LICT Corporation

2013
Annual Report

LICT Corporation

Family of Companies

COMMUNICATION • EDUCATION • ENTERTAINMENT

VOICE • DATA • VIDEO • TECHNOLOGY

FINANCIAL HIGHLIGHTS

	For the Year Ended December 31,				
In thousands, except for share amounts	2013	2012	2011	2010	2009
Operations, excluding discontinued operations					
Revenues					
Regulated	$ 57,163	$59,828	$61,138	$ 63,168	$ 68,547
Non-Regulated	39,022	35,312	31,476	29,068	26,116
	96,185	95,140	92,614	92,236	94,663
EBITDA before corporate expenses (a)					
Regulated	23,094	25,544	26,893	28,948	34,621
Non-Regulated	14,134	14,036	12,185	11,387	8,410
	37,228	39,580	39,078	40,335	43,031
Depreciation and Amortization (b)	18,033	17,451	21,042	17,640	19,671
Capital Expenditures	19,779	13,923	16,460	16,008	11,270
Consolidated					
Net Income from continuing operations and excluding unusual items (c)	$8,154	$7,882	$7,219	$8,237	$11,394
Per Share (basic and diluted)	$358.83	$336.46	$303.55	$340.39	$466.78
Net Debt	$ 62,484	$69,207	$88,580	$ 96,626	$109,575
Shareholders' Equity attributable to LICT	89,563	83,014	68,096	64,807	57,827
Shares outstanding at year end	22,486	23,125	23,538	23,979	24,290

(a) EBITDA is defined as operating profit before depreciation and amortization and is modified to include the cash we receive from the equity in earnings of affiliated companies. This metric is an element that we use in valuing potential acquisitions. Neither EBITDA nor EBITDA before corporate expenses are substitutes for operating profit (loss) of $15.1 million, $16.2 million, $13.5 million, $17.4 million and $19.9 million for 2013, 2012, 2011, 2010 and 2009, respectively. Corporate expenses for the same respective years were $3.1 million, $3.5 million, $3.2 million, $3.8 million and $3.2 million.

(b) The Company recorded goodwill impairment resulting from the annual valuation of $3.1 million in 2011 and recognized impairment in its spectrum licenses and other intangible assets of $2.3 million in 2009.

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

Report of the Executive Vice President and Chief Financial Officer

During 2013, our operations successfully met the challenges faced by the rural telephone industry, including access line and minute of use loss and a changing regulatory environment, during 2013. We were able to offset a $2.7 million decline in regulated wireline revenues with a $3.7 million increase in non-regulated revenues, primarily from broadband data services. EBITDA generated by our operating units fell by $0.9 million, reflecting the fixed nature of certain cost structures and lower margins of non-regulated services. As described in more detail below, we are looking forward to further improvements in 2014.

Operating Results

	Year Ended December 31,		Increase	Percent Increase
	2013	2012	(Decrease)	(Decrease)
	(In Thousands)			
Revenues				
Regulated	$57,163	$59,828	($2,664)	(4.5%)
Non-regulated	39,022	35,312	3,710	10.5%
Revenues	$96,185	$95,140	$1,046	1.1%
EBITDA				
Regulated	$23,094	$25,544	($2,450)	(9.6%)
Non-regulated	13,154	11,589	1,565	13.5%
Dividends from equity affiliates	981	2,447	403	11.5%
EBITDA before corporate	37,228	39,580	(2992)	(2.4%)
Corporate expense	(3,112)	(3,515)	403	11.5%
EBITDA	$34,116	$36,065	($1,949)	(5.4%)

A combination of factors resulted in lower 2013 regulated revenues. These factors included: lower investment base at certain operations, changes in the regulatory model by the Federal Communications Commission, erosion of access lines and minutes of use, and industry-wide actual rate-of-return on investment that was lower than the authorized rate-of-return. While we some of these issues will continue into the future, we believe that the effects on 2014 reported results will not be nearly as significant. As described in other sections of this Annual Report, the regulatory model in which we operate is continually evolving. While we will continue to make significant investments in infrastructure in the rural areas we serve, our commitments need to be tempered by anticipation of continuing changes to the federal support mechanisms.

