pink Sheets® under the symbol “CIBY”. In a transaction that closed on May 21, 2010, a subsidiary of the Company, Giant Communications, Inc. (“Giant”), acquired CIBL’s cable operations, which serve approximately 1,800 customers in several rural northeastern Kansas communities. Giant operates as a CLEC in that area and is expanding its business plan, for which the CIBL cable system is expected to be a useful and complementary asset.

On May 28, 2010, the Company spun off of its North Dakota properties, Inter-Community Telephone Company, L.L.C. (“ICTC”) and Valley Communications, Inc., to our shareholders. On March 31, 2010, the parent entity of these companies, Lynch Telephone II, L.L.C. (“Lynch II”), had been acquired by Sunshine PCS Corporation (“Sunshine”), a public shell company which “went dark” through a reverse split conducted in January 2010. In exchange for Lynch II, the Company received 320,000 shares of Sunshine stock, or 99% of its now-outstanding shares. The spin-off of the North Dakota properties was accomplished by distributing approximately 315,700 of the Sunshine shares owned by LICT to LICT’s shareholders, at the rate of thirteen (13) shares of Sunshine for each share of LICT held on the record date of May 24, 2010, plus cash in lieu of fractional Sunshine shares at the rate of \$50/share. The Sunshine

shares spun off are not registered under the securities laws and thus are restricted from public trading at this time; however, approximately 4,500 previously-issued shares of Sunshine are registered and are listed for public trading on the Pink Sheets © under the symbol “SNSH”. (At the time of the spin-off, Sunshine changed its corporate name to ICTC Group, Inc., although it continues to trade under the “SNSH” symbol.) This spin-off will benefit both the Company and the North Dakota properties in a number of ways, and will optimize the efficiency and future development of each of the entities involved.

The Company’s shares are quoted on the Pink Sheets® under the symbol “LICT”. The Company has approximately 85 stockholders of record. LIC T disseminates quarterly and audited annual financial statements as well as press releases to the financial community.

TELECOMMUNICATIONS OPERATIONS

Wireline Telecommunications

Organization and Locations. LIC T conducts its telecommunications operations through subsidiary companies. The telecommunications group has been expanded through the selective acquisition of RLECs and by offering additional services such as broadband Internet access service, security services, long distance, cable television service, Voice over Internet Protocol (“VoIP”) and CLEC services.

Beginning in 1989, the Company has acquired fourteen telephone companies, excluding the recent North Dakota spin-off. These operations range in size from approximately 1,000 to over 10,000 access lines. The Company’s telephone and other communications operations are located in California, Iowa, Kansas, Michigan, Nevada, New Hampshire, New Mexico, New York, Oregon, Utah and Wisconsin. Our service areas are largely residential and are not densely populated. As of December 31, 2009, total voice lines, including both access and CLEC (adjusted for the North Dakota spin-off), were 49,470, a 3.7% decrease from 2008. Total DSL broadband lines in service as of December 31, 2009 were 24,813, a 6.2% increase from 2008.

Principal Products and Services. The principal business of LIC T’s telephone companies is to provide telecommunications services. These services fall into three major categories:

Local network services. We provide telephone wireline access services to residential and non-residential customers in our service areas. We provide our local network customers a number of calling features including call forwarding, conference calling, caller identification, voicemail and call waiting. In addition, we provide broadband services, primarily by means of DSL technology, to both business and residential users for Internet access and data transport. In our RLEC franchised service territories, the DSL penetration levels of our subsidiaries are currently in the 50-60% range, and rank among the highest in the industry. We are continuing our efforts to increase our DSL customer base and to expand all of our broadband services. We also offer packages of telecommunications services. These packages permit customers to bundle their basic telephone line with their choice of enhanced services, or to customize a set of selected enhanced features that fit their specific needs.

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

Non-Regulated Broadband Internet Access and Other Businesses. LIC T also provides non-regulated telecommunications services, including DSL for Internet access and data transport, and long distance resale service in certain of its telephone service territories and adjacent areas. In addition, the Company

currently provides and intends to expand its provision of local telephone and other telecommunications services outside certain of its franchise areas, by establishing CLEC operations in nearby areas. Currently, we have established CLECs in such varied locations as Jamestown, NY; Dubuque, IA; the Quad Cities area (Davenport/Bettendorf, IA and Moline/Rock Island, IL); Holton, KS; Silver City, NM; and Klamath Falls, OR. Also, in several areas, LICT subsidiaries provide security installation and monitoring services to homes and businesses, and cable television services (“CATV”), including cable modem service for high-speed Internet access. We now have a total of nearly 10,000 cable television subscribers, and are considering further acquisitions as we develop this aspect of LICT’s overall business.

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

	Years Ended December 31,		
	2007	2008	2009
Operations:			
Telephone access lines ^(a)	50,716	46,124	43,891
CLEC lines	6,861	5,263	5,579
Total voice lines	57,577	51,387	49,470
% Residential	75%	73%	72%
% Business	25%	27%	28%
DSL Lines	11,599	15,263	17,411
Internet subscribers (including DSL)	20,908	23,355	24,813
Cable television subscribers	4,337	4,473	5,956
 <u>Total Revenues</u>			
Local service	13%	13%	10%
Network access	61%	60%	56%
Other businesses ^(b)	26%	27%	30%
Total telecommunications revenues	100%	100%	100%

(a) An “access line” is a telecommunications circuit between the customer’s establishment and the central switching office.

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

Expansion and Development of New Products and Services. The Company continually seeks to roll out new services based on technological advances and expanding commercial initiatives. The Company’s subsidiaries are also continually seeking to expand their service offerings beyond their regulated geographic territories, primarily by establishing and developing CLECs in adjoining areas where that is economically feasible. In some cases, our subsidiaries will build facilities, almost entirely fiber optic cable, directly to the customer premises to provide services. In other cases, they will lease facilities from the local telephone company (the serving RLEC or, in non-rural areas, the Incumbent Local Exchange Carrier or “ILEC”), or other carriers to reach customers. In sum, as described in greater detail below, we expect future growth in telephone operations to be derived from a broad range of activities, including the acquisition of additional telephone and other communications companies; from providing service to new customers, primarily through CLEC operations; through providing additional and expanded services to existing customers; from upgrading existing customers to higher grades of service; and from new service offerings to all of our customers, whether served through our RLEC or CLEC operations.

LICT continually evaluates acquisition opportunities, focusing particularly on RLECs with a strong market position, good growth potential and predictable cash flow. In addition, the Company typically seeks companies with excellent local management already in place who will remain active with their company. At times, certain large telephone companies have offered certain of their rural telephone exchanges for sale, often on a statewide or larger area basis. LICT has in the past and may in the future consider acquiring such groups of exchanges. Telephone holding companies and others actively compete

for the acquisition of such properties, and the acquisitions are subject to the consent or approval of regulatory agencies in most states. While management believes it will be successful in making additional acquisitions, any acquisition program is subject to various risks, including being able to find and complete acquisitions at an attractive price, and being able to integrate and operate successfully any acquisition which is made.

