
LICT CORPORATION

Quarterly Report for period ended June 30, 2015

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LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share amounts)

| | June 30, 2015 | December 31, 2014 | June 30, 2014 |
|--|--------------------------|------------------------------|--------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 18,102 | \$ 18,155 | \$ 12,942 |
| Receivables, less allowances of \$381, \$343 and \$297, respectively | 6,235 | 6,942 | 6,452 |
| Material and supplies | 3,582 | 3,256 | 3,204 |
| Prepaid expenses and other current assets | 1,614 | 1,594 | 1,768 |
| Deposit with FCC* | -- | 19,000 | -- |
| Net assets of discontinued operations | -- | -- | 25,022 |
| Total current assets | 29,533 | 48,947 | 49,388 |
| Property, plant and equipment: | | | |
| Land | 936 | 936 | 936 |
| Buildings and improvements | 16,791 | 16,611 | 16,353 |
| Machinery and equipment | 300,885 | 294,285 | 291,627 |
| | 318,612 | 311,832 | 308,916 |
| Accumulated depreciation | (231,231) | (223,957) | (220,933) |
| | 87,381 | 87,875 | 87,893 |
| Goodwill | 48,764 | 48,764 | 48,563 |
| Other intangibles | 2,016 | 2,081 | 2,524 |
| Investments in and advances to affiliated entities | 5,328 | 5,274 | 4,679 |
| Other assets | 9,740 | 10,208 | 6,960 |
| Total assets | \$ 182,762 | \$ 203,149 | \$ 200,007 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**Deposit with Federal Communications Commission for Auction 97*

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share amounts)

| | June 30, 2015 | December 31, 2014 | June 30, 2014 |
|--|--------------------------|------------------------------|--------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Notes payable to banks | \$ -- | \$ -- | \$ 19,000 |
| Note payable to affiliate | -- | 15,000 | -- |
| Trade accounts payable | 2,193 | 3,672 | 2,941 |
| Accrued interest payable | 288 | 111 | 143 |
| Accrued liabilities | 6,331 | 4,049 | 5,706 |
| Current maturities of long-term debt | 4,234 | 4,226 | 5,200 |
| Net liabilities of discontinued operations | -- | -- | 13,077 |
| Total current liabilities | 13,046 | 27,058 | 46,067 |
| Long-term debt | 44,953 | 54,240 | 37,084 |
| Deferred income taxes | 17,914 | 18,292 | 16,698 |
| Other liabilities | 4,975 | 4,832 | 5,913 |
| Total liabilities | 80,888 | 104,422 | 105,762 |
| Commitments and contingencies | | | |
| Shareholders' equity | | | |
| Common stock, \$0.0001 par value-10,000,000 shares authorized; 26,637.50, issued; 22,156.37, 22,272.37 and 22,637.37 outstanding | -- | -- | -- |
| Additional paid-in capital | 16,637 | 16,637 | 16,637 |
| Retained earnings | 98,443 | 94,244 | 88,954 |
| Treasury stock, 4,450.13, 4,365.13 and 4,310.13 shares, at cost | (13,206) | (12,154) | (11,890) |
| Shareholders' equity attributable to LICT | 101,874 | 98,727 | 93,701 |
| Noncontrolling interests | -- | -- | 544 |
| Total shareholders' equity | 101,874 | 98,727 | 94,245 |
| Total liabilities and shareholders' equity | \$ 182,762 | \$203,149 | \$ 200,007 |

