# LICT
# CORPORATION

## 2016
## ANNUAL REPORT

# LICT Corporation

## (Y)our Family

COMMUNICATION • EDUCATION • ENTERTAINMENT

DATA • TECHNOLOGY • VOICE • VIDEO

# (Y)our Company

**Management Team**

Pictured from bottom left: Edward Ormsbee, John Francis, Evelyn Jerden, Mike Plows, Branch Cox, John Aoki, Art Nicholson, Helen Keen, Lori Thiry-Van, Waihun Yee, Jack Keen, Christina McEntee, Dan Morrison, Robert Dolan, Karen Wante, Becky Schetter, Mark Wade, Nancy May, Lori Larsh, Bill Stroman, Brent Lindle, Deb Egli, Wayne Baxter, Kent Dau, Donn Wilmott, Steve Moore, Brad Welch, Bob Hensley, Bruce Moore, Shelly Smith, Ross Cox, Bart Hall, Casey Cox, Eddie Cox, Jim DaBramo, Dave Thomas

## Financials

*In thousands, except for share amounts*

| **Calendar Year** | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Operating Results** | | | | | |
| Revenues | | | | | |
| Regulated | $48,782 | $49,302 | $54,075 | $52,431 | $55,100 |
| Non-Regulated | 41,958 | 37,378 | 31,781 | 28,327 | 24,830 |
| | 90,740 | 86,680 | 85,856 | 80,758 | 79,930 |
| EBITDA before corporate expenses (b) and charitable contributions (c) | | | | | |
| Regulated | 17,456 | 19,200 | 24,112 | 23,505 | 25,935 |
| Non-Regulated | 19,285 | 17,208 | 13,721 | 10,480 | 10,373 |
| | 36,741 | 36,408 | 37,833 | 33,985 | 36,308 |
| Depreciation and Amortization | 17,972 | 17,730 | 17,659 | 16,456 | 15,804 |
| Capital Expenditures | 16,409 | 18,441 | 16,536 | 17,950 | 12,199 |
| **Consolidated Results** (a) (c) | | | | | |
| Net Income from continuing operations | $7,273 | $7,711 | $9,175 | $7,454 | $15,355 |
| Per Share (diluted) | $338.32 | $348.34 | $410.18 | $328.03 | $655.48 |
| **Balance Sheet/Share Data** | | | | | |
| Net Debt (d) | $22,614 | $30,098 | $36,311 | $54,555 | $69,207 |
| Shareholders' Equity | 108,476 | 103,449 | 98,727 | 89,563 | 83,014 |
| Shares outstanding at year end | 21,282 | 21,739 | 22,272 | 22,486 | 23,125 |

See footnotes on last page of Operational Review.

# (Y)our Teammates

**<u>CentraCom</u>**- Nathan Abrams, Jason Alexander, Lynn Anderson, Stephen Anderson, Todd Anderson, Kevin Aurthur, David Barlow, David Barton, Timothy Beesley, Jennifer Benson, Jeremiah Blain, LaTaya Boylan, Kay Brady, Ken Carlson, Virgil Chappell, Brandon Childs, Kirk Christensen, Monte Christensen, Pat Coates, Donald Cohee, Carl Cornista, Bert Cox, Casey Cox, Cory Cox, Eddie Cox, Iven Cox, Jason Cox, Jeff Cox, Mike Cox, Swen Cox, Steve Cox, Aaron Davis, Parker Earl, Clint England, Alisa Faatz, Samuel Fineanganofo, Eric Forbush, Jonathon Gale, Mary Gavrila, Angela Hamilton, Julie Hansen, Kristine Hansen, Les Haskins, David Hatch, Jason Hathaway, Larry Hawkins, Rich Higgins, Barrett Hilton, Jakob Howcraft, Kristie Ison, Duane Jensen, Jerry Johnson, Richard Johnson, Dan Kendall, Mark Larsen, George Lee, Eloisa Lemus, Jason Lewellyn, Lynn Litnak, Tammy Mackey, Arlene May, Eric McConahay, Janet McFarland, Hannah McKnight, Jacob Meyers, Heather Mickel, Sterling Monk, Rex Mortensen, Zachary Naumu, Asaeli Ngauamo, Ann Nielsen, Julie Nielsen, Robert Nielsen, Gayle Noorlander, Benjamin Olsen, Todd O'Neal, Nathan Palmer, Paul Peckham, Ben Pehrson, Jeff Perterson, Mike Plows, Howard Pope, Pam Rigby, Daniel Roberts, Kenny Roberts, Michael Roberts, Michael Troy, Paul Rymer, Tyrel Sackett, Tyler Schlappi, Reina Serrano, Calvin Shelley, Eddie Shelley, Jose Soriano, Jose F. Soriano, Ryan Stewart, Sione Taufa, Manase Tuifua Tesi, Shayne Thompson, Taylor Thompson, Mike Traina, Trevyn Tucker, Faylyn Warnick, Brad Welch, Keller Wheeler, Mindee Wilberg, Erin Williams

