

LICT CORPORATION

Description of Business, Management's Discussion of Operations, and Audited Financial Statements

2015

LICT Corporation is no longer required to file an Annual Report on Form 10-K with the United States Securities and Exchange Commission. In lieu thereof, LICT Corporation is providing its shareholders and the financial community with enclosed financial data and analysis.

DESCRIPTION OF BUSINESS

BACKGROUND AND HISTORY OF LICT CORPORATION

LICT Corporation (“LICT” or the “Company”) was incorporated under the laws of the State of Delaware in 1996 as a subsidiary of Lynch Corporation (now “LGL Group Inc.”), and was originally named Lynch Interactive Corporation. The Company was spun off from Lynch Corporation in 1999 and has been named LICT Corporation since March 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, together with its subsidiaries, is an integrated provider of broadband and voice services. On the voice side, the Company has traditionally operated as both 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). It provides high speed broadband services, including internet access, through copper-based digital subscriber lines (“DSL”), fiber optic facilities, fixed wireless, and cable modems. It also provides video services through both traditional cable television services (“CATV”) and internet protocol television services (“IPTV”); Voice over Internet Protocol (“VoIP”); wireless voice communications; and several other related services. As used herein, LICT or the Company includes its subsidiaries.

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 directly related to its present businesses.

In 2007, we spun off shares in a wholly-owned subsidiary named CIBL, Inc. (“CIBL”) to our shareholders. In 2010, we spun off ICTC Group, Inc. (“ICTC”), which consisted of two telecommunications companies operating in North Dakota, Inter-Community Telephone Company, LLC and Valley Communications, Inc., to our shareholders. Both of these spin-offs have benefited the Company and the spun-off entities in a number of ways, serving to optimize their efficiency and future development.

In 2014, we sold our DFT Communications (“DFT”) subsidiary, which held the telephone companies serving Dunkirk/Fredonia and Casadaga, New York, as well as a CLEC operation. This sale generated additional liquidity for the Company and returned ownership of DFT to the Maytum family, who had originally founded the telephone companies over a century ago. As part of the transaction, we retained, and subsequently exercised, the right to acquire a 20% minority equity interest in DFT. This transaction has benefited the Company as well as DFT and its customers.

The Company’s shares are quoted on OTC Pink® under the symbol “LICT”. The Company has approximately 85 stockholders of record. LICT disseminates quarterly and audited annual financial statements as well as press releases to its shareholders and the financial community.

COMMUNICATIONS OPERATIONS

Broadband Data and Voice Services

Organization and Locations. We provide services through subsidiary companies. The broadband data and voice services group has been expanded through the selective acquisition of RLECs and other service providers, and by offering additional services such as broadband internet access service, long distance, cable television service, VoIP and CLEC services. Since 1989, the Company has acquired thirteen telephone companies, excluding the ICTC spin-off and DFT sale described above. These operations range

in size from approximately 800 to over 7,000 access lines and are located in California, Illinois, Iowa, Kansas, Michigan, Nevada, New Hampshire, New Mexico, Oregon, Utah and Wisconsin.

Principal Products and Services:

Non-Regulated Services

Broadband and voice services. We provide non-regulated broadband services, including internet access and data transport, in our traditional RLEC territories and adjacent areas. We also provide local telephone and other telecommunications services outside certain of our franchise areas through CLEC operations in nearby areas. The Company has established CLECs in such varied locations as Dubuque, IA; the Quad Cities area (Davenport/Bettendorf, IA and Moline/Rock Island, IL); Holton and Wichita, KS; Escanaba, MI; Silver City and Deming, NM; Klamath Falls, OR; and Provo/Orem, UT.

Hosted voice services. Hosted voice services are a cost-effective, scalable alternative to traditional on-premise business telephone systems. We are currently serving 4,424 “seats”. (A “seat” is the unit by which hosted voice services are sold. Seats are equivalent to the number of IP, or Internet Protocol phones, or devices, at the customer’s premises that can access the hosted voice service.) We believe that this is an attractive service offering which we can deliver in large markets around our existing RLEC operations.

Cellular backhaul and other data transport services: We have continued construction of fiber optic facilities to cell tower sites. This allows us to participate in the growing demand for wireless broadband services and also opens new broadband opportunities in our markets. We expect continued demand for transport services from the wireless providers as mobile data usage grows, and we have secured a number of long-term contracts that will help support our revenue growth objectives for years to come. In addition, we are experiencing significant demand from schools, health care facilities and government agencies for data transport, particularly at our operations in Utah and California.

Subscription video. We provide CATV service in our Utah, Kansas and Iowa locations, including cable modem service for high-speed internet access, and IPTV service in our New Hampshire and Iowa operations. We have 6,570 video subscribers and are considering further acquisitions as we develop this aspect of the Company’s overall business.

Traditional Regulated (RLEC) Services

Local network services. We provide telephone wireline access services to residential and business customers in our service areas with a number of calling features including call forwarding, conference calling, caller identification, voicemail and call waiting. We also provide broadband services, historically by means of DSL technology but increasingly by fiber optic technology, to both business and residential users. In our RLEC service territories, the DSL penetration levels of our subsidiaries are currently in the 70-75% range, and rank among the highest in the industry. We are continuing our efforts to increase our broadband customer base and to expand all of our broadband services. We also offer packages of telecommunications services which 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. As of December 31, 2015, total voice lines, including both access and CLEC were 33,043, comparable with 2014.

Network access services. We provide network access services to long distance and other carriers which involve the use of our network 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.

This table summarizes certain operational data:

	Years Ended December 31,		
	2015	2014	2013
Operations:			
RLEC access lines ^(a)	27,690	28,001	29,018
CLEC lines	5,353	5,019	4,165
Total voice lines	33,043	33,020	33,183
% Residential	79%	76%	73%
% Business	21%	24%	27%
DSL Lines	17,226	17,274	17,094
Cable Modems (Utah and Kansas)	9,327	7,075	5,802
Wireless	1,815	1,690	1,650
Total Broadband Connections	28,368	26,039	24,546
Hosted voice seats ^(b)	4,424	2,044	1,275
Video subscribers	6,570	6,177	6,575
<u>Total Revenues</u>			
Local service	9%	10%	10%
Network access	48%	53%	55%
Non-Regulated businesses ^(c)	43%	37%	35%
Total revenues	100%	100%	100%

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

(b) A “seat” is the unit by which we sell Hosted Voice services. Seats are equivalent to the number of IP phones or devices at the customer’s premises that can access the service.

(c) Non-Regulated Businesses include Broadband Internet, CLEC, Hosted Voice, CATV, IPTV, and other non-regulated services.

Expansion and Development of New Products and Services. The Company continually seeks to introduce new services based on technological advances and expanding commercial initiatives. Our subsidiaries are continually seeking to expand their service offerings beyond their regulated geographic territories, primarily by establishing and developing CLECs in adjoining areas where economically feasible. This is accomplished by: building facilities, almost entirely fiber optic cable, directly to the customer premises to provide services; and leasing 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.

As described in greater detail below, we expect future growth in operations to be derived from a broad range of activities, including the acquisition of additional telephone and communications companies; providing service to new customers, primarily through CLEC operations; providing additional and

expanded services to existing customers; upgrading existing customers to higher grades of service; and from new service offerings through our RLEC or CLEC operations.

The Company continually evaluates acquisition opportunities. In addition, we typically seek companies with local management who will remain active with their company. 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 on the Federal and state level. We will continue to evaluate additional acquisitions. Any acquisition is subject to various risks, including the ability to find and complete acquisitions at an attractive price, and successfully integrate and operate them.

All of our current telephone companies offer broadband internet access service, either directly or through affiliated companies. At December 31, 2015, internet access customers totaled 28,368, compared to 26,039 at December 31, 2014, an 8.9% year-over-year increase. Our companies have substantially increased their numbers of broadband customers, but this growth has been offset by a decrease in our traditional telephone service resulting from a number of factors, including competition from wireless and cable companies. Affiliates of all of our telephone companies offer long distance and CLEC services. Several of our subsidiaries are providing and expanding VoIP service.

Utah

CentraCom, based in Fairview, Utah, is successfully providing high capacity Ethernet circuits over its extensive fiber network to schools, hospitals, government, cell towers and private business facilities. In 2015, it installed a 100Gbps backbone covering the 4 major population locations along the Wasatch front. It also continued to aggressively expand its CLEC business operations in the Provo/Orem, UT area. With a new focus on additional network interconnection opportunities and the implementation of multiple Master Agent Agreements, CentraCom was able to accomplish aggressive CLEC Enterprise customer sales goals. After more than a year of negotiation, CentraCom was able to finalize a deal to provide Ethernet backhaul services to 17 T-Mobile towers. The T-Mobile implementation will take place throughout 2016. CentraCom is also expanding its residential offerings by upgrading its CATV plant to an all-digital format, taking fiber to the premise in multi-tenant condominiums, and also a new exclusive subdivision.

New Mexico

Western New Mexico Communications Inc. in 2015 continued to expand its fiber footprint in Silver City with the installation of four miles of fiber. Six new buildings were added to our "on-net" footprint. Installations of VoIP continue to grow with a 100% increase in VoIP revenues year over year. In 2016, plans include the installation of another 3 miles of fiber in Silver City to close a SONET ring. We continue to focus on the non-regulated side of the business in 2016.

Kansas

Giant Communications, Inc., an affiliate of JBN Telephone Company, provides traditional CLEC services in Holton and other areas of northeast Kansas, with about 220 phone subscribers, and VoIP services to 350 subscribers. In addition, Giant serves approximately 1,300 CATV customers, approximately 1,200 of whom also subscribe to cable modem services. Giant provides fixed wireless broadband in these areas, too. In 2012, Giant launched its hosted voice service offering in Wichita, KS, leveraging its existing soft switch, billing platform and IP connectivity. Giant currently serves over 2,100 seats. Giant expects to grow in this market and expand into an additional metro market in 2016.

Iowa/Illinois

CS Technologies, Inc. provides CLEC services, both voice and data services, in the Quad Cities area, primarily through its own facilities but also through UNE-L facilities. It also offers CLEC services in Dubuque, IA on a UNE-L basis with 2016 plans to start a metro fiber network. During 2015, the Company constructed an additional 5 miles of fiber in the Quad Cities, supplementing its existing network, and now serves approximately 1,100 CLEC customers and 3,360 lines in the Quad Cities and Dubuque. During 2015, Central Scott Telephone purchased the assets of Dixon Telephone Company, including a base of approximately 350 lines, 450 CATV customers and 450 broadband customers. Also in 2015, CS Technologies operationalized its Rock Island and Moline colocations for expanded UNE-L presence and late in the 4th Quarter added its first CLEC customers served from these two facilities.

California/Oregon

Cal-Ore Communications Inc., based in Dorris, CA, has approximately 1,662 CLEC lines in California and Oregon. The Company has constructed approximately 28 miles of fiber optic cable in these locations that will pass numerous small and medium sized businesses where we offer broadband services. Our fixed wireless internet services continue to be a viable option for subscribers in rural areas and account for over half of our total CLEC lines in 2015.