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | \$ 21,676 | \$ 21,093 | \$ 42,783 | \$ 42,345 |
| Costs and expenses: | | | | |
| Cost of revenue, excluding depreciation | 9,946 | 9,508 | 19,704 | 18,428 |
| General and administrative costs at operations | 2,838 | 2,683 | 5,626 | 5,545 |
| Corporate office expenses | 790 | 831 | 1,506 | 1,590 |
| Depreciation and amortization | 4,488 | 4,578 | 8,961 | 8,833 |
| Total Costs and Expenses | 18,062 | 17,600 | 35,797 | 34,396 |
| Operating profit | 3,614 | 3,493 | 6,986 | 7,949 |
| Other income (expense): | | | | |
| Investment income | 37 | 7 | 279 | 398 |
| Interest expense | (754) | (911) | (1,498) | (1,956) |
| Equity in earnings of affiliated companies | 377 | 390 | 811 | 860 |
| Other | (59) | 49 | 22 | 52 |
| | (419) | (465) | (386) | (646) |
| Income before income taxes | 3,215 | 3,028 | 6,600 | 7,303 |
| Provision for income taxes | (1,222) | (1,236) | (2,518) | (2,872) |
| Net income from continuing operations | 1,993 | 1,792 | 4,082 | 4,431 |
| Net income from discontinued operations | 117 | 109 | 117 | 219 |
| Net income attributable to LICT | \$2,110 | \$1,901 | \$4,199 | \$4,650 |
| Basic and diluted weighted average shares | 22,202 | 22,418 | 22,203 | 22,358 |
| Basic and diluted earnings per share: | | | | |
| Net income from continuing operations | \$89.77 | \$79.94 | \$183.85 | \$198.18 |
| Net income from discontinued operations | 5.27 | 4.89 | 5.27 | 9.80 |
| Net income | \$95.04 | \$84.80 | \$189.12 | \$207.98 |

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)
(in thousands, except share data)

| | Shares of Common Stock Out- standing | Common Stock | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Total |
|------------------------------|---|-------------------------|---|------------------------------|---------------------------|------------------|
| Balance at December 31, 2014 | 22,272.37 | \$-- | \$16,637 | \$94,244 | \$(12,154) | \$98,727 |
| Net income for the period | -- | -- | -- | 4,199 | -- | 4,199 |
| Purchase of Treasury Stock | (205) | -- | -- | -- | (1,052) | (1,052) |
| Restricted shares issued | 89 | -- | -- | -- | -- | -- |
| Balance at June 30, 2015 | <u>22,156.37</u> | <u>\$--</u> | <u>\$16,637</u> | <u>\$98,443</u> | <u>\$(13,206)</u> | <u>\$101,874</u> |

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(in thousands)

| | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2015 | 2014 |
| Operating activities: | | |
| Net Income from continuing operations | \$4,082 | \$4,431 |
| Net Income from discontinued operation | 117 | 219 |
| Net Income | 4,199 | 4,650 |
| Adjustments to reconcile net income attributable to LICT to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,970 | 8,910 |
| Equity in earnings of affiliated companies | (811) | (860) |
| Distributions received from affiliated companies | 625 | 1,500 |
| Deferred income tax provision | (397) | (627) |
| Changes in operating assets and liabilities: | | |
| Accounts receivables | 707 | 624 |
| Income tax payable/ receivable | 2,640 | 2,332 |
| Accounts payable and accrued liabilities | (1,150) | (2,420) |
| Other Operating assets and liabilities | (75) | (215) |
| Other | (88) | 513 |
| Net cash provided by operating activities from continuing operations | 14,620 | 14,057 |
| Net cash provided by operating activities from discontinued operations | -- | 1,207 |
| Net cash provided by operating activities | 14,620 | 15,264 |
| Investing activities: | | |
| Capital expenditures | (8,912) | (7,413) |
| Stimulus grant expenditures | -- | (193) |
| Deposit with FCC for Auction 97 and 96, respectively | 19,000 | 11,000 |
| Other | 72 | (35) |
| Net cash provided by investing activities from continuing operations | 10,160 | 3,359 |
| Net cash used in investing activities from discontinued operations | -- | (2,092) |
| Net cash provided by provided by investing activities | 10,160 | 1,267 |
| Financing activities: | | |
| Repayments of long term debt | (3,270) | (4,002) |
| Borrowings related to lines of credit, net | (5,936) | 2,100 |
| Purchase of treasury stock | (1,052) | (511) |
| Repayment of loan from affiliate for FCC Deposit | (15,000) | (11,000) |
| Other | 425 | 384 |
| Net cash used in financing activities from continuing operations | (24,833) | (13,029) |
| Net cash provided by in financing activities from discontinued operations | -- | 368 |
| Net cash used in financing activities | (24,833) | (12,661) |
| Net increase in cash and cash equivalents | (53) | 3,870 |
| Cash and cash equivalents at beginning of period | 18,155 | 9,272 |
| Cash and cash equivalents at end of period | 18,102 | 13,142 |
| Less: cash and cash equivalents of discontinued operations at period end | -- | 200 |
| Cash and cash equivalents of continuing operations at end of period | \$18,102 | \$12,942 |