**<u>Western New Mexico Telephone</u>**- Rudy Arambula, Eugene Armijo, Valerie Barboa, Wayne Baxter, David Beem, Liz Blancett, Matthew Brown, Chelsea Chappell, Becky Cooper, Dustin Coslin, Jeromy Curnutt, Lisa Feigley, John Francis, Elizabeth Gardner, Jackie Gonzales, James Guck, Evelyn Jerden, Marvin Kartchner, Helen Keen, Jack Keen, John Keen, Billie Knight, Aaron Laney, Tamra Ann Manning, Nancy May, Michael Montoya, Carrie Rice, Stewart Rooks, David Rowell, Sandra Ruiz, Melissa Saenz, Leburt Saulberry, Bill Stroman, Jane Tibbs, Gary Trujilli, Marci Watson, Cryssssstal White, Kandra Young

**<u>JBN Telephone</u>**- William Atwood, Russell Bacon, Marilyn Boeckman, David Callison, Jan Charles, Glenn Chiles, Brian Coffman, Janice Comer, Sheri Cothran, Kraig Cowles, Marc Crites, Jeremy Dallas, Rita Davis, Travis Feltner, Amanda George, Jennifer Godfrey, Todd Huncovsky, Mark Johnson, Roger Johnson, Diane Kathrens, Lance Lyman, Paul Moseley, Jonathan Parker Travis Peek, David Schraer, Judy Sextro, LaDonna Smith, Jay Stewart, Austin Taylor, Jamika Teel, Wesley White, Christopher York

**<u>Haviland Telephone</u>**- Jacob Allen, James Billups, Alex Brensing, Vest Charbonneau, LaDonna Erker, Sabrina Freeman, Mildred Hannan, Timothy Hinerman, Daniel King, Lori Larsh , Sue Leppert, Kay Lewis, Robert Long, Ryan Oren, Sandra Raynes, Dwight Smitherman, Jayci Smitherman, Brent Swngle, Diane Thompson, Jayne Thompson, Audrey Wade, Mark Wade

**<u>Upper Peninsula- MCBC-</u>** Leslie Beauchamp, Robert Cocco, Stacey Dani, Joey Dombrowski, Blaine Gadda, Bart Hall, Jeffery Johnson, Vicki Kakuk, Adam Layton, Gordon Leese, Dirk Macco, Aaron Matelski, Amanda Meade, Bruce Moore, Deborah Moreau, Timothy Nakkula, Valerie Parrish, Andrew Perttunen, Suanne Piche, Linda Rhode, Karen Rochon, Becky Schetter, Cathy Starzynski, James Temple, Donna Thoune, Edward Thoune, Lori Van, Ronald Wells, Lori Wolsker, Judy Zini

**<u>Cal-Ore Telephone</u>**- James Anderson, Michael Atkinson, Charles Boening, Danielle Burrow, Lana Clay, Bryan Coutiercoates, Kevin Donahue, Jeremy Estep, Tamara Harper, Robert Hensley, Melinda Hill, Joleen Hogan, Elizabeth Jiminez, Danny Morrisaon, Kristi Olson, Edward Ormsbee, George Ormsbee, Shannon Pannell, Ana Marie Perez, Virginia Simpson, Jennifer Skoog, Ryan Stevenson, Joan Tennison, Sara Thomas, Scott tyner, Andrew Ulbricht, Scott Wimp, Waihun Yee

