LICT CORPORATION

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

2012

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

DESCRIPTION OF BUSINESS

BACKGROUND AND HISTORY OF LICT CORPORATION

LICT Corporation ("LICT" or the "Company") was incorporated under the laws of the State of Delaware in 1996 as a subsidiary of Lynch Corporation (now "LGL Group Inc."), and was originally named Lynch Interactive Corporation. The Company was spun off from Lynch Corporation in 1999 and has been named LICT Corporation since March 2007. LICT's executive offices are located at 401 Theodore Fremd Avenue, Rye, New York 10580-1430. Its telephone number is 914-921-8821.

The Company, together with its subsidiaries, is an integrated provider of broadband and voice services. On the voice side, the Company has traditionally operated as both a Rural Local Exchange Carrier ("RLEC", an incumbent local telephone company serving a rural area) and a Competitive Local Exchange Carrier ("CLEC", a local telecommunications provider which competes with the incumbent telephone company). It provides high speed broadband (Internet) access through the provision of copper-based digital subscriber lines ("DSL"), fiber optic facilities and cable modems. It also provides cable television services; wireless communications; and several other related activities. As used herein, LICT or the Company includes its subsidiaries.

The Company's business development strategy is to expand its existing operations through internal growth and acquisitions. It may also, from time to time, consider the acquisition of other assets or businesses that are not directly related to its present businesses.

On November 19, 2007, we spun off to our shareholders, on a one-for-one basis, shares in a wholly-owned subsidiary named CIBL, Inc. ("CIBL"). Subsequently, on May 28, 2010, we spun off ICTC Group Inc., which consists of Inter-Community Telephone Company, L.L.C. ("ICTC") and Valley Communications, Inc., to our shareholders. Both of these spin-offs have benefited the Company and each of the spun-off entities in a number of ways, and serve to optimize the efficiency and future development of both the Company and each of the spun-off entities.

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

COMMUNICATIONS OPERATIONS

Broadband Data and Voice Services

Organization and Locations. LICT provides services through subsidiary companies. The broadband data and voice services group has been expanded through the selective acquisition of RLECs and other service providers and by offering additional services such as broadband Internet access service, security services, long distance, cable television service, Voice over Internet Protocol ("VoIP") and CLEC services. Since 1989, the Company has acquired fifteen telephone companies, excluding the North Dakota spin-off described above. These operations range in size from approximately 800 to over 7,000 access lines. The Company's operations are located in California, Illinois, Iowa, Kansas, Michigan, Nevada, New Hampshire, New Mexico, New York, Oregon, Utah and Wisconsin. As of December 31, 2012, total voice lines, including both access and CLEC were 46,232, a 2.1% decrease from 2011. Total broadband connections (including DSL, wireless and cable modem services) as of December 31, 2012 were 27,175, a 6.1% increase from 2011.

<u>Principal Products and Services</u>. LICT provide services in the following major categories:

Non-traditional Services

Non-Regulated Broadband, CLEC, Cable Television and Other Businesses. LICT provides non-regulated broadband services, including Internet access and data transport, in its traditional RLEC territories and adjacent areas. In addition, the Company currently provides local telephone and other telecommunications services outside certain of its franchise areas by establishing CLEC operations in nearby areas. Currently, we have established CLECs in such varied locations as Jamestown, NY; Dubuque, IA; the Quad Cities area (Davenport/Bettendorf, IA and Moline/Rock Island, IL); Holton, KS; Silver City and Deming, NM; Klamath Falls, OR; and Provo/Orem, UT. We expanded our Hosted Voice services in 2012. Hosted voice services are a cost-effective, scalable alternative to traditional on-premise business telephone systems. LICT believes that this is an attractive and potentially lucrative new service offering that it can deliver in large markets around its existing ILEC operations.

In 2012, we launched a hosted voice service offering in Wichita, KS. Through March 15, 2013, we sold close to 1,000 seats and we are currently expecting this start-up to be break-even by the end of 2013. (A "seat" is the unit by which hosted voice services are sold. Seats are equivalent to the number of IP, or Internet Protocol phones, or devices, at the customer's premises that can access the hosted voice service.) During 2012, we also built fiber to a number of cell tower sites to gain wireless data transport. This allows us to participate in the growing demand for wireless broadband services and also opens new broadband opportunities in our markets. We expect continued demand for transport services from the wireless providers as mobile data usage grows and we have secured a number of long-term contracts that will help support our revenue growth objectives in 2013 and beyond. Also, in our New York operation, we provide security installation and monitoring services to homes and businesses, and, in our Utah, Kansas, and New Hampshire operations, we provide cable television services ("CATV"), including cable modem service for high-speed Internet access. We have nearly 7,400 cable television subscribers, and are considering further acquisitions as we develop this aspect of LICT's overall business.

Traditional Regulated (RLEC) Services

Local network services. We also provide telephone wireline access services to residential and business customers in our service areas with a number of calling features including call forwarding, conference calling, caller identification, voicemail and call waiting. In addition, we provide broadband services, primarily by means of DSL technology, to both business and residential users. In our RLEC service territories, the DSL penetration levels of our subsidiaries are currently in the 50-60% range, and rank among the highest in the industry. We are continuing our efforts to increase our DSL customer base and to expand all of our broadband services. We also offer packages of telecommunications services which permit customers to bundle their basic telephone line with their choice of enhanced services, or to customize a set of selected enhanced features that fit their specific needs.

Network access services. We provide network access services to long distance and other carriers which involve the use of our network to originate and terminate interstate and intrastate telephone calls. Such services are generally offered on a month-to-month basis and the service is billed on a minutes-of-use basis. Access charges to long distance carriers and other customers are based on access rates filed with the Federal Communications Commission ("FCC") for interstate services and with the respective state regulatory agencies for intrastate services.

This table summarizes certain operational data:

	Years Ended December 31, 2012	2011	2010
Operations:			
RLEC access lines [(a)]	39,078	40,690	42,271
CLEC lines	7,154	6,535	6,096
Total voice lines	46,232	47,225	48,367
% Residential	73%	73%	73%
% Business	27%	27%	27%
DSL Lines	20,780	20,103	18,991
Cable Modem (Utah and Kansas)	4,819	4,072	3,552
Wireless	1,576	1,448	1,308
Total Broadband Connections	27,175	25,623	23,851
Hosted voice seats [(b)]	1,776	1,590	1,335
Video subscribers	7,399	7,594	7,343
Total Revenues			
Local service	11%	12%	13%
Network access	50%	52%	53%
Non-Regulated businesses [(c)]	39%	36%	34%
Total revenues	100%	100%	100%

(a) An "access line" is a telecommunications circuit between the customer's establishment and the central switching office.

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

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

Expansion and Development of New Products and Services. The Company continually seeks to introduce new services based on technological advances and expanding commercial initiatives. The Company's subsidiaries are also continually seeking to expand their service offerings beyond their regulated geographic territories, primarily by establishing and developing CLECs in adjoining areas where that is economically feasible. In some cases, our subsidiaries will build facilities, almost entirely fiber optic cable, directly to the customer premises to provide services. In other cases, they will lease facilities from the local telephone company (the serving RLEC or, in non-rural areas, the Incumbent Local Exchange Carrier or "ILEC"), or other carriers to reach customers. In sum, as described in greater detail below, we expect future growth in telephone operations to be derived from a broad range of activities, including the acquisition of additional telephone and other communications companies; providing service to new customers, primarily through CLEC operations; providing additional and expanded services to existing customers; upgrading existing customers to higher grades of service; and from new service offerings to all of our customers, whether served through our RLEC or CLEC operations.

LICT continually evaluates acquisition opportunities. In addition, the Company typically seeks companies with local management who will remain active with their company. LICT has in the past and may in the future consider acquiring additional RLEC properties. Telephone holding companies and others actively compete for the acquisition of such properties, and the acquisitions are subject to the consent or approval of regulatory agencies in most states. While we will continue to evaluate additional acquisitions, any acquisition program is subject to various risks, including being able to find and complete acquisitions at an attractive price, and being able to integrate and operate successfully any acquisition which is made.

All fifteen of LICT's current telephone companies now offer broadband Internet access service, either directly or through affiliated companies. At December 31, 2012, Internet access customers totaled 27,175 compared to 25,623 at December 31, 2011, a 6.1% year-over-year increase. LICT companies have substantially increased broadband customers, but this growth has been more than offset by a decrease in our traditional telephone service resulting from a number of factors, including competition from wireless and cable companies. Moreover, affiliates of nine of LICT's telephone companies now offer long distance and CLEC services. Several of our subsidiaries are currently providing Voice over Internet Protocol ("VoIP") and exploring options for expanding such service.

New York

An affiliate of Dunkirk & Fredonia Telephone Company ("DFT") provides CLEC service on both a facilities-based and resale basis in Dunkirk and Jamestown, New York, certain areas of Buffalo, New York, and in other areas of two western New York counties. The facilities-based CLEC services, along with collocation and unbundled network element - loop (UNE-L) facilities, allow for increased margins over a wholly resale CLEC business model. In addition, DFT has been offering VoIP services through its own facilities since 2005.

Another affiliate of DFT, DFT Security Systems, Inc. ("DFT Security", which is 63.6% owned by LICT), acquired American Alarm Company in December 2001. DFT Security provides alarm services in western New York, including the Buffalo area. At December 31, 2012, DFT Security served 2,397 customers.

Kansas

Giant Communications, Inc., an affiliate of J.B.N. Telephone Company, provides CLEC services in Holton and other areas of northeast Kansas, including the provision of VoIP services to end users. In addition, Giant serves approximately 1,600 CATV customers, approximately 1,000 of whom also subscribe to cable modem services. In 2012, we launched a hosted voice service offering in Wichita, KS, leveraging our existing Softswitch, billing platform and IP connectivity at Giant. Hosted voice services are a cost-effective, scalable alternative to traditional on-premise business telephone systems. The service is delivered to customers via an Internet connection and a SIP device such as an IP telephone or softphone. After less than six months of operation, we've sold nearly 1,000 seats in the Wichita area.

Iowa/Illinois

CS Technologies, Inc. provides CLEC services, both voice and data services, in the Quad Cities, Iowa, primarily through its own facilities but also through UNE-L facilities. It also offers CLEC services in Dubuque, IA on a UNE-L basis. During 2012, the Company constructed an additional 10 miles of fiber in the Quad Cities, supplementing its existing network, and now serves approximately 650 customers and 1,800 lines in the Quad Cities and Dubuque.

California/Oregon

Cal-Ore Communications Inc. ("Cal-Ore"), based in Dorris, CA, has approximately 700 CLEC lines in Klamath Falls, OR . The Company is in the process of constructing approximately 5 miles of fiber optic cable in Klamath Falls that will pass numerous small and medium sized businesses and has launched a hosted voice service offering in Klamath Falls that will be extended to Medford, OR in 2013.

Utah

CentraCom, based in Fairview, Utah, is successfully providing high capacity Ethernet circuits over its extensive fiber network to schools, hospitals, government, cell towers and private business facilities. It is aggressively expanding its CLEC business operations in the Provo/Orem, UT area, has also acquired fiber facilities into Ogden, Utah and will begin providing CLEC services in that market during 2013.

In 2012, CentraCom completed the rebuild of their cable TV systems in Utah to be 750 MHz or greater, and to provide two-way service. The Company will consider the acquisition of additional cable systems in appropriate cases. As of December 31, 2012, CentraCom was providing cable service in a total of 31 communities to some 4,896 CATV subscribers and 3,691 cable modem (broadband) subscribers.

New Mexico

WNM Communications Inc. has established a CLEC in Silver City, NM and Deming, NM and will evaluate the establishment of additional CLEC operations in other locations in New Mexico in 2013. The Company also plans to introduce a hosted voice service offering in Silver City and Deming, NM in 2013.

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

There is no assurance that LICT can successfully develop these businesses or that these new or expanded businesses can be made profitable within a reasonable period of time. New businesses, and in particular any CLEC business, would be expected to operate at a loss initially and for a period of time. In addition, competition in the CLEC and other telecommunications businesses is substantial and may increase in the future.

Regulatory Environment. Our subsidiaries that provide telecommunications services are subject to varying degrees of Federal and state regulation. Our operating telephone companies are regulated by the FCC with respect to interstate telecommunications services and by the state regulatory agencies with respect to intrastate telecommunications services. They are also subject to local government regulation, in some cases, such as regarding the use of local streets and rights of way. The FCC and the state commissions do not regulate all providers that come under their jurisdiction in the same way. Incumbent Local Exchange Carriers ("ILECs"), of which RLECs are a subset of, remain more highly regulated than CLECs who are also providing telecommunications services. While some regulation of ILECs has eased as competition has increased, that regulation remains more burdensome than the regulation of CLECs. The extent and nature of regulation, by the FCC and by state commissions, changes for various reasons, such as Congressional and judicial mandates, public policy decisions and other factors.

