ICTC GROUP, INC.

ANNUAL REPORT FOR 2015

DESCRIPTION OF BUSINESS

BACKGROUND AND HISTORY OF ICTC GROUP, INC.

ICTC Group, Inc. (the "Company" or "ICTC"), formerly Sunshine PCS Corporation, was incorporated in 2000 to hold and develop three Personal Communications Service ("PCS") licenses for Tallahassee, Panama City and Ocala, Florida. These licenses were sold in 2003, and from then until March 2010 the Company was a holding company that was deemed a shell company under SEC rules. In March 2010, the Company issued 320,000 shares of Class A Common Stock to a subsidiary of LICT Corporation ("LICT") to acquire LICT's North Dakota operations. On May 24, 2010, LICT distributed 315,700 shares of the Company's Class A Common Stock to its shareholders and the Company changed its name to ICTC Group, Inc. on that date.

ICTC is a holding company for Lynch Telephone II, LLC, which in turn serves as a holding company for our two operating subsidiaries: Inter-Community Telephone Company, LLC ("Inter-Community") and Valley Communications, Inc. ("Valley"). Inter-Community is a rural local exchange carrier ("RLEC") serving communities in southeastern North Dakota and providing regulated telephone service. Valley is a competitive local exchange carrier ("CLEC") that provides internet, broadband data and other non-regulated services in and around Inter-Community's franchised telephone service territory.

The Company's shares are quoted on the OTC Pink ® market under the symbol "ICTG". ICTC's executive offices are located at 556 Main Street, Nome, North Dakota 58062. Its telephone number is 701-924-1000 and its website is http://ictcgroup.net/.

OPERATIONS

Organization and Locations. The Company provides local telephone services through Inter-Community, which was organized in North Dakota on July 9, 1947 and has provided telephone and related services there continuously for nearly seventy years. As of December 31, 2015, Inter-Community served a total of 1,774 telephone access lines, of which 1,209 were residential and 565 were business lines. Inter-Community's revenues in 2015 were $3.176 million. The Company's headquarters are located in Nome, ND and its service territory covers approximately 1,760 square miles, in the counties of Barnes, Cass, Griggs, Ransom and Steele in southeastern North Dakota. Within this area, Inter-Community has nine exchanges located in the communities of Alice, Buffalo/Wheatland, Dazey, Hannaford, Hope, Nome/Fingal, Page, Sanborn/Rogers, and Tower

City. These small communities are primarily residential and range from approximately 40 to 275 persons in population.

The Company provides non-regulated services, consisting primarily of its CLEC and internet operations, through Valley which was organized on May 21, 1998. Valley is licensed as a CLEC on a statewide basis in North Dakota. It serves approximately 1,050 customers in or adjacent to Inter-Community's service area and in Valley City, ND, through both broadband wireline and unlicensed wireless facilities. Valley's revenue in 2015 was $844,000. ICTC intends to continue to develop Valley's CLEC business both within and outside of Inter-Community's telephone service territory.

Products and Services. The principal business of the Company is to provide telecommunications services, including both voice and data communications. These services fall into the following major categories:

Local network services. Inter-Community provides telephone wireline access services to residential and business customers in its service area. We provide our local network customers a number of calling features including call forwarding, conference calling, caller identification, voicemail and call waiting. In addition, Valley provides broadband service, historically by means of DSL technology but with rapidly increasing use of fiber optics, for internet access to both business and residential users. The Company is continuing to invest in fiber optic technology which is greatly expanding the broadband capacities of its network.

Network access and transport services. Inter-Community offers network access to long-distance companies, allowing them to originate or terminate intrastate and interstate communications on our network. Interstate access compensation is based on tariffs filed with the Federal Communications Commission ("FCC"). In 2011, the FCC Order (as described below) required the reduction of terminating intrastate rates to interstate rate levels on a year-by-year basis, culminating in the reduction of such rates to zero by 2020. Currently our intrastate access revenues are based on intrastate access rates filed with the North Dakota Public Service Commission ("NDPSC"). Inter-Community is compensated for its intrastate costs through billing and keeping intrastate access charge revenues (i.e., there is no intrastate access revenue pool from which payments would be made to participating carriers; see discussion of the National Exchange Carrier Association below).