**<u>Central Scott Telephone Company</u>** – Julie Anderson, Richard Billups, Tyler Bindrum, Tony Dahms, Kent Dau, James Davis Bruce Duling, John Ewert, Chris Garrison, Joseph Geerts, John Holland, Dylan Huizenga, Abigail Huss, Joyce Kemp, Merri Leigh,Brent Lindle, Kent Mattoon, Cecillia Nache, James Neywen, Michael Olsen, Robert Villarreal Jr. , Dale Willows, Donn Wilmott, Rebecca Young

**<u>Cuba City/Belmont Telephone</u>** – Nick Averkamp, Jerry Cullen, Deb Egli, Jesse Longhenry, Deb Schupper, Dayna Wilberding

**<u>Bretton Woods Telephone Company</u>** – Art Nicholson, Francis Rouillard, Marcia Rouillard, Karen Wante

## Letter From The Chairman and Chief Executive Officer

Fellow Owners:

We are celebrating our 30th year of stewardship of LICT.

As background, Lynch was formed in 1917. Current management assumed control after the shares of the company were purchased from Curtiss Wright Corporation in 1986.

Our accomplishments over the past 30 years include 35 acquisitions and 7 Spin-Offs. Shareholder values have compounded 16%. Expressed another way, a $100,000 investment in 1986 has a value of $2.5 million today.

Your shares closed at $5,950 per share at December 31, 2016, up from $5,600 per share at year- end December 2015. They are now over $7,000 per share.

<u>The Future</u>:

LICT continues to explore alternatives to grow both organically and inorganically.

On the acquisition front, we committed to, albeit small in dollar terms, an important element that will help the continued success of our former owners of DFT Telephone Company in Fredonia, New York; now referred to as Brick Skirt Holdings. Specifically, Brick Skirt received a grant from New York State Broadband Authority to build out their system into homes in Chautauqua County, New York and extend the service in portions of the City of Dunkirk, to enable them to service their community with a fiber network significantly increasing the capacity for speed.

We continue to evaluate acquisition opportunities. Our focus remains on our existing operations to enhance opportunities in the communities they serve. (How and if value for value can be achieved, we will proceed to close.)

On a more recent front, we successfully bid on Spectrum in the Northern area of the Lower Peninsula of Michigan. We were attracted to the growth of Traverse City and Alpena, by Bruce Moore who joined us in October 2016 to manage both Michigan Central Broadband Company and Upper Peninsula Telephone Company.

<u>Giving Back</u>:

Last year LICT borrowed a page from publicly traded GAMCO Investors (GBL-NYSE). GAMCO has given back to society by allowing its shareholders to contribute a portion of the company's resources to each owners' 501c-3 organizations. LICT has followed suit and in 2016, $1 million was returned to charitable entities by way of contributions designated by registered shareholders and teammates. The Board will be asked to repeat this program in 2017.

<u>The Numbers</u>:

We continue to reduce debt and increase the underlying intrinsic value of the enterprise by focusing on our non-regulated business as well as increasing our financial flexibility. The year ended with under $23 million in net debt. We expect debt to be even lower on December 31, 2017.

Our projection for 2017 is $106 million in revenues and EBITDA approaching $50 million. Our cash flow underscores our significant borrowing capacity to explore opportunities both in and outside of our industry.

<u>Financial Metrics</u>:

We purchased 491 shares in 2016 and have purchased a net 16 shares in the first quarter of 2017. We currently have 21,266 shares outstanding.

<u>Our Board</u>:

We welcome Marc Gabelli to our Board. Marc covered Telecom Companies as an analyst at Lehman Brothers.

Thank you for your continued confidence in LICT.

Mario J. Gabelli
Chairman and Chief Executive Officer

Robert E. Dolan
Executive Vice-President
Chief Financial Officer
Team member since 1990

## Report of the Executive Vice President and Chief Financial Officer

In 2016, we continued to benefit from the efforts of our local management teams to increase the depth and breadth of our broadband offerings. Our longtime shareholders are well aware of our desire to acquire well-run businesses with strong management teams and a local customer focus. In many cases, these have been and will be family-owned businesses that have been in the family for decades. We are continuing to hold that long-term perspective. We have been in the industry for 27 years and expect to be in it for the foreseeable future. As a result, our operations display a continuity, stability, and exceptional customer service that set the standard for our industry. In turn, our local management has displayed the ability to successfully navigate complex regulatory structures and, even more importantly, to dramatically grow our broadband services. We continue to be on the lookout for similar companies in the fiber, CATV, and communications fields. Our corporate function supports that focus with our capital investments, and further advances our shareholders' interests in evaluating potential acquisitions, pursuing spectrum initiatives and making treasury share repurchases.