On the non-regulated front, our broadband wireline data revenues, both within and outside our regulated territory, increased by $3.0 million. Other increases include Hosted Voice ($0.4 million), video ($0.2 million), and wireless data ($0.2 million). Non-regulated EBITDA continues to be hampered by start-up losses from certain operations, $1.5 million in 2013. These operations should approach, if not attain, breakeven in 2014.

Our outlook for revenues and EBITDA before corporate for 2014 is $100 million and $41 million, respectively. Such expectations are predicated on $57 million of regulated revenues in 2014, which is subject to there being only minimal future impacts from the regulatory reform and the industry's rate-of-return approaching the authorized rate.

Dividends from our equity affiliates is impacted by the timing of the declaration of dividends by the general partner. Higher 2012 dividends resulted in lower dividends in 2013. We expect 2014 dividends to normalize at about $1.4 million.

During 2013, we invested $18 million in capital expenditures. We are focusing our efforts on providing higher data speeds to the customers in our serving territory, and providing fiber connectivity to customers outside our territory. We are currently expecting total capital expenditures in 2014 to be about $18 million.

Growth Opportunities
We are focused on five high-growth business segments that should drive revenue growth through 2016.

- ***Broadband*** – We continue to enhance our broadband network capabilities by building fiber deeper into our network. 96% of our access lines are now broadband enabled and we can deliver speeds of 10 Mbps or higher to almost 50% of those access lines. Broadband penetration as a percent of access lines company-wide is 70%, one of the highest penetrations in the industry. We expect further penetration as the demand for higher speed internet access continues to grow.
- ***CLEC*** - LICT has expanded its geographic reach by establishing CLEC operations in surrounding markets. We provide data and voice services to business customers over owned and leased fiber networks. Our CLECs in the Quad cities, Iowa; Provo and Orem, Utah; Jamestown and Dunkirk, New York; Klamath Falls, Oregon are developed and profitable. Our developing CLECs in Silver City and Deming, New Mexico; Dubuque, Iowa; Wichita, Kansas; Medford, Oregon; Ogden, Utah; and Escanaba, Michigan, should be close to or at breakeven in 2014.
- ***Cell Backhaul*** – During 2013, we continued to build fiber to 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 major wireless providers as mobile data usage grows. Management personnel at our CentraCom operation in Utah are helping coordinate our opportunities to bid on long-term contracts on a company-wide basis.
- ***Hosted Voice/Cloud Services*** – 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. We believe this service is a perfect complement to broadband data offerings in CLEC markets.
- ***Educational Services*** – There are nearly 75 colleges and universities within a 50 mile distance of LICT's operations. In addition, there many more elementary, high, and trade schools within or in close proximity to our current service territory. We believe there is a significant opportunity to deliver video, data, and voice services to the students, faculty and administrative staff at these organizations. We serve a large number of educational institutions, but primarily only for data. We have begun making in-roads on the voice and video services, and are redoubling these efforts in 2014.

Cost Savings/Synergies
LICT continues to make strides in cutting costs. During 2014, all of LICT's companies will be on a common billing and accounting system, driving further cost efficiencies. In 2013, we also added several

companies to our consolidated defined-contribution investment trust which saves costs and improves compliance. During 2014, we are re-evaluating our employee benefit programs.

Asset Rationalization

In 2013, we sold a small CATV operation in Nevada that did not fit into our Utah operations. In 2012, a wholly-owned subsidiary, Lynch 3G Communications Corporation closed on the sale of LICT's remaining 700 MHz licenses for $12.8 million, generating net proceeds after expenses and taxes of $7.7 million. We explored the sale of other assets in 2013, but were not able to execute a transaction.

Through the selective sale of assets or operations, at multiples anticipated to be above those implied in the trading price of our shares, or in appropriate cases, the spin-off of particular assets to our shareholders, we will continue to redefine LICT's strategic direction .

Debt Structuring

During 2013, we continued to make progress in delivering our capital structure. At year end, our net debt (total debt less cash and equivalents and excluding a special purpose which was repaid in 2014) was $62.5 million or 1.8 times our 2013 EBITDA. This represents a decrease of $6.7 million, from the $69.2 million in net debt at the end of 2012, and over the last two years, we have reduced our net debt by $26.1 million, or 29.5%. Also, during 2013, we repaid the debt that restricted the cash flows to corporate from our Utah operations and, in 2014, are planning to do the same for our California subsidiaries, and potentially others. During 2013, our cash interest expense fell from $5.4 million to $4.6 million, a 15.1% reduction, driven by debt reduction, partially offset by a slightly higher average aggregate interest rate, as our debt mix shifts to more fixed interest rate obligations. We expect cash interest expense to be about $4.0 million in 2014.