Ongoing proceedings at the FCC and at the state level are addressing a number of critical telecommunications issues within their respective jurisdictions. A number of these proceedings have been active for many years while others commenced in 2010 as a result of the National Broadband Plan ("NBP"), described below. Some of the issues being addressed include making broadband more widely available; interconnection between different types of networks; access and interconnection pricing; internet access and special access regulation; the interrelationship between traditional circuit switched telephone services and newer services that use Internet Protocol ("IP") and other advanced technologies and standards; the treatment of Voice over IP ("VoIP"); the reform of the various Federal and state universal service support funds and the mechanisms that support them; the structure of intercarrier compensation ("ICC") and the future direction and organization of the agency itself.

On November 18, 2011, the FCC released its Report and Order and Further Notice of Proposed Rulemaking ("Order/FNPRM") with its Universal Service Fund ("USF") and ICC reforms. The Order created the Connect America Fund ("CAF") with separate components for price cap carriers, rate-of-return ("RoR") carriers, mobility, and remote areas. The rules require RoR carriers, such as our companies, receiving USF or CAF support to offer broadband service with speeds of at least 4 Mbps downstream and 1 Mbps upstream, upon reasonable request.

The Order extends universal service to wireline broadband-capable networks and to networks capable of providing advanced mobile voice and broadband service. It also establishes a "firm" budget for the USF high-cost programs with an annual funding target set at no more than $4.5 billion over the next six years, the same level as the high-cost program for FY2011. The FCC expects RoR carriers will receive approximately the same amount currently being received (i.e., $2 billion per year in total high-cost universal service support) through 2017. In 2012 and early 2013, the FCC issued numerous Orders clarifying various rules and regulations adopted in the Order/FNPRM. Additional clarifications are expected from the FCC related to USF and ICC in 2013.

Unlike the current USF and ICC mechanisms, which generally ensure that LICT's regulated companies recover their costs, the new rules include provisions such as certain benchmark caps for determining High Cost Loop Support ("HCLS") and Interstate Common Line Support ("ICLS"), reduced support if local rates are below certain local rate floors, eliminated local switching support ("LSS"), effective January 1, 2012, eliminated support for service areas that have competition, and imposed an absolute $250 per line cap on support. LICT subsidiaries will see reduced revenue compared to previous legacy USF support categories, and although some of the rules regarding IP originated and phantom traffic could conceivably increase our access minutes and consequently access revenue, this has yet to materialize in any meaningful amount. In addition, HCLS for some companies may slightly increase due to other ILECs' costs being above the allowed regression benchmark caps; however, it has not increased as much as initially expected. Some changes became effective in January 2012, many other rules did not take effect until July 2012 and the FCC deferred numerous items for RoR carriers to the FNPRM which has not yet been issued. Therefore, it is not possible to predict the ultimate impact of the FCC's regulatory process on LICT at this time.

In addition to ICC and USF reform, on January 31, 2012, the FCC adopted a Lifeline Order modifying the program that provides qualifying low-income individuals' assistance for local voice service. The Lifeline Order restricts the low-income consumer to only one wireline or wireless line and impacts the amount of lifeline reimbursement. The impact of these changes cannot be quantified at this time, but LICT may experience a loss of lifeline customers if they select their wireless phone as their lifeline phone. The FCC is now requiring all ETCs receiving Lifeline support to verify and certify all of their Lifeline customers annually.

The FCC's actions in these and future proceedings could significantly alter the structure of these arrangements, and affect the costs and sources of revenue for affected service providers. Action in any of these proceedings could have a material impact on us. We will continue to monitor these matters, participate in them as we deem appropriate, and assess the potential impact on our consolidated financial position and results of operations.

National Exchange Carrier Association. For interstate services, LICT's telephone subsidiaries participate in the National Exchange Carrier Association ("NECA") common line and traffic sensitive tariffs and access revenue pools. Effective with 2012, this methodology changed due to the FCC's Order/FNPRM such that certain costs are capped or phased down. LICT's subsidiaries are compensated for their intrastate costs through billing and keeping intrastate access charge revenues (there is no intrastate access revenue pool). Intrastate access charge revenues are based on intrastate access rates filed with the state regulatory agency. If an ILEC subsidiary's intrastate access charge rates were above the interstate rates at July 1, 2012, the Order/FNPRM mandated that the company reduce the intrastate rate to the interstate level 50% at July 1, 2012 and the balance by July 1, 2013 so that all intrastate rates will be at or below interstate rates by July 1, 2013. All of LICT's telephone subsidiaries are rural, RoR companies for interstate regulatory purposes. RoR companies receive support based on their costs or the costs of similarly situated companies through formulas developed by NECA referred to as "average schedules". LICT has 5 average schedule companies.

Intercarrier Compensation Reform. As discussed above, the FCC's Order/FNPRM significantly revises ICC. Currently, the rate for intercarrier compensation depends on the type of traffic at issue, the types of carriers involved, and the end points of the communications which creates opportunities for regulatory arbitrage, as well as incentives for inefficient investment and deployment decisions. The Order/FNPRM provides for a reduction over the next few years in the charges LICT receives from other carriers to transport and terminate calls that originate on those carriers' networks. As a general matter, the amount and timeframe for these reductions will depend on the nature of the traffic at issue. The Order/FNPRM transitions all ICC to a default bill-and-keep arrangement so that, in the absence of some commercial arrangement, support for the deployment of broadband services is based solely on funds received from the CAF and end-user customers.

Universal Service Fund. The USF mechanisms are intended, among other things, to provide special support funds to high-cost RLECs so that they can provide affordable services to their customers, notwithstanding their elevated expenses resulting from the low population densities of the areas served. The FCC has minimum requirements for a telecommunications carrier to be designated as an eligible telecommunications carrier ("ETC") for the purpose of receiving federal USF. All of LICT's companies are already designated as ETCs. As discussed above, the November 2011 Order/FNPRM significantly revised the USF mechanisms.

Voice over Internet Protocol. LICT's local exchange carrier telephone operations have moderate but increasing wireline competition at the present time. Much more significantly, wireless usage and VoIP are continuing to increase across the nation, including in the areas served by LICT. Competition from VoIP services could have substantial detrimental impact on future revenues and create additional uncertainty for the Company. It is not possible to predict the extent to which these complementary or substitutable services might impact LICT's revenues. Because of the rural nature of their operations and related low population densities, LICT's RLEC subsidiaries are generally high cost operations which receive substantial federal and state support. However, it appears that in at least some areas, the regulatory environment for RLEC operations is becoming less supportive than has historically been the case, which may enhance the competitive impact of VoIP. The November 2011 FCC ICC/USF Order substantially revised VoIP billing, and provides that all carriers originating and terminating VoIP calls will be on equal footing in their ability to obtain compensation for this traffic. Again, it is impossible to predict at the current time the full effects of these changes on LICT.

Competitive Developments. In addition to the VoIP competition described above, competition in the telecommunications industry is increasing across the board. Competition in the Company's wireline telecommunications markets is becoming more significant in the areas closest to larger towns or metropolitan areas. All of LICT's telephone companies have historically been monopoly wireline providers in their respective areas for local telephone exchange service, but the regulatory landscape is changing. We now experience competition in some locations from long distance carriers, from cable companies and Internet service providers with respect to Internet access, from cable telephony, and from wireless carriers. Competition is resulting in a continuing loss of access lines and minutes of use, and in the conversion of retail lines to wholesale lines, which negatively affects revenues and margins from those lines. Competition also puts pressure on the prices we are able to charge for some services, particularly for some non-residential services. The total number of competitors is difficult to estimate since many of the companies do not have a local presence, but instead compete for services via the Internet using VoIP or through wireless operations.

Wireless and Other Interests. LICT has a number of other less than 50% owned interests, particularly wireless interests, which contribute significant value to the Company.

Modoc RSA Limited Partnership ("Modoc"). A wholly-owned subsidiary owns a 25% limited partnership in Modoc, which provides wireless data and voice services to California RSA No. 2. Rural Statistical Area, or RSA, is how the FCC allocates the band of spectrum used for the services traditionally provided by Modoc. In 2012, revenues of the partnership at $19.9 million were up 3.5% from the prior year and EBITDA at $7.3 million was up 7.1% from the prior year As of December 31, 2012, Modoc has 28,479 subscribers which is up

14.6% from the 24,849 subscribers at December 31, 2011. During 2012, LICT's subsidiary received $0.9 million of cash distributions from Modoc which compares to $2.7 million received in 2011. However, in May 2012, the managing partner of the Modoc Partnership advised us that a technical problem in the operation of their traffic recording system, which provides cellular service in California RSA #2, had caused its original estimate of earnings and distributions to us in 2011 to exceed the amount actually due by approximately $1.4 million. The managing partner also advised us that it would not request a refund to correct this error but instead reduced Modoc's 2012 distributions to us by $1.4 million.

Iowa Network Services, Inc. ("INS"). A wholly-owned subsidiary owns 1,115 shares of INS participating preferred stock and 172 shares of INS common stock – equating to a 2.45% economic interest. Among other things, INS provides wireline telecommunications access and transport services, long distance services and Internet equipment and services to the exchanges of participating telephone companies and others. In addition, INS owns a minority position in Iowa Wireless Services, LLC, which operates a cellular network. That wireless network covers the larger metropolitan areas in Iowa except for the Des Moines Basic Trading Area.

CVIN LLC("CVIN"). A wholly-owned subsidiary owns an interest of 5.8% in CVIN. CVIN provides certain telecommunication support services to its ownership and others and in 2010, CVIN was awarded an ARRA grant for $66.5 million to improve the availability of broadband networking infrastructure for 18 counties within the California Central Valley. CVIN is currently designing and constructing a wireline and wireless network. In 2012, it had revenues of $3.6 million and an EBITDA loss $0.7 million.

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

Wapsi Wireless, L.L.C. ("Wapsi"). A wholly-owned subsidiary owns a 14.29% membership interest in Wapsi, which provides wireless services to Clinton and Jackson Counties in Iowa utilizing the INS switching platform.

Personal Communications Services ("PCS") Spectrum. In February 2005, Lynch 3G participated in the FCC's Auction 58 for PCS Spectrum and was high bidder for two licenses, Marquette, MI, and Klamath Falls, OR, for a total cost of $0.5 million. The licenses cover populations of 74,496 and 80,646 respectively.

In addition, wholly-owned LICT subsidiaries hold PCS licenses in Logan, Utah and portions of Clinton County, Iowa. These licenses were acquired as part of the acquisition of Central Utah Telephone Company and Central Scott Telephone Company, respectively. The licenses cover populations of 102,702 and 11,470 respectively.

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

Advanced Wireless Services (AWS) Spectrum. In September 2006, Lynch AWS Corporation participated in the FCC's Auction No. 66 and was high bidder for an AWS license in Topeka, KS, for a cost of $0.5 million. The license covers a population of 454,539.

24 GHz Spectrum. In July 2004, Lynch 3G participated in the FCC's Auction for 24 GHz spectrum and was high bidder for licenses covering Buffalo – Niagara, NY and Davenport, IA – Moline, IL. These licenses cover a total population of 2,066,672.

LICT expects to continue to participate in the FCC's future spectrum auctions in order to have the flexibility to accommodate present and developing needs of existing and future customers, as well as to establish high-bandwidth opportunities.

However, there are many risks relating to FCC wireless licenses, including without limitation the generally high cost of the licenses; the start-up nature of these businesses; the FCC's rules imposing build-out requirements on all spectrum licenses; the need to raise substantial funds to pay for the licenses and their build-out; the decisions on how best to develop the licenses and which technology to use; the small size and limited resources of our companies compared to other potential competitors; existing and changing regulatory requirements; additional auctions of wireless telecommunications spectrum; and the challenges of actually building out and operating new businesses profitably in a highly competitive environment (including already established cellular telephone operators and other new licensees). There are also substantial restrictions on the transfer of control of licensed spectrum. There can be no assurance that any licenses granted to entities in which subsidiaries of LICT have interests can be successfully sold, financed or developed, thereby allowing LICT's subsidiaries to recover their debt and equity investments.

Other Patents, Licenses, Franchises. While LICT holds other licenses of various types, the Company does not believe they are significant to the focus of its basic business and ongoing operations, which are its RLEC companies complemented by its CLEC operations.

Environmental Compliance. The capital expenditures, earnings and competitive position of LICT have not been materially affected by compliance with current federal, state and local laws and regulations relating to the protection of the environment. However, LICT cannot predict the effect of future laws and regulations on its environmental compliance or the costs thereof.

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

Dependence on Particular Customers. LICT does not believe that its business is dependent on any single customer or group of customers for local telephone service. However, most LECs, including LICT's RLECs, received a significant amount of revenues in the form of access fees from IXCs. Bankruptcy of a significant IXC or of several IXCs in the same period could have a material adverse effect on LICT. LICT cannot predict which, if any, IXCs or other significant customers may go bankrupt in the future.

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

Employees. LICT had a total of 345 employees at December 31, 2012, including 6 corporate employees with the remainder responsible for providing communications services, compared to 346 employees at December 31, 2011.