In addition to adding to our broadband infrastructure during 2016, LICT had a number of other accomplishments: we improved our operating results (revenues up 5%); we continued to aggressively and efficiently reduce leverage; we made significant share repurchases; we developed new spectrum initiatives; and, through industry associations, we worked with regulators at both the federal and state levels to acquire the funding needed to improve customer service.

**Operating Results -** Dollars in thousands:

| | Year Ended December 31, 2016 | 2015 | Increase (Decrease) | Percent |
|---|---|---|---|---|
| Revenues | | | | |
| Regulated | $48,782 | $49,302 | ($520) | (1.1%) |
| Non-regulated | 41,958 | 37,378 | 4,580 | 12.3% |
| Revenues | $90,740 | $86,680 | $4,060 | 4.7% |
| EBITDA(prior to charitable contributions) | | | | |
| Regulated operations | $17,456 | $19,200 | ($1,740) | (9.1%) |
| Non-regulated operations | 17,335 | 14,858 | 2,477 | 16.7% |
| Cash distributions from equity affiliates | 1,950 | 2,350 | (400) | (17.0%) |
| EBITDA before corporate | 36,741 | 36,408 | 333 | 0.9% |
| Corporate expense | (3,833) | (2,936) | (897) | (30.6%) |
| EBITDA | $32,908 | $33,472 | ($564) | (1.7%) |

In January 2017, all of LICT's operating subsidiaries that were eligible to do so elected to participate in the FCC's new Universal Service Fund ("USF") mechanism known as "A-CAM". The A-CAM mechanism replaces USF's prior Interstate Common Line Support ("ICLS") and High Cost Loop Support ("HCLS"). Under A-CAM, LICT's companies will receive an aggregate fixed payment of $23.3 million over the next ten years. In addition, we will receive transitional payments of $0.5 million beginning in 2017 and reducing by $0.1 million per year until ending in 2021. In comparison, our A-CAM companies in 2016 received a total of $12.9 million in HCLS and ICLS funding. Along with A-CAM's funding increase, its fixed payments provide greater stability and clarity as to our future revenues than the previous HCLS/ICLS programs. This will enable our companies to speed their deployment of broadband and provide even higher levels of service to our customers and communities.

With regard to 2016, growth in non-regulated, broadband services continued to significantly outpace the declines in our regulated revenues. Since 2012, our EBITDA from non-regulated operations has more than doubled from $7.9 million to $17.3 million. In 2016, we achieved significant revenue growth in the provision of broadband circuits outside of our regulated service territory. We also achieved significant growth in broadband cable modem subscribers from our operations in Utah ($2.0 million), Iowa ($1.1 million), California ($0.4 million), and New Mexico ($0.4 million). Regulated continued to reflect the industry decline from lower access lines and minutes of use and commensurate loss of traditional telephone funding. In comparison with our $4 million revenue growth, our EBITDA increase was moderated by (1) the replacement of regulated revenue with lower margined non-regulated revenue, and (2) early expansion costs needed to develop additional markets.

Our outlook for revenues and EBITDA before corporate expenses for 2017, which is significantly bolstered by A-CAM and continued growth in our non-regulated broadband activities, is for $106 million and $49 million, respectively.

The 2016 cash distribution from an equity affiliate was $2.0 million as compared to $2.3 million in 2015. These distributions are from a 25% owned cellular provider in Northern California, managed by Verizon Wireless. The 2015 distributions were significantly increased by a sale/lease back transaction. In 2017, distributions are expected to be level at $2.0 million.

During 2016, we invested $16.4 million in capital expenditures. The broadband capacities required under the A-CAM program will influence capital expenditures going forward, and we will be substantially increasing the 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 2017 to be slightly higher than 2016, depending on our evaluation of the A-CAM requirements and our customers' needs.

