LICT CORPORATION

2015

ANNUAL REPORT

LICT Corporation
Family of Companies

COMMUNICATION • EDUCATION • ENTERTAINMENT

VOICE • DATA • VIDEO • TECHNOLOGY

FINANCIAL HIGHLIGHTS

In thousands, except for share amounts	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
Operations, excluding discontinued operations (a)					
Revenues					
Regulated	$ 49,302	$ 54,075	$ 52,431	$ 55,100	$ 55,818
Non-Regulated	37,378	31,781	28,327	24,830	21,224
	86,680	85,856	80,758	79,930	77,042
EBITDA before corporate expenses (b)					
Regulated	19,200	24,112	23,505	25,935	26,813
Non-Regulated	17,208	13,721	10,480	10,373	8,754
	36,408	37,833	33,985	36,308	35,567
Depreciation and Amortization (c)	17,730	17,659	16,456	15,804	16,106
Capital Expenditures	18,441	16,536	17,950	12,199	15,033
Consolidated (a) (d)					
Net Income from continuing operations and excluding unusual items	$ 7,711	$ 9,175	$ 7 ,454	$ 15,355	$ 3,963
Per Share (basic and diluted)	$ 364.82	$ 410.18	$ 32,803	$ 65,548	$ 166.64
Net Debt (e)	$ 30,098	$ 36,311	$ 54,555	$ 69,207	$ 88,580
Shareholders' Equity attributable to LICT	103,449	98,727	89,563	83,014	68,096
Shares outstanding at year end	21,739	22,272	89,563	23,125	23,538

(a) On December 24, 2014, the Company sold its DFT Communications Corporation ("DFT") subsidiary to Brick Skirt Holdings, Inc. The Company has elected to treat DFT as a discontinued operation. As such all prior periods have been restated to exclude the impact of DFT in the financial results of the Company.

(b) EBITDA is defined as operating profit before interest, income taxes, depreciation and amortization and is modified to include the cash we receive from the equity in earnings of affiliated companies. This metric is an element that we use in valuing potential acquisitions. Neither EBITDA nor EBITDA before corporate expenses are substitutes for operating profit of $13.4 million, $16.1 million, $13.4 million, $14.6 million and $17.4 million for 2015, 2014, 2013, 2012 and 2011, respectively. Corporate expenses for the same respective years were $2.9 million, $2.6 million, $3.1 million, $3.5 million and $3.2 million.

(c) The Company recorded goodwill impairment resulting from the annual valuation of $3.1 million in 2011.

(d) Unusual items include: goodwill amortization, intangible impairments, gains and losses on sales of investments and income tax provisions or benefits resulting from uncertain tax positions. Such amounts are tax effected to the extent they were included in net income.

(e) For 2014 and 2013, Net debt is pro-forma and includes cash deposited with the FCC for the purpose of participating in spectrum auctions. Such deposits were returned to the Company in the First Quarter of 2015 and 2014 respectively.

Chairman's Letter

Fellow Owners:

Another year has passed.

Since I wrote to you last year, LICT has continued to explore several alternatives to grow both organically and inorganically.

On the acquisition front, we were successful in assimilating Dixon Telephone-a neighbor for the last 50 years. Dixon provides triple play services to 600 households in Eastern Iowa adjoining our Central Scott Telephone Company.

We are currently evaluating opportunities in Iowa, where we have the insights and perspective of Norm Harvey, who has provided the same insights to Central Scott for over six decades -thank you, Norm.

Broadband - **A-CAM**

We continue to look into opportunities in the areas of our competency with particular emphasis on broadband. This summer we plan to participate in the Broadcast Incentive Spectrum Auction 1002, procuring bandwidth from TV Station owners.

The FCC has issued an Order that will have a significant impact on Rural Local Exchange Carriers (RLEC) and creates A-CAM (Alternative Connect America Cost Model). A-CAM will change the timing of broadband provided to the homes we serve and prove an accelerant to all.

Acquisitions

We are looking at other regulated industries such as natural gas (local distribution), water companies and even generators/distributors of electricity.