Inter-Community also offers network transport services to wholesale customers, primarily interexchange carriers ("IXCs") for their use in connecting end users to their networks. These network transport services include special access services, which are primarily DS-1 and DS-3 services, and high speed digital services, which are primarily Ethernet-based services provisioned over both copper and, increasingly, fiber optic facilities.

Non-Regulated Services. Valley provides wireless and wireline internet access and other broadband services to business and residential customers, in addition to leasing broadband facilities to other companies.

The following table summarizes certain information concerning the Company's operations:

	Years ended December 31	
	2015	2014
Operations:		
Voice Access Lines	1,774	1,793
% Residential	68%	67%
% Business	32%	33%
DSL Lines	1,012	973
% Residential	82%	83%
% Business	18%	17%
Internet subscribers (DSL, Wireless and Dial-up)	1,046	1,018
Total Revenues		
Local Service	11%	12%
Network Access and USF	60%	59%
Internet	14%	13%
Facility leases	13%	14%
Miscellaneous	2%	2%
	100%	100%

National Exchange Carrier Association. For interstate services, Inter-Community participates in the National Exchange Carrier Association ("NECA") common line ("CL") and traffic sensitive ("TS") tariffs and access revenue pools. The NECA revenue pools are intended to compensate RLECs, such as Inter-Community, for the costs of facilities utilized in originating and terminating interstate long distance services, including a reasonable rate-of-return.

Although Inter-Community bills interstate access charges to another carrier when an interstate long-distance call is originated by a customer in one of our exchanges, or when such a call is terminated to a customer in one of our exchanges, those interstate access revenues are remitted to the NECA pool. The Company also generates and remits interstate access revenue to the NECA pool when an IXC orders special access to connect interexchange private line services for its customers. Inter-Community bills interstate access charges in the same manner as it bills intrastate access charges; however, interstate access charges are tariffed by NECA on behalf of the NECA pools and are regulated by the FCC, not a state regulatory agency. Inter-Community remits the interstate access revenues to NECA and receives from NECA its cost-based interstate revenue requirement derived from FCC rules.

Inter-Community determines its interstate revenues through cost studies of the Company's own interstate costs. Interstate access revenue for rate-of-return carriers such as Inter-Community is based on an FCC regulated rate-of-return on investment, currently authorized at 11.25%, and on the recovery of operating expenses related to interstate access. The FCC rules require that the CL pool must earn the authorized rate-of-return, after all true-ups are completed; however, that requirement is not applicable to the TS pool. Rather, the NECA TS pool earns whatever rate-of-return the tariff rates produce given the actual demand during the year and the actual costs of the RLECs participating in the TS pool. For 2015, the TS pool achieved a rate-of-return slightly above the authorized rate, resulting in increased interstate earnings for RLECs, including Inter-Community.

As a cost-based RLEC, the Company receives the High Cost Loop Support ("HCLS") portion of the Universal Service Fund ("USF") based on the difference between our cost of providing the local loop connections to our customers compared to the national average cost per loop ("NACPL"). Our loop cost is substantially above the NACPL. Thus, if the NACPL increases and the Company's average cost per loop remains constant or decreases, our HCLS revenues would decline. Conversely, if the NACPL decreases and the Company's average cost per loop remains constant or increases, our HCLS revenues would increase.

REGULATORY ENVIRONMENT

Federal and State Regulation. Inter-Community and Valley are subject to federal and state regulatory jurisdictions. Inter-Community is regulated by the FCC for interstate telecommunications services and to a very limited extent by the NDPSC for intrastate telecommunications services. Both Inter-Community and Valley may also be subject to local government regulation and franchise requirements, in some cases, such as regarding the use of local streets and rights of way. The FCC and the state authorities do not regulate all providers that are within their jurisdictions in the same way. RLECs and other Incumbent Local Exchange Carriers ("ILECs") typically remain more highly regulated than CLECs, like Valley. However, under North Dakota law, the NDPSC does not generally regulate telephone companies that serve less than 8,000 access lines, and thus does not regulate Inter-Community except for a tariff-filing requirement.