**Net Debt** - At year end, our net debt (total debt less cash, cash equivalents, and liquid deposits) was $22.7 million, or 0.7 times our 2016 EBITDA. This represents a decrease of $7.4 million from the $30.1 million in net debt at the end of 2015. Over the last five years, we have reduced our net debt by $65.9 million, or 74%, from $88.6 million at December 31, 2011. During 2016, our cash interest expense fell from $2.8 million to $2.4 million, a 14% reduction driven by debt reduction. We expect cash interest expense to fall further, to approximately $2.0 million, in 2017.

**Share Repurchases** - During 2016, the company repurchased 491 shares, or 2.3% of our outstanding shares, at an average price of $5,245 per share for a total of $2.6 million. We had repurchased 622 of our shares for a total of $3.2 million in 2015.

**Conclusion** - As I previously noted, in the field, LICT has highly experienced and exemplary management and employees. They propelled our achievements in 2016, and will continue to drive our accomplishments in the future. It is their initiative, determination, and commitment to their customers, communities and our company that are transforming LICT Corporation. We thank them heartily for their efforts, their abilities and their splendid performance. 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

James DaBramo
Chief Operating Officer
Team member since 2015

## Report of the Chief Operating Officer

2016 was a successful year for LICT. Our emphasis on positioning each subsidiary to be adaptable to the ever-changing broadband industry landscape has put us in a strong position as we enter 2017 in terms of stability and diversification.

**Evolving our Business**
LICT has balanced its focus between managing the challenging requirements on our regulated business and growing our non-regulated businesses. All of the 2016 revenue increases were derived from the Non-Regulated side of our business. With the enactment of ACAM, our ability to provide higher speed data services to remote portions of our network will be enhanced. We are confident that we will be able to meet mandates established by federal regulators and also invest and expand beyond our incumbent territories, tapping into nearby markets and growing our market share. We increased our total customer connections by 2.4% in 2016 adding 1,639 customer connections. 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 our traditional legacy and targeted expansion markets. In 2016, we added network, additional commercial sales people, new products and services, generating new revenue streams, and enhancing the value of our core broadband offerings.

**A-CAM**
In March 2016, the FCC announced a new elective USF reform program called A-CAM. This 10-year federal program provides funding to qualified rural service providers that agree to deliver higher benchmark speeds to a percentage of customers who would not otherwise receive these services. LICT has elected to participate in A-CAM in all of the states where our companies were eligible: California, Utah, New Mexico, Kansas, Michigan and Iowa. We believe A-CAM provides a stable, long-term path for LICT to improve our network and service levels to our customers.

**Completed Integration of Dixon Acquisition**
We successfully completed the integration of our Dixon acquisition in 2015. We continue to generate interest from other RLEC's and cable providers due to our successful track record of acquiring businesses while retaining our teammates and customers.

**Growth Initiatives**
We are continuing our concentration on extending our presence into nearby markets using a "smart build" approach while expanding our product portfolio:

• ***Broadband*** – We continue to extend our broadband network capabilities by building fiber directly to our customer's premises or within our networks to shorten copper loops thereby increasing speed. We currently have over 4,200 miles of fiber in our combined networks and plan to expand in the coming years. We continue to utilize fixed wireless to provide broadband capabilities where market conditions prove this most efficient.

• ***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 network connections 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 and Marquette, Michigan, and Wichita and Topeka, Kansas. Fiber construction has begun in Mt Shasta, CA soon to be followed by Weed and Yreka, CA. Additionally, we are planning to enter Traverse City, Michigan, and Las Cruces, New Mexico in 2017.

• ***Targeted Verticals –*** We are focused on increasing the breadth of our customer base targeting colleges, elementary and secondary schools, hospitals, assisted living, hospitality and municipalities, leveraging the success we have had in our other markets.

• ***Cellular Backhaul*** – During 2016, we continued to construct fiber to new and existing tower locations, both in region and out-of-region, providing wireless data transport. This permits us to realize revenue gains and offset losses due to landline substitution while penetrating other markets. In addition, LICT owns or maintains 43 towers, which generate over $350,000 in annual revenue.

