LICT CORPORATION AND SUBSIDIARIES

Quarterly Report for period ended September 30, 2016

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LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share amounts)

	September 30, 2016	December 31, 2015	September 30, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$8,296	$14,748	$17,042
Other liquid assets	11,000	--	--
Receivables, less allowances of $291, $255 and $243, respectively	7,000	6,870	6,794
Material and supplies	4,033	3,156	3,559
Prepaid expenses and other current assets	1,897	1,888	1,902
Total current assets	32,226	26,662	29,297
Property, plant and equipment:			
Land	942	938	936
Buildings and improvements	17,305	17,171	16,850
Machinery and equipment	316,315	307,284	304,227
	334,562	325,393	322,013
Accumulated depreciation	(247,831)	(236,671)	(234,748)
	86,731	88,722	87,265
Goodwill	48,764	48,764	48,764
Other intangibles	1,972	1,952	1,984
Investments in and advances to affiliated entities	4,711	4,603	4,744
Other assets	9,347	9,678	9,763
Total assets	$183,751	$180,381	$181,817

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share amounts)

	September 30, 2016	December 31, 2015	September 30, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable	$2,438	$2,530	$2,579
Accrued interest payable	169	245	224
Accrued liabilities	6,240	4,091	7,013
Current maturities of long-term debt	9,334	12,610	13,724
Total current liabilities	18,180	19,476	23,540
Long-term debt	33,700	32,236	32,224
Deferred income taxes	20,518	20,370	17,873
Other liabilities	4,568	4,852	4,922
Total liabilities	76,994	76,934	78,559
Commitments and contingencies			
Shareholders' equity			
Common stock, $0.0001 par value-10,000,000 shares authorized; 26,637.50, issued; 21,400.37, 21,739.37 and 22,090.37 outstanding	--	--	--
Additional paid-in capital	17,071	16,831	16,637
Retained earnings	107,146	102,072	100,184
Treasury stock, 5,360.13, 4,987.13 and 4,516.13 shares, at cost	(17,433)	(15,456)	(13,563)
Total shareholders' equity	106,784	103,447	103,258
Total liabilities and shareholders' equity	$183,751	$180,381	$181,817

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Revenues	$22,911	$21,548	$66,948	$64,331
Costs and expenses:				
Cost of revenue, excluding depreciation	11,275	10,727	33,220	30,431
General and administrative costs at operations	2,743	2,902	8,319	8,528
Corporate office expenses	856	619	2,767	2,125
Depreciation and amortization	4,271	4,377	13,153	13,338
Total Costs and Expenses	19,145	18,625	57,459	54,422
Operating profit	3,766	2,923	9,489	9,909
Other income (expense):				
Investment income	44	44	434	323
Interest expense	(621)	(715)	(1,945)	(2,213)
Equity in earnings of affiliated companies	579	540	1,408	1,351
Other (includes $991of shareholder designated charitable contributions in 2016)	(989)	--	(983)	22
	(987)	(131)	(1,086)	(517)
Income before income taxes	2,779	2,792	8,403	9,392
Provision for income taxes	(1,031)	(1,051)	(3,329)	(3,569)
Net income from continuing operations	1,748	1,741	5,074	5,823
Net income from discontinued operations	--	__--	--	117
Net income attributable to LICT	$1,748	$1,741	$5,074	$5,940
Weighted average shares outstanding:				
Basic average shares outstanding	21,347	22,040	21,448	22,118
Diluted average shares outstanding	21,466	22,129	21,554	22,178
Actual shares outstanding	21,400	22,090	21,400	22,090
Basic earnings per share:				
Net income from continuing operations	$81.89	$78.99	$236.57	$263.27
Net income from discontinued operations	--	--	--	5.29
Net Income	$81.89	$78.99	$236.57	$268.56
Diluted earnings per share:				
Net income from continuing operations	$81.43	$78.68	$235.34	$262..56
Net income from discontinued operations	--	__--	--	5.28
Net Income	$81.43	$78.68	$235.41	$267.84

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Shares of Common Stock Out-standing	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2015	21,739.37	$--	$16,831	$102,072	($15,456)	$103,447
Net income for the period	--	--	--	5,074	--	5,074
Purchase of Treasury Stock	(373.00)	--	--	--	(1,977)	(1,977)
Restricted Stock Awards	34.00	--	240	--	--	240
Balance at September 30, 2016	21,400.37	$--	$17,071	$107,146	($17,433)	$106,784