LICT CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Basis of Presentation

LICT Corporation (“LICT” or the “Company”) consolidates the operating results of its subsidiaries. All material intercompany transactions and balances have been eliminated. Investments in affiliates in which the Company does not have a majority voting control, but has the ability to significantly influence management decisions, are accounted for in accordance with the equity method. The Company accounts for the following affiliated companies on the equity basis of accounting: a cellular partnership in California (25% owned) and telecommunications operations in Iowa and New York (5% to 14% owned).

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they are not audited and do not include all of the information and footnotes required for complete financial statements. These consolidated financial statements and footnotes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s annual report for the year ended December 31, 2014. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

B. Investments in Affiliated Companies

A subsidiary of LICT owns a 25% partnership interest in a cellular telephone provider in Northern California, California RSA #2 (“RSA #2). As of June 30, 2015, December 31, 2014 and June 30, 2014, the net investment in the partnership was \$4,486, \$4,331 and \$4,153 thousands, respectively. The Company’s share of income, included in Equity in Earnings of Affiliated Companies was \$780 and \$781 thousand for the six months ended June 30, 2015 and 2014, respectively.

| | June 30 | |
|---|-----------------|-----------------|
| | 2015 | 2014 |
| OPERATING RESULTS | | |
| Three Months Ended | | |
| Revenues | \$5,957 | \$5,616 |
| Gross margin | 3,397 | 3,501 |
| Net profit | 1,953 | 1,449 |
| Six Months Ended | | |
| Revenues | \$11,605 | \$10,833 |
| Gross Margin | 7,393 | 6,871 |
| Net Profit | 3,597 | 3,016 |
| BALANCE SHEET | | |
| Current assets | \$5,620 | \$4,529 |
| Property, plant and equipment and Other – net | 9,983 | 10,440 |
| | <u>\$16,787</u> | <u>\$14,969</u> |
| Current liabilities | \$1,840 | \$1,267 |
| Long-term liabilities | 2,258 | 653 |
| Partners’ equity | 12,688 | 13,049 |
| | <u>\$16,787</u> | <u>\$14,969</u> |

C. Indebtedness

In December 2014, the Company secured a \$30.0 million line of credit agreement with CoBank, expiring in December, 2017 with an interest rate of LIBOR plus 3.0%. The average balance of notes payable outstanding was \$22.3 million in 2015; the highest amount outstanding was \$22.4 million in 2014; and the average interest rate was 3.2% in 2015.

Long-term debt at June 30, 2015, December 31, 2014, and June 30, 2014 consists of (all interest rates are at June 30, 2015) (in thousands):

| | <u>June 30, 2015</u> | <u>December 31, 2014</u> | <u>June 30, 2014</u> |
|---|--------------------------|------------------------------|--------------------------|
| Rural Electrification Administration (“REA”) and Rural Telephone Bank (“RTB”) notes payable due quarterly through 2027 at fixed interest rates ranging from 2.1% to 7.2%. (5.2% weighted average) | \$4,811 | \$6,132 | \$7,413 |
| Bank Credit facilities utilized by certain telephone and telephone holding companies due through 2017, at variable interest rate of 2.5% | 2,675 | 3,875 | 6,593 |
| Unsecured notes issued in connection with acquisitions at fixed interest rates averaging 8.0% | 25,123 | 25,872 | 27,987 |
| Revolving credit facility from CoBank, ACB at Brighton Communications Corporation, secured by the assets of certain operations and holding companies at variable interest rate of 3.2% | 16,505 | 22,442 | -- |
| Unsecured notes issued in connection with acquisitions at fixed interest rates averaging 7.2% | 73 | 145 | 291 |
| | <u>49,187</u> | <u>58,466</u> | <u>42,284</u> |
| Other | (4,234) | (4,226) | (5,200) |
| | <u>\$43,953</u> | <u>\$54,240</u> | <u>\$37,084</u> |

D. Litigation

LICT is a party to routine litigation incidental to its business. Based on information currently available, the Company believes that none of this ordinary routine litigation, either individually or in the aggregate, will have a material effect on its financial condition and results of operations.