• ***Products and Services –*** Add-on services such as managed services, Software Defined Wide Area Networks (SD WAN) and Over the Top (OTT) video are being driven by customer demand and helping to increase revenue and margins while reducing churn.

• ***Spectrum Auction –*** LICT participated in the FCC's Auction 1002 for 600 MHz spectrum. We were successful in obtaining licenses for Traverse City and Alpena, Michigan.

**Management Team – Approach**

LICT has an experienced management team that averages over 30 years in the telecommunications industry. Our General Managers have close ties to the communities they serve. Our management team has positioned each of our affiliate companies for stability and long-term growth. 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 will continue to make, significant investments in it's 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 2017 and beyond.

*James DaBramo*

Evelyn C. Jerden
Vice President-Regulatory Affairs
Team member since 1992

## Report of the Vice President of Regulatory Affairs

In early 2016, the Federal Communications Commission approved a new Alternative-Connect America Cost Model ("A-CAM") methodology for Rural Local Exchange Carriers ("RLECs") which LICT adopted in early 2017 for the vast majority of our customer lines. A-CAM will provide LICT a significant increase in regulated revenue and EBITDA, as well as increase the stability of our federal Universal Service Fund ("USF") revenues. A-CAM funding is set for a 10-year period with requirements to build broadband at defined data speeds to a set number of eligible locations. A-CAM replaces two federal USF programs that were becoming increasingly volatile as a result of the regulatory caps and limitations implemented by the FCC.

2016 was a year of considerable regulatory uncertainty relating to the adoption of A-CAM. LICT worked hard, in conjunction with the national industry associations, to get A-CAM approved in a manner that helps support rural broadband. We are very pleased that these efforts were successful. This success will result in LICT expanding our already substantial campaign to provide greater broadband capacities to some of the most challenging rural areas in this great nation.

In today's society, broadband is not a luxury; rather, it is an essential component for everyday living. Just like voice telephone service revolutionized lives in the 1930s and the mobile phone radically altered the way we communicate since the late 1980s, broadband connectivity is now rapidly transforming how we communicate, the way we obtain entertainment services, and the modes by which we work and study. Broadband enhances lives everywhere and that is especially true in rural America. There, the full development of broadband has often been impeded by vast distances, difficult terrain and sparse population. As LICT speeds its deployment of broadband, more students will be able to access universities anywhere in the world on-line; more doctors will be able to provide rural tele-medicine services; more farmers, dairies and ranchers will be able to efficiently produce the food to nourish our nation and their global customers; and more families will be able to live happily in a wholesome rural environment.

LICT's companies have been steadily increasing their provision of broadband for nearly 20 years. Because of the challenges inherent in building and operating broadband networks in our rural areas, USF is essential to accomplish these tasks. As we look out over 2017 and the decade to follow, we are grateful and excited to report that the FCC's adoption of A-CAM, complemented by state USF programs, will help us to expand and speed up our broadband build-out.

LICT's future is bright for many reasons. We are moving into that future with the confidence that we will enhance our customers' lives with greater broadband capacities, and thereby continue the success of our enterprise.

*Evelyn C. Jerden*

## Operational Review

The **CentraCom** team had an excellent year again in 2016 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 in the rural areas of Utah. The company now has over 1,200 route miles of backbone 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 1,460 cable modem customers, which brought the total high-speed internet customers to 11,700. In 2017, fiber facilities are being installed in new subdivisions and to strategic business locations. 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 growth in our non-regulated operations in 2017.

**WNM Communications** continued to focus its efforts in 2016 on its non-regulated lines of businesses. Non-regulated revenues grew by 14% from the 2015 levels and non-regulated EBITDA grew 41% compared to 2015. In addition, the Company obtained some much-needed relief from its statewide New Mexico Universal Service Funds. The New Mexico Exchange Carriers Association won a major victory in the New Mexico Supreme Court in 2016 restoring New Mexico USF to pre-2015 levels. WNM Communications continues to work with the New Mexico Public Regulatory Commission to insure the continuity of these funds which support broadband initiatives to the most rural areas of our counties.