All fifteen of LICT's current telephone companies now offer broadband Internet access service, either directly or through affiliated companies. At December 31, 2009, Internet access customers totaled 24,813 compared to 23,355 at December 31, 2008. LICT companies have substantially increased DSL customers, but this growth has been more than offset by a decrease in our traditional telephone service resulting from a number of factors, including competition from wireless and cable companies. Several of our subsidiaries are currently providing Voice over Internet Protocol ("VoIP") and exploring options for expanding such service.

Moreover, affiliates of nine of LICT's telephone companies now offer long distance and CLEC services. Specifically, an affiliate of Dunkirk & Fredonia Telephone Company ("DFT") provides CLEC service on both a facilities-based and resale basis in Dunkirk and Jamestown, New York, certain areas of Buffalo, New York, and in other areas of two western New York counties. The facilities-based CLEC services, along with collocation and unbundled network element - loop (UNE-L) facilities, allow for increased margins over a wholly resale CLEC business model. In addition, DFT has been offering VoIP services through its own facilities since 2005.

Giant Communications, Inc., an affiliate of one of the Company's Kansas telephone companies (J.B.N. Telephone Company), provides CLEC services in Holton and other areas of northeast Kansas, including the provision of VoIP services to end users.

CS Technologies, Inc. provides CLEC services, as well as VoIP and other data services, in the Quad Cities and Mount Joy, Iowa, primarily through its own facilities but also through UNE-L facilities. It also recently commenced the provision of CLEC services in Dubuque, IA on a UNE-L basis. Sales activity began in January 2010 and has already resulted in the provision of over 150 lines to more than 50 customers, both business and residential.

Cal-Ore Communications Inc. ("Cal-Ore"), based in Dorris, CA, has recently acquired nearly 1,000 CLEC lines in Klamath Falls, OR through purchase from another CLEC. Using this acquired base, Cal-Ore is now moving to expand its CLEC business in terms of number of customers, geographic areas served and range of services provided.

Central Telcom Services, LLC ("CTS"), based in Fairview, Utah, is operating successfully as a CLEC in rural communities of Nevada and Utah.

LICT currently is evaluating or implementing plans to provide additional or expanded CLEC services in all of the foregoing areas as well as Silver City, Deming and Las Cruces, NM; West Wendover, NV; and Payson, Santaquin, Elsinore and Salina, Utah. Final plans to offer CLEC service in a number of areas now under consideration but have not yet been completed.

However, there is no assurance that LICT can successfully develop these businesses or that these new or expanded businesses can be made profitable within a reasonable period of time. New businesses, and in particular any CLEC business, would be expected to operate at a loss initially and for a period of time. In addition, competition in the CLEC and other telecommunications businesses is substantial and is expected to increase in the future.

On the CATV front, in addition to Giant's recent acquisition of an 1,800-subscriber system in Kansas noted above, in early 2009 CTS acquired five additional CATV systems in Nevada serving approximately

1,650 subscribers. At December 31, 2009, CTS was providing cable service in a total of 31 communities to some 5,565 CATV subscribers and 2,417 cable modem (broadband) subscribers. CTS is in the process of rebuilding additional systems to provide two-way service, and will consider the acquisition of additional cable systems in appropriate cases.

Another affiliate of DFT, DFT Security Systems, Inc. ("DFT Security", which is 63.6% owned by LICT), acquired American Alarm Company in December 2001. DFT Security provides alarm services in western New York, including the Buffalo area. At December 31, 2009, DFT Security served nearly 2,000 customers of its own, in addition to a number of customers of another firm for which DFT Security is the service provider.

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

National Broadband Plan. On March 16, 2010, the FCC released the National Broadband Plan ("NBP") which it had authored in response to a Congressional mandate contained in the American Recovery and Reinvestment Act of 2009 (the "ARRA"). The purpose of the 360-page NBP was not to make any immediate or actual changes in the FCC's existing regulations, but rather to lay out a plan for the FCC's regulatory approach over the coming decade. The basic thrust of the FCC's efforts, as set forth in the NBP, will be to expand the geographic availability of broadband and increase the bandwidth capacities provided to users. These efforts have overall goals, among others, of making a minimum download speed of 4 Mbps and upload speed of 1 Mbps available to virtually every household and business in the nation, and making 100 Mbps service available to at least 100 million households in the next ten years. One of the actions that the FCC stated it intends to take to accomplish this is a gradual shift, over a ten-year period, from USF support to a new "Connect America Fund" that will focus on the achievement of its broadband goals. A large number of FCC rulemaking and other regulatory actions and proceedings, as well as further Congressional action in some cases, will be required to implement the NBP. Neither the timeframe for these developments, although it is likely to be at least a decade, nor the actual outcomes of future FCC and Congressional deliberations, can be predicted with any certainty at the current time. However, in the discussion below of the regulatory environment, the possible effects of the NBP on the industry's evolution are noted where they appear to be relevant.

Federal Telecommunications Act of 1996. In prior years, well before the NBP, various aspects of federal and state telephone regulation had been subject to re-examination and on-going modification. In February 1996, the federal Telecommunications Act of 1996 (the "1996 Act"), which was the most substantial revision of communications regulation since the 1930's, became law. The 1996 Act is intended generally to allow telephone, cable, broadcast and other telecommunications providers to compete in each other's businesses, while loosening regulation of those businesses. The 1996 Act's principal goals were to foster local and intrastate competition while ensuring universal service to rural America, and up to the present time it has largely served these goals overall.

National Exchange Carrier Association. For interstate services, LICT's telephone subsidiaries participate in the National Exchange Carrier Association ("NECA") common line and traffic sensitive tariffs and access revenue pools. The NECA revenue pools are intended to compensate LECs, including RLECs such as LICT's telephone companies, for the costs of facilities furnished in originating and terminating interstate long distance services, including a fair rate-of-return. LICT's subsidiaries are compensated for their intrastate costs through billing and keeping intrastate access charge revenues (there is no intrastate access revenue pool). Intrastate access charge revenues are based on intrastate access rates filed with the relevant state regulatory agency.

Intercarrier Compensation Reform. By the end of 2009, the telecommunications industry and the FCC had focused substantial efforts over a period of years on an attempt to revise intercarrier compensation,

including access charges, reciprocal compensation, transport and transiting services, and various other network interconnection issues. Despite these efforts, however, no intercarrier compensation reform order has been issued by the FCC. The NBP may now ultimately result in major reform of intercarrier compensation. However, substantial changes in the existing compensation arrangements do not appear likely for at least several more years. Currently, the rate for intercarrier compensation depends on the type of traffic at issue, the types of carriers involved, and the end points of the communications. There is broad debate as to whether these rate differentials create opportunities for regulatory arbitrage as well as incentives for inefficient investment and deployment decisions. The intent of the intercarrier compensation reform effort has been to replace the existing patchwork of intercarrier compensation rules with a unified approach. The FCC has stated its intent in the NBP to re-examine intercarrier compensation, but it cannot be predicted with any assurance when that reexamination may occur, how long it may take or what the results might be.