False Claims Act “Qui Tam” Litigation.

The Company previously was named as a defendant in a complaint filed under the so-called “qui tam” provisions of the federal False Claims Act in the United States District Court for the District of New Jersey. The complaint was filed under seal with the court on June 25, 2008 and the seal was lifted on February 2, 2014, shortly after the United States Department of Justice filed a notice with that Court stating that it declined to intervene in the case. Under the False Claims Act, a private plaintiff, termed a “relator,” may file a civil action ostensibly on the U.S. government’s behalf against another party for violation of a federal statute. In return, if the suit is successful, the relator may receive a statutory bounty from the government’s recovery. The main allegation in this complaint related to the treatment by the Company’s telephone subsidiaries and approximately 1,400 other RLECs of funds received from the winding up of the Rural Telephone Bank, which was dissolved in 2006. There is no longer any active proceeding in this matter. The last extension granted by the Court for the plaintiff to serve the complaint expired on October 25, 2014, without service of the complaint on any of the Company’s subsidiaries or any of the other 1400 companies initially named as defendants. In the Order granting that last extension, the Judge made clear that no further extension would be granted without a “detailed certification and legal brief” by the plaintiff as to why service of the complaint should be allowed. The plaintiff has not made any such filing or given any indication of doing so. In these circumstances the applicable federal statute provides for the dismissal of the complaint.

Moreover, the Company believes that this lawsuit would have no merit and, if ever served with such a complaint, would defend the suit vigorously.

E. Related Party Transactions

At June 30, 2015, December 31, 2014 and June 30, 2014, assets of \$14.3 million, \$13.2 million and \$8.6 million, which are classified as cash and cash equivalents, are invested in United States Treasury money market funds for which affiliates of the Company's Chairman and Chief Executive Officer serve as investment manager to the respective funds.

MANAGEMENT'S DISCUSSION OF OPERATIONS

This discussion should be read together with the Consolidated Financial Statements of LICT Corporation and the notes thereto.

RESULTS OF OPERATIONS

Overview

LICT provides an array of communications services in rural areas. Our history is principally as an operator of rural telephone service (known as Rural Local Exchange Carriers, or "RLECs"), with our principal operations in rural parts of New Mexico, Utah, Michigan, Iowa, Kansas, California, Wisconsin, and New Hampshire. As the technologies have evolved, so have our services. We provide a broad array of communications services to residential, commercial and governmental customers, principally in or near our historic telephone coverage areas.

The U.S. and state governments have long had a policy of subsidizing and encouraging telephone and other communication services in rural areas. RLECs, in particular, including those that form the core of our company, often provide communications services in rural areas where such service would not be economical without significant government subsidies. Such subsidies are derived from numerous federal and state support mechanisms, which are generally referred to as Universal Service Funds ("USF"). Such programs evolve constantly to take into consideration new technologies and to encourage RLECs to invest in new technologies and new services to the consumers. In addition, what we can charge for some of our services is often regulated by various public utility commissions. We devote considerable management attention to understanding, utilizing and adhering to these different governmental programs, incentives and regulatory structures. While there is no certainty that such programs will continue at the same levels of subsidy as they have in the past, we believe that the various governmental agencies will continue to encourage economical means of communication for people living in rural areas. People are communicating more, and in more ways, than ever before. We believe this is an opportunity for us, especially as rural customers demand additional and better communications infrastructure.

The advent and spreading acceptance of the Internet has been a significant growth area for our company. The number of our DSL subscribers, for example, has grown significantly in recent years. This has been offset, in part, by reductions in the number of traditional telephone lines, as consumers replace traditional telephone connections with new technologies. We expect such shifts in consumer behavior to continue and we intend to continue to move our company in the direction of being a communications provider, whatever the technology, rather than simply being a provider of rural telephone connections.