The Federal Universal Service Fund. The principle of universal service was originally established in 1934 to address geographic differences in the costs of providing voice service. Its basic purpose is to enable all citizens to communicate over telephone networks regardless of geographical location and/or personal income. Following Congress' adoption of the Telecommunications Act of 1996 ("Telecom Act"), the FCC created the Universal Service Fund ("USF"). The Telecom Act required the adoption of explicit USF mechanisms; it also enlarged the scope of universal service to include additional high-cost and low-income subscribers, rural health care providers and school and library programs. The USF program that has the most impact on the Company is the high-cost program. The high-cost program provides support for companies operating in high-cost areas to ensure that they are able to provide telephone service at reasonable rates. USF high-cost payments are distributed by NECA and are only available to carriers that have been designated as an "eligible telecommunications carrier" ("ETC"). Inter-Community has been designated as an ETC. Inter-Community must certify annually to the Universal Service Administrative Company ("USAC", which assists the FCC in administering USF) that the USF funds it receives are being used in the manner intended.

Intercarrier Compensation and USF Reform. In November 2011, the FCC issued an Order (the "FCC 2011 Order") which made significant modifications to intercarrier compensation ("ICC"), the system by which communications carriers bill one another for handling traffic, and to USF. The FCC 2011 Order commenced the revision of all forms of ICC, gradually phasing down these charges, and implemented a new USF-related support mechanism, the Connect America Fund ("CAF"), for the deployment of broadband. The ICC reform proceeds through a number of steps to a "bill & keep" arrangement by July 1, 2020, under which there will be no compensation for the termination of traffic received from another carrier. The timeline for these steps depends on the type of traffic exchanged and the regulated status of the affected local exchange carrier.

Since the FCC 2011 Order, the FCC has taken several other steps to modify USF and the CAF. In particular, on December 18, 2014, the FCC adopted an increase in its minimum broadband speed threshold to require a standard of 10 Megabits per second ("MBPS") download speed and 1 MBPS upload speed (referred to as the "10/1" standard). The FCC does not expect a rate-of-return carrier such as Inter-Community to immediately upgrade its entire existing infrastructure to 10/1 capability. Rather, such carriers need to take the 10/1 standard into account when considering whether and where to upgrade their networks in the ordinary course of business, and must report their progress toward this goal in the annual updates to their five-year improvement plans. Currently, rate-of-return carriers are only required to build out their networks to 10/1 upon a customer's "reasonable request" as defined by the FCC using technical and financial criteria. However, the carriers must report any requests they deem unreasonable as unfulfilled requests in their annual reports to the FCC. USAC is responsible for verifying that there is sufficient evidence to demonstrate that unfulfilled requests were in fact unreasonable.

<u>The FCC's 2016 Order</u>. Most recently, on March 30, 2016, the FCC released an Order (the "2016 Order") and Further Notice of Proposed Rulemaking ("FNPRM") reforming USF support for rate-of-return carriers, including both High Cost Loop Support ("HCLS") and Interstate Common Line Support ("ICLS"). Rate-of-return companies can voluntarily elect to receive a fixed amount of USF support based on the FCC's Alternative Connect America Cost Model ("A-CAM") for a ten-year period, which would replace their existing HCLS and ICLS revenues. Carriers that do not elect A-CAM will receive support under a new Connect America Fund - Broadband Loop Support ("CAF-BLS") mechanism that will replace ICLS and continue HCLS support with certain modifications.

Neither A-CAM nor CAF-BLS funding support will be provided in census blocks where an unsubsidized competitor offers qualifying service, which is determined on the basis of certain FCC-prescribed threshold levels of broadband capacity. In addition, the 2016 Order adopted differing broadband deployment milestones, service performance requirements and reporting requirements for location-specific broadband speed data. A-CAM build-out requirements differ by certain density measures and are applied on a statewide basis for affiliated RLECs.