Universal Service Fund. The USF mechanisms are intended, among other things, to provide special support funds to high-cost RLECs so that they can provide affordable services to their customers, notwithstanding their elevated expenses resulting from the low population densities, and sometimes geographies, of the areas served. The FCC has minimum requirements for a telecommunications carrier to be designated as an eligible telecommunications carrier (“ETC”) for the purpose of receiving federal USF. All of LICT’s companies are already designated as ETCs. The FCC has bifurcated USF mechanisms between rural and non-rural companies. All of LICT’s telephone subsidiaries are rural, rate-of-return companies for interstate regulatory purposes. Rate-of-return companies receive support based on their costs.

The federal and state USF mechanisms, including those for the support which the Company receives, are subject to considerable scrutiny and possible modification by the United States Congress, the FCC and the state regulatory authorities. As with intercarrier compensation, the FCC announced its intention in the NBP to reexamine USF and indicated that it favored re-focusing it to support the development of broadband services through the creation of the Connect America Fund. However, it is not possible at the current time to predict what modifications the Congress, the FCC or state regulatory agencies may adopt regarding USF, the timing of such modifications or the impact of those modifications on the Company.

Voice over Internet Protocol. LICT’s local exchange carrier telephone operations have moderate but increasing wireline competition at the present time. More significantly, wireless usage and VoIP are continuing to increase across the nation, including in areas served by LICT. Competition from VoIP services could have a substantially detrimental impact on future revenues and create additional uncertainty for the Company. It is not possible to predict the extent to which these complementary or substitutable services might impact LICT’s revenues. Because of the rural nature of their operations and related low population densities, LICT’s RLEC subsidiaries are generally high cost operations which receive substantial federal and state support. However, it appears that in at least some areas, the regulatory environment for RLEC operations is becoming less supportive than has historically been the case, which may enhance the competitive impact of VoIP. The focus of the NBP on broadband Internet technology, as discussed above, may exacerbate this trend. Moreover, VoIP usage is increasing as both a transport facility between switching centers and as a means to serve the end user’s voice telephone needs. As a transport facility, it is expected to decrease the overall cost of transport in the long run. LICT is analyzing whether VoIP could be utilized for transport in a cost effective manner in the most rural portions of the nation, such as those served by the Company, and has implemented VoIP services in several locations as part of our CLEC operations.

The interexchange carriers (“IXCs”) would like to have access minutes that are transported over VoIP exempted from paying access charges. If the IXCs were exempted from paying access charges on VoIP traffic, it could have a significant detrimental impact on the Company’s access charge revenues. While the FCC has initially determined that computer-to-computer VoIP traffic should not be considered a telecommunications service, the FCC has not issued a final decision on this matter and it is not possible to

predict the FCC's future actions regarding the transport issue. The FCC has issued several orders dealing with particular aspects of VoIP and it currently is conducting an ongoing, comprehensive proceeding to determine the overall extent to which VoIP should be subject to regulation. As a general topic, VoIP is likely to be included in the implementation of the NBP, and it is not possible to predict the timeframe or the results which may occur.

In addition to transport, companies are increasing the use of VoIP in providing voice services to the end user. This VoIP end user traffic is typically low-priced or even free although it requires the use of a broadband service, such as DSL or cable modem. Obviously, however, if the end user purchases the broadband service from a competitor, such as a cable or wireless broadband company, the telephone company loses all revenue associated with the customer switching to VoIP. Of even greater concern is the fact that the Company loses the access charge revenue associated with intrastate calls that previously were provided through the Company's switched network. It is not possible to determine the potential lost revenue from calls that are handled by VoIP rather than the public switched network. This is very similar to revenue losses due to wireless usage where minutes of use are being lost from the Company's switching platform to the wireless carrier's switch, thus reducing the Company's access revenues.

Competitive Developments. In addition to the VoIP competition described above, competition in the telecommunications industry is increasing across the board. Competition in the Company's wireline telecommunications markets is becoming more significant in the areas closest to larger towns or metropolitan areas. All of LICT's telephone companies have historically been monopoly wireline providers in their respective areas for local telephone exchange service, but the regulatory landscape is changing. We now experience competition from long distance carriers, from cable companies and Internet service providers with respect to Internet access, from cable telephony, and from wireless carriers. Competition is resulting in a continuing loss of access lines and minutes of use, and in the conversion of retail lines to wholesale lines, which negatively affects revenues and margins from those lines. Competition also puts pressure on the prices we are able to charge for some services, particularly for some non-residential services. The total number of competitors is difficult to estimate since many of the companies do not have a local presence, but instead compete for services via the Internet, using VoIP or through wireless operations.

As a result of the 1996 Act, followed by FCC and state regulatory initiatives and judicial decisions aimed at increasing competition, certain telecommunications providers have attempted to bypass local exchange carriers and to connect directly with high-volume toll customers. For example, in the last few years, the states of New Mexico, New York, Michigan, Wisconsin and Kansas passed or amended telecommunications bills intended to reduce regulation and introduce more competition among providers of local services. In addition, regulatory authorities in certain states, such as New York, have taken steps to promote competition in local telephone exchange service by requiring certain companies to offer wholesale rates to resellers. To date, however, the Company's telephone subsidiaries have not experienced a substantial impact from these developments, and we do not consider them a significant near-term competitive threat due to the limited number of high-volume customers served by our telephone subsidiaries.

Wireless and Other Interests. LICT has a number of other interests, particularly wireless interests, which contribute value to the Company but are not within its core RLEC business.

Iowa Network Services, Inc. ("INS"). A wholly-owned subsidiary of the Company owns 1,115 shares of INS participating preferred stock and 172 shares of INS common stock – equating to a 2.45% economic interest. Among other things, INS provides wireline telecommunications access and transport services, long distance services and Internet equipment and services to the exchanges of participating telephone companies and others. In addition, INS owns a minority position in Iowa Wireless Services, LLC, which operates a cellular network. That wireless network covers the larger metropolitan areas in Iowa except for the Des Moines Basic Trading Area.

Kansas Fiber Network (“KFN”). A wholly-owned subsidiary of the Company owns an interest of approximately 3% in KFN, a statewide fiber network which was formed in early 2009 by some thirty of the thirty-two RLECs currently operating in Kansas. KFN is expected to become operational in 2010, providing fiber optic transport and other services to both its RLEC owners and other customers.

Wapsi Wireless, L.L.C. (“Wapsi”). A wholly-owned subsidiary of the Company owns a 14.29% membership interest in Wapsi, which provides wireless services to Clinton and Jackson Counties in Iowa utilizing the INS switching platform.

Modoc RSA Limited Partnership (“Modoc”). A wholly-owned subsidiary of the Company owns a 25% limited partnership in Modoc, which provides cellular telephone service to California RSA No. 2.

PTPMS Communications, L.L.C. (“PTPMS”). A wholly-owned subsidiary of the Company is a 49.9% owner of PTPMS, which was a high bidder in the FCC auction conducted in 2000 of licenses for 39 GHz spectrum. PTPMS won 22 licenses covering a population of 27.6 million for an aggregate cost of \$1.5 million. LICT’s subsidiary has loaned PTPMS approximately \$1.4 million of the purchase price and has the right to receive a fee equal to 20% of the realized net profits of PTPMS (after an assumed cost of capital).