On December 24, 2014, we closed the sale of our DFT Communications Corporation ("DFT") subsidiary, which holds the telephone companies serving Dunkirk/Fredonia and Casadaga, New York, as well as a Competitive Local Exchange Carrier, or "CLEC" operation. In our financial statements, we are treating the results of the DFT companies as a discontinued operation. Accordingly, in the discussions below on our operating results the contributions of the DFT companies have been excluded from the 2015 and 2014 amounts.

Second quarter ended June 30, 2015 compared to 2014

The following is a breakdown of revenues and operating costs and expenses (in thousands):

| | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|
| Regulated revenues: | | |
| Local access | \$ 2,012 | \$ 2,059 |
| Interstate access | 8,221 | 8,473 |
| Intrastate access | 1,955 | 2,378 |
| Other regulated | 351 | 335 |
| Total regulated revenues | <u>12,539</u> | <u>13,245</u> |
| Broadband and other non-regulated | 9,137 | 7,848 |
| Total revenues | <u>21,676</u> | <u>21,093</u> |
| Operating Cost and Expense: | | |
| Cost of revenue, excluding depreciation | 9,946 | 9,508 |
| General and administrative costs at operations | 2,838 | 2,683 |
| Corporate office expenses | 790 | 830 |
| Depreciation and amortization | 4,488 | 4,578 |
| Total | <u>18,062</u> | <u>17,600</u> |
| Operating profit | <u>\$ 3,614</u> | <u>\$ 3,493</u> |

Our non-regulated revenues grew by \$1,289 thousand or 16.4% as compared to 2014. Non-regulated revenues, revenues from broadband services and other non-regulated services, increased primarily due to the sale of additional broadband circuits outside of our regulated service territory, additional video revenue and the sale of communications equipment, specifically our Utah and Iowa operations. Non-regulated revenues currently represent over 40% of our revenue streams and are expected to continue to this growth. Regulated revenues decreased by \$706 thousand or 5.3% to \$12,539 thousand. Interstate access revenue decreased \$252 thousand in 2015 due to lower rate bases at certain of our operations, lower industry rates of return and other regulated factors. Intrastate revenues decreased by \$423 thousand due to a statewide revenue adjustment by the state of New Mexico and lower minutes of use. Combining the non-regulated and regulated revenues, total revenues in 2015 increased by \$603 thousand or 2.9%, to \$21,696 thousand compared to \$21,093 thousand in 2014.

Total costs and expenses were \$18,062 thousand in 2015, an increase of \$462 thousand compared to 2014. Costs of revenue increased \$437 thousand primarily due to increased costs from the growing internet and cable television operations. General and administrative costs incurred at the operations increased by \$155 thousand while corporate office expenses decreased by \$40 thousand. Depreciation and amortization decreased by \$90 thousand from 2014 to 2015, due to decreased capital expenditures in 2014 and 2015, and as assets become fully depreciated.

As a result of the above, operating profit in 2015 increased by \$141 thousand from \$3,493 thousand in 2014 to \$3,634 thousand in 2015.

EBITDA

EBITDA is used by our management as a supplemental financial measure to evaluate the operating performance of our business and, when viewed with our GAAP results and the accompanying reconciliations, we believe it provides a more complete understanding of factors and trends affecting our business than the GAAP results alone. We also regularly communicate our EBITDA to the shareholders through our earnings releases because it is the financial measure commonly used by

analysts that cover the telecommunications industry and by our investor base to evaluate our operating performance. In addition, we routinely use EBITDA as a metric for valuing potential acquisitions. We understand that analysts and investors regularly rely on non-GAAP financial measures, such as EBITDA, to provide a financial measure by which to compare a company's assessment of its operating performance against that of other companies in the same industry. This non-GAAP financial measure is helpful in more clearly reflecting the sales of our products and services, as well as highlighting trends in our core business that may not otherwise be apparent when relying solely on GAAP financial measures, because this non-GAAP financial measure eliminates from earnings financial items that have less bearing on our performance.

LICT's management believes strongly in growing intrinsic value as a long-term prescription for managing an enterprise's health. Our local management teams run their respective businesses as stand-alone, entrepreneurial units although we attempt to use economies of scale and other efficiencies (such as joint purchasing) where they are available. We believe that EBITDA is the clearest indicator of the cash flow generating ability and long-term health of such units. We value potential acquisitions on the same basis.