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2016	**2015**
Operating activities:		
Net Income from continuing operations	$5,074	$5,823
Net Income from discontinued operations	--	117
Net Income	5,074	5,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,239	13,424
Equity in earnings of affiliated companies	(1,408)	(1,352)
Distributions received from affiliated companies	1,300	1,750
Deferred income tax provision	128	(448)
Restricted Stock Award Expense	240	--
Changes in operating assets and liabilities:		
Accounts receivables	(130)	148
Income tax payable/ receivable	956	2,657
Accounts payable and accrued liabilities	1,017	(43)
Other Operating assets and liabilities	(1,096)	(526)
Other	(54)	(125)
Net cash provided by operating activities	19,266	21,425
Investing activities:		
Capital expenditures	(11,119)	(13,285)
Other	(11,201)	19,138
Net cash provided by (used in) provided by investing activities	(22,320)	5,853
Financing activities:		
Repayments of long term debt	(4,313)	(4,967)
Borrowings (repayments) related to lines of credit, net	2,500	(7,441)
Purchase of treasury stock	(1,977)	(1,410)
Repayment of loan from affiliate for FCC Deposit	--	(15,000)
Other	392	427
Net cash used in financing activities	(3,398)	(28,391)
Net increase in cash and cash equivalents	(6,452)	(1,113)
Cash and cash equivalents at beginning of period	14,748	18,155
Cash and cash equivalents at end of period	$8,296	$17,042

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Basis of Presentation

LICT Corporation ("LICT" or the "Company") consolidates the operating results of its subsidiaries. All material intercompany transactions and balances have been eliminated. Investments in affiliates in which the Company does not have a majority voting control, but has the ability to significantly influence management decisions, are accounted for in accordance with the equity method. The Company accounts for the following affiliated companies on the equity basis of accounting: a cellular partnership in California (25% owned) and telecommunications operations in New York, California and Utah (5% to 20% owned).

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they are not audited and do not include all of the information and footnotes required for complete financial statements. These consolidated financial statements and footnotes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report for the year ended December 31, 2015. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

B. Investments in Affiliated Companies

A subsidiary of LICT owns a 25% partnership interest in a cellular communications provider in Northern California, California RSA #2 ("RSA #2). As of September 30, 2016, December 31, 2015 and September 30, 2015, the net investment in the partnership was $4,010 thousand, $3,741 thousand, and $3,912 thousand, respectively. The Company's share of income, included in Equity in Earnings of Affiliated Companies was $1,500 thousand and $1,332 thousand for the nine months ended September 30, 2016 and 2015, respectively. Cash distributions from RSA # 2 for the nine months ending September 30, 2016 and 2015 were $1,300 thousand and $1,750 thousand, respectively.

	September 30,	
	2016	**2015**
OPERATING RESULTS		
Three Months Ended		
Revenues	$6,561	$6,402
Gross Margin	3,896	3,703
Net profit	2,609	2,360
Nine Months Ended		
Revenue	$17,813	$18,007
Gross Margin	10,092	10,123
Net Profit	6,296	5,958
BALANCE SHEET		
Current assets	$5,657	$4,989
Property, plant and equipment and Other – net	10,655	10,965
	$16,312	$15,954

Current liabilities	$1,565	$1,363
Long-term liabilities	2,163	2,233
Partners' equity	12,584	12,348
	$16,312	$15,944

C. Indebtedness

The Company has a $30.0 million line of credit agreement with CoBank, ACB ("CoBank"), expiring in December, 2017 with an interest rate of LIBOR plus 2.5%. The average balance of notes payable outstanding was $14.2 million in 2016; the highest amount outstanding was $16.5 million in 2016; and the average interest rate was 3.0% in 2016.