EXECUTIVE OFFICERS

The following list of the Company's senior management in 2012 sets forth all positions and offices with the Company held by each such person, and the principal occupations, employment or other service of these persons during past years.

Name	Offices and Positions Held	Age
Mario J. Gabelli	President and Chief Executive Officer since December 2010. He has served as our Chairman since December 2004 (and also served as Chairman from September 1999 to December 2002), as our Vice Chairman from December 2002 to December 2004, and as Chief Executive Officer from September 1999 to November 2005.	70

Robert E. Dolan	Executive Vice President, from December 2010, and Chief Financial Officer, from September 1999; Chief Executive Officer (Interim) from May 2006 to December 2010; and Controller from September 1999 to January 2004.	61
Leonard J. Higgins	Chief Operating Officer since June 2011; Senior Vice President of Product Management & Commercial Sales at Bresnan Communications, LLC from 2008 to December 2010; Senior Vice President of Advanced Services at Bresnan Communications, LLC from 1997 to 2008.	54
Evelyn C. Jerden	Senior Vice President – Regulatory Dynamics (since December 2008); Senior Vice President - Operations (September 2003-December 2008); Vice President-Regulatory Affairs (2002-2003); Director of Revenue Requirements of Western New Mexico Telephone Company, Inc. (1992-present).	55
Paul S. Goldstein	Controller (since January 2004).	58

The executive officers of the Company are elected annually by the Board of Directors, and hold office until the organizational meeting in the next subsequent year and until their respective successors are chosen and qualified.

REAL ESTATE PROPERTIES

LICT leases approximately 3,334 square feet of office space on customary commercial terms from an affiliate of its Chairman for its executive offices in Rye, New York. The annual lease payment is $93,352 or $28.00 per square, plus $3.00 per square in utilities per year. In addition, there is an annual escalation adjustment. The lease expires in December 2023.

Western New Mexico Telephone Company ("Western") owns a total of 16.9 acres at 15 sites located in southwestern New Mexico. Its principal operating facilities are located in Silver City, where Western owns one building with a total of 6,480 square feet housing its administrative offices and certain storage facilities, and another building of 216 square feet which houses core network equipment. In Cliff, New Mexico, Western owns six buildings with a total of 16,238 square feet which contain additional offices and storage facilities, as well as a vehicle shop, a fabrication shop, and central office switching equipment. Smaller facilities, used mainly for storage and for housing central office switching equipment, with a total of 9,984 square feet, are located in Lordsburg, Reserve, Magdalena and five other localities in New Mexico. In addition, Western leases 1.28 acres on which it has constructed four microwave towers and a 120 square-foot equipment building. Western has the use of 46 other sites under permits or easements at which it has installed various types of equipment either in small company-owned buildings (totaling 2,403 square feet) or under protective cover. Western also owns 3,896 miles of copper cable and 596 miles of fiber optic cable running through rights-of-way within its 15,000 square mile service area.

Cuba City Telephone Company is located in a 3,800 square-foot brick building on 0.4 acre in Cuba City, WI. The building serves as the central office, commercial office, and garage for vehicle storage. The company also owns a 0.1 acre site with a 1,400 square foot cement block building and a 600 square foot metal building for storage of materials and equipment. Belmont Telephone Company is located in a cement block building of

800 square feet on 0.5 acre of land in Belmont, Wisconsin. The building houses the central office equipment for Belmont. The companies own a combined total of 326 miles of copper cable and 70 miles of fiber optic cable.

J.B.N. Telephone Company ("J.B.N.") owns or leases a total of approximately 2.25 acres located in northeast Kansas. Its administrative and commercial office consisting of 7,000 square feet is located in Holton, Kansas and a 3,000 square-foot garage/warehouse facility is located in Wetmore, Kansas. In addition, J.B.N. owns 15 smaller facilities housing central office switching equipment and over 1,243 miles of copper cable, and 291 miles of fiber optic cable and 70 miles of coaxial cable. All of these properties are encumbered under mortgages held by the RUS.

Haviland Telephone Company owns a total of approximately 3.9 acres at 20 sites located in south central Kansas. Its administrative and commercial office consisting of 5,500 square feet is located in Haviland, Kansas. In addition, this company owns 19 smaller facilities housing garage and warehouse facilities, along with central office switching equipment. Haviland Telephone Company has over 1,157 miles of copper cable and 526 miles of fiber optic cable. All of these properties are encumbered under a mortgage held by the RUS.

Dunkirk & Fredonia Telephone Company ("DFT"), including its affiliates, owns a total of approximately 15 acres at five locations in western New York. Its central office switching equipment and administrative and commercial offices, consisting of 18,297 square feet, are located in Fredonia, New York. In addition, DFT owns four other properties, including a service garage, a paging tower site, a small central office in Cassadaga, New York, and a sales and service center in Jamestown, New York. DFT also owns 375 miles of copper cable and 169 miles of fiber optic cable. All of these properties are encumbered under mortgages held by CoBank.

Bretton Woods Telephone Co., Inc. leases approximately 2,800 square feet of business office space and garage/storage space located in Bretton Woods, New Hampshire. The company also owns two central office buildings on leased land in Bretton Woods totaling 844 square foot. The company has 29 miles of copper cable and 35 miles of fiber optic cable.

Upper Peninsula Telephone Company ("UPTC") owns a total of approximately 56 acres at 15 sites located in the Upper Peninsula of Michigan. Its host central office switching equipment and administrative and commercial offices, consisting of 11,200 square feet, are located in Carney, Michigan. In addition, UPTC owns 23 other smaller facilities housing garage, warehouse and central office switching equipment; and over 1,648 miles of copper cable and approximately 600 miles of fiber optic cable.

Michigan Central Broadband Company, L.L.C. ("MCBC"), a wholly-owned subsidiary of UPTC which became operational in late 2009, owns the four exchanges formerly held by UPTC in the Lower Peninsula of Michigan. MCBC owns approximately two acres of land at four sites, which are used for central office switches, garages and warehousing. It also owns approximately 495 miles of copper cable and 22 miles of fiber optic cable.

Central Scott Telephone Company ("Central Scott") owns 3 acres of land at 5 sites. Its main office in Eldridge, Iowa, contains 3,104 square feet of office and 341 square feet of storage space. In addition, it has 3,360 square feet of garage space and 2,183 square feet utilized for its switching facilities. Central Scott has 374 miles of copper cable and 53 miles of fiber optic cable. Its subsidiary CS Technologies has 5 miles of copper cable and 27 miles of fiber optic cable. All of these properties are encumbered under mortgages held by CoBank.

CentraCom and its subsidiaries and affiliates own a total of 9.8 acres at sixteen sites, and have an additional 3.8 acres at twenty-three sites which are under leases, permits or easements. These sites are located in the central, northeastern and midwestern areas of Utah. CentraCom's principal operating facilities are located in Fairview, Utah, where it owns a commercial office building containing 14,400 square feet, and a plant office and central office building containing 5,200 square feet. In addition, it has 1,604 square feet of office space, 2,795 square feet of warehouse space, 6,595 square feet of vehicle maintenance facilities, 4,252 square feet of protective cover and three rental homes. CentraCom owns smaller facilities used mainly for housing central office switching equipment with a total of 10,115 square feet in 26 various locations. In addition, the company owns 1,012 miles of copper cable, 357 miles of coaxial cable and 821 miles of fiber optic cable running through rights-of-way within its 10,483 square mile service area. All of CentraCom's properties are encumbered under mortgages held by the RUS, Far West Bank and CoBank.

Cal-Ore Telephone Company ("Cal-Ore") owns a total of 35.4 acres at 8 sites located in north central California. Its principal operating facilities are located in Dorris, California, where Cal-Ore owns three buildings comprising a total of 4,727 square feet housing its administrative offices and central office switching terminals, 11,500 square feet of maintenance shop with offices and truck bays, and another building which houses record storage. In Tulelake, California, Cal-Ore owns two buildings with a total of 1,913 square feet containing business offices, central office switching terminals and storage facilities, as well as a vehicle maintenance shop of 4,450 square feet. Smaller facilities, used mainly for storage and for housing central office switching equipment, with a total of 1,893 square feet, are located in Macdoel, Tennant and Newell. Cal-Ore has the use of 5 other sites under permits or easements at which it has constructed four microwave towers and installed various items of equipment either in small company-owned buildings (totaling 824 square feet) or under protective cover. One of these sites is in Klamath Falls, Oregon. Cal-Ore also owns 586 miles of copper cable and 215 miles of fiber optic cable running through rights-of-way within its 850 square mile service area, with an additional 50 miles of fiber owned or leased in Oregon. All of these properties are encumbered under mortgages held by CoBank.

It is the Company's opinion that all of the facilities referred to above are in good operating condition and are suitable and adequate for present uses.

LEGAL PROCEEDINGS

See Footnote 14 to the Company's Audited Financial Statements.

RISK FACTORS

In addition to the risks noted above, any of the following risks could materially adversely affect our business, consolidated financial condition, results of operations or liquidity, or the market price of our common stock. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations.

Risks Related to Our Substantial Indebtedness

To operate and expand our business, service our indebtedness and complete future acquisitions, we will require a significant amount of cash. Our ability to generate cash will depend on many factors beyond our control. We may not generate sufficient funds from operations to repay or refinance our indebtedness at maturity or otherwise, to consummate future acquisitions or to fund our operations. A significant amount of our cash flow from operations will be dedicated to capital expenditures and debt service. As a result, there can be no assurance that the cash that we retain will be sufficient to finance growth opportunities, including acquisitions, and we may be required to devote additional cash to unanticipated capital expenditures or to fund our operations. Our ability to make payments on our indebtedness will depend on our ability to generate cash flow from operations in the future, as well as our ability to refinance existing debt. This ability, to a certain extent, will be subject to general economic, financial, competitive, legislative, regulatory and other factors that will be beyond our control. There can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our indebtedness, to make payments of principal at maturity or to fund our other liquidity needs.

We may also be forced to raise additional capital or sell assets and, if we are forced to pursue any of these options under distressed conditions, our business and the value of our common stock could be adversely affected. In addition, these alternatives may not be available to us when needed or on satisfactory terms due to prevailing market conditions, a decline in our business, legislative and regulatory factors or restrictions contained in the agreements governing our indebtedness.

Our substantial indebtedness could restrict our ability to pay dividends on our common stock and have an adverse impact on our financing options and liquidity position. This substantial indebtedness could have important adverse consequences for the holders of our common stock, including:

- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations, including under our existing credit facilities;
- limiting our ability in the future to obtain additional financing for working capital, capital expenditures or acquisitions;
- causing us to be unable to refinance our indebtedness on terms acceptable to us or at all;
- limiting our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- requiring a significant portion of our cash flow from operations to be dedicated to the payment of interest and principal on our indebtedness, thereby reducing funds available for future operations, dividends on our common stock, capital expenditures or acquisitions;
- making us more vulnerable to economic and industry downturns and conditions, including increases in interest rates; and
- placing us at a competitive disadvantage compared to those of our competitors that have less indebtedness.

The Company and certain of its subsidiaries are holding companies and rely on dividends, and other payments, advances and transfers of funds from operating subsidiaries and investments to meet debt service and other obligations. The Company and certain of its subsidiaries are holding companies and conduct all of their operations through operating subsidiaries. The Company and these subsidiaries currently have no significant assets other than equity interests in the operating subsidiaries. As a result, the Company and these subsidiaries rely on dividends and other payments or distributions from operating subsidiaries to meet their debt service obligations and all of their other financial needs or requirements generally. The ability of the Company's operating subsidiaries to pay dividends or make other payments or distributions to the Company and the non-operating subsidiaries will depend on their respective operating results and may be restricted by, among other things:

- the laws of their jurisdiction of organization;
- the rules, regulations and orders of state regulatory authorities;
- agreements of those subsidiaries; and
- the terms of agreements governing indebtedness of those operating subsidiaries.

The Company's operating subsidiaries generally have no obligation, contingent or otherwise, to make funds available to the Company or its other subsidiaries, whether in the form of loans, dividends or other distributions.

Our existing credit facilities and other agreements governing our indebtedness contain covenants that limit our business flexibility through operating and financial restrictions, including on the payment of dividends. Our existing credit facilities impose significant operating and financial restrictions on us. These restrictions prohibit, require prior lender approval of, and/or limit, among other things:

- incurrence of additional indebtedness and the issuance by our subsidiaries of preferred stock;
- payment of dividends on, and purchases or redemptions of, capital stock;
- a number of other types of payments, including investments;
- the creation of liens;
- the ability of each of our subsidiaries to guarantee indebtedness;

- specified sales of assets;
- creation of encumbrances or restrictions on the ability of our subsidiaries to distribute and advance funds or transfer assets to us or any other subsidiary;
- specified transactions with affiliates;
- sale and leaseback transactions;
- our ability to enter lines of business outside the communications business; and
- certain consolidations and mergers and sales and/or transfers of assets by or involving us.