We are also exploring the opportunity to buy manufacturing companies where we have knowledge. If you know of any that have the following characteristics:

- At least $5 million of pre-tax earnings
- Consistent earning power
- Good return on equity with little or no debt
- Management in place
- Simple business
- An offering price

let us know; we will give you a quick answer, and a fee when and if we close.

Financial metrics remain positive on an overall basis with free cash flow of $15 million and helped us reduce our net debt to $30 million.

During the year we bought 622 shares of LICT stock and have bought another 151 shares so far in 2016. As of April 21, 2016 we have 21,594 shares outstanding.

Look forward to sharing with you regarding companies we might pursue, as well as seeing you at our annual meeting on May 26.

Mario J. Gabelli,
Chief Executive Officer

Report of the Executive Vice President and Chief Financial Officer

In 2015, we continued to grow our non-regulated businesses and rebalance our revenue mix. On an overall basis, our revenues grew by 1.0% to $86.7 million, but our EBITDA fell $1.7 million to $33.5 million. The relative margins associated with the shift of sales from regulated to non-regulated, coupled with some regulated revenue declines, resulted in the lower total EBITDA. However, we are successfully diversifying and growing our non-regulated operations to strengthen the foundation and increase the momentum of our company going forward.

As we are writing this report, the Federal Communications Commission issued an Order on a revised Universal Service Fund mechanism, known as "A-CAM" - Alternative Connect America Model, which we believe will bring greater stability to our federal regulated revenue streams, as discussed below by Evelyn Jerden, our Senior Vice President - Regulatory Dynamics. We also completed the acquisition of Dixon Telephone in Iowa, which perfectly complements our Central Scott Telephone operations. Finally, we also continued reduce debt and significantly increased our share repurchase program.

Operating Results

	Year Ended December 31, 2015	2014	Increase (Decrease)	Percent
	(In Thousands)			
Revenues				
Regulated	$49,302	$54,075	($4,773)	(8.8%)
Non-regulated	37,378	31,781	5,597	17.6%
Revenues	$86,680	$85,856	$824	1.0%
EBITDA				
Regulated	$19,200	$24,112	($4,912)	(20.4%)
Non-regulated	14,858	12,283	2,575	21.0%
Cash distributions from equity affiliates	2,350	1,438	912	63.4%
EBITDA before corporate	36,408	37,833	(1,425)	(3.8%)
Corporate expense	(2,936)	(2,622)	(314)	(12.0%)
EBITDA	$33,472	$35,211	($1,739)	(4.9%)

Our 2015 regulated revenues decreased from the prior year by $4.8 due predominantly to two factors: (1) rulings by the New Mexico Public Service Commission that reduced our New Mexico Universal Fund Payments by $1.9 million; and (2) higher wholesale DSL rates, which effectively reduce our regulated revenues, decreased those revenues by $1.7 million. The New Mexico ruling is expected to negatively impact regulated revenues by an additional $0.9 million in 2016, but we are expecting stabilization of the DSL rates in 2016.

On the non-regulated front, our broadband wireline data revenues, both within and outside our regulated territory, increased by $5.6 million. This substantial increase was primarily due to out of territory fiber optic circuits, cellular back haul and cable modem sales. Our Utah, Iowa, and California operation continued to be the primary growth drivers.

Our outlook for revenues and EBITDA before corporate expenses for 2015 is $89 million and $35 million, respectively. While we continue to expect significant growth in our non-regulated business, structural and government-mandated declines in our regulated revenues will more than offset that growth. The new A-CAM program may ultimately brighten this picture a bit but we will not know the impact until later in the year.

The 2015 cash distribution from an equity affiliate grew to $2.3 million in 2015 from $1.4 million in 2014. These distributions are from a 25% owned cellular provider in Northern California, managed by Verizon Wireless. The 2015 distributions were significantly impacted by a sale/lease back transaction. In 2016, distributions are expected to be $1.8 million

During 2015, we invested $18.4 million in capital expenditures. The broadband speed standards in the recent FCC's A-CAM order will influence capital expenditures going forward, but in any event we are committed to increasing data speeds available to our customers. We will do this by extending our fiber optic facilities and installing equipment capable of providing higher bandwidth closer to our existing customers, as well as expanding fiber connectivity to customers outside of our territories. We are currently expecting total capital expenditures in 2016 to be about the same as 2015 or somewhat higher.