Michigan

Michigan Central Broadband, based in Carney, MI, owns and operates its MetaSwitch (the global leader) media gateway equipment that allows it to supply legacy telephone services while converting its base to VoIP. Out of territory initiatives have produced 50% growth year over year since its inception three years ago. Out of territory operations cover all areas of the Upper Peninsula including among others, Escanaba, Marquette and Iron Mountain. Our Alpha business unit has created a unique next generation call transport system trade named HostNet IPX (Internet Protocol eXchange). This service provides single routing on an all fiber based facility to the global IP carrier Level 3. We intend to expand this service offering to regional and national carriers to improve call flow, quality, security and reliability. We intend to expand our marketing area for HostNet branded hosted communication services and increase broadband sales through carrier NNI's.

Geographic Operational Efficiencies

In addition to developing individual operations, we are also generating cost efficiencies by integrating internal operating and administrative service functions where there is geographic proximity. We are doing this with our Iowa/Wisconsin operations and within our Kansas operations. Additionally, we would target acquisitions in geographic areas where we are developing our current operations.

LICT Corporation Cautionary Note

There is no assurance that the Company can successfully develop new businesses or make expanded businesses 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 may increase in the future.

Regulatory Environment. Our subsidiaries that provide telecommunications services are subject to varying degrees of Federal and state regulation. Our operating telephone companies are regulated by the FCC with respect to interstate telecommunications services and by state regulatory agencies with respect to intrastate telecommunications services. They are subject to local government regulation, such as the use

of local streets and rights of way. The FCC and the state authorities do not regulate all providers that come under their jurisdiction in the same way. ILECs, of which RLECs are a subset, remain more highly regulated than CLECs who are also providing telecommunications services. While some regulation of ILECs has eased as competition has increased, in general ILEC regulation remains more comprehensive than the regulation of CLECs. The extent and nature of regulation, by the FCC and by states, is evolving for various reasons, such as Congressional and judicial mandates, public policy decisions and other factors.

On March 30, 2016, the FCC released the Order (“2016 Order”) and Further Notice of Proposed Rulemaking (“FNPRM”) reforming USF (“Universal Service Fund”) support for rate-of-return carriers, including both High Cost Loop Support (“HCLS”) and Interstate Common Line Support (“ICLS”). Rate-of-return companies can voluntarily elect to receive a fixed amount of USF support based on the FCC’s Alternative Connect America Cost Model (“A-CAM”) for a ten-year period, which would replace their existing HCLS and ICLS revenues. Alternatively, carriers that do not elect A-CAM will receive support under a new Connect America Fund - Broadband Loop Support (“CAF-BLS”) mechanism that will replace ICLS and continue HCLS with certain modifications. CAF-BLS will provide support for loops, regardless of whether those loops carry voice only, voice and data service or only data broadband service.

Neither A-CAM nor CAF-BLS funding support will be provided in census blocks where an unsubsidized competitor offers qualifying service; however, the competitive qualifying threshold levels differ between A-CAM and CAF-BLS. The Order adopted differing broadband deployment milestones, service performance requirements, including usage and latency, and reporting requirements of location-specific broadband speed data. A-CAM build-out requirements differ by density measures and are on a statewide basis for affiliated RLECs.

Census blocks which the incumbent carriers do not elect to serve at the new USF support amounts can be relinquished by the incumbents and will be placed in an auction where parties, including the current provider, may bid for support.

The Order also reduces the allowable rate-of-return from the current 11.25 percent to 9.75 percent, over a six-year phased transition of 25 basis points per year from July 1, 2016 through July 1, 2021. The rate-of-return transition applies for both USF and rate-making. A-CAM uses the 9.75 percent immediately.

A-CAM:

If A-CAM is elected, it must be adopted on a statewide basis for all affiliated companies. Carriers electing the A-CAM model will no longer be subject to rate-of-return regulation for common line (“CL”) services and will no longer be able to participate in the National Exchange Carrier Association’s (“NECA’s”) CL pool. The Order permits these companies to remain in NECA’s tariff for access rates. In year eight, the FCC shall conduct a rulemaking to determine how support will be determined after the end of the 10-year period.

Census blocks where the incumbent or any affiliated entity is providing 10/1 Mbps or higher broadband service using either Fiber to the Premise (“FTTP”) or cable technologies are excluded entirely from eligibility for A-CAM. Also, if a carrier’s statewide data shows the ILEC already has 10/1 Mbps service to 90% of the eligible locations in the state, the carrier is not eligible to adopt A-CAM for that state.

Carriers electing A-CAM will be required to maintain voice and existing broadband service and to offer at least 10/1 Mbps to the statewide total of “fully funded” locations, and at least 25/3 Mbps to a certain percentage of the fully funded locations, by the end of the 10-year support term, with deployment milestones along the way for the 10/1 Mbps locations. The split between 25/3 Mbps and 10/1 Mbps obligations depends upon housing density on a statewide basis. Carriers will also be required to offer at least 4/1 Mbps to a

defined number of locations on a statewide basis that are not fully funded (i.e. those locations with a calculated average cost above the “funding cap” will still receive \$200 per month for each of the capped locations), and the remaining capped locations will be subject to a reasonable request standard.

The 2016 Order provides a “challenge process” in which carriers may show that the amount of A-CAM support the FCC preliminarily determined to be appropriate for them is erroneous under the Order’s rules. Several of LICT’s companies participated in that process, which ended on April 28, 2016, asserting that the FCC had substantially undercounted the number of census blocks in their service territories which are eligible for A-CAM. Although LICT believes that its companies have proven their challenges, the FCC’s decisions cannot be predicted with any certainty. The FCC is expected to reach its final decisions on the A-CAM challenges and publish initial A-CAM support results by mid-year 2016. These initial results will be subject to potential revision based on the overall annual cap of \$2 billion for USF support for all carriers electing A-CAM.

Connect America Fund – Broadband Loop Support:

Carriers electing CAF-BLS are subject to operating expense and capital expenditures limitations, as well as overall budget controls to maintain the \$2 billion annual USF support budget. There is a short transition for carriers impacted by the operating expense cap. For CAF-BLS, new carrier-specific allowed capital expenditure amounts and five-year deployment obligations are adopted in the 2016 Order. Allowed capital expenditures are based on the extent to which the carrier has already deployed broadband, its forecasted CAF-BLS, density, a cost per location metric, and the percent a carrier is above or below the national broadband deployment average.

Support for any census blocks that are determined to be served 85% or more by an unsubsidized competitor will be eliminated from CAF-BLS support. There is a transition for carriers whose CAF-BLS support is reduced due to unsubsidized competitors.

Further Notice of Proposed Rulemaking:

The FCC requested comments, due May 12, 2016, in the FNPRM on allowed expenses, affiliated company transactions and cost allocations for ratemaking and USF support purposes for rate-of-return companies. The proposed rules are intended to establish measures governing prudent or reasonable expense levels for certain expense categories to eliminate inefficiencies and cross-subsidization. In addition, comments are requested on methods for reducing support in competitive areas; increasing support for a rate-of-return carriers in Tribal lands and unserved areas; measures to improve the operation of the current rate-of-return system; and streamlining eligible telecommunications carrier annual reporting requirements. The rulemaking process is expected to be concluded in late 2016 or early 2017.

Intrastate Access Revenues. Our subsidiaries are compensated for their intrastate costs through billing and keeping intrastate access charge revenues (i.e., there are no intrastate access revenue pools). Intrastate access charge revenues are based on intrastate access rates filed with the state regulatory agency. If an ILEC subsidiary’s intrastate access charge rates were above the interstate rates at July 1, 2012, the FCC has mandated that the company reduce the intrastate rates so that all intrastate rates were at or below interstate rates by July 1, 2013, and with each subsequent interstate tariff filing thereafter.

National Exchange Carrier Association. For interstate services, our telephone subsidiaries participate in NECA’s Common Line (“CL”) and traffic sensitive (“TS”) tariffs and access revenue pools. Effective in 2012, the CL and TS costs allowed for recovery from the access revenue pools were changed by the FCC so that certain costs are capped or phased down. All of our telephone subsidiaries are rural, rate of return

("RoR") companies for interstate regulatory purposes. RoR companies receive support based on their costs or the costs of similarly situated companies through formulas developed by NECA referred to as "average schedules". We have four average schedule companies and nine cost-based companies. Cost companies determine interstate revenues through cost studies computed based on the Company's own interstate costs, subject to the FCC caps and phase-downs. Interstate access revenue for RoR carriers is based on an FCC regulated rate-of-return, currently authorized at up to 11.25% on investment, and recovery of operating expenses related to interstate access. The FCC rules mandate that the CL pool earn the authorized rate-of-return, after all true-ups are completed; however, the TS pool does not have that provision. The NECA TS pool earns whatever rate-of-return the tariff rates produce given the actual demand during the year and based on the actual costs of the RLECs participating in the TS pool.

Intercarrier Compensation Reform. The FCC significantly revised intercarrier compensation ("ICC") in 2011 ("2011 Order"). Prior to the ICC reforms, the rate for ICC depended on the type of traffic at issue, the types of carriers involved, and the end points of the communications, which created opportunities for regulatory arbitrage as well as incentives for inefficient investment and deployment decisions. The 2011 Order provides for a reduction over the next few years in the charges we receive from other carriers to transport and terminate calls that originate on those carriers' networks. As a general matter, the amount and timeframe for these reductions will depend on the nature of the traffic at issue. The 2011 Order transitions all terminating ICC to a default bill-and-keep arrangement by 2020 so that, in the absence of some commercial arrangement, support for the deployment of broadband services is based solely on funds received from the CAF, originating traffic access charges and end-user customers.

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 costs resulting from the low population densities of the areas served. The FCC requires all telecommunications carriers to obtain designation as an ETC in order to receive federal USF. All of our subsidiaries are already designated as ETCs. As discussed above, the 2016 Order significantly revised the USF mechanisms and further reforms may be forthcoming given the request for comments in the FNPRM.

Voice over Internet Protocol. Our RLEC operations have increasing wireline competition. Wireless usage and VoIP are continuing to increase across the nation, including in the areas served by us. Competition from VoIP services could have substantial detrimental impact on future revenues and create additional uncertainty for us. It is not possible to predict the extent to which these complementary or substitutable services might impact our revenues. Because of the rural nature of their operations and related low population densities, our RLEC subsidiaries are generally high cost operations which receive substantial federal and state support. 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 FCC's regulations provide that all carriers originating and terminating VoIP calls will be on equal footing in their ability to obtain compensation for this traffic.

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 growing fastest in the areas close to larger towns or metropolitan areas. All of our telephone companies have historically been monopoly wireline providers in their respective areas for local telephone exchange service, but the regulatory landscape is continually evolving. We now experience competition in most locations from long distance carriers, from cable companies for voice, data and video, from internet service providers for internet access, 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 customers via the internet using VoIP or through wireless operations. It is difficult to estimate how much traffic is lost to VoIP or wireless competitors.

Wireless and Other Interests. The Company has other, less than 50% owned interests, which contribute significant value to the Company.

Modoc RSA Limited Partnership (“Modoc”). A wholly-owned subsidiary owns a 25% limited partnership interest in Modoc, which provides wireless data and voice services to California RSA No. 2. In 2015, revenues of the partnership of approximately \$24.0 million is down 4% from the prior year and EBITDA of approximately \$9.5 million is down 6% from the prior year. As of December 31, 2015, Modoc had approximately 28,300 subscribers which is comparable to the prior year. During 2015, the Company’s subsidiary received \$2,350,000 of cash distributions from Modoc which compares to \$1,500,000 received in 2014.