Share Repurchases

During 2013, the company repurchased 639 shares, or 2.8% of our outstanding shares, at an average price of $2,378 per share. During 2014, given our decreased leverage, we are planning a more significant acquisition of shares.

Spin-Off Update

CIBL Inc. - On November 19, 2007, we spun-off one share of CIBL, Inc. (OTC Markets CIBY) for each share of LICT owned. In 2012, CIBL sold its interests in two New Mexico Cellular Partnerships for proceeds of $32 million, and in early 2014, CIBL completed the sale of its interests in two network affiliated television stations for proceeds of $22 million. Since the spin-off from LICT, CIBL has paid cash distributions to its shareholders of $170 per share and its common stock price ended 2013 at $1,400 per share. In addition, it provided its shareholders with additional liquidity by holding two modified "Dutch Auctions" for its common shares. These "Dutch Auctions" combined with open market purchases have reduced CIBL's share outstanding by 23% since the spin-off.

ICTC Group Inc. - On May 31, 2010, each share of LICT received 13 shares in ICTC Group, Inc. (OTC Markets ICTG). ICTC recently reported its 2013 results with revenues of $3.9 million and EBITDA of $1.2 million, down 6% and 23% respectively, from the 2012 results. It provides broadband and other communications services to a number of communities in southeast North Dakota. In addition, ICTC has minority interests in Dakota Carrier Network, a statewide fiber network owned by North Dakota RLECs, and entities that provide cellular telephone service in two rural service areas in North Dakota.

On December 26, 2012, CIBL completed a "Dutch Auction" for common shares of ICTC in which it acquired 81,552 shares from ICTC's shareholders at $22.25 per share. Just prior, in November 2012, CIBL had acquired 80,000 of ICTC's common stock from ICTC. Accordingly, CIBL owns 161,552 shares out of ICTC's total shares currently outstanding of 404,426. In addition, through a voting rights agreement, CIBL acquired voting control of ICTC in April 2013 and its Board of Directors was restructured.

Management Team and Directors

We have an experienced and stable management team that averages over 20 years in the telecommunications industry. Our companies' personnel have close ties to the communities that they serve. We are in an excellent position to leverage our reputation and "local" advantage to increase penetration of new service offerings.

Early in 2014, we added two individuals to our Corporate staff: John Aoki and Steven Moore. John joins us as our Controller and will work very closely with our operating subsidiaries, both from an accounting and an operating perspective. Steve is our Vice President – Financial Reporting and Analysis and will primarily be responsible for external and internal financial reporting. We are very pleased to have John and Steve on the LICT team.

Donald H. Hunter has agreed to stand for election to our Board of Director at our upcoming annual meeting. As delineated in our proxy statement, Don has a tremendous record of achievements. We welcome him to Board and look forward to his contributions.

Conclusion

We would like to thank the management and other employees of our operating subsidiaries for their work and successful efforts in 2013. It is their initiative, drive, and commitment to their communities that are transforming LICT Corporation. We also thank you, our shareholders, for your long-term support of LICT. We look forward to the years ahead with great optimism.

Robert E. Dolan
Executive Vice President and
Chief Financial Officer

Report of the Senior Vice President of Regulatory Dynamics

While the regulatory environment for 2013 and going into 2014 has been challenging for our regulated landline operations, LICT has been working incessantly to try to maximize shareholder value despite often difficult regulatory environment. LICT is diligently making efforts to expand its non-regulated operations to offset regulated declines in order to position the company for continued success in the coming years.

Federal and State Regulatory Changes

In 2013 and into 2014, the FCC has been, and continues to be, steadfast in transforming its rules towards a more broadband-oriented environment. The phased-in implementation of the FCC's 2011 Transformation Order related to universal service and intercarrier compensation requires unceasing effort by LICT to ensure the company's compliance with the FCC's rules. On April 23, 2014, the FCC announced that it is further modifying the universal service and intercarrier compensation rules for rate-of-return carriers, which includes LICT's regulated entities. LICT will determine the impact of the new FCC reforms on the Company once the FCC Order is released.