Census blocks which the incumbent carriers do not elect to serve at the new USF support amounts can be relinquished by the incumbents and will be placed in an auction where any interested parties, including the current provider, may bid for support.

The 2016 Order also reduces the allowable rate-of-return from the current 11.25 percent to 9.75 percent. For CAF-BLS carriers, there is a six-year phased transition of 25 basis points per year from July 1, 2016 through July 1, 2021; A-CAM uses the 9.75 percent rate immediately. The rate-of-return transition applies for both USF and rate-making.

A-CAM:

It is expected that the A-CAM program will commence on January 1, 2017 and apply for the following ten years. If A-CAM is elected, it must be adopted on a statewide basis for all affiliated companies. Carriers electing the A-CAM model will no longer be subject to rate-of-return regulation for common line ("CL") services and will no longer be able to participate in the National Exchange Carrier Association's

("NECA's") CL pool. The Order permits these companies to remain in NECA's tariff for access rates. In year eight of the A-CAN program, the FCC shall conduct a rulemaking to determine how support will be determined after the end of the 10-year period.

Census blocks where the incumbent or any affiliated entity is providing 10/1 Mbps or better broadband service using either Fiber to the Premise ("FTTP") or cable technologies are excluded entirely from eligibility for A-CAM. Also, if a carrier's statewide data shows the carrier already has 10/1 Mbps service to 90% of the carrier's eligible locations in the state, the carrier is not eligible to adopt A-CAM for that state.

Carriers electing A-CAM will be required to maintain voice and existing broadband service and to offer at least 10/1 Mbps to the statewide total of "fully funded" locations, and at least 25/3 Mbps to a certain percentage of the fully funded locations, by the end of the 10-year support term. The 2016 Order establishes deployment milestones during the 10-year A-CAM period for the provision of 10/1 Mbps service to eligible locations. The split between 25/3 Mbps and 10/1 Mbps obligations depends upon housing density on a statewide basis. Carriers will also be required to offer at least 4/1 Mbps to a defined number of locations on a statewide basis that are not fully funded (i.e., those locations with a calculated average cost above the "funding cap"; such locations will still receive the $200 per month maximum funding amount), and the remaining capped locations will be subject to a reasonable request standard.

The March 2016 Order provides a "challenge process" in which carriers may show that the amount of A-CAM support the FCC preliminarily determined to be appropriate for them is erroneous under the Order's rules. Inter-Community participated in that process, which ended on April 28, 2016, asserting that the FCC had substantially undercounted the number of census blocks in its service territory which are eligible for A-CAM. Although ICTC believes that we have proven the eligibility of these census blocks in Inter-Community's challenge, the FCC's decision cannot be predicted with any certainty. The FCC is expected to reach its final decisions on the A-CAM challenges and publish initial A-CAM support results by mid-year 2016. These initial results will be subject to potential revision based on the overall annual cap of $2 billion for USF support for all carriers electing A-CAM. It is currently expected that carriers will have until sometime in the third quarter or early fourth quarter of 2016 to make a final election between A-CAM and CAF-BLS.

Connect America Fund – Broadband Loop Support:

Carriers electing CAF-BLS will be subject to operating expense and capital expenditures limitations, as well as overall budget controls to maintain the $2 billion annual USF support budget. There will be a short transition period for carriers impacted by the operating expense cap. For CAF-BLS, new carrier-specific allowed capital expenditure amounts and five-year deployment obligations are established in the 2016 Order. Allowed capital expenditures are based on the extent to which the carrier has already deployed broadband, its forecasted CAF-BLS, density, a cost per location metric, and the percent a carrier is above or below the national broadband deployment average.

Support for any census blocks that are determined to be served 85% or more by an unsubsidized competitor will be eliminated from CAF-BLS support. There will also be a transition period for carriers whose CAF-BLS support is reduced due to unsubsidized competitors.