Debt Structuring

At year end, our net debt (total debt less cash and equivalents) was $30.1 million or 0.9 times our 2015 EBITDA. This represents a decrease of $6.2 million from the $36.3 million in net debt at the end of 2014. Please note that the 2014 amounts were adjusted for the deposit and special purpose loan associated with FCC Auction 97, which was repaid in February 2015. Over the last five years, we have reduced our net debt by $66.5 million, or 69%, from $96.6 million at December 31, 2010. During 2015, our cash interest expense fell from $3.7 million to $2.8 million, a 23% reduction driven by debt reduction, which was partially offset by a slightly higher average aggregate interest rate, as our debt mix shifted to more fixed interest rate obligations. We expect cash interest expense to be approximately $2.4 million in 2016.

Share Repurchases

During 2015, the company repurchased 622 shares, or 2.8% of our outstanding shares, at an average price of $5,309 per share for a total of $3.2 million. We had repurchased $774,000 of our shares in 2014. At the end of 2014, we had restructured our primary corporate credit facility and the new facility expanded our ability to repurchase our shares. We intend to acquire at least a similar amount of shares in 2016.

Conclusion

We would like to thank the management and all the employees of our operating subsidiaries for their good work and success in 2015. We are also confident of their determination to make 2016 even better. It is their initiative, drive, and commitment to their communities and our company that are transforming LICT Corporation. We also thank you, our shareholders, for your long-term support of LICT. We look forward to the years ahead with great optimism and the expectation of continued success.

Robert E. Dolan
Executive Vice President and
Chief Financial Officer

Report of the Chief Operating Officer

Having joined LICT in December 2015, I spent my first 60 days touring all our markets. I was impressed with the quality of our client base, employees, networks and our ability and dedication to maintain the highest levels of customer satisfaction.

Evolving Our Business

LICT has balanced its focus between managing the requirements on our regulated business and growing our non -regulated business. We continue to meet mandates established by federal and state regulators while investing and expanding beyond our incumbent territories, tapping into nearby markets and growing our market share. In 2015 we grew our non-regulated revenue by 18% or $5.6 Million to over $37.4 Million and EBITDA by 21%, or $2.6 Million to $14.9 Million. We increased our percentage of non-regulated revenue from 25.0% 5 years ago to 43.0% in 2015. We continue to perform well above industry trends on broadband additions and voice retention.

Leveraging Our Tenure and Reputation

With an average corporate lifespan of over 75 years per affiliate, we have leveraged our local and regional reputations to add customers in targeted expansion markets. In 2016, we are adding network, new products and services along with additional commercial sales teams, generating new revenue streams enhancing the stickiness of our core broadband offerings.

Completed Dixon Acquisition – Integration Update:

We successfully completed the integration of our latest acquisition in Iowa converting all Dixon systems over to our Central Scott operations in Q3 2015. We continue to attract interest from other RLECs in the region due to our successful track record of acquiring businesses while maintaining high levels of employee morale and customer retention.

Growth Initiatives

• ***Broadband*** – We continue to extend our broadband network capabilities by building fiber directly to our customers premises or within the network to shorten copper loops thereby increasing speed. We are building fiber into new markets on a success based basis.

• ***Expansion Markets*** - LICT has expanded its geographic footprint by establishing connectivity services in surrounding markets to our RLEC footprint. We currently provide data and voice services to business customers over owned and leased fiber networks in high growth markets such as the Quad Cities and Dubuque, Iowa; Provo and Orem, Utah; Klamath Falls, Oregon; Silver City and Deming, New Mexico; Escanaba, Michigan. Additionally, we are planning to enter Medford, Oregon, Mt. Shasta and Weed, CA, Wichita and Topeka, Kansas and Marquette, Michigan.

• ***Targeted Verticals*** **–** We are focused on increasing the breadth of our customer base targeting Colleges, Local Schools, Hospitals, Assisted Living, Hospitality and Municipalities, leveraging the success, we’ve had in our markets.

• ***Cellular Backhaul*** – During 2015, we continued to construct fiber to new and existing tower locations providing wireless data transport. This permits us to realize revenue gains and offset losses due to landline substitution while penetrating other markets.