Rural local exchange carriers ("RLECs") located all over the United States are experiencing increased competition from wireless and Voice over IP ("VoIP") service, as well as reduced revenues from universal service support mechanisms due to FCC reforms. However, despite these pressures, the customers located in the rural portions of the nation, such as those served by LICT, still demand high quality service at an affordable price, consistent with customers that live in the urban cities. Therefore, LICT is working hard through our national industry organizations to ensure that individuals living in rural America are not overlooked when regulatory reforms are undertaken.

While operational and financial pressures differ by jurisdiction, state revenues are generally declining as customers use alternatives to landline facilities. Pressures on state universal service funds also continue and LICT works hard to explain their continued importance to the state regulators.

Enhancing Our Broadband Facilities

In 2013, LICT continued to upgrade its broadband facilities for increased capacity and greater speeds in order to meet ever-increasing customer demands. This effort is continuing in 2014 with focused capital expenditures related to broadband deployment. While the provision of voice service has now given way to the "need for speed" with broadband services, we are proud that we provide communications services that allow the families and businesses in some of the most rural portions of this country to thrive.

New Challenges Ahead

2013 was challenging year since the regulated interstate revenues received from the National Exchange Carrier Association ("NECA") Traffic Sensitive ("TS") revenue pool, in which LICT participates, earned less than the FCC authorized rate-of-return. NECA TS pool earnings were sub-par due to actual costs of all the companies participating in the TS pool escalating beyond what NECA had projected while demand declined. In 2013, the NECA TS pool's underperformance cost LICT $1 million in lost interstate revenues. We are hopeful that 2014 will have improved earnings from the NECA TS pool.

Monitoring changes to regulation, addressing requirements to increase local rates per FCC mandates while competitive pressures require rates to be more competitive, handling increased regulatory reporting, and adjusting for reduced revenue support mechanisms are just a portion of the regulatory adversities that all RLECs, including those owned by LICT, face today and in the future. LICT is vigilant in continually assessing these and other unknown future changes in order to adapt, whenever possible, to the new regulatory regimes and competitive issues.

Evelyn Jerden

Operational Review

The **CentraCom** team had an excellent year due to a multi-prong approach for increasing service and earnings. CentraCom continued to expand its fiber network throughout Utah in 2013, adding fiber facilities along the Wasatch Front and extensively throughout Millard County. The company now has over 900 route miles of back-bone fiber facilities and has one of the largest fiber footprints in the State of Utah. These facilities deliver high capacity Ethernet services to schools, hospitals, cell towers, and enterprise customers. The number of high speed internet customers increased substantially, adding 854 customers, for an 11.5% increase for the year. In addition, the company completed new interconnection arrangements to other carriers which opened the door for CentraCom to provide service to numerous entities never previously reached by our network. The company will continue to expand its residential and business offerings in 2014 and is looking forward to continued growth, especially in our non-regulated operations.

WNM Communications continued our focus on increasing non-regulated revenues in 2013 with an emphasis in the competitive local exchange carrier ("CLEC") markets of Silver City and Deming, New Mexico. CLEC revenues grew 55% year over year as we continued focusing on Voice over Internet Protocol ("VoIP") services in both markets with a great deal of success with the city and county government agencies. We made significant capital investments in 2013 in facilities in our regulated service to reach customers previously unserved or underserved and to upgrade broadband speed capabilities in order to provide high-speed internet service that is so critical to customers located in the most rural portions of this nation.

Central Scott Telephone efforts are paying off since it is capable of providing triple play service throughout its ILEC territory, with enhanced broadband speeds over 20 Mbps. Our non-regulated company, **CS Technologies**, has become a major CLEC in Davenport, Bettendorf, and Dubuque, Iowa, generating $1.8 million in revenue in 2013, up from $1.5 million in 2012. CLEC plans for 2014 include expanding into Moline and Rock Island, Illinois for continued CLEC growth.

In order to provide greater service capabilities within the regulated territory**, Cal-Ore Telephone** began the first phase of the FTTP project in the communities of Dorris and Tulelake, California. Cal-Ore also built network facilities to provide additional backhaul service for wireless carriers to multiple tower sites in their region and completed several significant fiber extension projects in the communities of Yreka, California and Klamath Falls, Oregon, in order to expand broadband capabilities in those areas. Cal-Ore has 265 route miles of fiber optic cable in both their regulated and non-regulated areas, plus very robust WiFi networks in their Oregon and California non-regulated operating areas. Cal-Ore also began providing broadband service to previously unserved areas due to their ARRA stimulus grant expansion project. The continued growth of the non-regulated operations, which is producing additional services and customers, will help position Cal-Ore for the future.