DFT Communications (DFT). A wholly-owned subsidiary owns a 20% interest in DFT, which offers Local and Long Distance Telephone Service, Business Telephone Systems, Internet Service, Security Systems, Wireless Communications and Call Center Services to those in Western New York and portions of Pennsylvania. In 2015, DFT revenues were approximately \$15.1 million and EBITDA was approximately \$3.0 million.

Iowa Network Services, Inc. (“INS”). A wholly-owned subsidiary owns 1,115 shares of INS participating preferred stock and 172 shares of INS common stock – equating to a 2.45% economic interest. 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. INS had revenues of approximately \$675 million in 2015. INS owns a minority position in Iowa Wireless Services, LLC, a cellular network operator, covering larger metropolitan areas in Iowa except for the Des Moines Basic Trading Area.

CVIN LLC (“CVIN”). A wholly-owned subsidiary owns an interest of 2.5% in CVIN, which owns and operates a fiber optic network in the Central Valley and northern areas of California. CVIN provides certain telecommunication support services to its ownership affiliates and others. In 2015, it had revenues of approximately \$11.2 million and EBITDA of approximately \$ 3.0 million.

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

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.

A wholly-owned LICT subsidiary holds a PCS license in Clinton County, Iowa. This license was acquired as part of the acquisition of Central Scott Telephone Company, and covers a population of 11,470.

Lynch PCS Corporation G, a wholly-owned subsidiary, holds a PCS license in Las Cruces, NM which covers a population of 249,902.

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.

We expect 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 establish high-bandwidth opportunities.

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 featuring already-established cellular telephone operators and other new licensees. There are 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. The Company holds other licenses of various types, and it 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. Capital expenditures, earnings and the competitive position of the Company have not been materially affected by compliance with current federal, state and local laws and regulations relating to the protection of the environment. We cannot predict the effect of future laws and regulations on its environmental compliance or the costs thereof.

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

Dependence on Particular Customers. The Company does not believe that its business is dependent on any single customer or group of customers. Most ILECs, 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. We cannot predict which, if any, IXCs or other significant customers may go bankrupt in the future.

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

Employees. The Company had a total of 283 employees at December 31, 2015, including 7 corporate employees with the remainder responsible for providing telecommunications services and support, compared to 269 employees at December 31, 2014.

EXECUTIVE OFFICERS

The following list of the Company's senior executive employees in 2015 sets forth the positions and offices with the Company held by each such person, and the principal employment by, or other service of these persons during past years.

<u>Name</u>	<u>Offices and Positions Held</u>	<u>Age</u>
Mario J. Gabelli	President and Chief Executive Officer since December 2010, Chairman since December 2004 (and also served as Chairman from September 1999 to December 2002), Vice Chairman from December 2002 to December 2004, Chief Executive Officer from September 1999 to November 2005.	73
Robert E. Dolan	Executive Vice President, from December 2010, and Chief Financial Officer, from September 1999; Chief Executive Officer (Interim) from May 2006 to December 2010, and Controller from September 1999 to January 2004.	64
Evelyn C. Jerden	Senior Vice President – Regulatory Dynamics since December 2008, Senior Vice President - Operations from September 2003 to December 2008, Vice President-Regulatory Affairs from 2002 to 2003, Director of Revenue Requirements of Western New Mexico Telephone Company, Inc. from 1992 to present.	58
James DaBramo	Chief Operating Officer since November 2015; prior to LICT served as Founding Partner at FDN Communications 2007-1998. Executive Management Team at various Telecom Companies including Metro Access Networks 1995-1998. Held Executive Positions at Airband, IBBS and UNSi 2009-2015.	57
Stephen J. Moore	Vice President - Finance from April 2014; prior to LICT, served as Controller North America – Poyry Management Consulting (USA) Inc. from January 2008 to October 2013, Controller at Dorian Drake International Inc. from June 1997 to December 2007.	51
John M. Aoki	Corporate Controller from April 2014; prior to LICT, served as Senior Project Manager at Denovo Ventures, LLC from 2013 to 2014, Lead Area Controller at Dean Foods Company from 2007 to 2013, Chief Financial Officer at Prolexys Pharmaceuticals Inc. from 2001 to 2006.	59
Gary M. Julien	Vice President, Corporate Development since December, 2015 (and Executive Vice President, Corporate Development for PMV Acquisition Corporation and Vice President, Corporate Development for CIBL, Inc. since August, 2015); Prior to LICT, Senior Vice President, Bronson Point from 2009-2014, previously Vice President, Corporate Development at Kandors & Company and Vice President, Corporate Development at Armor Holdings, Inc.	46

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

The Company leases approximately 3,334 square feet of office space on customary commercial terms from an affiliate of its Chairman for its executive offices in Rye, New York. Annual lease payments are \$93,352 or \$28.00 per square foot, plus \$3.00 per square in utilities per year. There is an annual escalation adjustment and the lease expires in December 2023. In September 2014, the Company sublet 485 square foot of its corporate office space to another affiliate of the Chairman. The sublet lease expires on December 5, 2023 and the base rental rate is \$19,764 per annum.

CentraCom and its subsidiaries and affiliates own a total of 9.8 acres at sixteen sites, with 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. CentraCom'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, 4,952 square feet of protective cover and three rental homes. CentraCom owns smaller facilities used mainly for housing central office switching equipment with a total of 11,265 square feet in 26 various locations. In addition, the company owns 1,012 miles of copper cable, 388 miles of coaxial cable and 1,132 miles of fiber optic cable running through rights-of-way within its 10,483 square mile service area.

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, has constructed 13 microwave towers and 11 associated equipment buildings. Western has the use of 59 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 3,929 miles of copper cable and 691 miles of fiber optic cable within its 15,000 square mile service area.

JBN Telephone Company ("JBN") 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, JBN owns 15 smaller facilities housing central office switching equipment and over 1,200 miles of copper cable, and with its affiliate Giant Communications, Inc., a combined 550 miles of fiber optic cable. A portion 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 1,700 miles of copper

cable and 544 miles of fiber optic cable. All of these properties are encumbered under a mortgage held by the RUS.

Michigan Broadband Services owns approximately 100 acres at 19 exchanges located in the Upper and Lower Peninsulas 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, Michigan Broadband owns 23 other smaller facilities housing garage, warehouse and central office switching equipment; and over 2,320 miles of copper cable and approximately 1,000 miles of fiber optic cable.

Central Scott Telephone Company (“Central Scott”) owns 4 acres of land at 6 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 368 miles of copper cable and 73 miles of fiber optic cable. Its subsidiary, CS Technologies has 5 miles of copper cable and 44 miles of fiber optic cable. All of these properties are encumbered under mortgages held by 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 329 miles of copper cable and 71 miles of fiber optic cable.

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 597 miles of copper cable and 275 miles of fiber optic cable running through rights-of-way within the California service area, with an additional 74 miles of fiber owned or leased in Oregon

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. The company also owns two central office buildings on leased land in Bretton Woods totaling 844 square foot. The company has 29 miles of copper cable and 35 miles of fiber optic cable.

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 11 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 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 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 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 holding subsidiaries currently have no significant assets other than equity interests in the operating subsidiaries. As a result, the Company and these holding 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 certain 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;
- creation of liens;
- 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, would 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 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 facilities (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 facilities (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. Due to general economic conditions, conditions in the lending markets, the results of our business or for other reasons, we may elect or be required to amend or refinance our existing credit facilities (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 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 has prompted most customers to cancel their second line service. In addition to line losses, the usage of our networks, generally measured in Minutes of Use ("MOUs"), has also been decreasing. It is reasonable to expect that we will 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 the incumbent telephone company, we historically had experienced little competition in our RLEC markets. However, many of the competitive threats confronting large communications companies, such as competition from VoIP and cable providers, are becoming more widespread 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 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 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 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, technologically complex and time-consuming to implement. 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 interexchange and other 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 broadband services. Our provision of long distance and broadband 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, transit authorities and others 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 each of 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 ICTC 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 ICTC 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.

We have a significant amount of goodwill and other intangible assets on our balance sheet. If our goodwill or other intangible assets become impaired, we may be required to record a significant non-cash charge to earnings and reduce our stockholders' equity. Under generally accepted accounting principles, intangible assets are reviewed for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. The Company monitors relevant circumstances, including general economic conditions, enterprise value EBITDA multiples for RLEC properties, the Company's overall financial performance, and the potential that changes in such circumstances might have on the valuation of the Company's intangible assets, including goodwill. If our intangible assets are determined to be impaired in the future, we may be required to record a significant non-cash charge to earnings during the period in which the impairment is determined.

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 substantial portions of our revenues are supported by regulations, including access revenue and USF support for the provision of telephone services in rural areas. As discussed above, the new USF and ICC rules 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, a portion of 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. At the current time, several IXC's have filed lawsuits alleging that ILECs, including RLECs, have improperly collected access charges relating to a particular type of wireless traffic, and the unfavorable resolution of these suits could have an adverse effect on our companies. 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 Connect America Fund support, interstate common line support, safety net and high cost loop support. Any changes to the existing rules, such as A-CAM and CAF-BLS, 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 HCLS payments to our rural operations will fluctuate based upon each 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 some of the Telecom Act's more burdensome requirements governing the rights of competitors to interconnect to ILEC networks and to utilize discrete 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 could 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 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, although it is possible that they may do so.

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, the 2011 and 2016 Orders and subsequent orders reflect fundamental regulatory changes and this regulatory evolution is ongoing. In addition, the Telecom 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, as well as the FCC's implementation of the NBP and its 2011 and 2016 Orders and subsequent orders, will be subjected to additional regulatory or judicial review and/or be affected by future actions of the FCC expanding or modifying its regulation. It is thus impossible to predict what effects the legislation or the FCC's regulatory actions will have on our business, financial condition or results of operations. We cannot predict the timeframe or outcome of future FCC reforms, nor can we have any assurance that future changes will not have a material adverse effect on us.

MANAGEMENT'S DISCUSSION OF OPERATIONS

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

Forward-Looking Statements and Uncertainty of Financial Projections

The following discussion contains certain forward-looking statements. Forward-looking statements are not based on historical information but relate to future operations, strategies, financial results or other developments. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, financial, economic and competitive uncertainties and contingencies, many of which are beyond our control and all of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

RESULTS OF OPERATIONS

Overview

LICT provides an array of communications services, primarily in rural areas but with continuing expansions in adjacent urban communities, which are detailed in the Telecommunications Operations section of this report. 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. 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 2014 and 2013 amounts.