Our existing credit facilities also require us to maintain specified financial ratios and satisfy financial condition tests, including, without limitation, a maximum total leverage ratio and a minimum interest coverage ratio. It is possible that a new credit facility, if we were successful in negotiating one, could contain similar provisions on some of these points. Our ability to comply with these covenants, ratios or tests contained in the agreements governing our indebtedness may be affected by events beyond our control, including prevailing and evolving economic, financial and industry conditions. A breach or violation of any of these covenants, ratios or tests could result in a default under the agreements governing our indebtedness. In the current economic and financial circumstances, obtaining a waiver of such a breach or violation, or a modification of the covenant or other provision involved, has become more difficult, problematic and expensive.

Under certain conditions, covenants prohibit us from making dividend payments on our common stock. In addition, upon the occurrence of an event of default, the lenders under our existing credit facility (or a new credit facility, following the consummation of such a transaction) could have the option to declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If we were to be unable to repay those amounts, the lenders under our existing credit facility (or a new credit facility, following the consummation of such a transaction) could proceed against the security granted to them to secure that indebtedness, or commence collection or bankruptcy proceedings against us.

If the lenders accelerate the payment of any outstanding indebtedness, our assets may not be sufficient to repay all of our indebtedness. As a result of general economic conditions, conditions in the lending markets, the results of our business or for any other reason, we may elect or be required to amend or refinance our existing credit facility (or a new credit facility, following the consummation of such a transaction), at or prior to maturity, or enter into additional agreements for indebtedness. Any such amendment, refinancing or additional agreement may contain covenants which could limit in a significant manner our operations, our competitiveness and/or our financial flexibility generally.

The price of our common stock may fluctuate substantially, which could negatively affect holders of our common stock. The market price of our common stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in our operating results, the volume of sales of our common stock, developments in the communications industry, the failure of securities analysts to cover our common stock or changes in financial estimates by analysts, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in particular. Communications companies have in the past experienced extreme volatility in the trading prices and volumes of their securities, which has often been unrelated to operating performance. High levels of market volatility may have a significant adverse effect on the market price of our common stock, and may generate litigation which could result in substantial costs and divert management's attention and resources.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of our common stock. Our stock is thinly-traded, and future sales, or the availability for sale in the public market, of substantial amounts of it could adversely affect the prevailing market price of the stock. The market price of our common stock could decline as a result of the perception that a relatively high volume of sales could occur, whether or not such sales are actually made.

Risks Related to Our Business

We provide services to customers over access lines, and if we lose access lines, our business, financial condition and results of operations may be adversely affected. We generate revenue primarily by delivering voice and data services over access lines. We have experienced net access line losses in the past few years. These losses resulted mainly from competition, the use of alternative technologies and, to a lesser degree, challenging economic conditions and the offering of DSL services, which prompts some customers to cancel second line service. In addition to line losses, the usage of our networks, generally measured in Minutes of Use ("MOUs"), has also been decreasing. We may continue to experience net access line and MOU losses in our markets. Our inability to retain access lines and the declining usage of the lines we do retain could adversely affect our business, financial condition and results of operations.

We are subject to competition that may adversely impact our business, financial condition and results of operations. As an RLEC, we historically had experienced little competition in our RLEC markets. However, many of the competitive threats confronting large communications companies, such as competition from cable providers, are becoming more prevalent in the rural markets that we serve. Regulations and technology change quickly in the communications industry, and changes in these factors historically have had, and may in the future have, a significant impact on the competitive dynamics of our industry. In most of our rural markets, we are facing or will face competition from wireless technology, which may increase as wireless technology improves. We are also likely to face increased competition from wireline and cable television operators. We may face additional competition from new market entrants, such as providers of wireless broadband, VoIP, satellite communications and electric utilities. The Internet services market is also highly competitive, and we expect that this competition will intensify. Many of our competitors have brand recognition, offer online content services, and have financial, personnel, marketing and other resources that are significantly greater than ours. We believe that a growing percentage of our current and potential customers will have access to a cable modem offering, and the cable industry has recently introduced greatly increased broadband capacities with a technology referred to as DOCSIS 3.0.

In addition, consolidation and strategic alliances within the communications industry or the development of other new technologies could affect our competitive position. We cannot predict the number of competitors that will emerge from technological developments or as a result of existing or new federal and state regulatory or legislative actions. However, increased competition from existing and new entities could have a material adverse effect on our business, financial condition and results of operations. Competition may lead to loss of revenues and profitability as a result of numerous factors, including:

- loss of customers;
- reduced usage of our network by our existing customers, who may use alternative providers for long distance and data services;
- reductions in the prices for our services which may be necessary to meet competition; and/or
- increases in marketing expenditures and discount and promotional campaigns.

In addition, our provision of long distance service is subject to a highly-competitive market served by large nationwide carriers that enjoy brand name recognition and have other financial and operational advantages over us.

We may not be able to successfully integrate new technologies, respond effectively to customer requirements or provide new services. The communications industry is subject to rapid and far-reaching changes in technology, frequent new service introductions and evolving industry standards. We cannot predict the effect of these changes on our competitive position, profitability or financial condition. Technological developments may reduce the competitiveness of our networks and require unbudgeted upgrades or the procurement of additional products that could be expensive and time-consuming. In addition, new products and services arising out of technological developments may reduce the attractiveness of our services. If we fail to adapt successfully to technological changes or obsolescence, or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and/or sell new services to our existing customers.

Our relationships with other communications companies are material to our operations and their financial difficulties may adversely affect our business, financial condition and results of operations. We originate and terminate calls for interexchange and other carriers over our network. For those services, we receive payments for access charges. These payments represent a significant portion of our revenues and are material to our business. If one or more of these carriers go bankrupt or experience substantial financial difficulties, our inability to collect access charges from them could have a negative effect on our business, financial condition and results of operations.

We face risks associated with acquired businesses and potential acquisitions. We have grown in the past, in part, by acquiring other businesses and a portion of our future growth may result from additional acquisitions. Growth through acquisitions entails numerous risks, including:

- strain on our financial, management and operational resources, including the distraction of our management team in identifying potential acquisition targets, conducting due diligence and negotiating acquisition agreements;
- the potential loss of key employees or customers of the acquired businesses;
- unanticipated liabilities or contingencies of the acquired businesses;
- unbudgeted costs which we may incur in connection with pursuing potential acquisitions, whether or not the acquisitions are consummated;
- failure to achieve projected cash flow from acquired businesses;
- fluctuations in our operating results caused by incurring expenses to acquire businesses before receiving the anticipated revenues expected to result from the acquisitions;
- difficulties in finding suitable acquisition candidates;
- difficulties in making acquisitions on attractive terms due to a potential increase in competitors; and
- difficulties in obtaining and maintaining any required regulatory authorizations in connection with acquisitions.

In the future, we may need additional capital to continue growing through acquisitions. This additional capital may be raised in the form of additional debt, which would increase our leverage and further limit our financial flexibility. We may not be able to raise sufficient capital on terms we consider acceptable, or at all. We may not be able to successfully complete the integration of other businesses that we have previously acquired or successfully integrate any businesses that we might acquire in the future. If we fail to do so, or if we do so but at greater cost than we anticipated, our business, financial condition and results of operations may be adversely affected.

A network disruption could cause delays or interruptions of service, which could cause us to lose customers. To be successful, we will need to continue to provide our customers reliable service over our network. Some of the risks to our network and infrastructure include:

- physical damage to access lines;
- widespread power surges or outages;
- software defects in critical systems; and
- disruptions beyond our control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and/or revenues, and incur expenses.

Our billing systems or the billing systems of our third party vendors may not function properly. The failure of any of our billing systems or the billing systems of any of our third party vendors could result in our inability to adequately bill and provide service to our customers. The failure of any of our billing systems could have a material adverse effect on our business, financial condition and results of operations.

We depend on third parties for our provision of long distance and bandwidth services. Our provision of long distance and bandwidth services is dependent on underlying agreements with other carriers that provide us with transport and termination services. If these carriers fail to meet their obligations, or if the provisions in our agreements with them prove unfavorable to us due to changes in market conditions or other factors, our business and operations may be adversely affected.

We may not be able to maintain the necessary rights-of-way for our networks. We are dependent on rights-of-way and other permits from railroads, utilities, state highway authorities, local governments and transit authorities to install and maintain conduit and related communications equipment for any expansion of our networks. We may need to renew current rights-of-way for our networks and there can be no assurance that we would be successful in renewing each of these agreements on acceptable terms or at all. Some of our agreements may be short-term, revocable at will, or subject to termination upon customary default provisions, and we may not have access to existing rights-of-way after they have expired or been terminated. If any of these agreements are terminated or not renewed, we could be required to remove or abandon our facilities. Similarly, we may not be able to obtain right-of-way agreements on favorable terms, or at all, in new service areas, and, if we are unable to do so, our ability to expand our networks could be impaired.

Our success depends on our ability to attract and retain qualified management and other personnel. Our success depends upon the talents and efforts of our all of our personnel. The loss of any member of our senior management team, and the inability to attract and retain highly qualified technical and management personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

We may face significant future liabilities or compliance costs in connection with environmental and worker health and safety matters. Our operations and properties are subject to federal, state and local laws and regulations relating among other things to protection of the environment, natural resources, and worker health and safety, including laws and regulations governing the management, storage and disposal of hazardous substances, materials and wastes, and remediation of contaminated sites. Under certain environmental laws, we could be held liable, jointly and severally and without regard to fault, for the costs of investigating and remediating any contamination at owned or operated properties, or for contamination arising from the disposal by us or our predecessors of regulated materials at formerly owned or operated properties or at third-party waste disposal sites. In addition, we could be held responsible for third-party property or personal injury claims relating to any such contamination or relating to any violations of environmental laws. Changes in existing laws or regulations, future acquisitions of businesses or any newly discovered information could require us to incur substantial costs relating to these matters.

If the spin-offs do not constitute tax-free spin-offs under section 355 of the Internal Revenue Code, the Company and/or our stockholders may be responsible for payment of United States federal income taxes. We continue to expect that the CIBL and North Dakota distributions will not be taxable to LICT, the spun-off entities or LICT stockholders for U.S. federal income tax purposes. However, neither LICT, CIBL nor Sunshine (now known as ICTC Group, Inc., as noted above) has received an opinion from legal counsel regarding the U.S. federal income tax consequences of the distribution, or applied for a private letter ruling from the IRS with respect to the U.S. federal income tax consequences of the distribution. In addition, although the Separation Agreements governing the spin-offs restrict those companies from taking certain actions that could jeopardize the spin-offs' tax-free status, we do not have the ability to control their actions. Accordingly, there can be no assurance that the IRS or another taxing authority will not assert that the distributions, or either one of them, is taxable to LICT, the spun-off entity or LICT stockholders.

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

Risks Related to Our Regulatory Environment

We are subject to significant regulations that could change in a manner adverse to us. We operate in a heavily regulated industry, and the majority of our revenues are supported by regulations, including access revenue and USF support for the provision of telephone services in rural areas. As discussed above, the new USF and ICC rules issued by the FCC could ultimately effect fundamental changes in the financial structure and characteristics of the telecommunications industry. Moreover, existing laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts, and could be changed by Congress or regulators in a manner adverse to us. In addition, any of the following have the potential to have a significant impact on us:

Risk of loss or reduction of network access revenues. A significant portion of our revenues comes from network access charges, which are paid to us by intrastate and interstate long distance carriers for originating and terminating calls and for providing special access services which connect carriers to their end users in our service areas. In past years, several long distance carriers have declared bankruptcy. Future declarations of bankruptcy by carriers that utilize our access services could negatively impact our business, financial condition and results of operations. In addition, the amount of access charge revenues that we currently receive is based on rates set by federal and state regulatory bodies, and those rates could change in the future. From time to time, federal and state regulatory bodies conduct rate cases, earnings reviews, or make adjustments to average schedule formulas that may result in such rate changes. In addition, reforms of the federal and state access charge systems, combined with the development of competition, have caused the aggregate amount of access charges paid by long distance carriers to decrease. Significant changes in the access charge system, if not offset by a revenue replacement mechanism, could result in a significant decrease in our revenues. Decreases in or loss of access charges may or may not result in offsetting increases in local, or subscriber line, revenues. Regulatory developments of this type could adversely affect our business, financial condition and results of operations.