• ***Products and Services*** **–** Add on services such as security (both surveillance and cyber) along with managed services and video are being driven by customer demand and helping to increase revenue and margins while reducing churn.

Management Team – Approach

LICT has an experienced and stable management team that averages over 20 years in the industry. Our General Managers have close ties to the communities they serve. Our average employee tenure is over 15 years of service. Our management strives to create a positive atmosphere and an environment of “customer first” resulting in both customer and employee loyalty.

Looking Ahead

LICT has made and will continue to make, significant investments in its broadband infrastructure to bring Internet access to residents and businesses in rural America. We provide reliable, integrated services that add value to the lives of people in the communities we serve and enable thousands of families, businesses and government organizations to stay connected. We will continue to expand our service offerings both inside and outside of our traditional boundaries and deliver the highest quality service that our customers demand and deserve. I am excited about the opportunities ahead of us in 2016 and beyond.

James DaBramo
Chief Operating Officer

Report of the Senior Vice President – Regulatory Dynamics

On March 30, 2016, the Federal Communications Commission ("FCC"), which regulates LICT's Rural Local Exchange Carriers ("RLECs"), issued a long-awaited Order that dramatically modifies the rules controlling our regulated operations. RLECs will have a new option to voluntarily elect an Alternative Connect America Cost model ("A-CAM") and replace the existing High Cost Loop Support ("HCLS") and Interstate Common Line Support ("ICLS") mechanisms.

A-CAM will provide a ten-year fixed support amount which should provide LICT significantly greater regulated revenue stability, once it is established for 2017. It must be adopted by all LICT affiliated properties in a state. Not all statewide groups of LICT's affiliated RLECs are eligible to adopt A-CAM, because the state group of companies cannot adopt A-CAM if they already provide 10/1 Mbps broadband service to 90% or more of its eligible locations.

If a company does not adopt A-CAM, 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.

Both A-CAM adopters and CAF-BLS companies will have specific build-out requirements which LICT is assessing. Since the FCC's new rules have just recently been released, LICT is still in the process of determining the impact of the new A-CAM method compared to the modified cost-based rules for CAF-BLS, so at this time we cannot predict precisely how beneficial the new USF mechanism could be to LICT.

While the current model being released by the FCC would indicate that LICT's operations could receive incremented revenue streams, the company would note that the indicated incremental revenues are subject to finalization, not yet fully funded, and carry significant build-out requirements. In addition, other aspects of the Order will have the effect of reducing revenues in the future, all else held equal.

Looking ahead, 2016 and 2017 will be an exciting and challenging time on the regulatory front to position LICT for future success since A-CAM and CAF-BLS decisions impact revenue streams for the coming decade. In addition to regulatory requirements, our goal to provide customers with excellent quality service at speeds to meet their demands drive our capital expenditure decisions going forward. Both customers and regulators want increased broadband speed at lower prices which requires LICT to be more innovative and resourceful. We are confident that our company is well situated and staffed for the on-going decisions and challenges that lie ahead.

Evelyn C. Jerden
Senior Vice President – Regulatory Dynamics

Operational Review

The **CentraCom** team had an excellent year again in 2015 due largely to increased sales to businesses, wireless carriers, institution, and residential subscribers. CentraCom continued to expand its fiber network throughout Utah, adding fiber facilities along the Wasatch Front and also in the rural areas of Utah. The company now has over 1,130 route miles of back-bone fiber facilities and has one of the largest fiber footprints in the State of Utah. These facilities deliver high capacity ethernet services to schools, hospitals, cell towers, and enterprise customers. The number of high speed internet customers again increased substantially. The company added 1,473 cable modem customers which brought the total high speed internet customers to 10,583. In 2016, fiber facilities are being installed in new subdivisions and condominium communities. The company continues to complete new interconnection arrangements with other carriers. This has opened the door for CentraCom to provide services to numerous enterprise customers not previously reached by our network. We are looking forward to continued extensive growth in our non-regulated operations in 2016.