The broad array of communications services which we provide to residential, commercial and governmental customers, include:

- Local and long-distance telephone service
- Broadband services, principally Digital Subscriber Lines ("DSL") but increasingly through fiber optic technologies
- Video services, including cable television and Internet Protocol Television ("IPTV")
- Access for other telephone service providers to the intra-state and interstate networks
- Private line connections between, for example, two branches of a business
- Public access, including, for example, 911 service
- Managed Hosting, where we host virtual switchboards for customers
- Wireless broadband service, primarily for very remote customers

The federal and state governments have long had a policy of encouraging and financially supporting 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 economically feasible 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 those technologies and provide new services to their customers. In addition, the rates we can charge for some of our services are often regulated by various public utility commissions. We devote considerable management attention to understanding, utilizing and complying with these different governmental programs, incentives and regulatory structures. There is no certainty that such support programs will continue at the same levels as they have in the past, and some reductions have already occurred. However, we believe that the various governmental agencies will continue to encourage and support the provision of modern communications services for people living in high-cost, rural areas. People are communicating more, and in more ways, than ever before – and this includes the rural population as well as urban dwellers. We believe that this expansion of communications creates an opportunity for us to successfully develop the Company’s business, as rural customers demand additional and better communications infrastructure.

Of note, as discussed in more detail in the Business Section of this report, on March 30, 2016, the FCC released the Order (“2016 Order”) and Further Notice of Proposed Rulemaking (“FNPRM”) reforming USF support for rate-of-return carriers, including both High Cost Loop Support (“HCLS”) and Interstate Common Line Support (“ICLS”). While we are still evaluating the implications of this Order and FNPRM, it will have significant implications on our future regulated revenues, capital and customer service levels.

The advent and spreading acceptance of high speed internet has been a major growth area for our company. In particular, the number of our DSL and fiber optic broadband subscribers has grown dramatically in recent years. This has been offset, in part, by reductions in the number of traditional telephone lines we serve, as consumers replace traditional telephone connections with new technologies. We expect such shifts in consumer behavior to continue and we, in turn, are continuing to develop our Company as a broad-based communications provider, whatever the technology, rather than simply a provider of rural telephone connections.

Year 2015 compared to 2014

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

	<u>2015</u>	<u>2014</u>
Revenues:		
Regulated telephone:		
Local access	\$ 7,957	\$ 8,197
Interstate access	32,221	34,892
Intrastate access	7,183	9,507
Other regulated	1,941	1,479
	<u>49,302</u>	<u>54,075</u>
Broadband and other non-regulated services	<u>37,378</u>	<u>31,781</u>
Total	<u>86,680</u>	<u>85,856</u>
Operating Costs and Expenses:		
Cost of revenue, excluding depreciation	41,290	38,064
General and administrative costs at operations	11,332	11,398
Corporate office expenses	2,936	2,622
Depreciation and amortization	17,730	17,659
Total	<u>73,288</u>	<u>69,743</u>
Operating profit	<u>\$ 13,392</u>	<u>\$ 16,113</u>

Total revenues in 2015 increased \$0.8 million, or 0.1%, to \$86.7 million. Local access revenue decreased \$0.2 million, or 2.9%, resulting from a 1.1% decrease in access lines. Interstate access revenue decreased \$2.7 million, or 7.7%, in 2015, due lower regulated rate base at certain of our operations and changes in the revenue recovery rates of certain of our capital expenditures. We continue to be affected by changes in the regulatory model of the FCC, erosion of access lines and minutes of use, and the fact that the actual industry-wide rate-of-return on investment for the NECA Traffic Sensitive pool was lower than the authorized rate-of-return. Intrastate access revenues decreased by \$2.3 million, or 24.4% in 2015 rulings by the New Mexico Public Service Commission that reduced our New Mexico Universal Fund Payments by \$1.9 million in 2015, and will reduce them by an additional \$0.9 million in 2016 and reduction of minutes of use at several of our companies. Broadband and other non-regulated services revenues increased \$5.6 million, or 17.6% in 2015 primarily due to the sale of additional broadband circuits inside and outside of our regulated service territory.

Total operating costs were \$73.3 million in 2015 and \$69.7 million in 2014. Costs of revenue increased \$3.2 million or 8.5%, primarily due to increased costs from the growing broadband data services. General and administrative costs decreased by \$0.1 million from the previous year operations. Corporate office expenses increased by \$0.3 million due to additional personnel costs. Depreciation and amortization decreased by \$0.1 million from the previous year.

As a result of the above factors, Operating profit in 2015 decreased by \$2.7 million to \$13.4 million.

EBITDA

EBITDA is used by our management as a supplemental financial measure to evaluate the operating performance of our business. When viewed with our GAAP results and the accompanying reconciliations, we believe it provides a more complete understanding of the 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 feasible. 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 may 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 (in thousands):

	2015	2014
EBITDA from:		
Operating units	\$ 34,058	\$ 36,394
Dividends from equity affiliates	2,350	2,313
	<u>36,408</u>	<u>38,707</u>
Corporate expense	2,936	2,622
	<u>\$ 33,472</u>	<u>\$ 36,085</u>
Reconciliation to net income:		
EBITDA	\$33,472	\$36,085
Less Dividends from equity affiliates	(2,350)	(2,313)
Depreciation and amortization	(17,730)	(17,659)
Investment income	366	446
Interest expense	(2,923)	(3,783)
Equity in income of affiliates	1,810	2,025
Other gains (losses)	26	(73)
Income taxes (provision) benefit	(4,960)	(5,553)
Net income from continuing operations	<u>\$ 7,711</u>	<u>\$ 9,175</u>

Other Income (Expense)

Investment income decreased by less than \$0.1 million in 2015, primarily due to additional interest from the note retained from the sale of our New York Operations offset by lower distributions from our investment in Iowa Network Services, Inc..

Interest expense decreased by \$0.9 million in 2015, primarily due to reductions in debt outstanding at higher average interest rates.

Equity in earnings of affiliates in 2015 decreased by \$0.2, million primarily due to the profitability of our Modoc RSA wireless investment in California.

Income Tax Provision

The income tax provision from continuing operations includes federal as well as state and local taxes. The tax provision for 2015 and 2014 represents effective tax rates of 39.1% and 37.7%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes as well as other adjustments. In 2015 and 2014, the federal statutory tax rate was 35%.

Net Income

Net income from continuing operations was \$7.7 million, or \$349.74 per basic share and \$348.34 per diluted share in 2015, compared to a net income in 2014 of \$9.2 million, or \$410.18 per share (basic and diluted). The Company has no dilutive instruments outstanding.

Year 2014 compared to 2013

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

	2014	2013
Revenues:		
Regulated telephone:		
Local access	\$ 8,197	\$ 8,450
Interstate access	34,892	32,836
Intrastate access	9,507	9,711
Other regulated	1,479	1,434
	<hr/> 54,075	<hr/> 52,431
Broadband and other non-regulated services	31,781	28,327
Total	<hr/> 85,856	<hr/> 80,758
Operating Costs and Expenses:		
Cost of revenue, excluding depreciation	38,064	35,971
General and administrative costs at operations	11,398	11,777
Corporate office expenses	2,622	3,112
Depreciation and amortization	17,659	16,456
Total	<hr/> 69,743	<hr/> 67,316
Operating profit	<hr/> \$ 16,113	<hr/> \$ 13,442

Total revenues in 2014 increased \$5.1 million, or 6.3%, to \$85.9 million. Local access revenue decreased \$0.3 million, or 3.0%, resulting from a 3.5% decrease in access lines. Interstate access revenue increased \$2.1 million, or 6.3%, in 2014, due to the effect of rate of return on specific capital expenditures, increased regulated cost of operations, a swing of \$0.9 million of out-of-period adjustments, and revenue adjustments that primarily relate to finalization of regulated revenues estimates from the prior year. Offsetting these increases, we continue to be affected by changes in the regulatory model of the FCC, erosion of access lines and minutes of use, and the fact that the actual industry-wide rate-of-return on investment for the NECA Traffic Sensitive pool was lower than the authorized rate-of-return. Intrastate access revenues decreased by \$0.2 million, or 2.1% in 2014, primarily due to a reduction of minutes of use at several of our companies. Broadband and other non-regulated services revenues increased \$3.5 million, primarily due to the sale of additional broadband circuits inside and outside of our regulated service territory.

Total costs and expenses were \$69.7 million in 2014 and \$67.3 million in 2013. Costs of revenue increased \$2.1 million or 5.8%, primarily due to increased regulated costs of \$1.0 million and increased costs from the growing broadband data services. General and administrative costs decreased by \$0.4 million from the previous year operations. Corporate office expenses decreased by \$0.5 million due to lower personnel costs. Depreciation and amortization increased by \$1.2 million, due to the level of 2014 and 2013 capital expenditures.

As a result of the above, operating profit in 2014 increased by \$2.7 million to \$16.1 million compared to \$13.4 million in 2013.

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

	2014	2013
EBITDA from:		
Operating units	\$ 36,394	\$ 33,010
Dividends from equity affiliates	2,313	974
	<u>37,832</u>	<u>33,984</u>
Corporate expense	2,622	3,112
	<u>\$ 36,085</u>	<u>\$ 30,872</u>
EBITDA	\$ 36,085	\$ 30,872
Reconciliation to net income:		
EBITDA	\$ 36,085	\$ 30,872
Less Dividends from equity affiliates	(2,313)	(974)
Depreciation and amortization	(17,659)	(16,456)
Investment income	446	484
Interest expense	(3,783)	(4,107)
Equity in income of affiliates	2,025	1,651
Other gains (losses)	(73)	279
Income taxes (provision) benefit	(5,553)	(4,295)
Net income from continuing operations	<u>\$ 9,175</u>	<u>\$ 7,454</u>

Other Income (Expense)

Investment income decreased by less than \$0.1 million in 2014, primarily due to a reduction in patronage dividends.

Interest expense decreased by \$0.3 million in 2014, primarily due to reductions in debt outstanding at higher average interest rates.

Equity in earnings of affiliates in 2014 increased by \$0.4 million, primarily due to the profitability of some of our start up investments.

Income Tax Provision

The income tax provision from continuing operations includes federal as well as state and local taxes. The tax provision for 2014 and 2013 represents effective tax rates of 37.7% and 36.6%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes as well as other adjustments. In 2014 and 2013, the federal statutory tax rate was 35%.

Net Income

Net income from continuing operations was \$9.2 million, or \$410.18 per share (basic and diluted) in 2014, compared to a net income in 2013 of \$7.5 million, or \$328.03 per share (basic and diluted). The Company has no dilutive instruments outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The debt at certain of LICT's subsidiary companies contains restrictions on the amount of funds that can be transferred to their respective parent companies. Over the past several years, LICT has repaid and restructured the debt at other subsidiaries, permitting free movement of cash from those operations. In 2014, it established its primary corporate liquidity facility at Brighton Communications Corporations ("Brighton"), a direct wholly-owned subsidiary of LICT. Brighton now receives the cash flow from the operating subsidiaries and can, subject to certain restrictions, distribute that cash flow to LICT. With regard to the operations that still are encumbered (located in California and Kansas), Brighton receives cash to meet its obligations primarily through management fees charged to its subsidiaries, dividends, and a tax sharing agreement with its subsidiaries. Additional liquidity is obtained through usage of a revolving credit facility. LICT and Brighton also have obtained liquidity by the sale of assets.

On December 30, 2014, Brighton 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 December 31, 2015 and 2014, there was \$14.0 million and \$22.4 million, respectively outstanding under this facility, classified as long-term debt. The average balance outstanding under these facilities was \$17.9 million at an average interest rate of 3.41% in 2015. The highest amount outstanding was \$22.4 million in 2014. Management believes that the current CoBank facility provides adequate liquidity for at least the next twelve months.