PTPMS Communications II, L.L.C. (“PTPMS II”). A wholly-owned subsidiary of the Company is a 49.9% owner of PTPMS II. In 2000, PTPMS II won three licenses in the FCC auction of 700 MHz Guard Band spectrum for data transmission and Internet services. These licenses cover a population of 6.4 million in BTAs including the cities of Buffalo, NY, Des Moines-Quad-Cities, IA/IL, and El Paso, TX.

Lower 700 MHz Spectrum. In 2002 and 2003, Lynch 3G Communications Corporation (“Lynch 3G”) participated in two FCC auctions. In those Auctions it acquired twelve Lower 700 MHz licenses for a total cost of \$1.7 million. In a transaction which closed in March 2008, Lynch 3G sold four of the licenses to AT&T for \$6.6 million. Lynch 3G continues to hold eight 700 MHz licenses, for Elmira, NY; Las Cruces, NM; Dubuque, IA; Michigan 1 – Gogebic; New Mexico 1 - San Juan; New Mexico 3 – Catron; New Mexico 5 – Grant; and New York 3 – Chautauqua, which cover a total population of 1.5 million. The cost of these licenses in the Auctions was \$0.8 million.

Personal Communications Services (“PCS”) Spectrum. In February 2005, Lynch 3G participated in the FCC’s Auction 58 for PCS Spectrum and was high bidder for two licenses, Marquette, MI, and Klamath Falls, OR, for a total cost of \$0.5 million. The licenses cover populations of 74,496 and 80,646 respectively.

In addition, wholly-owned LICT subsidiaries hold PCS licenses in Logan, Utah and portions of Clinton County, Iowa. These licenses were acquired as part of the acquisition of Central Utah Telephone Company and Central Scott Telephone Company, respectively. The licenses cover populations of 102,702 and 11,470 respectively.

Lynch PCS Corporation G, a wholly-owned subsidiary, holds a PCS license in Las Cruces, NM which covers a population of 249,902. The license was acquired as payment for services the Company performed for others in FCC spectrum auctions.

Advanced Wireless Services (AWS) Spectrum. In September 2006, Lynch AWS Corporation participated in the FCC’s Auction No. 66 and was high bidder for an AWS license in Topeka, KS, for a cost of \$0.5 million. The license covers a population of 454,539.

24 GHz Spectrum. In July 2004, Lynch 3G participated in the FCC’s Auction for 24 GHz spectrum and was high bidder for licenses covering Buffalo – Niagara, NY and Davenport, IA – Moline, IL, for a total cost of \$49,000. These licenses cover a total population of 2,066,672.

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

However, there are many risks relating to FCC wireless licenses, including without limitation the generally high cost of the licenses; the start-up nature of these businesses; the FCC's rules imposing build-out requirements on all spectrum licenses; the need to raise substantial funds to pay for the licenses and their build-out; the decisions on how best to develop the licenses and which technology to use; the small size and limited resources of our companies compared to other potential competitors; existing and changing regulatory requirements; additional auctions of wireless telecommunications spectrum; and the challenges of actually building out and operating new businesses profitably in a highly competitive environment (including already established cellular telephone operators and other new licensees). There are also substantial restrictions on the transfer of control of licensed spectrum. There can be no assurance that any licenses granted to entities in which subsidiaries of LICT have interests can be successfully sold, financed or developed, thereby allowing LICT's subsidiaries to recover their debt and equity investments.

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

Environmental Compliance. The capital expenditures, earnings and competitive position of LICT have not been materially affected by compliance with current federal, state and local laws and regulations relating to the protection of the environment. However, LICT cannot predict the effect of future laws and regulations on its environmental compliance or the costs thereof.

Seasonality. No portion of the business of LICT is regarded as seasonal at a significant level. While LICT's New Hampshire and Michigan operations' usage varies during the year due to tourism and the presence of vacation homes, this variation is not material to LICT's telephone operations as a whole.

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

Government Contracts. In some instances, LICT provides service to the government under tariff and/or special contracts. LICT's government contracts are not material to its operations as a whole and the elimination of those contracts would not significantly impact its operations or financial results.

Employees. LICT had a total of 341 employees at December 31, 2009, including 7 corporate employees with the remainder responsible for providing rural telephone services, compared to 343 employees at December 31, 2008. As a result of the North Dakota spin-off, LICT has a total of 327 employees as of June 1, 2010.

EXECUTIVE OFFICERS

The following list of the Company's senior management sets forth all positions and offices with the Company held by each such person, and the principal occupations, employment or other service of these persons during past years.

<u>Name</u>	<u>Offices and Positions Held</u>	<u>Age</u>
Mario J. Gabelli	Chairman of the Board of Directors since December 2004 (and also Chairman from September 1999 to December 2002), Vice Chairman from December 2002 to December 2004, a Director since 1999, and Chief Executive Officer from September 1999 to November 2005. Mr. Gabelli has also served as a Director of CIBL, Inc. from the time of its spin-off from LICT in November 2007. He has served as the Chairman, Chief Executive Officer and Chief Investment Officer –Value Portfolios of GAMCO Investors Inc. (“GAMCO”), a publicly traded company in the asset management business, since November 1976. In connection with those responsibilities, he serves as Director or Trustee of registered investment companies managed by GAMCO and its affiliates (“Gabelli Funds”). Since 1998, he has been a portfolio manager of Teton Advisors, Inc. (“Teton”), an asset management company that was spun off from GAMCO in March 2009. He has also served as Chairman and Chief Executive Officer of Morgan Group Holdings, Inc., a public holding company, from 2001 to the present. In addition, Mr. Gabelli is the Chief Executive Officer, a Director and the controlling shareholder of GGCP, Inc. (“GGCP”), a private company which owns a majority of GAMCO's Class B Stock, and the Chairman of MJG Associates, Inc., which acts as an investment manager of various investment funds and other accounts. He also serves as an Overseer of the Columbia University Graduate School of Business, and as a Trustee of Boston College and Roger Williams University. In addition, he serves as Director of The Winston Churchill Foundation, The E. L. Wiegand Foundation, The National Italian American Foundation, The American-Italian Cancer Foundation, The Foundation for Italian Art & Culture, The Mentor/National Mentoring Partnership and The Patron's Committee for the Immaculate Conception School. He is also Chairman of the Gabelli Foundation, Inc., a Nevada private charitable trust.	68
Robert E. Dolan	Chief Executive Officer (Interim) since May 2006; Chief Financial Officer (since January 2004); Chief Financial Officer and Controller from September 1999 to January 2004; Chief Financial Officer (1992-2000) and Controller (1990-2000) of Lynch Corporation.	58
Evelyn C. Jerden	Senior Vice President – Regulatory Dynamics (since December 2008); Senior Vice President-Operations	52

(September 2003- December 2008); Vice President-Regulatory Affairs (2002-2003); Director of Revenue Requirements of Western New Mexico Telephone Company, Inc. (1992-present).