Long-term debt at September 30, 2016, December 31, 2015, and September 30, 2015 consists of (all interest rates are at September 30, 2016) (in thousands):

	September 30, 2016	**December 31, 2015**	**September 30, 2015**
Rural Electrification Administration ("REA") and Rural Telephone Bank ('RTB") notes payable due quarterly through 2027 at fixed interest rates ranging from 2.1% to 7.2%. (5.1% weighted average)	$1,621	$3,472	$4,138
Bank Credit facilities utilized by certain telephone and telephone holding companies due through 2019, at variable interest rate of 2.813%	$2,237	3,092	2,492
Unsecured notes issued in connection with acquisitions at fixed interest rates or either $6.0% or 8.0%	$22,676	24,282	24,282
Revolving credit facility from CoBank, ACB at Brighton Communications Corporation, secured by the assets of certain operations and holding companies at variable interest rate of 3.03%	$16,500	14,000	15,000
Other	--	--	35
	43,034	44,846	45,947
Current maturities	(9,334)	(12,610)	(5,910)
	$33,700	$32,236	$40,037

D. Litigation

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

E. Related Party Transactions

At September 30, 2016, December 31, 2015 and September 30, 2015, assets of \$4.3 million, \$10.7 million and \$13.1 million, which are classified as cash and cash equivalents, are invested in United States Treasury money market funds for which affiliates of the Company’s Chairman and Chief Executive Officer serve as investment manager to the respective funds.

MANAGEMENT'S DISCUSSION OF OPERATIONS

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

RESULTS OF OPERATIONS

Overview

LICT provides an array of communications services, primarily in rural areas but with continuing expansions in adjacent and other 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 a Rural Local Exchange Carrier, or “RLEC”), 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.

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 public branch exchanges 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.

The advent and spreading acceptance of high speed internet service 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 continue to replace traditional telephone connections with new technologies. We expect such shifts in consumer behavior to persist 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.

In March 2016, the Federal Communications Commission ("FCC"), which regulates LICT's Rural Local Exchange Carriers ("RLECs"), adopted a voluntary Alternative Connect America Cost Model, referred to as "A-CAM". For RLECs who adopt A-CAM, existing High Cost Loop Support ("HCLS") and Interstate Common Line Support ("ICLS") mechanisms would be replaced with A-CAM revenues and a defined amount of broadband build-out would be required over the ten-year period. Due to the FCC A-CAM rules and overall limitations on total A-CAM support, it is not possible to predict at this time if LICT will be successful in cost-effectively converting any of our RLECs to A-CAM. Expected to become effective in January 2017, A-CAM would provide a ten-year, defined-support amount, which should provide LICT significantly greater regulated revenue stability for those LICT RLECs that are successful in adopting A-CAM. The potential effects of successfully adopting A-CAM on our revenues and capital expenditures may be significant.

The March 2016 FCC Order adopting A-CAM also modified the rules for RLECs that do not adopt A-CAM. Not all of LICT's RLECs are eligible to adopt A-CAM. If a company does not adopt A-CAM, HCLS will continue for that RLEC; however, ICLS will be eliminated and replaced with a new Connect America Fund Broadband Loop Support ("CAF-BLS") mechanism. CAF-BLS includes a series of new caps and limitations for operating expense, capital expenditures, overall support and support in areas served by unsubsidized competitors, but adds support for data-only broadband. CAF-BLS companies can also have specific broadband build-out requirements if their percentage of broadband deployment is not at the FCC required levels.

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. LICT retains a $3.25 note receivable and a 20% equity interest in the acquirer of DFT.

Third quarter ended September 30, 2016 compared to 2015

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

	2016	2015
Regulated revenues:		
Local access	$2,018	$ 2,008
Interstate access	7,961	7,859
Intrastate access	1,856	1,658
Other regulated	345	360
Total regulated revenues	12,180	11,885
Non-regulated revenues:		
Broadband and related services	7,162	6,359
Video (including cable modem)	2,582	2,245
Other	987	1,059
Total non-regulated revenues	10,731	9,663
Total revenues	22,911	21,548

Operating Cost and Expense:		
Cost of revenue, excluding depreciation	11,275	10,727
General and administrative costs at operations	2,743	2,902
Depreciation and amortization	4,271	4,377
Total operating costs and expenses	18,289	18,006
Operating profit before corporate expenses	4,622	3,542
Corporate office expenses:		
Allocated corporate office expenses	335	242
Un-allocated corporate office expenses	521	377
Total Corporate office expenses	856	619
Operating profit	$3,766	$2,923

Our non-regulated revenues grew by $1.1 million to $10.7 million, a 11.1% increase as compared to 2015. Non-regulated revenues, revenues from broadband services and other non-regulated services increased, specifically from our Utah ($0.5 million) and Iowa ($0.3 million) operations, primarily due to the sale of additional broadband circuits outside of our regulated service territory ($0.8 million), additional video revenue and the sale of communications equipment. Non-regulated revenues have grown to currently represent over 46% of our revenue streams and are expected to continue to this growth. Regulated revenues increased by $295 thousand or 2.5% to $12.2 million. Interstate access revenue increased by $102 thousand in 2015 due to regulatory changes and adjustments. Intrastate revenues increased by $198 thousand due, predominantly, to a statewide revenue adjustment by the state of New Mexico ($278 thousand) offset by lower minutes of use. Combining the non-regulated and regulated revenues, total revenues in 2016 increased by $1.4 million or 6.3%, to $22.9 million compared to $21.5 million in 2015.