WNM Communications continued to focus on the non-regulated business to compensate for declines in the regulated business due to changes in regulated support. We focused on all of the main lines of non regulated business, Internet, CLEC (including VoIP), Long distance and contract support services. We succeeded in growing the non-regulated business by $268,000 or 10% with associated non- regulated EBITDA growing 10% year over year. We grew the VoIP line of business by 100% revenue to $181,000 with an increase of 150 units/seats. We completed 3 miles of fiber build out in Silver adding 7 "on net" locations. On the regulated side of the business we completed several capital projects expanding our DSL footprint/capabilities with the goal of meeting the FCC requirements of 25/3 and 10/1 internet speeds. We increased DSL units by 165 or 7%.

In the **Kansas operations (JBN Telephone, Giant Communications, Haviland Telephone)**, broadband continues to be a driving element, with over 75% of customers subscribing. Broadband revenues from these 5,200+ customers exceed voice-based customer revenues, even while the operations' total phone line counts are up. Our operations increased internet bandwidth during 2015, due to increased bandwidth use by customers subscribing to Digital Subscriber Line ("DSL"), Cable Modems, Fixed Wireless, and Ethernet-delivered broadband. We anticipate completing redundant routes and providers for Internet backhaul in 2016. JBN's DSL network will continue remediation of long copper loops in order to deliver faster broadband speeds to customers. Giant's CATV network will complete the move to an all-digital channel line-up to make more room for broadband use in the future as we continue to increase speeds and customers. Our Hosted Voice operation in our service areas and in Wichita continues to expand with about 2,200 seats, up 21% from the previous year. We anticipate an initial move into an additional metro marketing in 2016.

Cal-Ore continues to develop opportunities to extend and expand our regulated and nonregulated broadband facilities in rural northeast California and southeast Oregon. In 2015 Cal-Ore Telephone (ILEC) began replacing old copper loop with fiber to the premise within the Dorris and Tulelake exchanges. This project continues in 2016. Cal-Ore Communications (CLEC) continued to extend their fiber to the premise network to their service areas in California and Oregon. In northeast California there have been numerous areas that were considered to be broadband unserved or underserved. The Cal-Ore CLEC converted several of these communities to the "served" category through a combination of FTTP and WiFi service, and plan to provide similar services to several communities south of our existing CLEC territory along the I-5 corridor in 2016.

Michigan Broadband Services completed construction of buried fiber optic interconnection to all except three lower volume central offices. 130 hosted voice seats were added. Upgrades to two 500Mbps access links to 1Gbps (total of 2Gbps) diversely routed Internet access ports along with redundant switches and routers vastly increased access capability and reliability. 18 miles of buried fiber optic cable were added to various exchanges and Internet access speeds were increased across all exchanges. 2,900 Regulated and non-regulated clients were introduced to the Internet Protocol eXchange (IPX) brand of call transport services. This all fiber based calling service completes another step in its network virtualization connecting its exchanges to the global leader in IP call transport. 100% of all of Michigan Broadband's Intra and InterState traffic is IP based. Owned and operated media gateway equipment allows the Company to supply legacy telephone services while converting its base to VoIP.

Central Scott Telephone - The Company can deliver "triple play" voice, video and data service throughout most of its ILEC territory. CS Technologies, Central Scott's non-regulated affiliate, has become a major CLEC in Davenport, Bettendorf, and Dubuque, Iowa generating $2.9 million in revenue in 2015, up from $2.5 million in 2014. 2015 brought the introduction of enhanced broadband speeds over 20 Mbps including the introduction of 50 MB and 300 MB offerings. Market expansions included CLEC operations in Moline and Rock Island, IL.

Belmont and Cuba City operations in Wisconsin are now fully integrated with Central Scott. The companies share management, accounting, technical, and customer support resources resulting in improved service as well as cost savings. Additional network synergies and cost savings were realized as Belmont and Cuba City were physically tied to the Iowa markets for expanded Internet capabilities. New marketing campaigns were utilized to leverage these expanded capabilities resulting in higher Internet revenues.

Bretton Woods Telephone Company has fiber to the home (F-T-T-H) throughout its franchised area. Expanded packages and services are provided to the Mt. Washington Resort area through BWTC and an affiliate cmpany for fiber high speed data, voice, long distance, and video.

LICT CORPORATION
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