Thomas J. Hearity	General Counsel, Vice President - Administration and Corporate Secretary (since January 2007); Deputy General Counsel and Chief Compliance Officer, Celanese Corporation, November 2005 to January 2007; Senior Vice President and Associate General Counsel, Charter Communications, Inc., September 2003 to November 2005; private practice of law in the telecommunications industry, 1996 to September 2003.	63
Paul S. Goldstein	Controller (since January 2004); Director of Financial Reporting, Abovenet, Inc., November 2002-January 2004.	56
Neil L. Kiernan	Treasurer (since March 2008); Vice President, Investment, Banking, Punk, Ziegel & Company, L.P., May 2007-March 2008; Vice President, Global Banking, HSBC Securities (USA), Inc., July 2004- January 2007.	39

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

REAL ESTATE PROPERTIES

LICT leases approximately 3,300 square feet of office space on arm's-length commercial terms from an affiliate of its Chairman for its executive offices in Rye, New York. The lease expires in December 2023.

Western New Mexico Telephone Company ("Western") owns a total of 16.9 acres at 15 sites located in southwestern New Mexico. Its principal operating facilities are located in Silver City, where Western owns one building with a total of 6,480 square feet housing its administrative offices and certain storage facilities, and another building of 216 square feet which houses core network equipment. In Cliff, New Mexico, Western owns six buildings with a total of 16,238 square feet which contain additional offices and storage facilities, as well as a vehicle shop, a fabrication shop, and central office switching equipment. Smaller facilities, used mainly for storage and for housing central office switching equipment, with a total of 9,984 square feet, are located in Lordsburg, Reserve, Magdalena and five other localities in New Mexico. In addition, Western leases 1.28 acres on which it has constructed four microwave towers and a 120 square-foot equipment building. Western has the use of 46 other sites under permits or easements at which it has installed various types of equipment either in small company-owned buildings (totaling 2,403 square feet) or under protective cover. Western also owns 3,873 miles of copper cable and 545 miles of fiber optic cable running through rights-of-way within its 15,000 square mile service area. All of these properties are encumbered under mortgages held by the Rural Utilities Service ("RUS") and the National Bank for Co-Operatives ("CoBank").

Cuba City Telephone Company is located in a 3,800 square-foot brick building on 0.4 acre in Cuba City, WI. The building serves as the central office, commercial office, and garage for vehicle storage. The company also owns a 0.1 acre site with a 1,400 square foot cement block building and a 600 square foot metal building for storage of materials and equipment. Belmont Telephone Company is located in a

cement block building of 800 square feet on 0.5 acre of land in Belmont, Wisconsin. The building houses the central office equipment for Belmont. The companies own a combined total of 324 miles of copper cable and 60 miles of fiber optic cable. All of these companies' properties are encumbered under mortgages held by CoBank.

J.B.N. Telephone Company ("J.B.N.") owns or leases a total of approximately 2.25 acres located in northeast Kansas. Its administrative and commercial office consisting of 7,000 square feet is located in Holton, Kansas and a 3,000 square-foot garage/warehouse facility is located in Wetmore, Kansas. In addition, J.B.N. owns 15 smaller facilities housing central office switching equipment and over 1,233 miles of copper cable and 216 miles of fiber optic cable. All of these properties are encumbered under mortgages held by the RUS.

Haviland Telephone Company owns a total of approximately 3.9 acres at 20 sites located in south central Kansas. Its administrative and commercial office consisting of 5,500 square feet is located in Haviland, Kansas. In addition, this company owns 19 smaller facilities housing garage and warehouse facilities, along with central office switching equipment. Haviland Telephone Company has over 1,165 miles of copper cable and 517 miles of fiber optic cable. All of these properties are encumbered under a mortgage held by the RUS.

Dunkirk & Fredonia Telephone Company ("DFT"), including its affiliates, owns a total of approximately 15 acres at five locations in western New York. Its central office switching equipment and administrative and commercial offices, consisting of 18,297 square feet, are located in Fredonia, New York. In addition, DFT owns four other properties, including a service garage, a paging tower site, a small central office in Cassadaga, New York, and a sales and service center in Jamestown, New York. DFT also owns 357 miles of copper cable and 108 miles of fiber optic cable. All of these properties are encumbered under mortgages held by the RUS and CoBank.

Bretton Woods Telephone Co., Inc. leases approximately 2,800 square feet of business office space and garage/storage space located in Bretton Woods, New Hampshire. In addition, the company owns a 444 square foot central office building also located in Bretton Woods, which is built on leased land. The company has 28 miles of copper cable and 7.7 miles of fiber optic cable. All of these properties are encumbered under mortgages held by CoBank.

Upper Peninsula Telephone Company ("UPTC") owns a total of approximately 56 acres at 15 sites located in the Upper Peninsula of Michigan. Its host central office switching equipment and administrative and commercial offices, consisting of 11,200 square feet, are located in Carney, Michigan. In addition, UPTC owns 23 other smaller facilities housing garage, warehouse and central office switching equipment; and over 1,647 miles of copper cable and 278 miles of fiber optic cable. All of these properties are encumbered under mortgages held by the RUS and CoBank.

Michigan Central Broadband Company, L.L.C. ("MCBC"), a wholly-owned subsidiary of UPTC which became operational in late 2009, owns the four exchanges formerly held by UPTC in the Lower Peninsula of Michigan. MCBC owns approximately two acres of land at four sites, which are used for central office switches, garages and warehousing. It also owns approximately 495 miles of copper cable and 16 miles of fiber optic cable.

Central Scott Telephone Company ("Central Scott") owns 3 acres of land at 5 sites. Its main office in Eldridge, Iowa, contains 3,104 square feet of office and 341 square feet of storage space. In addition, it has 3,360 square feet of garage space and 2,183 square feet utilized for its switching facilities. Central Scott has 366 miles of copper cable and 40 miles of fiber optic cable. Its subsidiary CS Technologies has 5 miles of copper cable and 14 miles of fiber optic cable. All of these properties are encumbered under mortgages held by CoBank.

Central Utah Telephone, Inc. (“Central Utah”) and its subsidiaries and affiliates own a total of 9.8 acres at sixteen sites, and have an additional 3.8 acres at twenty-three sites which are under leases, permits or easements. These sites are located in the central, northeastern and midwestern areas of Utah. Central Utah’s principal operating facilities are located in Fairview, Utah, where it owns a commercial office building containing 14,400 square feet, and a plant office and central office building containing 5,200 square feet. In addition, it has 1,604 square feet of office space, 2,795 square feet of warehouse space, 6,595 square feet of vehicle maintenance facilities, 4,252 square feet of protective cover and three rental homes. Central Utah owns smaller facilities used mainly for housing central office switching equipment with a total of 10,115 square feet in 26 various locations. In addition, the company owns 968 miles of copper cable, 305 miles of coaxial cable and 698 miles of fiber optic cable running through rights-of-way within its 10,483 square mile service area. All of Central Utah’s properties are encumbered under mortgages held by the RUS, Far West Bank and CoBank.