EBITDA refers to, for any period, net income (loss) before all components of "Other income (expense)" (consisting of investment income, interest expense, equity in earnings of affiliates, gains and losses on disposition of or impairment of assets), income taxes, depreciation, amortization, minority interests and income or loss from discontinued operations. EBITDA has been modified to include the cash we received from the equity in earnings of affiliated companies. Although we do not have majority voting control of such companies, we have the ability to significantly influence financial and accounting policies.

The following table provides the components of EBITDA and reconciles it to net income from continuing operations:

| | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|
| EBITDA from: | | |
| Operating units | \$ 8,912 | \$ 8,902 |
| Dividends from equity affiliates | <u>450</u> | <u>313</u> |
| | 9,362 | 9,215 |
| Corporate expense | <u>(790)</u> | <u>(831)</u> |
| EBITDA | <u>\$ 8,572</u> | <u>\$ 8,384</u> |
| Reconciliation to net income: | | |
| EBITDA | \$ 8,572 | \$ 8,384 |
| Less dividends from equity affiliates | (450) | (313) |
| Depreciation and amortization | (4,488) | (4,578) |
| Investment income | 17 | 7 |
| Interest expense | (754) | (911) |
| Equity in income of affiliates | 377 | 505 |
| Other gains | (59) | (66) |
| Income tax | <u>(1,222)</u> | <u>(1,236)</u> |
| Net income for continuing operations | <u>\$ 1,993</u> | <u>\$ 1,792</u> |

Other Income (Expense)

In 2015, investment income increase due to a note receivable from the sale of our New York operation.

Interest expense decreased by \$157 thousand in 2015 primarily due to reductions in debt outstanding and lower interest rates.

Equity in earnings of affiliates decreased by \$13 in 2015 primarily due to adjustments in earnings from our 25% partnership interest in a cellular telephone provider, California RSA #2.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2015 and 2014, represent effective tax rates of 38.0% and 40.1%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes.

Net Income

Net income from continuing operations for the second quarter of 2015 was \$1,993 thousand, or \$89.77 per share (basic and diluted), compared to a net income from continuing operations of \$1,792 thousand, or \$79.94 per share (basic and diluted). In addition, during the 2015 period, DFT, which is currently being treated as a discontinued operation, recorded net income of \$117 thousand or \$5.27 per share. This compares to 2014 net income of \$109 thousand or \$4.89 per share. The Company has no dilutive instruments outstanding.

Six months ended June 30, 2015 compared to 2014

The following is a breakdown of revenues and operating costs and expenses (in thousands):

| | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|
| Regulated revenues: | | |
| Local access | \$ 3,986 | \$ 4,096 |
| Interstate access | 16,426 | 17,467 |
| Intrastate access | 3,916 | 4,821 |
| Other regulated | 719 | 678 |
| Total regulated revenues | <u>25,047</u> | <u>27,062</u> |
| Broadband and other non-regulated | <u>17,736</u> | <u>15,283</u> |
| Total revenues | <u>42,783</u> | <u>42,345</u> |
| Operating Cost and Expense: | | |
| Cost of revenue, excluding depreciation | 19,704 | 18,428 |
| General and administrative costs at operations | 5,626 | 5,545 |
| Corporate office expenses | 1,506 | 1,590 |
| Depreciation and amortization | <u>8,961</u> | <u>8,833</u> |
| Total | <u>35,797</u> | <u>34,396</u> |
| Operating profit | <u>\$ 6,986</u> | <u>\$ 7,949</u> |

Our 2015 year to date non-regulated revenues grew by \$2,453 thousand or 16.1% as compared to 2014. Non-regulated revenues, revenues from broadband services and other non-regulated services, increased primarily due to the sale of additional broadband circuits outside of our regulated service territory, additional video revenue and the sale of communications equipment, specifically our Utah and Iowa operations. Non-regulated revenues currently represent over 40% of our revenue streams and are expected to continue to this growth. Regulated revenues decreased by \$2,015 thousand or 7.4% to \$25,047 thousand. Interstate access revenue decreased \$1,041 thousand in 2015 due to lower rate bases at certain of our operations, lower industry rates of return and other regulated factors. Intrastate revenues decreased by \$905 thousand due to a statewide revenue adjustment by the state of New Mexico and lower minutes of use. Combining the non-regulated and regulated revenues, total revenues in 2015 increased by \$438 thousand to \$42,783 thousand compared to \$42,345 thousand in 2014.