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 December 31, 2015 and 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	\$30,845	\$12,610	\$15,435	\$2,800	\$ --
Operating leases	2,385	475	641	441	828
Notes payable to banks, principal only	14,000	--	14,000	--	--
Interest on debt and notes	6,092	3,079	2,856	157	--
Total contractual cash obligations and commitments	\$ 53,322	\$ 16,164	\$ 32,319	\$ 4,011	\$ 828

At December 31, 2015, total debt was \$44.8 million, a decrease of \$13.7 million from December 31, 2014 (excluding a note payable to an affiliate). At December 31, 2015, there was \$27.8 million of fixed interest rate debt outstanding, averaging 7.20%, and \$17.0 million of variable interest rate debt, averaging 2.81%. The long-term debt facilities at certain subsidiaries, located in Iowa and Kansas, are secured by substantially all of those subsidiaries' assets, while at other subsidiaries, located in California, they are secured by the

subsidiaries' common stock. In addition, the revolving credit facility at Brighton is secured by the assets and common stock of the subsidiaries that are not already pledged. The debt facilities contain certain covenants restricting distributions to Brighton and, in turn, to LICT. Certain assets including the New Hampshire operations and the investment in the Modoc RSA Partnership can be distributed to LICT without restriction.

In October 2014, the company received a \$15.0 million loan from its Chairman and CEO to fund its participation in FCC Auction No. 97. The Note bore interest at .38% per annum. Auction 97 ended on January 29, 2015 and the company did not acquire any licenses. On February 9, 2015 the \$15.0 million loan was repaid with interest of \$19,000.

As of December 31, 2015, the ratio of total debt (excluding the operating leases and future interest)) to EBITDA was 1.34 to 1. Certain subsidiaries have high debt to adjusted operating profit ratios.

As of December 31, 2015, LICT had current assets of \$26.7 million and current liabilities of \$19.5 million resulting in working capital of \$7.2 million, compared to working capital of \$21.8 million at December 31, 2014.

Sources and Uses of Cash

Cash at December 31, 2015, was \$14.7 million, a decrease of \$3.5 million compared to 2014. At December 31, 2014 approximately \$7.0 of cash was in LICT accounts due to the sale of DFT. In addition, not included in the cash was the Upfront Payment for FCC Auction No. 97 of \$19.0 million, which was returned in February 2015, and the note payable to an affiliate of \$15.0 million, which was repaid in 2015, involved of a direct, wholly-owned subsidiary of LICT which is not a subsidiary of Brighton.

Net cash provided by operations of \$27.5 million in 2015, \$25.9 million in 2014 and \$24.9 million in 2013 was primarily used to invest in plant and equipment and repay debt.

Capital expenditures, excluding stimulus grant and loan spending, were \$18.4 million in 2015, \$16.5 million in 2014 and \$18.0 million in 2013 of which 58%, 61% and 66%, respectively, were spent at the RLECs and, for our cost based companies and; will be included in their rate bases for rate-setting purposes. In 2013, an additional \$0.4 million was included in stimulus spending that was not reimbursed by stimulus funds.

From 2008 through 2015, 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, 2012. Such deductions have the effect of reducing current taxes payable but will increase tax payments in future years.

The Company received cash distributions from a 25% interest in the Modoc RSA Partnership of \$2.3 million in 2015, \$1.4 million in 2014 and \$0.9 million in 2013. A distribution of \$1.8 million is expected in 2016.

The company continues to evaluate significant refinancing initiatives which will enhance our ability to take the operational steps necessary to position the organization for future success.

The Company's Board of Directors has authorized the purchase of up to 5,800 shares of the Company's common stock, including 800 authorized on February 5, 2016. Through December 31, 2015, 4,867 shares had been purchased at an average investment of \$3,176 per share, including 622 shares purchased in 2015 at an average investment of \$5,309 per share. An additional 147 shares have been purchased through March 31, 2016 at an average price of \$5,228 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. (2002), CIBL, Inc. (2007), and ICTC Group, Inc. (2010). Since its spin-off from LICT, CIBL has made cash distributions to shareholders of \$170 per share.

LICT Corporation

*Consolidated Financial Statements as of December 31, 2015 and 2014 and
for the years ended December 31, 2015, 2014, and 2013 and Independent
Auditors' Report*

LICT Corporation and Subsidiaries

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The Board of Directors
LICT Corporation and Subsidiaries:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of LICT Corporation and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014 and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of LICT Corporation and its subsidiaries as of December 31, 2015 and 2014 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

The 2013 consolidated Statements of Income and Comprehensive Income, Shareholders' Equity and Cash Flows of LICIT Corporation and subsidiaries were audited by other auditors, whose report dated May 14, 2014 except for Note 2, which is as of May 14, 2015, expressed an unmodified opinion on those statements.

BDO USA, LLP

Woodbridge, NJ
May 9, 2016

LICT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,748	\$ 18,155
Receivables, less allowances of \$255 and \$232	6,870	6,942
Materials and supplies	3,156	3,256
Prepaid expenses and other current assets	1,888	1,594
Deposits with FCC	--	19,000
Total current assets	26,662	48,947
Property, plant and equipment, net	88,722	87,875
Goodwill	48,764	48,764
Other intangibles	1,952	2,081
Investments in affiliated companies	4,603	5,274
Other assets	9,678	10,208
Total assets	\$ 180,381	\$ 203,149
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Note payable to affiliate	\$ --	\$ 15,000
Accounts payable	2,530	3,672
Accrued interest payable	245	111
Accrued liabilities	4,091	4,049
Current maturities of long-term debt	12,610	4,226
Total current liabilities	19,476	27,058
Long-term debt	32,236	54,240
Deferred income taxes	20,370	18,292
Other liabilities	4,852	4,832
Total liabilities	76,934	104,422
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Shareholders' equity attributable to LICT Corporation:		
Common stock, \$0.01 par value-10,000,000 shares authorized; 26,637.50 issued; 21,739.37 and 22,272.37 outstanding, respectively	--	--
Additional paid-in capital	16,831	16,637
Retained earnings	102,072	94,244
Treasury stock, 4,987.13 and 4,365.13 shares, respectively, at cost	(15,456)	(12,154)
Total shareholders' equity	103,447	98,727
Total liabilities and shareholders' equity	\$ 180,381	\$ 203,149

See Accompanying Notes to Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in thousands, except share data)

	Years Ended December 31,		
	2015	2014	2013
Revenues	\$ 86,680	\$ 85,856	\$ 80,758
Operating costs:			
Cost of revenue, excluding depreciation and amortization	41,290	38,064	35,971
General and administrative costs at operations	11,332	11,398	11,777
Corporate office expense	2,936	2,622	3,112
Depreciation and amortization	17,730	17,659	16,456
Operating profit	13,392	16,113	13,442
Other income (expense):			
Investment income	366	446	484
Interest expense	(2,923)	(3,783)	(4,107)
Equity in earnings of affiliated companies	1,810	2,025	1,651
Other gains (loss)	26	(73)	279
	(721)	(1,385)	(1,693)
Income from continuing operations before income taxes	12,671	14,728	11,749
Income tax provision	(4,960)	(5,553)	(4,295)
Net income from continuing operations	7,711	9,175	7,454
Income from discontinued operations before income taxes	--	159	1,206
Gain on sale of discontinued operations	195	1,107	--
Income tax provision from discontinued operations and gain on sale of discontinued operations	(78)	(428)	(506)
Less: income attributable to noncontrolling interests	--	(74)	(108)
Net income from discontinued operations	117	764	592
Income attributable to noncontrolling interests	--	--	19
Net income attributable to LICT Corporation	\$ 7,828	\$ 9,939	\$ 8,065
Net income attributable to LICT Corporation	\$ 7,828	\$ 9,939	\$ 8,065
Other Comprehensive income:			
Unrealized gain on securities available for sale	--	--	3
Comprehensive income	\$ 7,828	\$ 9,939	\$ 8,068

See Accompanying Notes to Consolidated Financial Statements.

(continued)

LICT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in thousands, except share data)

	Years Ended December 31,		
	2015	2014	2013
Basic weighted average shares outstanding	22,047.59	22,368.47	22,723.83
Effect of dilutive shares:			
Restricted stock awards	89	--	--
Diluted weighted average shares outstanding	22,136.59	22,368.47	22,723.83
Basic earnings per share:			
Net income from continuing operations	\$ 349.74	\$ 410.18	\$ 328.03
Net income from discontinued operations	5.31	34.16	26.05
Net income attributable to LICT Corporation	\$ 355.05	\$ 444.34	\$ 354.91
Diluted earnings per share:			
Net income from continuing operations	\$ 348.34	\$ 410.18	\$ 328.03
Net income from discontinued operations	5.29	34.16	26.05
Net income attributable to LICT Corporation	\$ 353.62	\$ 444.34	\$ 354.91

See Accompanying Notes to Consolidated Financial Statements.

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

LICT Corporation

	Shares of Common Stock Out- standing	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non- controlling Interest	Total
Balance at January 1, 2012	23,125.37	\$16,637	\$76,240	\$(3)	\$(9,860)	407	\$83,421
Net income from continuing operations	--	--	7,473	--	--	(19)	7,454
Net income from discontinued operations	--	--	592	--	--	108	700
Comprehensive loss	--	--	--	3	--	--	3
Sub-total			8,065	3		89	8,157
Purchase of treasury stock	(639.00)	--	--	--	(1,519)	--	(1,519)
Balance at December 31, 2013	22,486.37	\$16,637	\$84,305	\$ --	\$(11,379)	\$496	\$90,059
Net income from continuing operations	--	--	9,175	--	--	--	9,175
Net income from discontinued operations	--	--	764	--	--	--	764
Comprehensive income	--	--	--	--	--	--	--
Sub-total	--	--	9,939	--	--	--	9,939
Disposal of discontinued operations	--	--	--	--	--	(496)	(496)
Purchase of treasury stock	(214.00)	--	--	--	(775)	--	(775)
Balance at December 31, 2014	22,272.37	\$16,637	\$94,244	\$ --	\$(12,154)	\$ --	\$98,727
Net income from continuing operations	--	--	7,711	--	--	--	7,711
Net income from discontinued operations	--	--	117	--	--	--	117
Sub-total	--	--	7,828	--	--	--	7,828
Purchase of treasury stock	(622.00)	--	--	--	(3,302)	--	(3,302)
Restricted Stock Awards	89.00	194	--	--	--	--	191
Balance at December 31, 2015	21,739.37	\$16,831	\$102,072	\$ --	\$(15,456)	\$ --	\$103,447