Risk of loss or reduction of Universal Service Fund support. We receive USF revenues from both the federal and, in some cases, state universal service support mechanisms to help fund our operations. The federal revenues include USF payments for local switching support, interstate common line support, safety net and high cost loop support. Any changes to the existing rules, whether resulting from implementation of the Connect America Fund proposed in the NBP or otherwise, could reduce the USF revenues we receive. Corresponding changes in state universal service support could likewise have a negative effect on the revenues we receive. Further, under current rules, the total USF payments to our rural operations will fluctuate based upon our rural company average cost per loop compared to the national average cost per loop, and our total payments may decline based on these comparisons. If we raise prices for services to offset losses of USF payments, the increased pricing of our services may disadvantage us competitively in the marketplace, resulting in additional potential revenue loss. Furthermore, any changes in the rules and regulations governing the distribution of such support or the manner in which USF contributions are obtained or calculated could have a material adverse effect on our business, financial condition or results of operations.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on incumbent local exchange carriers. Our RLECs are exempt from the 1996 Act's more burdensome requirements governing the rights of competitors to interconnect to ILEC networks and to utilize discrete network elements of the ILEC's network at favorable rates. To the extent that state regulators may decide that some or all of these requirements should be imposed upon our RLECs, we would be required to provide unbundled network elements to competitors in our service areas. As a result, more competitors could enter our traditional telephone markets than are currently active there, which could have a material adverse effect on our business, financial condition and results of operations.

Risks posed by costs of regulatory compliance. Regulatory requirements create significant compliance costs for us, and are expected to continue to do so. Our subsidiaries that provide intrastate services may be subject to certification, tariff filing and other ongoing regulatory requirements imposed by state regulators. Our interstate access services are currently provided in accordance with tariffs filed with the FCC by the National Exchange Carrier Association ("NECA"). Challenges in the future to NECA's tariffs by regulators or delays in the Company's obtaining certifications and regulatory approvals could adversely affect the rates that we are able to charge our customers. We are also subject to audits by both federal and state regulatory authorities, which may be costly and burdensome and may result in fines, penalties, refunds or other unfavorable and burdensome requirements.

Our business also may be impacted by legislation or regulations imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, protecting customer privacy or addressing other issues that impact our business. For example, existing provisions of the Communications Assistance for Law Enforcement Act ("CALEA") and FCC regulations implementing that legislation require communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. We cannot predict whether or to what extent the FCC might modify its CALEA rules or any other rules, or what compliance with new rules might cost. Similarly, we cannot predict whether or to what extent federal or state legislators or regulators might impose new security, environmental or other obligations on our business.

Risk of loss from rate reduction. Most of our local exchange companies that operate pursuant to intrastate rate of return regulation are subject to state regulatory authority over their intrastate telecommunications service rates. State review of these rates could lead to rate reductions, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Regulatory changes in the communications industry could adversely affect our business by facilitating greater competition, reducing potential revenues or raising our costs. The implementation of the NBP and the November 2011 FCC ICC/USF Reform Order and FNPRM is likely to produce fundamental regulatory changes, and the 1996 Act also provides for ongoing changes and increased competition in the telecommunications industry, including competition for local communications and long distance services. This statute and the FCC's implementing regulations, as well as the FCC's implementation of the NBP and ICC/USF Reform Order and FNPRM, will be subjected to additional regulatory or judicial review or affected by future actions of the FCC expanding or modifying its regulation. It is thus impossible to predict whether, on an ongoing basis, the legislation or the FCC's regulatory actions will have a material adverse effect on our business, financial condition or results of operations. In addition to the implementation of the NBP, the ICC/USF Reform Order and the FNPRM, several other regulatory and judicial proceedings are underway or may soon be commenced that address issues affecting our operations and those of our competitors. We cannot predict the timeframe or outcome of these developments, nor there any assurance that these changes will not have a material adverse effect on us.

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MANAGEMENT'S DISCUSSION OF OPERATIONS

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

RESULTS OF OPERATIONS

Overview

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

These include:

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

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

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

Year 2012 compared to 2011

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

	2012	2011
Revenues:		
Regulated telephony:		
Local access	$ 10,807	$ 11,457
Interstate access	37,026	37,168
Intrastate access	10,107	10,479
Other regulated	1,888	2,034
	59,828	61,138
Broadband and other non-regulated services	35,312	31,476
Total	95,140	92,614
Operating Costs and Expenses:		
Cost of revenue, excluding depreciation	44,191	40,926
General and administrative costs at operations	13,816	13,977
Corporate office expenses	3,515	3,173
Depreciation and amortization (a)	17,451	21,042
Total	78,973	79,118
Operating profit	$ 16,167	$ 13,496

(a) Depreciation and amortization in 2011 includes a charge for an impairment of the goodwill associated with our Michigan Operations of $3.1 million.

Total revenues in 2012 increased $2.5 million, or 2.7%, to $95.1 million compared to $92.6 million in 2011. Local access revenue decreased $0.7 million, or 5.7%, resulting from a 4.0% decrease in access lines. Interstate access revenue decreased $0.1 million in 2012, due to the effects of new federal funding mechanisms, and a reduction of minutes of use offset by favorable out of period adjustments. Intrastate access revenue decreased by $0.4 million due to a reduction of minutes of use at several of our companies offset by an increase in state USF support at our California operation. Broadband and other non-regulated services revenues increased $3.8 million primarily due to the sale of additional broadband circuits outside of our regulated service territory, additional video revenue and sale of communication equipment.

Total costs and expenses were $79.0 million in 2012 and $79.1 million in 2011. Costs of revenue increased $3.3 million, primarily due to increased costs from the growing internet and cable television operations as well as startup costs for certain CLEC operations. Additionally, the startup of a hosted voice offering in Wichita, KS resulted in $0.9 million of such increased costs. This investment in the hosted voice business, while currently impairing operating results, is laying the ground work for expected continued expansion of non-regulated revenues and EBITDA in future years. General and administrative costs incurred at the operations decreased by $0.2 million. Corporate office expenses increased $0.3 million. Depreciation and amortization decreased by $3.6 million, including $3.1 million of amortization expense in 2011 resulting from the Company's annual test of goodwill for impairment.

As a result of the above, operating profit in 2012 increased by $2.7 million to $16.2 million compared to $13.5 million in 2011.

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. In May 2012, the managing partner of the Modoc Partnership advised us that a technical problem in the operation of their traffic recording system, which provides cellular service in California RSA #2, had caused its original estimate of earnings and distributions to us in 2011 to exceed the amount actually due by approximately $1.4 million. The managing partner also advised us that it would not request a refund to correct this error but instead reduced Modoc's 2012 distributions to us by $1.4 million. Our financial statements reflect the equity in earnings of the partnership based on the revised estimate. We have reduced the distributions included in 2011 EBITDA by the $1.4 million, and have amortized that amount into EBITDA as it was earned in 2012. As a limited partner in Modoc, LICT does not manage or control the partnership. Accordingly, we reclassified $1.4 million of actual 2011 distribution into 2012.

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

	2012	2011
EBITDA from:		
Operating units	$ 37,133	$ 37,711
Dividends from equity affiliates	2,447	1,367
	39,580	39,078
Corporate expense	3,515	3,173
EBITDA	$ 36,065	$ 35,905
Reconciliation to net income:		
EBITDA	$ 36,065	$ 35,905
Less Dividends from equity affiliates	(2,447)	(1,367)
Depreciation and amortization	(17,451)	(21,042)
Investment income	640	786
Interest expense	(5,430)	(6,243)
Equity in income of affiliates	1,730	1,341
Other gains (losses)	12,424	111
Income taxes (provision) benefit	(9,583)	(5,183)
Net income from continuing operations	$ 15,948	$ 4,308

Other Income (Expense)

Investment income decreased by $0.1 million primarily due to a reduction in patronage dividends.

Interest expense decreased by $0.8 million in 2012 primarily due to significant reductions in debt outstanding, including a $7.6 million reduction in debt in February 2012 using proceeds from the sale of spectrum.

Equity in earnings of affiliates in 2012 increased by $0.4 million primarily due to increased earnings from our 25% partnership interest in a cellular telephone provider, California RSA #2.

Other gains (losses) includes a gain of $11.6 million on the sale of the Company's eight 700MHz licenses and $0.9 million gain resulting from favorable decisions in the California rate case.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2012 and 2011 represents effective tax rates of 37.5% and 54.6%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes as well as other adjustments. In 2012, the federal statutory tax rate was 35% and the sale of spectrum was not subject to state income tax. The 2011 effective rate includes the effect of a $3.1 million charge for goodwill impairment, included in amortization expense, with no income tax benefit.

Net Income

Net income was $15.9 million, or $680.79 per share (basic and diluted), compared to a net income last year of $4.3 million, or $181.15 per share (basic and diluted). 2012 included $7.7 million, net of income tax, or $329 per share, from the sale of spectrum, the gain on the favorable ruling by the California Court of Appeals related to the 2006 dissolution of the Rural Telephone Bank and the expiration of uncertain income tax positions. The Company has no dilutive instruments outstanding.

Year 2011 compared to 2010

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

	2011	2010
Revenues:		
Regulated telephony:		
Local access	$ 11,457	$ 11,983
Interstate access	37,168	37,926
Intrastate access	10,479	11,203
Other regulated	2,034	2,056
	61,138	63,168
Broadband and other non-regulated services	31,476	29,068
Total	92,614	92,236
Operating Costs and Expenses:		
Cost of revenue, excluding depreciation	40,926	38,775
General and administrative costs at operations	13,977	14,679
Corporate office expenses	3,173	3,752
Depreciation and amortization (a)	21,042	17,640
Total	79,118	74,846
Operating profit	$ 13,496	$ 17,390

(a) Depreciation and amortization in 2011 includes a charge for an impairment of the goodwill associated with our Michigan Operations of $3.1 million.

Total revenues in 2011 increased $0.4 million, or 0.4%, to $92.6 million compared to $92.2 million in 2010. Local access revenue decreased $0.5 million resulting from a 3.8% decrease in access lines offset by the sale of additional services and features. The decrease in access lines is due to the shift by consumers from landline to wireless and VoIP services. Prior to 2012, VoIP traffic currently did not pay access charges or contribute to universal service. Interstate access revenue decreased $0.8 million in 2011, due to a reduction of minutes of use, reduced USF funding due to a lower rate base at several of our operations and by $0.3 million of additional interstate out of period adjustment revenue in the 2010 period. Intrastate network access revenue decreased $0.7 million due to a loss of state funding due to a state review in Kansas and a reduction of minutes of use at several of our companies. Broadband and other services revenues increased $2.4 million, including $0.7 million from the May 2010 acquisition of cable operations in Kansas. The remaining increase was primarily due to increased broadband and CLEC penetration, both DSL and cable modem.

Total costs and expenses were $79.1 million in 2011 and $74.8 million in 2010. Costs of revenue increased $2.2 million, including $0.5 million from the acquisition of cable operations. The remaining increase is primarily increased costs from the growing internet and cable television operations as well as start up costs for certain CLEC operations. General and administrative costs incurred at the operations decreased $0.7 million, including $0.2 million resulting from a significant switch retirement in 2010 which reduced property tax in 2011. Corporate office expenses decreased $0.6 million, primarily due to $0.3 million of financing costs incurred in 2010, that were written-off when the financing was not completed. Depreciation and amortization increased by $3.4 million, including $3.1 million of amortization expense resulting from the Company's annual test of goodwill for impairment.

As a result of the above, operating profit in 2011 decreased by $3.9 million to $13.5 million compared to $17.4 million in 2010.

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

	2011	2010
EBITDA from:		
Operating units	$ 37,711	$ 38,782
Dividends from equity affiliates	1,367	1,553
	39,078	40,335
Corporate expense	3,173	3,752
EBITDA	$ 35,905	$ 36,583
Reconciliation to net income:		
EBITDA	$ 35,905	$ 36,583
Less Dividends from equity affiliates	(1,367)	(1,553)
Depreciation and amortization	(21,042)	(17,640)
Investment income	786	1,061
Interest expense	(6,243)	(7,205)
Equity in income of affiliates	1,341	1,843
Other gains (losses)	111	206
Income taxes (provision) benefit	(5,183)	(2,493)
Net income from continuing operations	$ 4,308	$ 10,802

Other Income (Expense)

In 2011, investment income decreased by $0.3 million primarily due to a $0.2 million reduction in patronage income. Lower cash balances and interest rates were partially offset by higher dividends from investments.

Interest expense decreased $1.0 million, including $0.3 million resulting from the Appeals Court reversal of 2009 and 2010 unfavorable California state commission rulings related to the 2006 dissolution of the Rural Telephone Bank, and the remainder due primarily to a reduction in long term debt due to scheduled repayments and partially offset by higher average borrowings and higher average interest rates on the Corporate line of credit. As a result of the California state commission rulings, the Company accrued interest in 2010 and then reversed it in 2011, when the commission rulings were overturned.

Equity in earnings of affiliates in 2011 decreased by $0.5 million primarily due to reduced earnings from our 25% interest in the Modoc Partnership in California RSA #2. In May 2012, as previously discussed, the managing partner informed the Company of a reduction in the original estimate of Modoc's 2011 earnings which resulted in the Company reducing its 2011 equity in earnings of affiliated companies from amounts reported in the Company's third quarter report.