Total costs and expenses were $19.1 million in 2016, an increase of $520 thousand compared to 2015. Costs of revenue increased $548 thousand primarily due to increased costs from the growing internet and cable television operations. General and administrative costs incurred at the operations decreased by $159 thousand. Depreciation and amortization decreased by $106 thousand from 2015 to 2016, due to decreased capital expenditures in 2016, and as assets become fully depreciated. Corporate expenses increased from $619 thousand in 2015 and $856 thousand in 2016 are due to two additional personnel at the corporate office and other personnel costs. As a result of the above, operating profit in 2016 increased by $854 thousand from $2.9 million in 2015 to $3.8 million in 2016.

EBITDA

EBITDA is used by our management as a supplemental financial measure to evaluate the operating performance of our business and, when viewed with our GAAP results and the accompanying reconciliations, we believe it provides a more complete understanding of factors and trends affecting our business than the GAAP results alone. We also regularly communicate our EBITDA to the shareholders through our earnings releases because it is the financial measure commonly used by analysts that cover the telecommunications industry and by our investor base to evaluate our operating performance. In addition, we routinely use EBITDA as a metric for valuing potential acquisitions. We understand that analysts and investors regularly rely on non-GAAP financial measures, such as EBITDA, to provide a financial measure by which to compare a company's assessment of its operating performance against that of other companies in the same industry. This non-GAAP financial measure is helpful in more clearly reflecting the sales of our products and services, as well as highlighting trends in our core business that may not otherwise be apparent when relying solely on GAAP financial measures, because this non-GAAP financial measure eliminates from earnings financial items that have less bearing on our performance.

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

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

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

	2016	2015
EBITDA from:		
Operating units	$8,893	$7,919
Dividends from equity affiliates	550	675
EBITDA before corporate expenses	9,443	8,594
Corporate expenses	(856)	(619)
EBITDA	$8,587	$7,975
Reconciliation to net income:		
EBITDA	$8,587	$ 7,975
Less dividends from equity affiliates	(550)	(675)
Depreciation and amortization	(4,271)	(4,377)
Investment income	44	44
Interest expense	(621)	(715)
Equity in income of affiliates	579	540
Other income (expense) – Other	(989)	--
Income tax	(1,031)	(1,051)
Net income for continuing operations	$1,748	$1,741

<u>Other Income (Expense)</u>

In 2016, investment income increased by $1 thousand due to increased U.S. Treasury rates and lower by lower amounts of cash equivalents.

Interest expense decreased by $94 thousand in 2016 primarily due to reductions in debt outstanding offset by higher interest rates.

Equity in earnings of affiliates in 2016 was approximately equal to 2015 and represents earnings from our 25% partnership interest in a cellular telephone provider, California RSA #2 Partnership.

In September 2016, the Company completed its 2016 Shareholder Designated Contribution Program. Under the Program, each registered shareholder was eligible to designate a charity to which the Company made a donation of $100 per share on behalf of the shareholder. A total of $991,000 of contributions were made to charitable organizations which are included in Other income(expense) - Other.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2016 and 2015, represent effective tax rates of 37.2% and 37.6%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes.

Net Income

Net income from continuing operations for 2016 was $1.7 million, or $81.89 per basic share and $81.34 per diluted share, compared to a net income of $1.7 million, or $78.99 per basic share and $78.86 per diluted share in 2015.