In the **Kansas operations (JBN Telephone, Giant Communications, Haviland Telephone)**, broadband continues to be a driving element, with over 75% of customers subscribing. Broadband services include delivery via Digital Subscriber Line ("DSL"), Cable Modems, Fixed Wireless point-to-multipoint and point-to-point, Fiber-to-the-Home, and Ethernet-delivered broadband. These services are supplied primarily via our own facilities, but include various purchase and re-sale agreements with multiple other carriers. Redundant routes and providers for Internet backhaul were built in 2016 in our key area around Holton, KS. 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 facilitating increased speeds and customer additions. Our Hosted Voice-over-Internet-Protocol business operation ended the year at about 2,400 seats, a 13% increase from previous year. This business service is provided primarily in Wichita, Topeka, and our traditional telephone and CATV areas.

**Cal-Ore** continues to develop opportunities to extend and expand our regulated and non-regulated broadband facilities in rural northeast California and southeast Oregon. In 2016, Cal-Ore Telephone (ILEC) continued replacing old copper loop with fiber to the premise within the Dorris and Tulelake exchanges. This project continues in 2017. Cal-Ore Communications (CLEC) continued to extend their fiber to the premise network to their service areas in California and Oregon. The Cal-Ore CLEC converted targeted communities to the "served" or "better served" category through a combination of a fiber build out in Mt Shasta, California and Wireless to DSL conversions in Lake Shastina, California in 2016. Cal-Ore plans to continue to expand services in 2017, as was done in 2016, to other communities south of our existing CLEC territory. The CLEC will also continue to leverage existing investments in fiber in Klamath Falls, Oregon and Yreka, California through stronger sales efforts in those markets.

**Michigan Broadband Services** investments included a twelve-mile fiber project in the Felch exchange to service remote subscriber terminals previously fed with exhausted copper facilities. Due to increased bandwidth demand from existing customers and 2016 broadband growth, the company upgraded wholesale bandwidth capacity to three gigabits of bandwidth more than tripling capacity to insure a quality experience with our broadband services. Future investments include additional 25x3 and 10x1 services throughout our local exchanges over several years. In early 2017, Bruce Moore, the recently appointed General Manager of the Company, announced the establishment of broadband operations into the Traverse City market. This expansion marks the first step of the CLEC initiatives into the Lower Peninsula. The company is in the process of applying for metro telecommunication access permit, pole attachments rights, and a dark fiber IRU (Indefeasible Right of Use).

**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 $3.3 million in revenue in 2016, up 20% from 2015. During 2016, Central Scott Telephone integrated its purchase of the assets of Dixon Telephone Company, including a base of approximately 350 lines, 450 CATV customers and 450 broadband customers.

**Belmont and Cuba City** operations in Wisconsin are now fully integrated with Central Scott. 2016 brought with it the commitment to bring Fiber To The Home plant to 884 residents and businesses in the town of Cuba City, WI. Construction started in 2016 and is scheduled to complete in the first half of 2017. 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 throughout its franchised area, and has successfully expanded video services to hospitals, assisted living and hospitality entities, outside of its franchise area. Expanded packages and services are provided to the Mt. Washington Resort area through BWTC and an affiliate company for fiber high-speed data, voice, long distance, and video.

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Footnotes regarding Financial Highlights from page 1:

(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 $11.9 million, $13.4 million, $16.1 million, $13.4 million and $14.6 million for 2016, 2015, 2014, 2013 and 2012, respectively. Corporate expenses for the same respective years were $3.8 million, $2.9 million, $2.6 million, $3.1 million and $3.5 million.

(c) In 2016, Net Income and Net Income per Share was reduced by a shareholders/teammate charitable contribution program of $0.7 million, or $31 per share, after tax effects. In 2012, Net Income was increase by the sale of eight 700 MHz spectrum licenses of $7.7 million, or $324 per share, after tax effects.

(d) For 2016, 2015 and 2014, net debt is pro-forma and includes cash deposited with the FCC for the purpose of participating in spectrum auctions. Such deposits were returned or, in the case of 2016, expected to be returned in the subsequent year.

## The following charities were beneficiaries of LICT's 2016 Shareholder and Teammate Charitable Contribution Programs

**"The more you give, the more you receive"**

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Delta Animal Shelter in Michigan receives donation from MCBC
Photo courtesy of The Daily Press, Michigan

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American Stock Transfer & Trust Company
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**Trading Information**
OTC Pink®
Common Stock
Symbol: LICT

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