See Accompanying Notes to Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2015	2014	2013
OPERATING ACTIVITIES			
Net income attributable to LICT Corporation	\$ 7,828	\$ 9,939	\$ 8,065
Net income from discontinued operations	--	(56)	(592)
Net gain on sale of discontinued operations	(117)	(708)	--
Net income from continuing operations	7,711	9,175	7,473
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities from continuing operations:			
Depreciation and amortization	17,844	17,659	16,456
Noncontrolling interest	--	--	(19)
Equity in earnings of affiliated companies	(1,810)	(2,025)	(1,626)
Distributions received from affiliated companies	2,350	2,313	974
Deferred income tax provision	2,078	1,037	1,199
Benefit from uncertain tax positions	--	--	(18)
Restricted stock award expense	195	--	--
Changes in operating assets and liabilities, net of effects of acquisitions:			
Trade accounts receivable	121	133	944
Income taxes payable/ receivable	668	(699)	(2,007)
Trade accounts payable and accrued liabilities	(1,383)	(1,301)	(229)
Other operating assets and liabilities	(129)	(171)	636
Other	(160)	(216)	1,086
Net cash provided by operating activities from continuing operations	27,485	25,905	24,869
Net cash provided by operating activities from discontinued operations	--	3,981	2,004
Gain on sale of discontinued operation, net of tax	(117)	(708)	--
Net cash provided by operating activities from discontinued operations	(117)	3,273	2,004
Net cash provided by operating activities	27,602	29,178	26,873
INVESTING ACTIVITIES			
Capital expenditures	(18,441)	(16,536)	(17,950)
Acquisition of Dixon Telephone Company	(360)	--	--
Stimulus grant spending	--	(356)	(1,253)
Stimulus grant recoveries	--	773	2,048
Cash proceeds from sale of discontinued operations, net of cash disposed of	--	7,129	--
Investment in restricted cash	--	--	(88)
Proceeds from sale of investments	--	--	197
Deposit with FCC for Auction 97 & 96	--	(19,000)	(11,000)
Return of Deposit with FCC	19,000	11,000	--
Other	579	756	1
Net cash used in investing activities from continuing operations	778	(16,234)	(28,045)
Net cash used in investing activities from discontinued operations	--	(2,320)	(1,664)
Net cash (used) in investing activities	778	(18,554)	(29,709)

(continued)

LICT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	December 31		
	2015	2014	2013
FINANCING ACTIVITIES			
Issuance of long-term debt	--	--	38
Payments to reduce long-term debt	(5,033)	(8,701)	(7,922)
Borrowings related to lines of credit	--	45,042	4,058
Repayments related to lines of credit	(8,442)	(39,800)	(2,020)
Repayment of FCC Auction Loan to affiliate	(15,000)	(11,000)	--
Purchase of treasury stock	(3,302)	(775)	(1,519)
Payments of debt issue cost	(12)	(280)	(97)
Short term loan from affiliate for FCC Deposit	--	15,000	11,000
Net cash provided by (used in) financing activities from continuing operations	(31,789)	(514)	3,538
Net cash used in financing activities from discontinued operations	--	(1,227)	(460)
Net cash provided by (used in) financing activities	(31,789)	(1,741)	3,078
Net increase (decrease) in cash and cash equivalents	(3,407)	8,883	242
Cash and cash equivalents at beginning of year	18,155	9,272	9,030
Cash and cash equivalents at end of year	14,748	18,155	9,272
Less: cash and cash equivalents of discontinued operations at end of year	--	--	498
Cash and cash equivalents of continuing operations at end of year	\$ 14,748	\$ 18,155	\$ 8,774

Supplemental disclosures are as follows:

Cash paid during the year for:

Interest	\$2,789	\$ 3,848	\$ 3,936
Income tax payments, net of refunds	1,986	4,672	5,364

Non cash transactions:

Sale of DFT			
Subordinated note issued from Brick Skirt	--	3,250	--
Brighton Debt to DFT forgiven by Brick Skirt	--	1,116	--
Minority Interest Investment in DFT	--	306	--
	\$ --	\$4,672	\$ --

See Accompanying Notes to Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Accounting and Reporting Policies

Organization

LICT Corporation, (the “Company” or “LICT”) is an integrated communications company that trades on the Pink Sheets under the symbol LICT and has not paid cash dividends since its inception in 1990.

LICT’s telecommunications subsidiaries operate in rural communities in nine states, providing regulated and unregulated communications services including local telephone service, network access, transport, high speed internet access, long-distance service, cable television, and competitive local exchange carrier (CLEC) services. LICT’s operating telephone companies include Western New Mexico Telephone Company in New Mexico; Cuba City Telephone Exchange Company and Belmont Telephone Company in Wisconsin; Bretton Woods Telephone Company in New Hampshire; JBN Telephone Company, Inc. and Haviland Telephone Company, Inc. in Kansas; Upper Peninsula Telephone Corporation and Michigan Central Broadband Corporation in Michigan; Central Scott Telephone Company in Iowa; Central Utah Telephone Inc., Skyline Telcom and Bear Lake Communications Inc. in Utah; and California-Oregon Telephone Company in California and Oregon.

Basis of Presentation

The accompanying consolidated financial statements represent the accounts of LICT and its wholly owned subsidiaries, which consist of communications (voice and data), cable television, and Internet services. All significant inter-company transactions and balances have been eliminated in consolidation. Investments in affiliates in which the Company does not have majority voting control but has the ability to significantly influence financial and operating policies are accounted for in accordance with the equity method of accounting. The Company accounts for the following affiliated companies on the equity method of accounting: cellular partnership in California (25% owned), and telecommunications operations in California, Kansas, New York and Utah (5% to 14% owned through partnerships), and the previously sold rural communication and alarm system subsidiary in New York, in which we own 20% through common stock warrants that were exercised in July 2015. All other investments are measured at cost.

The Company’s telephone subsidiaries are public utilities that are regulated by both the Federal Communications Commission (FCC) and various state commissions. The subsidiaries follow the accounting prescribed by the Uniform System of Accounts of the FCC, the state commissions, and regulated accounting practices. Where applicable, this regulated accounting recognizes the economic effects of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, the Company is required to depreciate telephone plant over useful lives prescribed by regulators that would otherwise be determined by management. Criteria that would give rise to the discontinuance of regulatory accounting practices include (1) increasing competition restricting the Company’s wireline businesses’ ability to establish prices to recover specific costs and (2) significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company periodically reviews the applicability of regulatory accounting guidelines based on the developments in its current regulatory and competitive environments.

Subsequent Events

The Company has evaluated events subsequent to the balance sheet date and prior to issuance of the financial statements for the year ended December 31, 2015 through May 9, 2016, the issuance date of the financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts; the valuation of deferred tax assets, goodwill and other intangible assets, marketable securities; liabilities for income tax uncertainties; the application of regulated accounting practices; reserves for National Exchange Carrier Association (NECA) revenues, and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less when purchased.

Concentration of Risks

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents. Management believes the financial risks associated with these financial instruments are minimal.

Cash equivalents held in United States Treasury money market funds totaled \$10.7 million and \$13.2 million at December 31, 2015 and 2014, respectively, and are insured by Securities Investor Protection Corporation ("SIPC") up to \$500,000 per separate capacity account. The Company maintains its cash balance in accounts which, at times, may exceed the \$250,000 Federal Deposit Insurance Corporation (FDIC) limits per financial institution.

In 2015, the Company received \$28.3 million, or 33% of its revenue, from the Federal Universal Service Fund, various state funds and the National Exchange Carrier Association (NECA). In 2014 and 2013, respectively, the Company received \$33.2 million, or 39% and \$29.4 million, or 36% from such sources.

Marketable Securities

Marketable securities, included in other assets, consisted of publicly traded common stocks. LICT's investments in marketable securities were sold in 2013 and had carrying value of \$0.2 million at December 31, 2012; they were entirely classified as available-for-sale. Unrealized gains or losses, net of tax, on the Company's available-for-sale securities are excluded from earnings and included as a separate component of Shareholders' Equity included in accumulated other comprehensive income (loss) until realized.

Investment income - Patronage

The Company has loans with CoBank, a cooperative owned and controlled by its members that requires each customer to own a restricted share of CoBank. Each customer borrowing from the bank shares in the bank's net income through receipt of patronage refunds. In 2015, 2014 and 2013, 75% of patronage refunds were received in cash, with the balance in CoBank stock. Patronage stock is redeemable at its face value for cash ten years after the related debt is paid off. Total

patronage refunds were \$0.5 million, \$0.4 million and \$0.2 million in 2015, 2014 and 2013, respectively, and were included as investment income in the Company's consolidated statement of operations.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Receivable balances are reviewed on an aged basis and account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is doubtful. Due to the dispersed geographic nature of the Company's operations and the residential nature of its customers, no single customer or identifiable group of customers' accounts for a significant amount of the Company's receivable balances, other than from NECA discussed in "Revenue Recognition" below.

Materials and Supplies

Inventories, consisting of materials and supplies, are stated at cost and are not held for sale, but rather for purposes of supporting the Company's business.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and include expenditures for additions and major improvements and, for our regulated telephone companies, include an allowance for funds used during construction (AFUDC). Maintenance and repairs are charged to operations as incurred. Depreciation of telephone plant is computed on the straight-line method using class or overall group rates acceptable to regulatory authorities. This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment, and as such, amounts are recovered through rates authorized by regulatory authorities. Accordingly, the Company is required to depreciate plant and equipment over the useful lives that would otherwise be determined by management. Depreciation of non-telephone property is computed on the straight-line method over the estimated useful lives of the assets.

Depreciable lives for the Company's telephone and non-telephone properties, excluding land, range from 15 to 40 years for buildings, 3 to 50 years for machinery and equipment and 3 to 25 years for other assets. Regulated telecommunication assets acquired from other regulated entities are capitalized using the pre-existing entity's gross cost and associated accumulated depreciation.

When a portion of the Company's depreciable property, plant and equipment relating to its telephone operations business is retired, the gross carrying value of the assets, including cost of disposal and net of any salvage value, is charged to accumulated depreciation, in accordance with regulated accounting procedures.

Goodwill and Other Intangible Assets

The Company evaluates the recoverability of goodwill and other intangible assets with indefinite lives for impairment annually, or more often, whenever events or circumstances indicate that such asset maybe impaired. In September 2011, the FASB issued ASU 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test as required in FASB ASC Topic 350, *Intangibles- Goodwill and Other*. The Company utilized the two-step goodwill impairment test in

2015 and 2014 for all reporting units. In 2015, goodwill impairment is determined using the two-step process prescribed in FASB ASC Topic 350, *Intangibles - Goodwill and Other*. The first step is to screen for potential impairment, in which the Company determines the fair value for each reporting unit. The Company estimates the fair value of each reporting unit based on a number of subjective factors, including: (a) appropriate weighting of valuation approaches (income approach and market approaches), (b) estimates of our future cost structure, (c) discount rates for our estimated cash flows, (d) selection of peer group companies for the market approach, (e) required level of working capital, (f) assumed terminal value and (g) time horizon of cash flow forecasts.

If such tests indicate potential impairment, then a second step measures the amount of impairment, if any. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company estimates the fair value using Level 3 inputs, as defined by the fair value hierarchy (see Note 9).

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The Company estimates the fair value using Level 3 inputs.

The Company performed its annual impairment tests of goodwill as of September 30, 2015, 2014 and 2013 and no impairment charge was required.

In addition to goodwill, intangible assets with indefinite lives, including cellular licenses and spectrum, had a carrying value of \$1.9 million at December 31, 2015 and 2014.

The Company's subscriber lists and related rights are generally amortized over a 10 to 15-year life. Such intangible assets had a gross value of \$5.2 million at December 31, 2015 and 2014, and accumulated amortization of \$5.1 million and \$5.0 million at December 31, 2015 and 2014, respectively. Amortization expense was \$130,000 for 2015 and 2014, respectively and is estimated to be \$33,000 in 2016 and \$1,000 per year from 2017 to 2028.