Further Notice of Proposed Rulemaking:

The FCC has requested comments, due May 12, 2016, in the FNPRM on proposed revisions in the allowed expenses, affiliated company transactions and cost allocations for ratemaking and USF support purposes for rate-of-return companies. The proposed rules are intended to establish measures governing appropriate expense levels for certain expense categories to eliminate inefficiencies and cross-subsidization. In addition, comments are requested on methods for reducing support in competitive areas; increasing support for rate-of-return carriers in Native American tribal lands and unserved areas; measures to improve the operation of the current rate-of-return system; and streamlining eligible telecommunications carrier annual reporting requirements. The rulemaking process is expected to be concluded in late 2016 or early 2017.

Intrastate Access Revenues. Inter-Community is currently compensated for its intrastate costs through billing and keeping intrastate access charge revenues (i.e., there are no intrastate access revenue pools). Intrastate access charge revenues are based on intrastate access rates filed with the state regulatory agency. If an RLEC's intrastate access charge rates were above the interstate rates at July 1, 2012, the FCC previously mandated that the carrier reduce its intrastate rates so that all intrastate rates were at or below interstate rates by July 1, 2013, and continued to be maintained at that level thereafter.

The FCC is also currently also considering issues such as 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 services that use Internet Protocol ("IP") and other advanced technologies; and the treatment of voice over IP ("VoIP"). Due to the potential changes impacting carriers such as Inter-Community, it is not possible to determine the impact, if any, that such additional ICC and USF reforms may have on the Company's future revenues at this time. The ICC and USF programs generate, on a combined basis, approximately 60% of the Company's revenues. The Company will continue to monitor these regulatory matters, participate in them as it deems appropriate, assess the potential impact on its consolidated financial position and results of operations, and will respond accordingly.

COMPETITIVE DEVELOPMENTS

For many years in the past, wireline telephone companies, and particularly RLECs such as Inter-Community, were the sole providers of local telephone exchange and related services in their franchised service territories. In more recent years, the competitive landscape has changed dramatically.

Wireless Services. For over twenty years, wireless services have become increasingly competitive with the wireline services provided by companies such as ICTC. Overall, wireless services are now ubiquitous and of high quality, for both voice and data. There has been a large and rapid migration of voice service from wireline to wireless providers with an attendant loss of customers, access lines and revenues for the wireline carriers. These competitive losses have slowed somewhat in recent years but are continuing. In addition, wireless carriers have increasingly implemented higher broadband speeds and are providing additional competition for internet access and broadband data transport. This broadband competition with the wireline carriers may intensify in the future as the speeds afforded by wireless technologies increase and wireless networks are progressively upgraded to incorporate the new technologies.

Wireline carriers such as ICTC's companies are responding to enhanced wireless competition by extending fiber optic facilities further into their networks and substantially increasing the broadband speeds they can offer. However, wireless services have had and will in all likelihood continue to have major competitive effects on wireline operations, although it is not possible to predict the full impact at this time.

Voice over Internet Protocol. Inter-Community has no wireline voice competition in its regulated RLEC footprint at the present time, although of course wireless voice usage is ubiquitous and increasing. However, Inter-Community customers may in the future use VoIP over non-regulated fiber, coaxial cable or DSL lines. Competition from VoIP services could have a substantially 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 the Company's revenues. Because of the rural nature of its operations, as described above, Inter-Community is a high-cost operation which receives substantial federal 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. Moreover, VoIP usage is increasing as a transport facility between switching centers. The FCC has ruled that IXCs must pay access charges on VoIP usage, but the FCC has frozen switched terminating access revenues for VoIP and is phasing down those revenues at the rate of five percent each year.

In addition to transport, many providers are increasing the use of VoIP for end-user services. This VoIP end user traffic is typically low-priced or even free although it requires the use of a broadband service, such as DSL or cable modem. Obviously, however, if the end user purchases the broadband service from a competitor, such as a cable or wireless broadband company, ICTC would lose all revenue associated with that VoIP service. It is not possible to determine the potential lost revenue from calls that are handled by VoIP rather than the public switched network. This is very similar to revenue losses due to wireless usage where minutes of use are being removed from the Company's switching platform to the wireless carrier's switch, thus reducing the Company's access revenues.