Given that the delivery of higher bandwidth speeds is becoming more critical to customers, **Dunkirk and Fredonia ("DFT")** and **Cassadaga** continue to focus on growing internet connectivity through both DSL and dedicated internet access. DFT expanded their fiber optic network and now has 186 miles of fiber in service, including facilities to Hamburg, NY, near Buffalo, which will open new markets and customers for the company. In addition, growing of our VoIP offering to enterprise and residential customers, as well as other deregulated services, is our primary focus for the future. The Company's ISP, Netsync Internet Services, was voted as the number one internet service provider for the seventh consecutive year by the Dunkirk, New York newspaper Reader's Choice Awards. Never forgetting our community, DFT held the 15th annual Robert Maytum Memorial Golf Tournament and raised $20,000 to benefit the Jamestown Community College scholarship program. This is in addition to several of DFT's employees participating in various community activities and non-profit boards throughout the year.

Our Kansas subsidiaries of **Haviland, JBN and Giant** have made, and are continuing to make, significant efforts to consolidate operations, improve network facilities and achieve greater efficiencies. The Wichita hosted VoIP operation, launched in 2012, continues to grow slowly, with reduced staff, in a more cost effective manner. Broadband growth continued in 2013 with Haviland surpassing 75% subscribership, as percentage of primary lines. Broadband revenues from customers now exceed voice-based customer revenues. JBN completed their in-town FTTP project, also partially funded by an ARRA stimulus grant, and will continue to improve their network in order to provide higher speed broadband service to its rural customers. Giant's network will also undergo network improvements to facilitate higher speeds.

In 2013, **Michigan Broadband Services** embraced our customer's mobility needs by development of our soft phone mobility applications enabling Android, Apple and Microsoft devices virtual desktop functionality without geographical restriction. Deployment of complete VoIP business communications systems, including service to businesses in the non-regulated CLEC town of Escanaba, Michigan, was also a major enhancement to the customer service offerings in 2013. The company completed $1.2 million in fiber optic upgrades and enabled a secondary fiber link to provide for increased DSL speeds, backhaul, disaster recovery, and metro Ethernet sales opportunities. The company replace our primary switch in the Lower Peninsula and performed network re-grades to increase functionality and reduce overall costs.

We are very pleased to report that 2013 was a transforming year for the **Bretton Woods Telephone Company's** network for improved quality of voice, data and video ("triple play") services to all of our subscribers. Funded in part by an American Recovery and Reinvestment Act of 2009 ("ARRA") stimulus grant, customers throughout the franchised area were upgraded to state-of-the-art fiber-to-the-premise ("FTTP") facilities. Customers are now being transferred to the new facilities and can receive high-speed service comparable to that received in urban areas. Despite our extremely remote location, the Mt. Washington Resort area businesses are not hampered by substandard telecommunications services since we are providing the highest quality of service, which should hopefully help facilitate economic growth in our service area.

LICT CORPORATION
DIRECTORS, OFFICERS, AND OTHER INFORMATION

Board of Directors

Mario J. Gabelli
Chairman & Chief Executive Officer of
LICT Corporation
Chairman, Chief Executive Officer & Chief Investment
Officer of GAMCO Investors, Inc.

Robert E. Dolan
Executive Vice President & Chief Finacial Officer
LICT Corporation

Salvatore Muoio
Managing Member of S. Muoio Co. LLC

Gary L. Sugarman
Private Investor &
Managing Member-Richfield Capital Partners

Officers

Mario J. Gabelli
Chairman of the Board &
Chief Executive Officer

Evelyn C. Jerden
Senior Vice President- Regulatory Dynamics

John M. Aoki
Controller

Carmine Ceraolo
Assistant Controller

Robert E. Dolan
Executive Vice President
& Chief Financial Officer

Thomas Hearity
Secretary & Acting General Counsel

Stephen J. Moore
Vice-President-Financial Reporting
and Analysis

Christina McEntee
Administrative Assistant

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