Impairment of Long-lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases. There were no asset impairments recorded during the years ended December 31, 2015, 2014 and 2013.

Deferred Financing Costs

Expenses incurred in connection with the issuance of long-term debt are deferred and are amortized over the life of the respective debt issued. Amortization amounted to \$114,000 for 2015, \$134,000 for 2014 and \$152,000 for 2013, and was recorded as interest expense.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Revenue Recognition

Telephone service revenue is primarily derived from regulated local, intrastate and interstate access services and is recognized as services are provided. Revenues for our cost-based companies are generally derived from the Company's cost for providing services.

Local access revenue comes from providing local telephone exchange services and is billed to end users in accordance with tariffs filed with each state's Public Utilities Commission. Local access revenue is predominantly billed in advance and recognized as revenue when earned.

Revenue that is billed in arrears includes most intrastate and interstate network access services, nonrecurring local services and long distance services. The earned but unbilled portion of this revenue is recognized as revenue in the period that the services are provided.

Revenue from intrastate access is based on tariffs approved by each state's Public Utilities Commission. Revenue from interstate access is derived from settlements with NECA. NECA was created by the FCC to administer interstate access rates and revenue pooling on behalf of small local exchange carriers who elect to participate in a pooling environment. LICT's RLEC subsidiaries include nine cost based companies and five average schedule companies. Interstate settlements for cost based companies, including amounts received from the federal Universal Service Fund ("USF"), are determined based on the Company's cost of providing interstate telecommunications service, including investments in specific types of infrastructure and operating expenses and taxes. Interstate settlements for average schedule companies, including amounts received from Universal Service Funds, are determined based on formula based costs using industry averages, which are intended to represent a surrogate for company specific costs.

The FCC still has an ongoing proceeding considering whether to make other changes to switched and special access services. Accordingly, the Company cannot predict the long term impact at this time but believes the Order provides a stable regulatory framework to facilitate its ongoing focus on the deployment of broadband into its rural markets.

Other businesses from which revenues are derived include the Company's internet, CLEC, wireless, long-distance and cable, all of which revenues are recognized as services are provided. Additionally, deferred revenue resulting from installation or other services are included in other liabilities.

Stock Based Compensation

The Company has granted restricted stock awards ("RSAs") to four employees as of December 31, 2015. The Company used a fair value based method of accounting for stock-based compensation provided to our employees. The estimated fair value of RSAs is determined by using the closing price of Common Stock ("Common Stock") on the day prior to the grant date. The total expense, which would be reduced by estimated forfeitures, is recognized over the vesting period for these shares from the date of grant to the vesting date. During the vesting period, dividends to RSA holders are held for them until the RSA vesting dates and are forfeited if the grantee is no longer employed by the Company on the vesting dates. Dividends declared on these RSAs, less estimated

forfeitures, are charged to retained earnings on the declaration date. Due to the limited number of employees currently participating in the program, the current forfeiture rate is estimated to be zero.

During the year ended December 31, 2015, the Company granted 89 RSAs totaling \$194,000 (on March 31, 2015). The market price of the Common Stock on the date prior to the grant was \$5,100 and the awards vest on January 1, 2017. These awards were still outstanding at December 31, 2015, and were the only awards outstanding at that date.

Broadband Stimulus Grants

In 2010, four of the Company's subsidiaries were awarded a total of \$6.5 million of grant and \$1.0 million of loan stimulus funds from the Department of Agriculture's Rural Utilities Service ("RUS") Broadband Initiatives Program. In addition, the Company is obligated to spend an additional \$1.1 million of its own funds to complete such projects. This funding is aimed at expanding broadband access in unserved and underserved portions of the nation. LICT will expand and upgrade broadband service at four of our Telephone Companies, in New Hampshire, Kansas, California and Utah, with this stimulus funding. Through December, 31, 2015, LICT spent \$7.4 million on such stimulus projects. We did not spend any stimulus funds in 2015. Prior year spending was \$0.4 million in 2014; \$1.3 million in 2013; \$3.2 million in 2012, of which the Company has recovered \$5.7 million, including \$0.8 million in 2014, \$2.0 million in 2013 and \$1.8 million in 2012.

Capital expenditures related to the broadband stimulus grants are initially recorded in property, plant and equipment. In the same period, an offsetting credit is recorded in property, plant and equipment and a receivable representing the expected reimbursement from the RUS is recorded. Cash received from the grant in excess of capital spending is recorded in a restricted cash account included in other current assets. In the cash flow statement, grant spending, grant recoveries and recoveries in excess of spending (restricted cash) are shown as separate inflows and outflows within investing activities.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax effects attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Accounting guidance concerning uncertain income tax positions requires the Company to recognize the effect of income tax positions only if those positions are more likely than not of to be sustained. There were no uncertain tax positions to report in 2015 and 2014. Recognized income tax positions are measured at the largest amount that is greater than 50% likely to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Earnings Per Share

Basic and diluted earnings per common share amounts are based on the weighted average number of common shares outstanding during each period. The restricted stock awards, totaling 89 shares are dilutive as of December 31, 2015, and are included in the diluted weighted average number of common shares.

Noncontrolling Interest

The Company consolidates certain subsidiaries that are less than 100% owned. The portion of such subsidiaries not owned by the Company is shown as Noncontrolling Interests in the Consolidated Statements of Income and Comprehensive Income, Balance Sheets, Cash Flows and Shareholders' Equity.

Business Acquisitions

The Company accounts for business acquisitions using the purchase method of accounting and, accordingly, the financial statements reflect the allocations of the total purchase price to the net tangible and intangible assets acquired, based on their respective fair values at the date of acquisition. The results of operations of acquired businesses are reflected by the Company from the date of acquisition. Transaction costs related to the business acquisitions are expensed as incurred and included in Acquisition related expenses in the Consolidated Statements of Income. On November 16, 2015, Dixon Acquisition, LLC, a wholly-owned subsidiary of Central Scott Telephone Company, acquired the assets and operations of Dixon Telephone Company in eastern Iowa.

2. Dispositions and Discontinued Operations

On December 24, 2014, the Company sold its subsidiary, DFT Communications Corporation ("DFT") to Brick Skirt Holdings, Inc. ("Brick Skirt"), an entity owned by DFT's management and former owners of DFT. DFT provides broadband, voice and other telecommunications services in areas of western New York State, principally the Dunkirk/Fredonia, Cassadaga and Jamestown areas. Effective as of the date of sale and as disclosed in Note 12, LICT elected to early adopt the guidance of ASU 2014-08: Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, and has concluded that the disposal of DFT meets the criteria to be treated as a discontinued operation. As a result, DFT's contributions to LICT's consolidated operating results and financial position have been separately reported from amounts previously reported in 2013 as discontinued operations.

LICT received \$7.4 million in cash, a promissory note of \$3.3 million and \$1.1 million of debt to the former shareholders of DFT was forgiven. The net result is that the Company recognized a pre-tax gain on the sale of approximately \$1.1 million and \$399,000 of taxes in 2014. The sale of DFT enables the Company to focus on its core geographic area, the central and western parts of the United States. The Company maintains a 20% equity position in DFT through common stock warrants granted as part of the transaction, which were valued at \$306,000 as of December 24, 2014, and were exercised on July 1, 2015. The Company has the right to two seats on the Brick Skirt board, as long as the note remains outstanding. The Company recognized a loss of \$24,000 for its portion of the DFT net loss for the period of December 24th through December 31, 2014. The equity method is utilized to recognize the results of DFT operations in the Company results. The terms of the sale included a working capital adjustment that resulted in an additional gain of \$117,000 which was recognized in 2015. During 2015, LICT recorded interest income totaling \$165,000 related to the promissory note with Brick Skirt.

Supplement to sale of DFT footnote:

The following is a summary of DFT's directly attributable operating results, which are included in income from discontinued operations for the period ended December 24, 2014 and the year ended December 31, 2013:

	2014	2013
	<i>(in thousands)</i>	
Revenues	\$ 15,240	\$ 15,427
Cost of revenues	14,571	13,767
Operating profit	669	1,660
Other expense	(510)	(454)
Income tax expense	(29)	(506)
Noncontrolling interest	(74)	(108)
Income from discontinued operations	<u>\$ 56</u>	<u>\$ 592</u>

3. Investments in Affiliated Companies

A subsidiary of LICT owns a 25% partnership interest in a cellular telephone provider in Northern California, California RSA #2. As of December 31, 2015 and 2014, the carrying value of the equity ownership in the partnership was \$3.7 million and \$4.3 million, respectively.

In April 2014, WAPSI Wireless, LLC., in which a subsidiary of LICT owned a 14.29% interest, sold substantially all of its assets and distributed the cash proceeds to its shareholders. The LICT subsidiary received \$875,000 and recognized a pre-tax gain of approximately \$188,000. In February 2015 the LICT subsidiary received approximately \$124,000 as the final distribution from WAPSI Wireless.

Undistributed earnings of companies accounted for using the equity method that are included in consolidated retained earnings are \$4.6 million and \$4.4 million in December 31, 2015 and 2014.

4. Property, Plant and Equipment

Components of the Company's property, plant and equipment and accumulated depreciation are as follows:

	December 31,	
	2015	2014
	<i>(in thousands)</i>	
Property, plant and equipment:		
Land	\$ 938	\$ 936
Buildings and improvements	17,171	16,611
Machinery, vehicles, equipment and construction in process	307,284	295,349
	<u>325,393</u>	<u>312,896</u>
Accumulated depreciation	<u>(236,671)</u>	<u>(225,021)</u>
	<u>\$ 88,722</u>	<u>\$ 87,875</u>

Depreciation and amortization expense for 2015, 2014 and 2013 was \$17.6 million, \$17.5 million and \$16.5 million, respectively.

5. Line of Credit and Debt

The Company's long term debt facilities contain covenants that restrict the distribution of cash and other net assets between subsidiaries or to the Parent Company. Long-term debt represents borrowings by various subsidiaries of LICT.

	December 31,	
	2015	2014
	<i>(in thousands)</i>	
Long-term debt consists of:		
Rural Electrification Administration (REA), Federal Financing Bank (FFB), Rural Utilities Service (RUS), Rural Utilities Service broadband initiatives program (BIP), and Rural Telephone Bank (RTB) notes payable in equal monthly or quarterly installments through 2031 at fixed interest rates ranging from 2.1% to 7.2% (5.1% weighted average), secured by assets of the telephone companies	\$ 3,472	\$ 6,132
Bank credit facility utilized a telephone holding company through 2017 at a variable interest rate of 2.84%	14,000	22,442
Term loans through 2019 at variable interest rates averaging 2.69%	3,092	3,875
Unsecured notes issued in connection with acquisitions at fixed interest rates of either 6.0% or 8.0% (primarily held by former owners of telephone companies)	24,282	25,872
Other	--	145
	<u>44,846</u>	<u>58,466</u>
Current maturities	<u>(12,610)</u>	<u>(4,226)</u>
	<u>\$ 32,236</u>	<u>\$ 54,240</u>

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%. This Line of Credit replaces the Company's previous \$25.0 million line of credit agreement with an affiliate of its Chairman, who is also the Chief Executive Officer, expiring on June 30, 2015 with an interest rate of LIBOR plus 4.0%. The outstanding balance under the line of credit facility with CoBank, included as bank credit facility in the table above, was \$14.0 million at December 31, 2015 and \$22.4 million at December 31, 2014. The average balance of notes payable outstanding was \$17.9 million in 2015 and \$18.8 million in 2014; the highest amount outstanding was \$22.4 million in 2015 and \$22.4 million in 2014; and the average interest rate was 3.4% in 2015 and 5.1% in 2014.