Nine Months ended September 30, 2016 compared to 2015

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

	2016	2015
Regulated revenues:		
Local access	$5,925	$5,994
Interstate access	23,745	24,072
Intrastate access	5,268	5,574
Other regulated	1,024	1,078
Total regulated revenues	35,962	36,718
Non-regulated revenues:		
Broadband and related services	20,383	18,272
Video (including cable modem)	7,714	6,557
Other	2,889	2,784
Total non-regulated revenues	30,986	27,613
Total revenues	66,948	64,331
Operating Cost and Expense:		
Cost of revenue, excluding depreciation	33,220	30,431
General and administrative costs at operations	8,319	8,528
Depreciation and amortization	13,153	13,338
Total operating costs and expenses	54,692	52,297
Operating profit before corporate expenses	12,256	12,034
Corporate office expenses:		
Allocated corporate office expenses	1,082	831
Un-allocated corporate office expenses	1,685	1,294
Total Corporate office expenses	2,767	2,125
Operating profit	$9,489	$9,909

Our non-regulated revenues grew by $3.4 million to $31.0 million, a 12.2% increase as compared to 2015. Non-regulated revenues, revenues from broadband services and other non-regulated services increased, specifically from our Utah ($1.3 million), Iowa ($0.9 million), New Mexico ($0.3 million), and California ($0.3 million) operations, primarily due to the sale of additional broadband circuits outside of our regulated service territory ($2.1 million), additional video revenue and the sale of communications equipment. Non-regulated revenues have grown to currently represent over 46% of our revenue streams and are expected to continue to this growth. Regulated revenues decreased by $756 thousand or 2.1% to $36.0 million. Interstate access revenue decreased $327 thousand in 2016 due to lower rate bases at certain of our operations, lower industry rates of return and other regulatory factors. Intrastate revenues decreased by $306 thousand due to a statewide revenue adjustment by the state of New Mexico and lower minutes of use. Combining the non-regulated and regulated revenues, total revenues in 2016 increased by $2.6 million or 4.1%, to $66.9 million compared to $64.3 million in 2015.

Total costs and expenses were $57.5 million in 2016, an increase of $3.0 million compared to 2015. Costs of revenue increased $2.8 million primarily due to increased costs from the growing internet and cable television operations. General and administrative costs incurred at the operations decreased by $209 thousand. Depreciation and amortization decreased by $185 thousand from 2015 to 2016, due to decreased capital expenditures in 2016, and as assets become fully depreciated. Corporate expenses increased from $2.1 million in 2015 and $2.8 million in 2016 due to additional personnel at the corporate office. As a result of the above, operating profit in 2016 decreased by $420 thousand from $9.9 million in 2015 to $9.5 million in 2016.

EBITDA

EBITDA is used by our management as a supplemental financial measure to evaluate the operating performance of our business and, when viewed with our GAAP results and the accompanying reconciliations, we believe it provides a more complete understanding of factors and trends affecting our business than the GAAP results alone. We also regularly communicate our EBITDA to the shareholders through our earnings releases because it is the financial measure commonly used by analysts that cover the telecommunications industry and by our investor base to evaluate our operating performance. In addition, we routinely use EBITDA as a metric for valuing potential acquisitions. We understand that analysts and investors regularly rely on non-GAAP financial measures, such as EBITDA, to provide a financial measure by which to compare a company's assessment of its operating performance against that of other companies in the same industry. This non-GAAP financial measure is helpful in more clearly reflecting the sales of our products and services, as well as highlighting trends in our core business that may not otherwise be apparent when relying solely on GAAP financial measures, because this non-GAAP financial measure eliminates from earnings financial items that have less bearing on our performance.

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

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

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

	2016	2015
EBITDA from:		
Operating units	$25,409	$ 25,372
Dividends from equity affiliates	1,300	1,750
EBITDA before corporate expenses	26,709	27,122
Corporate expenses	(2,767)	(2,125)
EBITDA	$23,942	$24,997
Reconciliation to net income:		
EBITDA	$23,942	$24,997
Less dividends from equity affiliates	(1,300)	(1,750)
Depreciation and amortization	(13,153)	(13,338)
Investment income	434	323
Interest expense	(1,945)	(2,213)
Equity in income of affiliates	1,408	1,351
Other income(expense) – Other	(983)	22
Income tax	(3,329)	(3,569)
Net income for continuing operations	$5,074	$5,823

<u>Other Income (Expense)</u>

In 2016, investment income increased by $112 thousand due to increased patronage capital distributions from the line of credit at Brighton Communications Corporation offset by lower distribution from the Company's investment in Iowa Network Services, Inc and increased U.S. Treasury rule.

