

# LICT CORPORATION

May 2008

To our shareholders,

During 2007, we took several operational and financial steps to strengthen and to grow LICT Corporation. This process represents the continuation of initiatives begun several years ago, of which the ultimate goal is to unlock shareholder value through development of a more direct, focused and understandable entity.

**Telecommunications** – From an operational perspective, we entered 2007 with two specific objectives: (1) to increase our DSL penetration in regions where we are the incumbent local exchange carrier, and (2) to expand our geographic reach by establishing and developing competitive local exchange carriers (referred to as “CLEC’s”) in adjoining areas, where economically feasible.

It is difficult to imagine effectively functioning in today’s world without some form of high-speed data connection. As many of our serving areas are extremely rural, access to the benefits of the Internet is often more critical than in urban areas. Unfortunately, the distances that exist between our telecommunications facilities and our customers’ businesses and homes make the provision of high-speed services a challenge. I am happy to report that by taking advantage of advanced technology, we now have the ability to provide 84% of our customers with high-speed data access. Now that we have the capabilities, we need to make sure our customers understand all of the benefits we can provide them. Our operations personnel have taken up this challenge and delivered by significantly increasing our DSL penetration during the year. We began the year providing high-speed Internet service to 17.9% of our customers and we ended the year at 30.0%, a 68% increase in our penetration level. Through 2008, we will continue to accelerate efforts to increase DSL penetration with an intermediate goal of 50% of our customers subscribing to our high-speed broadband service.

One of LICT’s mantras is exemplary customer service and our CLEC initiative seeks to leverage our service reputation to adjoining areas. During 2007, our DFT Communications Inc. subsidiary established a CLEC in Jamestown, NY - a city where we were already known for providing data transport and alarm service. During 2008, DFT will continue to grow our CLEC in Dunkirk, NY, where we are providing services to customers on a facilities basis. CLEC initiatives are also currently taking place in Klamath Falls, OR; Bettendorf, IA; Silver City, NM and Wendover, NV. We expect to accelerate our momentum in this area during 2008 as we consider additional revenue-enhancing opportunities.

Aside from these initiatives and as discussed in the Report of Operations of this Annual Report, our operating subsidiaries made substantial progress in many areas. We are proud of the way all of the personnel in subsidiary operations have successfully served their customers, their communities and LICT Corporation.

**Asset Rationalization** – In December 2007, we agreed to sell four of the Company’s Lower 700 MHz wireless licenses to AT&T Mobility II, LLC for a total of \$6.6 million. We acquired these licenses in the Federal Communications Commission Auction 44 during 2002 to help grow our business. However, the sudden liquidity crisis in the financial system necessitated that we re-focus our priorities toward our liquidity versus our growth opportunities. The licenses cover Davenport, IA/Rock Island-Moline, IL; Des

Moines, IA; Santa Barbara-Santa Maria-Lompoc, CA; and Reno, NV. The sale closed on March 19, 2008.

We continue to hold the following Lower 700 MHz licenses: 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.

In addition, through the selective sale of operations at multiples anticipated to be above those implied in the price that our shares trade on the market, we will continue to refine our effort to focus on our best growth opportunities.

**CIBL, Inc.** – On November 19, 2007, we distributed one share of CIBL, Inc. to our shareholders for each LICT share owned. Included in CIBL are cable television operations in Kansas, minority investments in two cellular telephone operations in New Mexico, and our broadcasting interests. By transferring these assets to shareholders in a new company separate from LICT, we continued to develop a “pure” telecommunications vehicle, which helps our financing and other strategic options. In addition, providing more focused management oversight to the spun-off assets and investments should benefit their development. The management of LICT will, for a temporary period of time, continue to provide administrative services to CIBL. Over the longer term, a permanent CIBL management team will be put in place. The CIBL shares you received are currently not transferable, but it is expected the restriction will be lifted for most purposes by year end, at which point a market should develop for these shares.

Tom Hearity, who joined us as General Counsel in January 2007, was very instrumental in effectuating the distribution of CIBL.

**Operating Results** – During 2007, our revenues were \$102.1 million, which was up from the \$98.8 million in 2006. Our DSL initiative was one of the primary drivers of this increase. EBITDA from our operating subsidiaries, excluding corporate operations and litigation and settlement costs, was \$50.0 million in 2007, up from \$48.1 million in 2006. We are currently expecting similar results in 2008 as some of our strategic initiatives will crimp short-term results.

**Operating Statistics** – During 2007, our regulated telephone access lines decreased by 2.6%, about the same as during 2006. During the current year, many of our customers disconnected their second telephone lines once they obtained our DSL service. Despite the cosmetic loss of access lines, this is a very desirable trend to increase our provisioning of high-speed broadband service to our customers.

	December 31,		Increase	Percent
	2006	2007	(Decrease)	(Decrease)
Access Lines	52,048	50,716	(1,332)	(2.6%)
CLEC Lines	6,397	6,861	464	7.3%
Total voice lines	58,445	57,577	(868)	(1.5%)
DSL Lines	7,934	11,599	3,665	46.2%
ISP Subscribers	19,947	20,908	961	4.8%
LD Resale Lines	19,209	20,274	1,065	5.5%
Video Subscribers	4,259	4,337	78	1.8%
High-speed Cable Modem	701	1,156	455	64.9%

**Financial Results** – For the year ended December 31, 2007, we recorded net income of \$9.4 million, or \$374 per share, as compared to net income of \$1.2 million, or \$47 per share, for the previous year.

During 2006, we recorded a \$27.8 million before-tax charge for litigation and settlement costs and a \$12.8 million before-tax gain on the redemption of Rural Telephone Bank stock and the sale of common shares of Hector Communications Corporation.

In addition, our reported results include the financial contributions of the assets and investments included in CIBL until the date of the spin-off. If the CIBL spin-off had occurred January 1, 2007, the net income would have been \$8.3 million, or \$332 per share. We are currently estimating that our 2008 net income will be approximately \$10 million, or \$400 per share, excluding the gain from the sale of the 700 MHz licenses.

**Debt Structuring** – At December 31, 2007, the Company had \$178.9 million in total debt. \$101.8 million, or 57%, of this debt is based on variable interest rates. The average interest rate being paid on our variable rate debt in early 2008 has been considerably lower than the average interest paid on our variable rate debt throughout 2007. This trend is expected to continue, and as a result, the Company should incur significantly less interest expense during 2008. In early 2008, the Company extended its \$17.5 million corporate line of credit for another two years, until June 30, 2010. These factors, plus the net proceeds of the sale of 700 MHz Licenses, have significantly strengthened our financial position.

In 2008, Neil Kiernan joined us from the investment banking world as our Treasurer. Neil will help rationalize our debt to strengthen our balance sheet and allow us to initiate and rekindle certain shareholder value initiatives, including implementation of a dividend program and the continuation of our repurchase of treasury shares. At certain times and as permitted by law, the Company may consider acquiring shares offered to us directly by our shareholders.

The corporate management team owes a great deal of appreciation to the local management and employees of the company. Their hard work and determination to provide the best service possible to their communities are what really drive this company and make us confident that we can effectively respond to technological, regulatory and competitive challenges.

Our website: [lictcorp.com](http://lictcorp.com) contains current information about the company, including financials, press releases, key documents and links to subsidiary sites. This is the first place we post information, and it is the most complete source of LICT data.

I also thank you, our shareholders, for your continued support over this period, and I look forward to speaking with you or responding to your e-mail questions.

Robert E. Dolan  
Interim Chief Executive Officer and  
Chief Financial Officer