A subsidiary has a \$13.0 million term loan from CoBank. Principal payments are due quarterly based on a calculated commitment reduction through the loan's maturity in September 2019. The term loan contains various restrictive covenants, including maintaining debt service coverage and interest coverage to earnings ratios, total leverage ratio, and limitations on capital expenditures. The interest rate on the loan is equal to LIBOR plus 2.25%. As of December 31, 2015 and 2014, the interest rate was 2.8%. All assets of the Company, excluding the investment INS, are held as collateral for the loan with CoBank. The term loan balance was \$3.1 million and \$3.9 million as of December 31, 2015 and 2014, respectively.

In October 2014, the Company received a \$15.0 million loan from its Chairman to assist in funding the \$19.0 million deposit with the FCC, to enable its participation in FCC Auction No 97. The Note bore interest at .38% per annum and was due with the principal payment four months after the closing of the Auction 97. The auction ended on January 29, 2015 and the Company did not

acquire any licenses. On February 6, 2015, the FCC refunded the Company's \$19.0 million deposit for Auction 97, and on February 9, 2015, the \$15 million loan from our Chairman was repaid with interest of \$19,317.

In December 2013, the Company received an \$11.0 million loan from an affiliate of its Chairman to fund its participation in FCC Auction No 96. The Note bore interest at 6% per annum and was due with the principal payment four months after the closing of the Auction 96. The auction ended on February 27, 2014 and the company did not acquire any licenses. On March 7, 2014, the \$11.0 million loan was repaid with interest of \$142,849.

The debt at certain of the Company's subsidiary companies in Iowa and Kansas contains restrictions on the amount of funds that can be transferred to LICT Corporation ("Parent Company"). The Parent Company receives cash to meet its obligations primarily through management fees charged to its subsidiaries, dividends from its subsidiaries, a tax sharing agreement with its subsidiaries, usage of a line of credit facility, and has obtained additional liquidity by refinancing certain subsidiary debt. In general, the long-term debt facilities are secured by substantially all of property, plant and equipment, receivables and common stock of the subsidiaries that have incurred such indebtedness and contain certain covenants restricting distributions to the Parent Company.

Aggregate principal maturities of long-term debt at December 31, 2015 for each of the next five years are as follows: 2016- \$12.6 million, 2017- \$19.3 million, 2018- \$10.1 million, 2019- \$1.9, 2020- \$1.0 million.

6. Related Party Transactions

Since 1998, LICT leases its corporate headquarters from an affiliate of its Chairman. The lease expires in 2023 and rent expense, including utilities and escalation was \$124,000, \$120,000 and \$117,000 in 2015, 2014 and 2013, respectively. In September 2014, the Company sublet 485 square feet of its corporate office space to another affiliate of the Chairman. The sublet lease expires on December 5, 2023 and the base rental rate is \$19,764 per annum. In addition, expenses relating to administrative support, transportation, and communications paid to the same affiliate were \$165,000, \$136,000 and \$132,000 for 2015, 2014 and 2013, respectively.

At December 31, 2015 and 2014, assets of \$10.7 million and \$13.2 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 serve as investment managers to the respective funds.

Shares of CIBL Inc. ("CIBL") were distributed to LICT shareholders in 2007. LICT is party to a Transitional Administrative and Management Services Agreement (TAMSA) under which LICT provides management and administrative services to CIBL, extended annually by the parties. Payments under these agreements were \$200,000 in 2013, \$200,000 in 2014 and \$250,000 in 2015. In addition, in 2015, LICT received \$100,000 from a subsidiary of CIBL for management services. In 2013, CIBL paid an additional \$150,000 to LICT for management services in conjunction with CIBL's sale of assets.

During 2014, the Company executed a \$25 million line of credit agreement with an affiliate of its Chairman. This line of credit was replaced by a new line of credit with CoBank in December 2014. During 2014 the Company paid interest of \$667,000 on the line of credit with the affiliate of its Chairman.

The Company has subordinated notes payable to former owners of certain of its telephone companies in connection with acquisitions (see Note 5).

7. Shareholder's Equity

LICT's Board of Directors has authorized the purchase of up to 5,800 shares of its common stock. The Company's bank covenants, however, further restrict share purchases. Through December 31, 2015, 4,867 shares allowed under the bank covenants have been purchased on the open market, at an average investment of \$3,065 per share.

8. Income Taxes

LICT files a consolidated income tax return with its subsidiaries for federal income tax purposes. Certain entities file separate state and local income tax returns, while others file on a combined or consolidated basis.

The provision for income taxes from continuing operations is summarized as follows:

	December 31		
	2015	2014	2013
	<i>(in thousands)</i>		
Current taxes:			
Federal	\$ 2,227	\$ 3,408	\$ 2,594
State and local	655	1,108	501
	<u>2,882</u>	<u>4,516</u>	<u>3,095</u>
Deferred taxes:			
Federal	1,838	920	1,073
State and local	240	117	127
	<u>2,078</u>	<u>1,037</u>	<u>1,200</u>
Total provision for income taxes	<u>\$ 4,960</u>	<u>\$ 5,553</u>	<u>\$ 4,295</u>

A reconciliation of the provision for income taxes from continuing operations and the amount computed by applying the statutory federal income tax rate to income before income taxes and minority interest:

	December 31		
	2015	2014	2013
	<i>(in thousands)</i>		
Tax at statutory rate	\$ 4,348	\$ 5,008	\$ 3,739
Increases (decreases):			
State and local taxes, net of federal benefit	591	800	415
Other	21	(255)	141
Total provision for income taxes total provision	<u>\$ 4,960</u>	<u>\$ 5,553</u>	<u>\$ 4,295</u>

Deferred income taxes for 2015 and 2014 are provided for the temporary differences between the financial reporting bases and the tax bases of the Company's assets and liabilities. Cumulative temporary differences at December 31, 2015 and 2014 are as follows:

	December 31	
	2015	2014
	<i>(in thousands)</i>	
Fixed assets and depreciation	\$ 14,692	\$ 13,144
Unrealized gains on investments	1,129	1,129
Partnership tax losses in excess of book losses	307	786
Other reserves and accruals	4,242	3,233
Total deferred tax liabilities	<u>\$ 20,370</u>	<u>\$ 18,292</u>

The Company recognizes tax liabilities in accordance with guidance for uncertain tax positions and adjusts these liabilities when its judgment changes as a result of the evaluation of new information

not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

The Company remains subject to examination for tax years 2012 through 2015 by the Internal Revenue Service and with few exceptions, is subject to state examinations by tax authorities for the same three years.

9. Fair Value Measurement

The Company follows the authoritative guidance for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis, and of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis, or are presented only in disclosures. Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets. Level 3 inputs are unobservable.

The Company has two types of assets that are measured at fair value. US Treasury money market funds, included in cash and cash equivalents in the Balance Sheet, and marketable securities, included in other assets, which are both classified as Level 1 inputs, because they are valued using quoted market prices. US Treasury money market funds had a value of \$10.7 million and \$13.2 million at December 31, 2015 and 2014, respectively. The Company had no marketable securities as of December 31, 2015 and December 31, 2014.

Cash in banks, trade accounts receivable, short-term borrowings, trade accounts payable and accrued liabilities are carried at cost, which approximates fair value due to the short-term maturity of these instruments. The fair value of the Company's borrowings under its long-term debt obligations is approximately \$0.5 million higher than its carrying value based on borrowing rates for similar instruments. The fair value of the Company's revolving line of credit approximates carrying amount, as the obligations bear interest at a floating rate.

10. Employee Benefit Plans

LICT maintains several defined contribution plans at its telephone subsidiaries and corporate office. LICIT's contributions under these plans, which vary by subsidiary, are based primarily on the financial performance of the business units and employee compensation. Total discretionary employer contribution expense related to these plans was \$1.5 million in 2015 and \$1.4 million in 2014 and 2013.

The Company has a Principal Executive Bonus Plan that has been approved by the shareholders, for which \$0.3 million, \$0.3 million and \$0.3 million was recorded in 2015, 2014 and 2013, respectively.

11. Commitments and Contingencies

Leases.

The Company leases certain land, office space, computer equipment, computer software, and network services equipment under non-cancelable operating leases that expire in various years through 2028. Terms of the leases, including renewal options and escalation clauses, vary by lease.

When determining the term of a lease, the Company includes renewal options that are reasonably assured. Rental expense under operating leases was \$0.6 million in 2015, \$0.6 million in 2014 and \$0.7 million in 2013. Minimum lease payments due under non-cancelable operating leases at December 31, 2015 are as follows: \$0.5 million in 2016; \$0.4 million in 2017; \$0.3 million in 2018, \$0.2 million in 2019; \$0.2 in 2020 and \$0.8 million thereafter.

The Company is involved from time to time in various legal proceedings, regulatory investigations, and claims arising in the normal conduct of business, which may include proceedings that are specific to us and others generally applicable to business practices within the industries in which we operate. A substantial legal liability or a significant regulatory action against us could have an adverse effect on our business, financial condition, and on the results of operations in a particular year.

12. New Accounting Pronouncements

Deferred Financing Costs - In April 2015, the FASB issued Accounting Standard Update ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs." This ASU would require that debt issuance costs be presented in the balance sheet as a direct deduction from the debt liability. This update is effective for annual reporting periods beginning on or after December 15, 2015. The Company is currently assessing the impact the adoption of ASU 2015-03 will have on the Company's financial statements. We expect to adopt this guidance when effective and adoption is not expected to have a material effect on our financial statements.

Deferred Taxes - In November 2015, the FASB issued guidance to simplify the presentation of deferred income tax assets and liabilities. Current GAAP requires an entity to separate deferred income tax assets and liabilities into current and non-current classifications. This guidance requires that all deferred tax liabilities be classified as non-current. This guidance is effective for fiscal years beginning after December 15, 2016 and may be applied on a prospective or retrospective basis. We expect to adopt this guidance when effective and adoption is not expected to have a material effect on our financial statements.

Leases - In February, 2016, the FASB issued Accounting Standard Update No. 2016-02, Leases for lease accounting under GAAP. The new standards, which were developed in coordination with new international accounting standards are intended to eliminate off-balance-sheet recording of lease obligations in an effort to cause financial statements to more accurately reflect a company's leasing activities. This guidance is effective for fiscal years beginning after December 15, 2018. We expect to adopt this guidance when effective and adoption is not expected to have a material effect on our financial statements.

Revenue from Contracts with Customers - In May 2014, the FASB issued Accounting Standard Update ASU 2014-09 "Revenue from Contracts with Customers." This ASU is a comprehensive new revenue recognition model that expands disclosure requirements and requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This update is effective for annual reporting periods beginning on or after December 15, 2017. The Company is currently assessing the impact the adoption of ASU 2014-09 will have on our financial statements.