Interest expense decreased by $268 thousand in 2016 primarily due to reductions in debt outstanding offset by higher interest rates.

Equity in earnings of affiliates in 2016 was approximately equal to 2015 and represents earnings from our 25% partnership interest in a cellular telephone provider, California RSA #2 Partnership.

In September 2016, the Company completed its 2016 Shareholder Designated Contribution Program. Under the Program, each registered shareholder was eligible to designate a charity to which the Company made a donation of $100 per share on behalf of the shareholder. A total of $991,000 of contributions were made to charitable organizations which are included in Other income(expense) - Other.

<u>Income Tax Provision</u>

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2016 and 2015, represent effective tax rates of 39.6% and 38.0%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes.

Net Income

Net income from continuing operations for the nine months of 2016 was $5.1 million, or $236.57 per basic share and $235.41 per diluted share compared to a net income of $5.9 million , or $268.56 per basic share and $267.84 per diluted share in 2015.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

On December 30, 2014, Brighton Communications Corporation ("Brighton"), a wholly-owned subsidiary of LICT, closed on a $30 million revolving credit facility from CoBank, ACB. The facility, which expires in December 2017, replaced line of credit facilities previously arranged by LICT. Brighton owns substantially all of the subsidiaries within the LICT consolidated group of companies. As of September 30, 2016, there was $16.5 million outstanding under this facility, classified as long-term debt. The average balance outstanding under the facility was $14.2 million at an average interest rate of 3.0%. 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 September 30, 2016 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	$43,034	$4,722	$28,956	$8,789	$567
Interest on long-term debt	5,983	2,627	2,237	994	125
Total contractual cash obligations and commitments	$49,017	$7,349	$31,193	$9,783	$692

At September 30, 2016, total debt was $43.0 million, a decrease of $1.8 million from December 31, 2015. At September 30, 2016, there was $24.3 million of fixed interest rate debt outstanding, averaging 6.5%, and $18.7 million of variable interest rate debt, averaging 3.0%. The debt at fixed interest rates includes $22.7 million of subordinated notes at interest rates averaging 6.6% issued to sellers as part of acquisitions. The long-term debt facilities at certain subsidiaries are secured by substantially all of such subsidiaries' assets, while at other subsidiaries it is secured by the common stock of such subsidiaries. In addition, the debt facilities contain certain covenants restricting distributions to LICT.

LICT has a manageable degree of financial leverage. As of September 30, 2016, the ratio of total debt to total EBITDA, on a trailing twelve month basis, was 1.4 to 1. Certain subsidiaries have higher debt to EBITDA ratios.

As of September 30, 2016, LICT had current assets of $21.2 million and current liabilities of $18.2 million resulting in working capital of $3.0 million compared to $7.2 million at December 31, 2015.

Sources and Uses of Cash

Cash at September 30, 2015, was $8.3 million, as compared to $14.7 million at December 31, 2015. In the nine months of 2016, net cash provided by operations of $19.3 million was primarily used to invest in plant and equipment ($11.1 million), repay debt ($4.3 million), and purchase treasury shares ($2.0 millon).

LICT Wireless Broadband Company, LLC ("LICT Wireless"), a wholly owned subsidiary of the Company, is participating in FCC forward auction phase of the broadcast incentive auction - Auction 1002 ("Auction"). FCC rules restrict information that bidders may disclose about their participation in this Auction, including eligibility, bidding and payment information until after the auction has concluded.

In the nine months, capital expenditures were $11.1 million in 2016 as compared to $13.3 million in 2015, of which 48% and 50% were spent at the RLECs and, for our cost based companies, will be included in their rate bases for rate setting purposes.

In 2008 through the present, the Company has taken bonus depreciation deductions for eligible property additions as allowed by the Internal Revenue Service of 50%, starting January 1, 2008, 100%, starting September 9, 2010 through December 31, 2011 and 50% starting January 1, 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 California RSA # 2 Partnership of $1.3 million in the nine months of 2016 compared to $1,750 thousand in the prior year period. The decrease in distributions is partially due to a lease/leaseback transaction executed by the Partnership in 2015, which was did not recur in 2016.

The Company's Board of Directors has authorized the purchase of up to 5,800 shares of the Company's common stock. Through September 30, 2016, 5,240 shares have been purchased at an average investment of $3,317 per share, including 373 shares purchased in 2016 at an average investment of $5,167 per share.

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