In 2011, the Company recorded a $0.1 million gain, partially reversing charges in 2010 and 2009 due to the Appeals Court reversal of the previously noted unfavorable California State commission rulings. In 2010, the Company recorded a $0.2 million gain on the sale of securities held as an investment.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provisions for 2011 and 2010 represent effective tax rates of 54.6% and 18.8%, respectively. The difference between these effective rates and the federal statutory rate is primarily due to state income taxes, and in 2011 includes the effect of a $3.1 million charge for goodwill impairment, included in amortization expense, with no tax benefit, and in 2010 includes a $2.5 million income tax benefit due to the reversal of uncertain tax positions, resulting from a lapse in the statute of limitations, included in the liability for unrecognized tax benefits.

Net Income from continuing operations

Net income from continuing operations in 2011 was $4.3 million, or $181.15 per share (basic and diluted), compared to $10.8 million, or $446.37 per share (basic and diluted) in 2010. The Company has no dilutive instruments outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The debt at LICT's subsidiary companies contains restrictions on the amount of funds that can be transferred to their respective parent companies. LICT receives cash to meet its obligations primarily through management fees charged to its subsidiaries, dividends, a tax sharing agreement with its subsidiaries, usage of a line of credit facility, and has obtained additional liquidity by refinancing certain subsidiary debt and by the sale of assets.

LICT significantly simplified its financial structure in 2012, by repaying $7.6 million of debt associated with our Michigan operation, and $5.3 million of debt at Western New Mexico. Such debt repayments, made with proceeds from the sale of spectrum as well as borrowings on our line of credit facility, will permit the cash flow from these two operations to be up-streamed and used for general corporate purposes.

Our $17.5 million line of credit facility with a bank had been decreasing, in accordance with terms of the facility, by $0.6 million quarterly starting June 30, 2012, with the remaining $12.7 million due at maturity on June 30, 2014. On January 8, 2013, such agreement was modified, restoring the line to the original $17.5 million through June 30, 2014. Interest on borrowings is at LIBOR plus 5.5%, or 6.5% at December 31, 2012. Management believes such extension provides adequate liquidity for at least the next twelve months. Outstanding under the line of credit facility, classified in notes payable to banks, was $15.2 million and $15.5 million at December 31, 2012 and 2011, respectively. The average balance of notes payable outstanding was $11.2 million at an average interest rate of 6.6% in 2012, compared to $13.0 million at an average rate of 6.1% in 2011. The highest amount outstanding was $15.6 million in 2012.

LICT was awarded $6.5 Million of grant and $1.0 Million of loan stimulus funds from the Department of Agriculture's Rural Utilities Service ("RUS") Broadband Initiatives Program in 2010. In addition, the Company is obligated for an additional $1.1 million of its own funds to complete such projects. This funding is aimed at expanding broadband access in unserved and underserved portions of the nation. LICT will expand and upgrade broadband service at four of our companies, in New Hampshire, Kansas, California and Utah, with this stimulus funding. As of December, 31, 2012: LICT spent $5.8 million on such stimulus projects, including $3.2 million in 2012 and $2.6 million in 2011; of which it has recovered $2.9 million, including $1.8 million in 2012, and expects to recover an additional $1.5 million; and has borrowed $0.8 million.

The Company is obligated under long-term debt provisions and lease agreements to make certain cash payments over the term of the agreements. The following table summarizes, as of December 31, 2012 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 (a)	$ 63,075	$ 6,915	$ 17,071	$ 24,644	$ 14,445
Operating leases	6,609	1,182	1,967	1,756	1,704
Notes payable to banks, principal only	15,162	15,162	--	--	--
Interest on debt and notes	15,625	4,697	7,333	3,092	503
Total contractual cash obligations and commitments	$ 100,471	$ 27,956	$ 26,371	$ 29,492	$ 16,652

At December 31, 2012, total debt (including notes payable to banks) was $78.2 million, a decrease of $22.0 million from December 31, 2011. At December 31, 2012, there was $47.3 million of fixed interest rate debt outstanding, averaging 7.15%, and $30.9 million of variable interest rate debt, averaging 5.0%. The debt at fixed interest rates includes $33.2 million of subordinated notes at interest rates averaging 8.0% 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. The repayment of all debt at our New Mexico and Michigan operations has removed restrictions on up streaming cash from those operations. At the Company's other subsidiaries, substantially all of the subsidiaries' net assets were restricted.

As of December 31, 2012, a subsidiary company received a waiver from its lender for non-compliance with a financial covenant. There is no assurance that the subsidiary will receive a waiver if it does not meet the covenant in the future. The debt at this subsidiary was $3.2 million at December 31, 2012.

As of December 31, 2012, the ratio of total debt to EBITDA was 2.2 to 1. Certain subsidiaries have high debt to adjusted operating profit ratios.

As of December 31, 2012, LICT had current assets of $25.6 million and current liabilities of $35.4 million resulting in negative working capital of $9.8 million compared to a negative $8.9 million at December 31, 2011.

Sources and Uses of Cash

Cash at December 31, 2012, was $9.0 million, a decrease of $2.7 million compared to 2011. Net cash provided by operations of $22.7 million in 2012, $29.3 million in 2011 and $29.4 million in 2010 was primarily used to invest in plant and equipment and repay debt.

Capital expenditures, excluding stimulus grant spending, were $13.9 million in 2012, $16.5 million in 2011 and $16.0 million in 2010 of which 84%, 78% and 74%, respectively, were spent at the RLECs and, for our cost based companies, will be included in their rate bases for rate setting purposes. The Company spent an additional $0.8 million in 2012 and $0.6 million in 2011, included in stimulus grant spending that will not be reimbursed by stimulus funds.

From 2008 through 2012, the Company has taken bonus depreciation deductions for eligible property additions as allowed by the Internal Revenue Service of 50%, starting January 1, 2008 and 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.

In February 2012, the Company closed on the sale of its eight 700MHz licenses for $12.8 million. The licenses had a basis of $0.8 million and net of sales cost and income tax, resulted in a net gain of $7.7 million, or $324 per share. Using such proceeds, the Company paid off $7.6 million of long term debt and a capital lease of its Michigan subsidiary.

The Company received cash distributions from a 25% interest in the Modoc Partnership of $0.9 million in 2012 compared to $2.7 million received in 2011.

On May 20, 2010, the Company purchased a cable communications company providing cable television, broadband and voice telephone services to approximately 1,700 customers in rural communities throughout northeastern Kansas for $2.1 million in cash. The operations complement an existing CLEC business as well as our RLEC operations in northeastern Kansas. Such cable company had previously been owned by a subsidiary of LICT, and was spun off from LICT as part of the spin-off of CIBL Inc. in November 2007.

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

The Company's Board of Directors has authorized the purchase of up to 4,000 shares of the Company's common stock. The Company's bank covenants, however, further restrict share repurchases. Through December 31, 2012, 3,512 shares allowed under the bank covenants had been purchased at an average investment of $2,807 per share, including 413 shares purchased in 2012 at an average investment of $2,221 per share.

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

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LICT Corporation

Consolidated Financial Statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010 and Independent Auditors' Report

LICT Corporation and Subsidiaries

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KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Directors
LICT Corporation and subsidiaries:

We have audited the accompanying consolidated financial statements of LICT Corporation and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of LICT Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 in accordance with U.S. generally accepted accounting principles.

KPMG LLP

New York, NY
April 26, 2013

LICT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,030	$ 11,705
Receivables, less allowances of $319 and $913	9,143	8,304
Material and supplies	3,807	3,076
Prepaid income taxes	--	1,322
Prepaid expenses and other current assets	3,589	3,250
Total current assets	25,569	27,657
Property, plant and equipment, net	97,091	99,095
Goodwill	59,465	59,465
Other intangibles	2,777	3,690
Investments in affiliated companies	4,635	3,904
Other assets	8,578	8,752
Total assets	$ 198,115	$ 202,563
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to banks	$ 15,162	$ 15,535
Trade accounts payable	4,156	3,684
Accrued interest payable	365	380
Accrued liabilities	8,788	7,120
Current maturities of long-term debt	6,915	9,840
Total current liabilities	35,386	36,559
Long-term debt	56,160	74,910
Deferred income taxes	17,399	16,488
Liability for unrecognized tax benefits	18	563
Other liabilities	5,731	5,620
Total liabilities	114,694	134,140
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Shareholders' equity attributable to LICT Corporation:		
Common stock, $0.01 par value-10,000,000 shares authorized; 26,637.50 issued; 23,125.37 and 23,538.37 outstanding	-	-
Additional paid-in capital	16,637	16,637
Retained earnings	76,240	60,372
Accumulated other comprehensive loss	(3)	30
Treasury stock, 3,512.13 and 3,099.13 shares, at cost	(9,860)	(8,943)
Shareholders' equity attributable to LICT Corporation	83,014	68,096
Noncontrolling interest	407	327
Total shareholders' equity	83,421	68,423
Total liabilities and shareholders' equity	$ 198,115	$ 202,563

See Accompanying Notes to Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31,		
	2012	2011	2010
Revenues	$ 95,140	$ 92,614	$ 92,236
Operating costs:			
Cost of revenue, excluding depreciation	44,191	40,926	38,775
General and administrative costs at operations	13,816	13.977	14,679
Corporate office expense	3,515	3,173	3,752
Depreciation and amortization, including goodwill impairment of $3,075 in 2011	17,451	21,042	17,640
Operating profit	16,167	13,496	17,390
Other income (expense):			
Investment income	640	786	1,061
Interest expense	(5,430)	(6,243)	(7,205)
Equity in earnings of affiliated companies	1,730	1,341	1,843
Other gains (losses)	12,424	111	206
	9,364	(4,005)	(4,095)
Income before income taxes	25,531	9,491	13,295
Income tax provision	(9,583)	(5,183)	(2,493)
Net income from continuing operations	15,948	4,308	10,802
Net income from discontinued operations	--	--	207
Net income	15,948	4,308	11,009
Less: income attributable to noncontrolling interests	(80)	(18)	(67)
Net income attributable to LICT Corporation	$ 15,868	$ 4,290	$ 10,942
Net income	$ 15,948	$ 4,308	$ 11,009
Other Comprehensive income:			
Unrealized gain (loss) on securities available for sale	(50)	(17)	356
Reclassification adjustment	--	--	(214)
Income tax (expense) benefit	17	6	(48)
Total other comprehensive income	(33)	(11)	94
Comprehensive income	$ 15,915	$ 4,297	$ 11,103
Basic and diluted weighted average shares outstanding	23,425.67	23,781.43	24,200.58
Basic and diluted earnings per share:			
Net income from continuing operations	$ 680.79	$ 181.15	$ 446.37
Net income from discontinued operations	--	--	8.54
Net income attributable to LICT Corporation	677.38	180.39	452.14

See Accompanying Notes to Consolidated Financial Statements.

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

	LICT Corporation Equity						
	Shares of Common Stock Out-standing	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interest	Total
Balance at January 1, 2010	24,598.37	$ 16,586	$ 48,497	$ (53)	$ (7,203)	$ 242	$ 58,069
Net income	--	--	10,942	--	--	67	11,009
Unrealized gain on available for sale securities, net of tax	--	--	--	235	--	--	235
Reclassification adjustment, net tax	--	--	--	(141)	--	--	(141)
Comprehensive income							11,103
Reverse acquisition of Sunshine	--	51	--	--	--	50	101
Distribution of Sunshine	--	--	(3,357)	--	--	(50)	(3,407)
Purchase of treasury stock	(311.00)	--	--	--	(750)	--	(750)
Balance at December 31, 2010	23,979.37	16,637	56,082	41	(7,953)	309	65,116
Net income	--	--	4,290	--		18	4,308
Unrealized gain on available for sale	--	--	--	(11)			(11)
Comprehensive income							4,297
Purchase of treasury stock	(441.00)	--	--	--	(990)		(990)
Balance at December 31, 2011	23,538.37	16,637	60,372	30	(8,943)	327	$ 68,423
Net income	--	--	15,868	--		80	15,948
Unrealized gain on available for sale securities, net of tax	--	--	--	(33)			(33)
Comprehensive income							15,915
Purchase of treasury stock	(413.00)	--	--	--	(917)		(917)
Balance at December 31, 2012	23,125.37	$ 16,637	$ 76,240	$ (3)	$ (9,860)	$ 407	$ 83,421

See Accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2012	**2011**	**2010**
OPERATING ACTIVITIES			
Net income attributable to LICT Corporation	$ 15,868	$ 4,290	$ 10,942
Adjustments to reconcile net income to net cash provided by operating activities:			
Net income of discontinued operations	--	--	(207)
Depreciation and amortization, including impairments	17,451	21,042	17,640
Noncontrolling interest	80	18	67
Equity in earnings of affiliated companies	(1,730)	(1,341)	(1,843)
Distributions received from affiliated companies	999	2,816	1,553
Deferred income tax provision	894	5,059	2,153
Benefit from uncertain tax positions	(545)	(38)	(2,477)
Gain on sale of investment in spectrum	(11,559)	--	--
Changes in operating assets and liabilities, net of effects of			
Trade accounts receivable	(839)	(956)	1,916
Income taxes payable/ receivable	1,806	(708)	547
Trade accounts payable and accrued liabilities	1,293	699	(1,571)
Other operating assets and liabilities	(672)	(402)	(176)
Cash from discontinued operations	--	--	639
Other	(317)	(1,139)	170
Net cash provided by operating activities	22,729	29,340	29,353
INVESTING ACTIVITIES			
Acquisitions (net of debt assumed and cash equivalents acquired)	--	(487)	(2,079)
Capital expenditures	(13,923)	(16,460)	(16,008)
Stimulus grant spending	(3,181)	(2,571)	--
Stimulus grant recoveries	1,844	1,041	--
Investment in restricted cash	165	35	(200)
Proceeds from sale of investments	12,312	--	420
Proceeds from cash surrender value of life insurance	--	1,580	
Investment in equity affiliates	--	(109)	(256)
Investing activities of discontinued operations	--	--	(288)
Other	204	(240)	173
Net cash used in investing activities	(2,579)	(17,211)	(18,238)
FINANCING ACTIVITIES			
Issuance of long-term debt, gross	944	7,259	1,591
Payments to reduce long-term debt, gross	(22,479)	(21,653)	(27,139)
Borrowings related to lines of credit, gross	12,732	8,951	13,635
Repayments related to lines of credit, gross	(13,105)	(9,076)	(5,175)
Purchase of treasury stock	(917)	(990)	(750)
Payments of debt issue cost	--	(138)	(125)
Distribution of North Dakota operations, cash effect	--	--	(500)
Net cash used in financing activities	(22,825)	(15,647)	(18,463)
Net decrease in cash and cash equivalents	(2,675)	(3,518)	(7,348)
Cash and cash equivalents at beginning of year	11,705	15,223	22,571
Cash and equivalents at end of year	$ 9,030	$ 11,705	$ 15,223
Supplemental disclosures are as follows:			
Cash paid during the year for:			
Interest	$ 5,156	$ 6,209	$ 6,854
Income tax payments, net of refunds	7,595	1,453	2,140
Non cash transactions:			
Purchase of plant and equipment included in payables	698	359	629
Fixed assets acquired under capital leases	--	1,005	126
Reverse acquisition of Sunshine	--	--	220

See Accompanying Notes to Consolidated Financial Statements.

1. Accounting and Reporting Policies

Organization

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

LICT's telecommunications subsidiaries operate in rural communities in ten states providing regulated and unregulated communications services including local telephone service, network access, transport, high speed and dial-up internet access, long-distance service, cable television, burglar alarm monitoring services and competitive local exchange carrier (CLEC) services. LICT's operating telephone companies include Western New Mexico Telephone Company in New Mexico; Cuba City Telephone Exchange Company and Belmont Telephone Company in Wisconsin; Bretton Woods Telephone Company in New Hampshire; J.B.N. Telephone Company, Inc. and Haviland Telephone Company, Inc. in Kansas; Upper Peninsula Telephone Corporation and Michigan Central Broadband Corporation in Michigan; Central Scott Telephone Company in Iowa; Central Utah Telephone Inc., Skyline Telcom and Bear Lake Communications Inc. in Utah; Dunkirk and Fredonia Telephone Company and Cassadaga Telephone Corporation in New York; and California-Oregon Telephone Company in California. In March 2010, the Company's North Dakota operations were merged with a public shell company and in May 2010, the Company distributed the shares of its North Dakota operations to its shareholders. See Note 7.

Basis of Presentation

The accompanying consolidated financial statements represent the accounts of LICT and its majority-owned subsidiaries, which primarily consist of communications (voice and data) (100% owned), cable television (100% owned), Internet services (100% owned), and burglar alarm (63.6% owned) subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation. Investments in affiliates in which the Company does not have majority voting control but has the ability to significantly influence financial and operating policies are accounted for in accordance with the equity method of accounting. The Company accounts for the following affiliated companies on the equity method of accounting: cellular partnership in California (25% owned), and telecommunications operations in North Dakota (through May 28, 2010 distribution to shareholders), California, Iowa, Kansas and New York (5% to 14% owned through partnerships).

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

Subsequent Events

The Company has evaluated events subsequent to the balance sheet date and prior to issuance of the financial statements for the year ended December 31, 2012 through April 26, 2013, the issuance date of the financial statements, and determined there have not been any events that have occurred that would require adjustment to the consolidated financial statements.

Use of Estimates

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

Cash and Cash Equivalents

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

Concentration of Risks

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

Cash invested in United States Treasury money market funds which are not federally insured, totaled $3.8 million and $7.7 million at December 31, 2012 and 2011, respectively. Cash invested in bank deposit accounts totaled $5.2 million and $4.1 million at December 31, 2012 and 2011, respectively, of which no bank deposits exceeded the $250,000 Federal Deposit Insurance Corporation (FDIC) limits per financial institution.

In 2012, the Company received $33.5 million, or 35% of its revenue from the Federal Universal Service Fund, various state funds and the National Exchange Carrier Association (NECA). In 2011 and 2010, respectively, the Company received $30.3 million, or 33% and $33.5 million, or 36% from such sources.

Marketable Securities

Marketable securities, included in other assets, consist of publicly traded common stocks. LICT's investment in marketable securities, which had carrying values of $0.2 million and $0.2 million at December 31, 2012 and December 31, 2011, respectively, were entirely classified as available-for-sale. Unrealized gains or losses, net of tax, on the Company's available-for-sale securities are excluded from earnings and included as a separate component of Shareholders' Equity included in accumulated other comprehensive income (loss) until realized.

Investment income - Patronage

CoBank, from which the Company has loans totaling $15.5 million at December 31, 2012, is a cooperative, owned and controlled by its customers. Each customer borrowing from the bank shares in the bank's net income through payment of patronage refunds. In each of 2012, 2011 and 2010, 65% of patronage refunds were received in cash, with the balance in CoBank stock. Patronage stock is redeemable at its face value for cash after the related debt is paid off. Total patronage refunds were $0.3 million, $0.4 million and $0.6 million in 2012, 2011 and 2010, respectively, and were included as investment income in the Company's consolidated statement of operations.

Accounts Receivable

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

Materials and Supplies

Inventories, consisting of materials and supplies, are stated at the lower of cost (average method) or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and include expenditures for additions and major improvements and, for our regulated telephone companies, include an allowance for funds used during construction (AFUDC). Maintenance and repairs are charged to operations as incurred. Depreciation of telephone plant is computed on the straight-line method using class or overall group rates acceptable to regulatory authorities. Depreciation of non-telephone property is computed on the straight-line method over the estimated useful lives of the assets. Depreciable lives for the Company's telephone and non-telephone properties, excluding land, range from 15 to 40 years for buildings, 3 to 50 years for machinery and equipment and 3 to 25 years for other assets. Depreciation expense for 2012, 2011 and 2010 was $17.2 million, $17.6 million and $17.2 million, respectively.

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

Goodwill and Other Intangible Assets

The Company evaluates the recoverability of goodwill and other intangible assets with indefinite lives for impairment annually, or more often, whenever events or circumstances indicate that such asset maybe impaired. In September 2011, the FASB issued ASU 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test as required in FASB ASC Topic 350, *Intangibles- Goodwill and Other.* The Company utilized the qualitative assessment to conclude that the two-step goodwill impairment test was not required for three of the Company's reporting units in 2012 and four in 2011. For all other reporting units, goodwill impairment is determined using the two-step process prescribed in FASB ASC Topic 350, *Intangibles - Goodwill and Other.* The first step is a screen for potential impairment, in which the Company determines the fair value for each reporting unit. The Company estimates the fair value of each reporting unit based on a number of subjective factors, including: (a) appropriate weighting of valuation approaches (income approach and market approaches), (b) estimates of our future cost structure, (c) discount rates for our estimated cash flows, (d) selection of peer group companies for the market approach, (e) required level of working capital, (f) assumed terminal value and (g) time horizon of cash flow forecasts.

If such tests indicate potential impairment, then a second step measures the amount of impairment, if any. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company estimates the fair value using Level 3 inputs, as defined by the fair value hierarchy (see Note 11).

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

The Company performed its annual impairment tests of goodwill as of September 30, 2012, 2011 and 2010 and no impairment was required in 2012 and 2010. In 2011, such test indicated impairment at its Michigan subsidiary, resulting in a charge of $3.1 million included in amortization expense.

In addition to goodwill, intangible assets with indefinite lives, including cellular licenses, had a carrying value of $2.3 million at December 31, 2012 and $3.1 million at December 31, 2011.

The Company's subscriber lists and related rights are generally amortized over a 10 to 15-year life. Such intangible assets had a gross value of $5.2 million and $5.1 million at December 31, 2012 and 2011, and accumulated amortization of $4.7 million and $4.5 million at December 31, 2012 and 2011, respectively. Amortization expense was $0.2 million and $0.3 million for 2012 and 2011 and is estimated to be $0.15 million in each of 2013, 2014 and 2015. In 2010, our California subsidiary acquired subscribers from a competitor for $0.1 million which is being amortized over the expected life of the subscribers.

Impairment of Long-lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases.

Commitments and Contingencies

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

Revenue Recognition

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

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

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

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

The FCC released the Order to reform USF and Intercarrier Compensation in November 2011. Effective July 1, 2012, Intercarrier Compensation, which is the payment framework that governs how carriers compensate each other for the exchange of traffic, began transitioning down to "bill-and-keep" by 2020 for terminating state and interstate switched access traffic for rate-of-return carriers, such as LICT. The Order enables LICT to recover a significant portion of those revenues through a new Access Recovery Charge (ARC) billed to some residential and business wireline voice customers and a new Connect America Fund (CAF) recovered through the USF surcharge. The USF reforms shifts the existing High-Cost portion of the fund from supporting voice services to supporting broadband deployment in high-cost areas. The Order also modifies existing USF mechanisms by eliminating Local Switching Support, capping the Interstate Common Line Support Fund (ICLS) through use of local-rate benchmarks and regression-based analysis, and limiting the corporate expenses allowed in ICLS.

The Order has been challenged in court, certain parties have also petitioned the FCC to reconsider various aspects of the Order and the FCC has an ongoing proceeding considering whether to make other changes to switched and special access services. Accordingly, LICT cannot predict the long-term impact at this time but believes the Order will provide a stable regulatory framework to facilitate LICT's ongoing focus on the deployment of broadband into its rural markets.

Other businesses from which revenues are derived include the Company's internet, CLEC, wireless, long-distance, cable and security operations all of which are recognized as services are provided.

Alarm system installation revenues, sales revenues on equipment upgrades and direct incremental costs of installations and sales are deferred for residential customers with monitoring services contracts. Revenues from monitoring contracts are recognized in the period such services are provided.

Deferred alarm system installation revenues are recognized over the expected life of the monitoring contracts of the customer for residential and commercial customers. Deferred installation costs are recognized over the initial contract term, typically three years.

Broadband Stimulus Grants

In 2010, four of the Company's subsidiaries were awarded $6.5 million of grant and $1.0 million of loan stimulus funds from the Department of Agriculture's Rural Utilities Service ("RUS") Broadband Initiatives Program. In addition, the Company is obligated to spend an additional $1.1 million of its own funds to complete such projects. This funding is aimed at expanding broadband access in unserved and underserved portions of the nation. LICT will expand and upgrade broadband service at four of our Telephone Companies, in New Hampshire, Kansas, California and Utah, with this stimulus funding. As of December, 31, 2012: LICT spent $5.8 million on such stimulus projects, including $3.2 million in 2012 and $2.6 million in 2011; of which it has recovered $2.9 million, including $1.8 million in 2012, and expects to recover an additional $1.5 million; and has borrowed $0.8 million.

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

Income Taxes

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

Accounting guidance concerning uncertain income tax positions requires the Company to recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Earnings Per Share

Basic and diluted earnings per common share amounts are based on the weighted average number of common shares outstanding during each period. The Company has no outstanding dilutive securities such as options, warrants, or convertible securities.

Noncontrolling Interest

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

2. Acquisitions and Dispositions

In February 2012, the Company closed on the sale of its eight 700 MHz licenses for $12.8 million. The licenses had a basis of $0.8 million and net of fees, expenses and income taxes resulted in a gain of $7.7 million, or $324 per share.

In 2011, a subsidiary of the Company, Central Telcom Services, LLC ("Central Telcom") acquired cable assets and subscribers from a competitor for $0.4 million, consisting of 260 video and 80 cable modem subscribers. The acquisition of these assets did not constitute a business, and therefore was accounted for as a purchase of assets.

In May 2010, the Company purchased a cable television company, Giant Communications, L.L.C., providing cable television, broadband and voice telephone services to approximately 1,700 customers in rural communities throughout southeastern Kansas for $2.1 million in cash. The purchase price was allocated to the assets acquired based on the relative fair market value at the date of the acquisition, with no value attributed to goodwill. The operations will complement an existing CLEC business as well as one of our RLEC operations in southeastern Kansas.