Cal-Ore Telephone Company (“Cal-Ore”) owns a total of 35.4 acres at 8 sites located in north central California. Its principal operating facilities are located in Dorris, California, where Cal-Ore owns three buildings comprising a total of 4,727 square feet housing its administrative offices and central office switching terminals, 11,500 square feet of maintenance shop with offices and truck bays, and another building which houses record storage. In Tulelake, California, Cal-Ore owns two buildings with a total of 1,913 square feet containing business offices, central office switching terminals and storage facilities, as well as a vehicle maintenance shop of 4,450 square feet. Smaller facilities, used mainly for storage and for housing central office switching equipment, with a total of 1,893 square feet, are located in Macdoel, Tennant and Newell. Cal-Ore has the use of 5 other sites under permits or easements at which it has constructed four microwave towers and installed various items of equipment either in small company-owned buildings (totaling 824 square feet) or under protective cover. One of these sites is in Klamath Falls, Oregon. Cal-Ore also owns 586 miles of copper cable and 191 miles of fiber optic cable running through rights-of-way within its 850 square mile service area, with an additional 48 miles of fiber owned or leased in Oregon. All of these properties are encumbered under mortgages held by CoBank.

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

LEGAL PROCEEDINGS

See Footnote 14 to the Company’s Audited Financial Statements.

RISK FACTORS

In addition to the risks noted above, any of the following risks could materially adversely affect our business, consolidated financial condition, results of operations or liquidity, or the market price of our common stock. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.

Risks Related to Our Substantial Indebtedness

To operate and expand our business, service our indebtedness and complete future acquisitions, we will require a significant amount of cash. Our ability to generate cash will depend on many factors beyond our control. We may not generate sufficient funds from operations to repay or refinance our indebtedness at maturity or otherwise, to consummate future acquisitions or to fund our operations. A significant amount of our cash flow from operations will be dedicated to capital expenditures and debt service. As a result, there can be no assurance that the cash that we retain will be sufficient to finance growth opportunities, including acquisitions, and we may be required to devote additional cash to unanticipated capital expenditures or to fund our operations. Our ability to make

payments on our indebtedness will depend on our ability to generate cash flow from operations in the future, as well as our ability to refinance existing debt. This ability, to a certain extent, will be subject to general economic, financial, competitive, legislative, regulatory and other factors that will be beyond our control. There can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our indebtedness, to make payments of principal at maturity or to fund our other liquidity needs.

We may also be forced to raise additional capital or sell assets and, if we are forced to pursue any of these options under distressed conditions, our business and the value of our common stock could be adversely affected. In addition, these alternatives may not be available to us when needed or on satisfactory terms due to prevailing market conditions, a decline in our business, legislative and regulatory factors or restrictions contained in the agreements governing our indebtedness.

Our substantial indebtedness could restrict our ability to pay dividends on our common stock and have an adverse impact on our financing options and liquidity position. This substantial indebtedness could have important adverse consequences for the holders of our common stock, including:

- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations, including under our existing credit facilities;
- limiting our ability in the future to obtain additional financing for working capital, capital expenditures or acquisitions;
- causing us to be unable to refinance our indebtedness on terms acceptable to us or at all;
- limiting our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- requiring a significant portion of our cash flow from operations to be dedicated to the payment of interest and principal on our indebtedness, thereby reducing funds available for future operations, dividends on our common stock, capital expenditures or acquisitions;
- making us more vulnerable to economic and industry downturns and conditions, including increases in interest rates; and
- placing us at a competitive disadvantage compared to those of our competitors that have less indebtedness.

The Company and certain of its subsidiaries are holding companies and rely on dividends, and other payments, advances and transfers of funds from operating subsidiaries and investments to meet debt service and other obligations. The Company and certain of its subsidiaries are holding companies and conduct all of their operations through operating subsidiaries. The Company and these subsidiaries currently have no significant assets other than equity interests in the operating subsidiaries. As a result, the Company and these subsidiaries rely on dividends and other payments or distributions from operating subsidiaries to meet their debt service obligations and all of their other financial needs or requirements generally. The ability of the Company's operating subsidiaries to pay dividends or make other payments or distributions to the Company and the non-operating subsidiaries will depend on their respective operating results and may be restricted by, among other things:

- the laws of their jurisdiction of organization;
- the rules, regulations and orders of state regulatory authorities;
- agreements of those subsidiaries; and
- the terms of agreements governing indebtedness of those operating subsidiaries.

The Company's operating subsidiaries generally have no obligation, contingent or otherwise, to make funds available to the Company or its other subsidiaries, whether in the form of loans, dividends or other distributions.

Our existing credit facilities and other agreements governing our indebtedness contain covenants that limit our business flexibility through operating and financial restrictions, including on the payment of dividends. Our existing credit facilities impose significant operating and financial

restrictions on us. These restrictions prohibit, require prior lender approval of, and/or limit, among other things:

- incurrence of additional indebtedness and the issuance by our subsidiaries of preferred stock;
- payment of dividends on, and purchases or redemptions of, capital stock;
- a number of other types of payments, including investments;
- the creation of liens;
- the ability of each of our subsidiaries to guarantee indebtedness;
- specified sales of assets;
- creation of encumbrances or restrictions on the ability of our subsidiaries to distribute and advance funds or transfer assets to us or any other subsidiary;
- specified transactions with affiliates;
- sale and leaseback transactions;
- our ability to enter lines of business outside the communications business; and
- certain consolidations and mergers and sales and/or transfers of assets by or involving us.

Our existing credit facilities also require us to maintain specified financial ratios and satisfy financial condition tests, including, without limitation, a maximum total leverage ratio and a minimum interest coverage ratio. It is possible that a new credit facility, if we were successful in negotiating one, could contain similar provisions on some of these points. Our ability to comply with these covenants, ratios or tests contained in the agreements governing our indebtedness may be affected by events beyond our control, including prevailing and evolving economic, financial and industry conditions. A breach or violation of any of these covenants, ratios or tests could result in a default under the agreements governing our indebtedness. In the current economic and financial circumstances, obtaining a waiver of such a breach or violation, or a modification of the covenant or other provision involved, has become more difficult, problematic and expensive.

Under certain conditions, covenants prohibit us from making dividend payments on our common stock. In addition, upon the occurrence of an event of default, the lenders under our existing credit facility (or a new credit facility, following the consummation of such a transaction) could have the option to declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If we were to be unable to repay those amounts, the lenders under our existing credit facility (or a new credit facility, following the consummation of such a transaction) could proceed against the security granted to them to secure that indebtedness, or commence collection or bankruptcy proceedings against us.

If the lenders accelerate the payment of any outstanding indebtedness, our assets may not be sufficient to repay all of our indebtedness. As a result of general economic conditions, conditions in the lending markets, the results of our business or for any other reason, we may elect or be required to amend or refinance our existing credit facility (or a new credit facility, following the consummation of such a transaction), at or prior to maturity, or enter into additional agreements for indebtedness. Any such amendment, refinancing or additional agreement may contain covenants which could limit in a significant manner our operations, our competitiveness and/or our financial flexibility generally.

