

# LICT CORPORATION

ROBERT E. DOLAN  
CHIEF EXECUTIVE OFFICER

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To our shareholders,

Last year, while challenging, provided the underpinnings that will serve as a springboard for the future. During 2007, we will continue to take the steps that are necessary to create a more focused and streamlined company. This process represents the continuation of initiatives that were begun several years ago, whose ultimate goal is to surface shareholder value.

**Telecommunications.** We face a complex telecommunications environment. Each of our operations has unique characteristics depending on the size of the service territory, its geography and its demographics. Yet we must position all of our companies not just for today's customer's needs but for tomorrow's as well. Regulatory, technological and competitive changes require constant vigilance. Some of our systems are growing access lines; however, on a company wide basis during 2006, access lines declined by 3.7%. It is important to note that this compares favorably to the industry average of a loss of 5-6%, but it does reflect a competitive challenge to which we must respond. Our DSL lines grew by 2,500, or 45%, during 2006, and continuing this increase is a major priority for 2007.

One of our main initiatives for 2007 is to have more of our operations roll out a competitive local exchange carrier ("CLEC") product in a cost-effective manner. Initially, this will be done by leasing the RBOC's access line and providing facilities where there is established demand and it is economically justifiable. Another one of our primary objectives is cost control - without in any way sacrificing our high quality of service. We are challenging all of our locations to determine more cost effective ways to provide high quality service.

**On-Going Initiatives.** We have several on-going strategic initiatives we plan on accomplishing during 2007. We will distribute to our shareholders a new company containing many of our non-core assets, which will consist primarily of broadcasting and cellular interests. By removing these assets from LICT, we will create a "pure" RLEC vehicle, which should help our financing and other strategic options. In addition, by selective sale of operations at anticipated multiples above our trading valuation, we are accelerating our effort to focus on our best growth opportunities. Also, we currently have about \$194 million of debt in roughly 40 separate instruments. This structure, while favorable from a nominal interest rate perspective, is very costly from operational, audit and liquidity perspectives, especially at the corporate level. We are considering rolling all or a majority of our debt into one facility. We can then manage the company more efficiently and get the cash to the optimal operating location. Finally, we may also raise money, in a rights offering, depending on liquidity needs and investment opportunities.

On the capital markets side, there continues to be a significant amount of activity in the RLEC industry. In late 2006, the acquisition of Hector Communications Corporation closed. In 2007, Fairpoint, Citizens, Century, Windstream and Consolidated all announced significant transactions. In the largest transaction, on January 16, 2007, Fairpoint announced the

acquisition of 1.7 million access lines from Verizon. The metrics of each of these acquisitions vary significantly, reflecting the diversity of the industry characteristics of the companies involved, but on an overall basis, this level of activity bodes well for our valuation and our ability to structure transactions at favorable terms.

**Operating Results.** During 2006, we recorded revenues of \$98.8 million, which was up from the \$93.7 million in 2005. Much of the increase was due to the acquisition of Cal-Ore Telephone Company at the end of August 2005, but also reflects growth in our non-regulated revenue streams. EBITDA from our operating subsidiaries, excluding corporate operations and litigation and settlement costs, was \$48.1 million in 2006, up from \$44.7 million in 2005. For 2007, we are currently expecting revenues of \$101 million and EBITDA from our operating subsidiaries of \$48 million, as some of our strategic initiatives are crimping current results.

**Operating Statistics** – The following table summarizes some of our key operating statistics at December 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Access Lines	49,984	51,895
DSL Lines	7,934	5,455
Internet Subscribers	19,931	19,973
CLEC Customers	6,397	6,275
Long Distance Resale	19,209	16,971

**Financial Results.** For the year ended December 31, 2006, we recorded net income of \$1.2 million, or \$47.05 per share. There were several cross currents. We recorded a \$27.8 million before-tax charge for litigation and settlement costs. Clearly, it was in the Company's interest to resolve the case and move forward to permit us to participate in activities associated with, and dependent on our relationship with the Federal Communications Commission. On the positive side, we recorded 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. These profits highlight the non-operational benefits of our acquisition in the rural telephone companies.

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 of interest are what really drive this company and our confidence that we can effectively respond to technology, regulatory and competitive challenges.

Our website: [lictcorp.com](http://lictcorp.com) contains all the 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 is the most complete.

I would 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