Total costs and expenses were \$35,797 thousand in 2015, an increase of \$1,401 thousand compared to 2014. Costs of revenue increased \$1,276 thousand primarily due to increased costs from the growing internet and cable television operations. General and administrative costs incurred at the operations increased by \$81

thousand while corporate office expenses decreased by \$84 thousand. Depreciation and amortization increased by \$128 thousand from 2014 to 2015, due to capital expenditures in 2014 and 2015.

As a result of the above, operating profit in 2015 decreased by \$963 thousand from \$7,949 thousand in 2014 to \$6,986 thousand in 2015.

EBITDA

The following table provides the components of EBITDA and reconciles it to net income from continuing operations:

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| EBITDA from: | | |
| Operating units | \$ 17,453 | \$ 18,372 |
| Dividends from equity affiliates | <u>1,075</u> | <u>625</u> |
| | 18,528 | 18,997 |
| Corporate expense | <u>(1,506)</u> | <u>(1,590)</u> |
| EBITDA | <u>\$ 17,022</u> | <u>\$ 17,407</u> |
| Reconciliation to net income: | | |
| EBITDA | \$ 17,022 | \$ 17,407 |
| Less dividends from equity affiliates | (1,075) | (625) |
| Depreciation and amortization | (8,961) | (8,833) |
| Investment income | 279 | 398 |
| Interest expense | (1,498) | (1,956) |
| Equity in income of affiliates | 811 | 860 |
| Other gains | 22 | 52 |
| Income tax | <u>(2,518)</u> | <u>(2,872)</u> |
| Net income from continuing operations | <u>\$ 4,082</u> | <u>\$ 4,431</u> |

Other Income (Expense)

In 2015, investment income decreased by \$119 thousands primarily due to a reduction in patronage dividends, offset by interest income on a note receivable from the sale of our New York operation..

Interest expense decreased by \$0.5 million in 2015 primarily due to significant reductions in debt outstanding.

Equity in earnings of affiliates in 2015 decreased slightly, by \$49 primarily due to consistent earnings from our 25% partnership interest in a cellular telephone provider, California RSA #2.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2015 and 2014, represent effective tax rates of 38.2% and 39.3%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes.

Net Income

Net income from continuing operations the first half of 2015 was \$4,082 thousand, or \$183.85 per share (basic and diluted), compared to a net income from continuing operations of \$4,431 thousand, or \$198.18 per share (basic and diluted) in 2014. In addition, during the 2015 period, DFT, which is currently being treated as a discontinued operation, recorded net income of \$117 thousand or \$5.27 per share. This compares to 2014 net income of \$219 thousand or \$9.80 per share. The Company has no dilutive instruments outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Over the last several years, LICT has been repaying all of debt at its subsidiary companies alleviating to some extent the restrictions on the amount of funds that can be transferred within the LICT group of companies. For the subsidiaries with restrictions, and other companies for regulatory purposes, LICT receives cash to meet its obligations primarily through management fees charged to its subsidiaries, dividends, and a tax sharing agreement with its subsidiaries.

On December 30, 2014, Brighton Communications Corporation (“Brighton”), a wholly-owned subsidiary of LICT, closed on a \$30 million revolving credit facility from CoBank, ACB. The facility, which expires in December 2017, replaced line of credit facilities previously arranged by LICT. Brighton owns substantially all of the subsidiaries within the LICT consolidated group of companies. As of June 30, 2015, there was \$16.5 million outstanding under this facility, classified as long-term debt. The average balance outstanding under these facilities was \$20.9 million at an average interest rate of 3.2%. Management believes that the current CoBank facility provides adequate liquidity for at least the next twelve months.

On October 14, 2014 a subsidiary of the Company borrowed \$15.0 million from its Chairman and CEO to fund, in part, the \$19.0 million that a subsidiary deposited with the Federal Communications Commission to fund its participation in Auction 97. The loan bears interest at the rate of .38% per year and was due the earlier of 5 days after the Auction 97 deposits are returned from the FCC, or October 14, 2015. The deposit was returned in February and the loan was repaid.