The price of our common stock may fluctuate substantially, which could negatively affect holders of our common stock. The market price of our common stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in our operating results, the volume of sales of our common stock, developments in the communications industry, the failure of securities analysts to cover our common stock or changes in financial estimates by analysts, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in particular. Communications companies have in the past experienced extreme volatility in the trading prices and volumes of their securities, which has often been unrelated to operating performance. High levels of market volatility may have a significant adverse effect on the market price of our common stock, and may generate litigation which could result in substantial costs and divert management's attention and resources.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of our common stock. Our stock is thinly-traded, and future sales, or the availability for sale in the public market, of substantial amounts of it could adversely affect the prevailing market price of the stock. The market price of our common stock could decline as a result of the perception that a relatively high volume of sales could occur, whether or not such sales are actually made.

Risks Related to Our Business

We provide services to customers over access lines, and if we lose access lines, our business, financial condition and results of operations may be adversely affected. We generate revenue primarily by delivering voice and data services over access lines. We have experienced net access line losses in the past few years. These losses resulted mainly from competition the use of alternative technologies and, to a lesser degree, challenging economic conditions and the offering of DSL services, which prompts some customers to cancel second line service. In addition to line losses, the usage of our networks, generally measured in Minutes of Use (“MOUs”), has also been decreasing. We may continue to experience net access line and MOU losses in our markets. Our inability to retain access lines and the declining usage of the lines we do retain could adversely affect our business, financial condition and results of operations.

We are subject to competition that may adversely impact our business, financial condition and results of operations. As an incumbent carrier, we historically had experienced little competition in our RLEC markets. However, many of the competitive threats confronting large communications companies, such as competition from cable providers, are becoming more prevalent in the rural markets that we serve. Regulations and technology change quickly in the communications industry, and changes in these factors historically have had, and may in the future have, a significant impact on the competitive dynamics of our industry. In most of our rural markets, we are facing or will face competition from wireless technology, which may increase as wireless technology improves. We are also likely to face increased competition from wireline and cable television operators. We may face additional competition from new market entrants, such as providers of wireless broadband, VoIP, satellite communications and electric utilities. The Internet services market is also highly competitive, and we expect that this competition will intensify. Many of our competitors have brand recognition, offer online content services, and have financial, personnel, marketing and other resources that are significantly greater than ours. We believe that a growing percentage of our current and potential customers will have access to a cable modem offering, and the cable industry has recently introduced greatly increased broadband capacities with a technology referred to as DOCSIS 3.0.

In addition, consolidation and strategic alliances within the communications industry or the development of other new technologies could affect our competitive position. We cannot predict the number of competitors that will emerge from technological developments or as a result of existing or new federal and state regulatory or legislative actions. However, increased competition from existing and new entities could have a material adverse effect on our business, financial condition and results of operations. Competition may lead to loss of revenues and profitability as a result of numerous factors, including:

- loss of customers;
- reduced usage of our network by our existing customers, who may use alternative providers for long distance and data services;
- reductions in the prices for our services which may be necessary to meet competition; and/or
- increases in marketing expenditures and discount and promotional campaigns.

In addition, our provision of long distance service is subject to a highly-competitive market served by large nationwide carriers that enjoy brand name recognition and have other financial and operational advantages over us.

We may not be able to successfully integrate new technologies, respond effectively to customer requirements or provide new services. The communications industry is subject to rapid and far-reaching changes in technology, frequent new service introductions and evolving industry standards. We cannot predict the effect of these changes on our competitive position, profitability or financial condition. Technological developments may reduce the competitiveness of our networks and require unbudgeted upgrades or the procurement of additional products that could be expensive and time-consuming. In addition, new products and services arising out of technological developments may reduce the attractiveness of our services. If we fail to adapt successfully to technological changes or obsolescence, or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and/or sell new services to our existing customers.

Our relationships with other communications companies are material to our operations and their financial difficulties may adversely affect our business, financial condition and results of operations. We originate and terminate calls for long distance carriers and other interexchange carriers over our network. For those services, we receive payments for access charges. These payments represent a significant portion of our revenues and are material to our business. If one or more of these carriers go bankrupt or experience substantial financial difficulties, our inability to collect access charges from them could have a negative effect on our business, financial condition and results of operations.

We face risks associated with acquired businesses and potential acquisitions. We have grown in the past, in part, by acquiring other businesses and a portion of our future growth may result from additional acquisitions. Growth through acquisitions entails numerous risks, including:

- strain on our financial, management and operational resources, including the distraction of our management team in identifying potential acquisition targets, conducting due diligence and negotiating acquisition agreements;
- the potential loss of key employees or customers of the acquired businesses;
- unanticipated liabilities or contingencies of the acquired businesses;
- unbudgeted costs which we may incur in connection with pursuing potential acquisitions, whether or not the acquisitions are consummated;
- failure to achieve projected cash flow from acquired businesses;
- fluctuations in our operating results caused by incurring expenses to acquire businesses before receiving the anticipated revenues expected to result from the acquisitions;
- difficulties in finding suitable acquisition candidates;
- difficulties in making acquisitions on attractive terms due to a potential increase in competitors; and
- difficulties in obtaining and maintaining any required regulatory authorizations in connection with acquisitions.

In the future, we may need additional capital to continue growing through acquisitions. This additional capital may be raised in the form of additional debt, which would increase our leverage and further limit our financial flexibility. We may not be able to raise sufficient capital on terms we consider acceptable, or at all. We may not be able to successfully complete the integration of other businesses that we have previously acquired or successfully integrate any businesses that we might acquire in the future. If we fail to do so, or if we do so but at greater cost than we anticipated, our business, financial condition and results of operations may be adversely affected.

A network disruption could cause delays or interruptions of service, which could cause us to lose customers. To be successful, we will need to continue to provide our customers reliable service over our network. Some of the risks to our network and infrastructure include:

- physical damage to access lines;
- widespread power surges or outages;
- software defects in critical systems; and
- disruptions beyond our control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and/or revenues, and incur expenses.

Our billing systems or the billing systems of our third party vendors may not function properly. The failure of any of our billing systems or the billing systems of any of our third party vendors could result in our inability to adequately bill and provide service to our customers. The failure of any of our billing systems could have a material adverse effect on our business, financial condition and results of operations.

We depend on third parties for our provision of long distance and bandwidth services. Our provision of long distance and bandwidth services is dependent on underlying agreements with other carriers that provide us with transport and termination services. If these carriers fail to meet their obligations, or if the provisions in our agreements with them prove unfavorable to us due to changes in market conditions or other factors, our business and operations may be adversely affected.

We may not be able to maintain the necessary rights-of-way for our networks. We are dependent on rights-of-way and other permits from railroads, utilities, state highway authorities, local governments and transit authorities to install and maintain conduit and related communications equipment for any expansion of our networks. We may need to renew current rights-of-way for our networks and there can be no assurance that we would be successful in renewing these agreements on acceptable terms or at all. Some of our agreements may be short-term, revocable at will, or subject to termination upon customary default provisions, and we may not have access to existing rights-of-way after they have expired or been terminated. If any of these agreements are terminated or not renewed, we could be required to remove or abandon our facilities. Similarly, we may not be able to obtain right-of-way agreements on favorable terms, or at all, in new service areas, and, if we are unable to do so, our ability to expand our networks could be impaired.