Other Competitors. ICTC's companies also experience limited competition from cable television companies for internet access and from IXCs for various telecommunications services. This competition affects the number of customers ICTC is able to acquire and the prices it is able to charge in some areas. Competition from cable providers and IXCs is expected to increase in the future, and additional competitors may emerge as well. The competitive pressure from a broad array of competitors to provide increased broadband speeds, while constraining prices, is likely to continue imposing financial and operational demands on ICTC.

ICTC is continuing to monitor each of the competitive and regulatory developments that may affect it, and attempting to assess the potential impacts in order to formulate effective responses. The Company will participate in regulatory proceedings as it deems appropriate and will respond to both regulatory and competitive marketplace changes as effectively as possible. These changes could have a material impact on ICTC, although it is not possible at this time to predict whether, when or to what extent that may be the case.

INVESTMENTS

The Company holds minority interests (less than 50% owned) in several investments that are described below.

Dakota Carrier Network, LLC. Inter-Community has a 3.43% ownership interest in Dakota Carrier Network, LLC ("DCN"), a statewide telecommunications system comprised primarily of fiber optic facilities and owned by Inter-Community and fourteen other North Dakota RLECs. DCN provides a broad range of services to its RLEC owners and other customers, including data, voice and video transport; Signaling System 7 ("SS-7"); and data storage. DCN is a member of Indatel, a nationwide association of twenty-five statewide fiber networks owned by RLECs within each of the states involved. Inter-Community's investment in DCN is accounted for using the equity method. Inter-Community's proportionate share of earnings was $378,008 for the year ended December 31, 2015 and $429,322 for the year ended December 31, 2014. Inter-Community's proportionate share of the book value of DCN was $1,854,462 at December 31, 2015 as compared to $1,798,462 at December 31, 2014. Inter-Community received $322,008 and $276,429 in cash distributions from DCN in 2015 and 2014, respectively.

Cellular Telephone Interests. Inter-Community owns stock in two corporations which hold minority interests in partnerships that provide wireless cellular telephone service in Rural Service Area ("RSA") #3 and RSA #5 in North Dakota. These RSAs cover areas with a total population of approximately 100,000. Verizon Wireless is the operating general partner in these entities. These RSAs are accounted for on a cost basis. Dividends received from the cellular investments were approximately $588,635 and $257,309 in 2015 and 2014, respectively.

OTHER ITEMS

- **Real Estate Properties.** The Company's real estate properties consist of a total of twenty acres of land located at eleven separate sites, most of which are small installations used to house switches. ICTC's principal holding is its main office at Nome, ND, which contains 4,326 square feet of office and storage space. In addition, ICTC has 4,400 square feet of garage space and a total of 5,035 square feet utilized for its switching facilities.

- **Network.** Inter-Community owns and provides its services over 1,660 miles of copper cable and 450 miles of fiber optic cable, using switches and other electronic facilities located throughout its service territory.

- **Other Patents, Licenses, Franchises.** Inter-Community and Valley hold other governmental authorizations of various types, but the Company does not believe they present any significant risk or burden to its business or operations. However, we cannot predict what additional or modified authorizations may be required in the future, or what impact, if any, they may have on the Company.

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

- **Seasonality.** No portion of the business of the Company is regarded as seasonal at a significant level.

- **Dependence on Particular Customers.** The Company does not believe that its business is dependent on any single customer or group of customers for local telephone or other services. However, most RLECs, including Inter-Community, receive 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 the Company. We cannot predict which, if any, IXCs or other significant customers may go bankrupt in the future.

- **Government Contracts.** In some instances, Inter-Community provides service to a governmental entity under tariff and/or special contracts. Inter-Community'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.** The Company had a total of 14 employees at December 31, 2015, as compared to 15 employees at December 31, 2014. None of our employees is represented by a labor organization or under any collective bargaining agreement. Our relationships with our employees are good.