The Company is obligated under long-term debt provisions and lease agreements to make certain cash payments over the term of the agreements. The following table summarizes, as of June 30, 2015 for the periods shown, these contractual obligations and certain other financing commitments from banks and other financial institutions that provide liquidity:

| | Payments Due by Period (In thousands) | | | | |
|--|--|---------------------|------------------|-----------------|------------------|
| | Total | Less than 1 year | 1 – 3 years | 4 – 5 years | After 5 years |
| Long-term debt, principal only | \$ 32,682 | \$ 4,640 | \$ 18,051 | \$ 9,246 | \$ 745 |
| Notes payable to banks, principal only | 16,505 | -- | 16,505 | -- | -- |
| Interest on debt and notes | 5,436 | 2,457 | 2,545 | 425 | 9 |
| Total contractual cash obligations and commitments | <u>\$ 54,623</u> | <u>\$ 7,097</u> | <u>\$ 37,101</u> | <u>\$ 9,671</u> | <u>\$ 754</u> |

At June 30, 2015, total debt was \$49,187 thousand, a decrease of \$9,294 thousand from December 31, 2014, excluding the special purpose Auction 97 loan of \$15,000 thousand. At June 30, 2015, there was \$30,006 thousand of fixed interest rate debt outstanding, averaging 6.8%, and \$19,181 thousand of variable interest rate debt, averaging 3.1%. The debt at fixed interest rates includes \$25,122 thousand of subordinated notes at interest rates averaging 7.1% issued to sellers as part of acquisitions. The long-term debt facilities at certain subsidiaries are secured by substantially all of such subsidiaries’ assets, while at other subsidiaries it is secured by the common stock of such subsidiaries. In addition, the debt facilities contain certain covenants restricting distributions to LICT.

LICT has a manageable degree of financial leverage. As of June 30, 2015, the ratio of total debt to total EBITDA, on a trailing twelve month basis, was 1.5 to 1. Certain subsidiaries have higher debt to EBITDA profit ratios.

As of June 30, 2015, LICT had current assets of \$29.5 million and current liabilities of \$13.2 million resulting in working capital of \$16.3 million compared to \$3.3 million at June 30, 2014.

Sources and Uses of Cash

Cash at June 30, 2015, was \$18.1 million, essentially the same as compared to December 31, 2014. In the six months of 2015, net cash provided by operations of \$14.6 million was primarily used to invest in plant and equipment and repay debt.

In the six months, capital expenditures were \$8.9 million in 2015 compared to \$7.4 million in 2014, of which 51% and 53% were spent at the RLECs and, for our cost based companies, will be included in their rate bases for rate setting purposes.

In 2008 through the present, the Company has taken bonus depreciation deductions for eligible property additions as allowed by the Internal Revenue Service of 50%, starting January 1, 2008, 100%, starting September 9, 2010 through December 31, 2011 and 50% starting January 1, 2014. Such deductions which have the effect of reducing current taxes payable, but will increase tax payments in future years.

In February 2014, the Company closed on the sale of its eight 700MHz licenses for \$12.8 million. The licenses had a basis of \$0.8 million and net of sales cost and income tax, resulted in a net gain of \$7.7 million, or \$324 per share. Using such proceeds, the Company paid off \$7.6 million of long term debt and a capital lease of its Michigan subsidiary.

The Company received cash distributions from a 25% interest in the Modoc Partnership of \$1.1 million in the six months of 2014 compared to \$0.6 million in the current period.

The Company's Board of Directors has authorized the purchase of up to 5,000 shares of the Company's common stock. Through June 30, 2015, 4,450 shares have been purchased at an average investment of \$2,968 per share, including 205 shares purchased in 2015 at an average investment of \$5.133 per share.

The Company has not paid any cash dividends since its spin-off from Lynch Corporation in 1999. The Company has spun-off three entities: Morgan Group Holding Co., CIBL Inc., and ICTC Group Inc. Since its spin-off from LICT, CIBL has made cash distributions to shareholders of \$170 per share.