Our success depends on our ability to attract and retain qualified management and other personnel. Our success depends upon the talents and efforts of our all of our personnel. The loss of any member of our senior management team, and the inability to attract and retain highly qualified technical and management personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

We may face significant future liabilities or compliance costs in connection with environmental and worker health and safety matters. Our operations and properties are subject to federal, state and local laws and regulations relating among other things to protection of the environment, natural resources, and worker health and safety, including laws and regulations governing the management, storage and disposal of hazardous substances, materials and wastes, and remediation of contaminated sites. Under certain environmental laws, we could be held liable, jointly and severally and without regard to fault, for the costs of investigating and remediating any contamination at owned or operated properties, or for contamination arising from the disposal by us or our predecessors of regulated materials at formerly owned or operated properties or at third-party waste disposal sites. In addition, we could be held responsible for third-party property or personal injury claims relating to any such contamination or relating to any violations of environmental laws. Changes in existing laws or regulations, future acquisitions of businesses or any newly discovered information could require us to incur substantial costs relating to these matters.

If the spin-offs do not constitute tax-free spin-offs under section 355 of the Internal Revenue Code, the Company and/or our stockholders may be responsible for payment of United States federal income taxes. We continue to expect that the CIBL and North Dakota distributions will not be taxable to LICT, the spun-off entities or LICT stockholders for U.S. federal income tax purposes. However, neither LICT, CIBL nor Sunshine (now known as ICTC Group, Inc., as noted above) has received an opinion from legal counsel regarding the U.S. federal income tax consequences of the distribution, or applied for a

private letter ruling from the IRS with respect to the U.S. federal income tax consequences of the distribution. In addition, although the Separation Agreements governing the spin-offs restrict those companies from taking certain actions that could jeopardize the spin-offs' tax-free status, we do not have the ability to control their actions. Accordingly, there can be no assurance that the IRS or another taxing authority will not assert that the distributions, or either one of them, is taxable to LICT, the spun-off entity or LICT stockholders.

Risks Related to Our Regulatory Environment

We are subject to significant regulations that could change in a manner adverse to us. We operate in a heavily regulated industry, and the majority of our revenues are supported by regulations, including access revenue and Universal Service Fund support for the provision of telephone services in rural areas. As discussed above, the NBP recently issued by the FCC could ultimately effect fundamental changes in the financial structure and characteristics of the telecommunications industry. Moreover, existing laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts, and could be changed by Congress or regulators in a manner adverse to us. In addition, any of the following have the potential to have a significant impact on us:

Risk of loss or reduction of network access revenues. A significant portion of our revenues comes from network access charges, which are paid to us by intrastate and interstate long distance carriers for originating and terminating calls and for providing special access services which connect carriers to their end users in our service areas. In past years, several long distance carriers have declared bankruptcy. Future declarations of bankruptcy by carriers that utilize our access services could negatively impact our business, financial condition and results of operations. In addition, the amount of access charge revenues that we currently receive is based on rates set by federal and state regulatory bodies, and those rates could change in the future. From time to time, federal and state regulatory bodies conduct rate cases, earnings reviews, or make adjustments to average schedule formulas that may result in such rate changes. In addition, reforms of the federal and state access charge systems, combined with the development of competition, have caused the aggregate amount of access charges paid by long distance carriers to decrease. Significant changes in the access charge system, if not offset by a revenue replacement mechanism, could result in a significant decrease in our revenues. Decreases in or loss of access charges may or may not result in offsetting increases in local, or subscriber line, revenues. Regulatory developments of this type could adversely affect our business, financial condition and results of operations.

Risk of loss or reduction of Universal Service Fund support. We receive USF revenues from both the federal and, in some cases, state universal service support mechanisms to help fund our operations. The federal revenues include USF payments for local switching support, interstate common line support, safety net and high cost loop support. Any changes to the existing rules, whether resulting from implementation of the Connect America Fund proposed in the NBP or otherwise, could reduce the USF revenues we receive. Corresponding changes in state universal service support could likewise have a negative effect on the revenues we receive. Further, under current rules, the total USF payments to our rural operations will fluctuate based upon our rural company average cost per loop compared to the national average cost per loop, and our total payments may decline based on these comparisons. If we raise prices for services to offset losses of USF payments, the increased pricing of our services may disadvantage us competitively in the marketplace, resulting in additional potential revenue loss. Furthermore, any changes in the rules and regulations governing the distribution of such support or the manner in which USF contributions are obtained or calculated could have a material adverse effect on our business, financial condition or results of operations.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on incumbent local exchange carriers. Our RLECs are exempt from the 1996 Act's more burdensome requirements governing the rights of competitors to interconnect to ILEC networks and to utilize discrete network

elements of the ILEC's network at favorable rates. To the extent that state regulators may decide that some or all of these requirements should be imposed upon our RLECs, we would be required to provide unbundled network elements to competitors in our service areas. As a result, more competitors could enter our traditional telephone markets than are currently active there, which could have a material adverse effect on our business, financial condition and results of operations.

Risks posed by costs of regulatory compliance. Regulatory requirements create significant compliance costs for us, and are expected to continue to do so. Our subsidiaries that provide intrastate services may be subject to certification, tariff filing and other ongoing regulatory requirements imposed by state regulators. Our interstate access services are currently provided in accordance with tariffs filed with the FCC by the National Exchange Carrier Association ("NECA"). Challenges in the future to NECA's tariffs by regulators or delays in the Company's obtaining certifications and regulatory approvals could adversely affect the rates that we are able to charge our customers. We are also subject to audits by both federal and state regulatory authorities, which may be costly and burdensome and may result in fines, penalties, refunds or other unfavorable and burdensome requirements.

Our business also may be impacted by legislation or regulations imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, protecting customer privacy or addressing other issues that impact our business. For example, existing provisions of the Communications Assistance for Law Enforcement Act ("CALEA") and FCC regulations implementing that legislation require communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. We cannot predict whether or to what extent the FCC might modify its CALEA rules or any other rules, or what compliance with new rules might cost. Similarly, we cannot predict whether or to what extent federal or state legislators or regulators might impose new security, environmental or other obligations on our business.

Risk of loss from rate reduction. Most of our local exchange companies that operate pursuant to intrastate rate of return regulation are subject to state regulatory authority over their intrastate telecommunications service rates. State review of these rates could lead to rate reductions, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Regulatory changes in the communications industry could adversely affect our business by facilitating greater competition, reducing potential revenues or raising our costs. The implementation of the NBP is likely to produce fundamental regulatory changes, and the 1996 Act also provides for ongoing changes and increased competition in the telecommunications industry, including competition for local communications and long distance services. This statute and the FCC's implementing regulations could be subjected to additional judicial review or affected by future rulings of the FCC, thus making it impossible to predict whether, on an ongoing basis, the legislation will have a material adverse effect on our business, financial condition or results of operations. In addition to the implementation of the NBP, expected to be commenced this year by the FCC, several other regulatory and judicial proceedings are underway or may soon be commenced that address issues affecting our operations and those of our competitors. We cannot predict the timeframe or outcome of these developments, nor there any assurance that these changes will not have a material adverse effect on us.