

# LICT CORPORATION

May 2010

Dear Shareholders:

Last year unfolded in the economy and in the capital markets along the lines that we speculated that they would in last year's Annual Report.

After a challenging start in 2009 and overcoming a "wall of worry", the US capital markets surged. LICT's shares started the year at \$2,560 per share. We ended 2009 at \$3,000 per share. Also we note that during the year, shares of CIBL, Inc. which all shareholders received in November 2007 rose from \$226 per share to \$311 per share. In addition, a distribution of \$40 per share was made to all CIBL holders on December 7, 2009.

## **2010**

The economy and the capital markets are focused on what we describe as the three "B"s. Will the global economy lose steam as Beijing (the first B) curtails its stimulus and puts a governor on its economic activity? Will Bernanke (the second B) accelerate the Federal Reserve's involvement and start tightening the monetary supply? By now you have figured out that Barack (President Obama) is also an important part of our matrix for the global economy, the US economy and the capital markets.

Senator Brown's election in Massachusetts (a B that we didn't include) served as a cattle-prod to the Administration to focus its energies on creating jobs - the number one job that the President should have aimed at when he was elected in January 2009.

## **What About LICT?**

The growth of the digital world - in all its forms - will continue to be the driver for the world we serve. Along these lines we commend the Federal Communication Commission's initiative under Chairman Julius Genachowski. As background, a 368-page road map was issued on March 16, 2010. Selected highlights are included in this report. The National Broadband Plan focuses on two areas that will have a significant impact on our activities. First, the increase in the supply and the allocation of spectrum.

We will think thrice before we enter a new auction, no matter how many lawyers tell us we are doing the right thing.

The second part deals with broadband and, simply stated, is the "Connect America" initiative. We need to bring broadband to all as quickly as possible - the same way we brought electricity and telephones to rural America some eighty years ago.

From LICT's point of view our goal is to navigate the challenges that are obvious to anyone who owns a cell phone (there are close to 4.6 billion used today on a global basis) and who doesn't have, never had, or who had a land line: the historical backbone of our RLEC (Rural Local Exchanges) world is going the way of the horse and carriage.

We need to refocus our services to be a total provider of voice, video and data, both fixed and mobile and on a cost-effective basis.

### **Initiatives For LICT**

In addition to continuing to use the concept of zero-based budgeting, i.e., reexamine all of our cost structures, we will examine all sources of revenues that we can generate beyond what we have in the past. In other words, how do we do business, how should we do business and in light of what happened following the collapse of Lehman in October 2008, how should we finance ourselves?

The Federal Reserve has given us a window to restructure our balkanized capital structure. Interest rates are low. Over the years, LICT was put together by a series of acquisitions that were each financed on a stand-alone basis. We need to restructure our debt and at the same time harmonize the capital structure of each of our operating entities.

We also need to monetize the value of our shares by doing further financial engineering. Along these lines, LICT sold its RLEC holdings in North Dakota to a public vehicle. The new CEO of that operation, David Ahl, plans to look with a wide scope on a series of activities in North Dakota to capitalize on the boom that that state is undergoing.

In addition we plan to take the initiative that has been successfully undertaken by management teams in various parts of the country and bring our best practices to all of our management constituents.

### **The Board of Directors**

It would be remiss for me not to mention that Morris Berkowitz passed away. He served not only as a director from 1987 to 2006, but also acted as a consultant and a friend of the LICT family for an extended period. I personally met Morris when he was the Chief Financial Officer at Lin Broadcasting. My sympathy to his family and to his wife, Sally.

Also, I am privileged and delighted to have Daniel R. Lee rejoin our board. Dan was a director from 2000 to 2005 and is well-known to all.

As always, I am privileged to serve.

Mario J. Gabelli  
Chairman of the Board

## **National Broadband Plan**

On March 16, 2010, the Federal Communications Commission (FCC) released the National Broadband Plan. In early 2009, Congress directed the FCC to develop a National Broadband Plan to ensure every American has “access to broadband capability” and required that this plan include a detailed strategy for achieving affordability and maximizing use of broadband to advance various national purposes including consumer welfare, public safety and homeland security, healthcare delivery, energy independence and efficiency, education, job creation and economic growth, and others.

While the National Broadband Plan discusses a number of important topics, we believe the two key areas of the plan include (1) making more wireless spectrum available for broadband and (2) potential Universal Service and intercarrier compensation reform.

### **Spectrum Availability:**

With increased adoption of “smartphones” and other Internet-connected mobile devices, the amount of data traffic carried by the mobile networks is rising rapidly. According to Cisco, North American wireless networks carried approximately 17 petabytes per month in 2009, an amount of data equivalent to 1,700 Libraries of Congress. By 2014, Cisco projects wireless networks in North America will carry some 740 petabytes per month, a greater than 40-fold increase. To address rapid growth of wireless broadband, the FCC is proposing to

- Make 500 MHz of spectrum newly available for broadband within 10 years (of which 300 MHz should be made available for mobile use within 5 years).
- Enable incentives and mechanisms to repurpose spectrum to more flexible uses. Mechanisms include incentive auctions, which allow auction proceeds to be shared in an equitable manner with current licensees as market demands change. This would allow the FCC to share auction proceeds with broadcasters who voluntarily agree to use technology to continue traditional broadband services with less spectrum.
- Free up and allocate additional spectrum for unlicensed use, fostering ongoing innovation and competitive entry.
- Consider licensing a block of spectrum with a condition to offer free or low-cost service that would create affordable alternatives to consumers, reducing the burden on USF.

### **Universal Service and Intercarrier Compensation Reform:**

The National Broadband Plan sets a National Broadband Availability Target to guide public funding. According to the plan, an initial universalization target of 4 Mbps of actual download speed and 1 Mbps of actual upload speed, with an acceptable quality of service for the most common interactive applications, would ensure universal access. However, at present there are 14 million people living in 7 million housing units that do not have access to terrestrial broadband infrastructure capable of meeting the National Broadband Availability Target. To close the broadband availability gap, the plan recommends the FCC to conduct a comprehensive reform of universal service and intercarrier compensation:

- Create the Connect America Fund (CAF) to support the provision of affordable broadband and voice with at least 4 Mbps actual download speeds and shift up to \$15.5 billion over the next decade from the existing USF program to support broadband. If Congress wishes to accelerate the deployment of broadband to unserved areas and otherwise smooth the transition of the Fund, it could make available public funds of a few billion dollars per year over two to three years.
- Create a Mobility fund to provide targeted funding to ensure no states are lagging significantly behind the national average for 3G wireless coverage.
- Adopt rules to move rate-of-return carriers to incentive regulation. Conversion to price-cap regulation would be revenue neutral in the initial year of implementation.
- Adopt rules to phase out competitive ETC support to zero over five years.
- Transition the “legacy” High-Cost component of the USF over the next 10 years and shift all resources to the new funds. The \$4.6 billion per year High Cost component of USF will be replaced over time by the CAF.
- Reform intercarrier compensation, which provides implicit subsidies to telephone companies by eliminating per-minute charges over the next 10 years and enabling adequate cost recovery through CAF.
- Broaden the USF contribution base to ensure USF remains sustainable over time.