3. California Dissolution of Rural Telephone Bank Case

In 2006, the Rural Telephone Bank ("RTB") was dissolved and the holders of its Class B and Class C stock were paid the par value of their stock. In 2007, the RTB made a final distribution to holders of its Class B and Class C stock for amounts in excess of par value. In 2009, regulatory authorities within the State of California issued a Proposed Decision that the proceeds from the RTB stock dissolution and distribution should benefit the ratepayers of California. The Company's California subsidiary had joined with other small independent telephone companies in California to address this claim and filed numerous phases of comments in this proceeding with the state regulators. In June 2010, a revised decision was adopted by the state commission that the intrastate portion of the proceeds should benefit the ratepayers of California plus interest on such proceeds. Accordingly, in 2009, the Company accrued a contingent loss of $0.8 million in Gains (loss) on sale of investments, interest expense of $0.1 million and recorded a deferred tax benefit of $0.4 million to recover taxes previously paid. Subsequently, additional rulings were made by the State of California, whereas an additional $0.2 million of interest and penalties were accrued in 2010. Payments of the accrued amounts began in September 2010, and $0.2 million was paid in 2010 and an additional $0.7 million was paid in 2011 through June. In July 2011, the Appeals Court annulled the state commission decision and further rehearings were denied and appeals to the state supreme court were also denied. Per the Courts decisions, the monies previously paid to the state commission would be returned, although at that point the timing and nature of the return had not yet been determined. As a result, in 2011 the Company reversed the remaining unpaid $0.3 million accrual into income as it was probable that that amount would never have to be paid. In 2012, based on having received the first three scheduled payments, the Company reversed the accrual relating to the $0.9 million previously paid, which is included in other income. As of December 31, 2012, $0.3 million of such reversal that had not been collected is included in receivables.

4. Investments in Affiliated Companies

A subsidiary of LICT owns a 25% partnership interest in a cellular telephone provider in northern California, California RSA #2. As of December 31, 2012 and 2011, the carrying value of the investment in the partnership was $3.2 million and $2.5 million, respectively.

Undistributed earnings of companies accounted for using the equity method that are included in consolidated retained earnings are $0.5 million at both December 31, 2012 and 2011.

5. Property, Plant and Equipment

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

	December 31, 2012	December 31, 2011
	(in thousands)	
Property, plant and equipment:		
Land	$ 1,114	$ 1,114
Buildings and improvements	19,370	19,084
Machinery and equipment	299,652	295,666
	320,136	315,864
Accumulated depreciation	(223,045)	(216,769)
	$ 97,091	$ 99,095

6. Notes Payable to Banks and Long-term Debt

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

	December 31, 2012	December 31, 2011
	(in thousands)	
Long-term debt consists of (all interest rates are at December 31, 2012):		
Rural Electrification Administration (REA) and Rural Telephone Bank (RTB) notes payable in equal quarterly installments through 2027 at fixed interest rates ranging from 2% to 7.5% (5.1% weighted average), secured by assets of the telephone companies	$ 13,497	$ 25,581
Bank credit facilities utilized by certain telephone and telephone holding companies through 2017 at variable interest rates averaging 3.5%	15,696	22,531
Unsecured notes issued in connection with acquisitions at fixed interest rates averaging 8.0% (primarily held by management of telephone companies)	33,197	34,734
Other	685	1,904
	63,075	84,750
Current maturities	(6,915)	(9,840)
	$ 56,160	$ 74,910

In 2011, REA debt which bore interest at 2% had been reduced by a purchase price adjustment of $0.2 million to discount the debt to an imputed interest rate of 5%. Such discount was being amortized into interest expense based on the effective interest method over the remaining life of the notes. In 2012, such REA debt was repaid and the remaining purchase price adjustment was written off.

The Company's $17.5 million line of credit facility with a bank had been decreasing, in accordance with terms of the facility, by $0.6 million quarterly starting June 30, 2012, with the remaining $12.7 million due at maturity on June 30, 2014. On January 8, 2013, such agreement was modified, restoring the line to the original $17.5 million. Interest on borrowings is at LIBOR plus 5.5%. The outstanding balance under the line of credit facility, classified in notes payable to banks, was $15.2 million and $15.5 million at December 31, 2012 and 2011, respectively. The average balance of notes payable outstanding was $11.2 million in 2012 and $13.0 million in 2011; the highest amount outstanding was $15.6 million in 2012 and $15.5 million in 2011; and the average interest rate was 6.6% in 2012 and 6.1% in 2011.

In January 2011, $2.0 million of subordinated notes were issued to the management of Western New Mexico Telephone Company as contingent consideration resulting from meeting certain conditions in a 2006 purchase agreement. The notes bear interest of 8% and are due on January 10, 2016.

Aggregate principal maturities of long-term debt at December 31, 2012 for each of the next five years are as follows: 2013- \$6.9 million, 2014- \$7.7 million, 2015- \$9.3 million, 2016- \$16.9 million, 2017- \$7.8 million and the remaining \$14.5 million thereafter.

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

As of December 31, 2012, a subsidiary company received a waiver from its lender for non-compliance with a financial covenant. There is no assurance that the subsidiary will receive a waiver if it does not meet the covenant in the future. The debt at this subsidiary was \$3.2 million at December 31, 2012.

7. Discontinued Operations - Distribution of North Dakota Operations to LICT shareholders

On March 31, 2010, Sunshine PCS Corporation ("Sunshine") acquired all of the interests of LICT's subsidiary Lynch Telephone II, LLC, which owns 100% of Inter-Community Telephone Company, LLC ("ICTC") and Valley Communications, Inc. ("Valley") (collectively, Sunshine, ICTC and Valley comprise "North Dakota Operations"). ICTC is a rural local exchange carrier ("RLEC") serving communities in southeastern North Dakota providing regulated telephone service and Valley provides internet and other non-regulated services. As consideration, Sunshine issued shares of its Class A common stock reflecting approximately 98% of its outstanding stock, to Lynch Telephone North L.L.C. ("LT North"), the parent company of Lynch Telephone II. The transaction was accounted for as a reverse acquisition, as LT North obtained 98% ownership of Sunshine. As a result, \$0.1 million of net assets were acquired by the Company. In order to effectuate the acquisition by Sunshine, LICT utilized \$7.4 million of its line of credit to pay-off the remaining balance of a loan with a bank at Lynch Telephone North that was partially secured by the assets of Lynch Telephone II.

On May 28, 2010, the Company distributed shares of Sunshine (and cash in lieu of fractional shares at the rate of \$50 per share) to its shareholders, spinning off the North Dakota Operations to them. The results of the North Dakota operations and interest expense on subordinated notes that were assumed by the buyer and bank debt that was required to be repaid as a result of this transaction have been presented as discontinued operations.

Summarized financial information for the North Dakota Operations included in Net Income of Discontinued Operations in the consolidated financial statements is as follows:

	2010
Statement of Operations:	
Revenue	\$ 1,703
Operating income	391
Interest expense	(200)
Equity in earnings of affiliated companies	101
Income tax provision	(128)
Net income from discontinued operations	207

8. Related Party Transactions

LICT leases its corporate headquarters from an affiliate of its Chairman and Chief Executive Officer. The lease expires in 2023 and rent expense, including utilities and escalation was \$115,000, \$118,000 and \$112,000 in 2012, 2011 and 2010, respectively. In addition, expenses relating to administrative support, transportation (includes charges for a leased airplane), and communications paid to the same affiliate were \$130,000, \$127,000 and \$140,000 for 2012, 2011 and 2010, respectively.

At December 31, 2012 and 2011, assets of $3.8 million and $7.7 million, which are classified as cash and cash equivalents, are invested in United States Treasury money market funds for which affiliates of the Company's Chairman serve as investment managers to the respective funds.

LICT is party to a Transitional Administrative and Management Services Agreement (TAMSA) under which LICT is expected to provide management and administrative services to CIBL Inc. ("CIBL") for $200,000 per year. Shares of CIBL were distributed to LICT shareholders in 2007. Such agreement has been extended annually by the parties. In 2012, CIBL paid an additional $150,000 to LICT for management services in conjunction with CIBL's sale of assets.

The Company has subordinated notes payable to management of certain of its telephone companies in connection with acquisitions (see Note 6).

9. Shareholder's Equity

LICT's Board of Directors has authorized the purchase of up to 4,000 shares of its common stock. The company's bank covenants, however, further restrict share purchases. Through December 31, 2012, 3,512 shares allowed under the bank covenants have been purchased at an average investment of $2,807 per share.

10. Income Taxes

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

The provision (benefit) for income taxes is summarized as follows:

	2012	2011	2010
		(in thousands)	
Current taxes:			
Federal	$ 7,596	$ (257)	$ (41)
State and local	1,093	381	381
	8,689	124	340
Deferred taxes:			
Federal	592	4,383	1,916
State and local	302	676	237
	894	5,059	2,153
	$ 9,583	$ 5,183	$ 2,493

A reconciliation of the provision (benefit) for income taxes and the amount computed by applying the statutory federal income tax rate to income before income taxes and minority interest:

	2012	2011	2010
		(in thousands)	
Tax at statutory rate	$ 8,935	$ 3,227	$ 4,536
Increases (decreases):			
State and local taxes, net of federal benefit	907	698	409
Release of valuation allowance			--
Release of liability for unrecognized tax	(330)	(38)	(2,439)
Goodwill impairment	--	1,045	--
Other	71	251	(13)
	$ 9,583	$ 5,183	$ 2,493

Deferred income taxes for 2012 and 2011 are provided for the temporary differences between the financial reporting bases and the tax bases of the Company's assets and liabilities. Cumulative temporary differences at December 31, 2012 and 2011 are as follows:

	2012	2011
	(in thousands)	
Fixed assets and depreciation	$ 12,589	$ 12,536
Discount on long term debt	--	70
Unrealized gains on investments	1,127	1,144
Investment in partnerships	542	514
Other reserves and accruals	3,141	2,224
	$ 17,399	$ 16,488

The Company recognizes tax liabilities in accordance with guidance for uncertain tax positions and adjusts these liabilities when its judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

The following table reflects the activity of our unrecognized tax benefits.

	2012	2011	2010
		In thousands	
Balance at January 1	$ 563	$ 580	$ 3,253
Increase in tax position	--	61	158
Decrease due to lapse of statute of limitations	(545)	(78)	(2,831)
Balance at December 31	$ 18	$ 563	$ 580

The Company remains subject to examination for tax years 2009 through 2011 by the Internal Revenue Service and with few exceptions, is subject to state examinations by tax authorities for the same three years.

11. Fair Value Measurement

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

The Company has two types of assets that are measured at fair value. US Treasury bills, included in cash and cash equivalents in the Statement of Financial Position, and marketable securities, included in other assets, which are both classified as Level 1 inputs, because they are valued using quoted market prices. US Treasury bills had a value of $3.8 million and $7.7 million at December 31, 2012 and 2011, respectively. Marketable securities had a value of $0.2 million at both December 31, 2012 and 2011.

Cash in banks, trade accounts receivable, short-term borrowings, trade accounts payable and accrued liabilities are carried at cost, which approximates fair value due to the short-term maturity of these instruments. The fair value of the Company's borrowings under its long-term debt obligations is approximately $1.9 million higher than its carrying value based on borrowing rates for similar instruments. The fair value of the Company's revolving line of credit approximates carrying amount, as the obligations bear interest at a floating rate.

12. Employee Benefit Plans

LICT maintains several defined contribution plans at its telephone subsidiaries and corporate office. LICT's contributions under these plans, which vary by subsidiary, are based primarily on the financial performance of the business units and employee compensation. Total expense of these plans was $1.4 million in 2012 and 2011.

The Company has a Principal Executive Bonus Plan that has been approved by the shareholders, for which $0.5 million and $0.4 million was recorded in 2012 and 2011, respectively.

13. Commitments and Contingencies

Leases.
The Company leases certain land, office space, computer equipment, computer software, and network services equipment under non-cancelable operating leases that expire in various years through 2028. Terms of the leases, including renewal options and escalation clauses, vary by lease. When determining the term of a lease, the Company includes renewal options that are reasonably assured. Rental expense under operating leases was $1.2 million in 2012, $0.9 million in 2011 and $0.8 million in 2010. Minimum lease payments due under non-cancelable operating leases at December 31, 2012 are as follows: $1.2 million in 2013; $1.0 million in 2014; $0.9 million in 2015, $0.9 million in 2016; $0.9 in 2017 and $1.7 million thereafter.

Subpoena.
In November 2011, the Company received a subpoena from the FCC's Office of Inspector General requesting information regarding receipt of Federal Universal Service Fund support. The Company has provided the information requested and has fully cooperated with regard to the request. The Company cannot predict any action that may be taken as a result of the request.

Litigation.
LICT is a party to routine litigation incidental to its business. Based on information currently available, LICT 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.

14. Subsequent Events

In January 2013, the Company's Utah subsidiary sold a CATV system in Ely, Nevada for $0.5 million, resulting in a gain, pre-tax, of $0.4 million.