SIGNIFICANT EVENTS

On November 20, 2012, we sold, in a private sale, 80,000 shares of our Class A common stock, constituting approximately 20% of the issued and outstanding shares of our Class A common stock, to CIBL, Inc., a Delaware corporation ("CIBL"), for an aggregate offering price of $1.76 million, pursuant to the terms of a stock purchase agreement. On December 26, 2012, CIBL purchased an additional 81,552 shares of our Class A common stock pursuant to a previously commenced tender offer, for an aggregate purchase price of approximately $1.8 million, excluding fees and expenses related to the offer, bringing CIBL's aggregate ownership to approximately 40% of our issued and outstanding shares of Class A common stock. On April 15, 2013, the Company received notice from CIBL that CIBL had acquired the right to vote an additional 46,000 shares of our Class A common stock pursuant to a voting agreement with MJG-IV LP, a partnership of which Mr. Mario J. Gabelli is the general partner. CIBL has also purchased additional shares of the Company on the open market. As a result, CIBL now controls approximately 55.5% of the voting power of our outstanding common stock. (See Risk Factors).

LEGAL PROCEEDINGS

From time to time, we are involved in litigation and regulatory proceedings arising out of our operations. Several IXCs have brought cases in courts across the nation against a total of hundreds of ILEC and RLEC defendants, alleging that they collected access charges from the IXCs in violation of FCC rules, and Inter-Community is one of the defendants in such suits.
These cases have all been consolidated before a single Federal District Court located in Dallas, Texas. In November 2015, that Court ruled in favor of the defendants and dismissed the IXCs' federal claims. The Court's ruling is likely to be appealed but we do not expect that it will be reversed or that if it were, the reversal would have a material effect on the Company. The Company is not party to any other legal proceedings at this time that would be material.

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 Business

The Company's management and other employees are not under contractual or other obligation to remain in their employment.

The Company has executive officers and craft employees (e.g., outside plant technicians and central office engineers) who are responsible for its day-to-day management and operation, but who are not contractually or otherwise obligated to continue in their employment with the Company. Most of the current management team and other employees have been with us for a number of years, but these persons are not bound by employment contracts and may leave their current positions at any time without further obligation to the Company. If that were to occur, the Company would attempt to recruit replacement management and craft personnel with appropriate qualifications to meet its needs. However, it is not certain that the Company would be able to acquire experienced management or craft employees on favorable terms or in a timely fashion, if its current managers or employees decided to resign.

The Company receives a portion of its income from distributions by entities in which it holds minority interests.

The Company has minority investments and partnership interests in various entities from which it receives equity income. Any distributions from such entities (in the form of dividends or otherwise) will be made at the discretion of the general partner or majority interest holder of each such entity. Although these distributions normally comprise a relatively small portion of the Company's combined revenues and other income, the Company may use such distributions to help meet its financial obligations generally and to help pay dividends, if it ultimately decides to pay dividends, on its common stock. If these distributions are decreased or terminated, it may be more difficult for the Company to meet its financial obligations and/or to provide some form of shareholder compensation.

The Company's businesses are subject to competition that may adversely impact them.

The markets for the telephone, broadband and related communications services which comprise the Company's businesses are highly competitive in densely-populated areas. That competition has been expanding into rural areas, including the areas served by the Company. Moreover, regulation and technological innovation can bring change quickly in the communications industry. These factors historically have had, and may in the future have, a significant and unpredictable impact on the competitive dynamics in each of the geographic and product/service markets where the Company operates or has interests. The Company faces competition from cellular telephone companies for voice, internet access and other broadband services. ICTC also faces competition for internet access and potentially for voice services from cable television operations and other VoIP providers. The Company expects that competition from each of these sources, as well as from new competitors, will expand and intensify in the future.

Some of the Company's competitors have brand recognition and financial, personnel, marketing and other resources that are much more extensive than those of ICTC. In addition, consolidation and strategic alliances within the communications industry or the development of new technologies could adversely affect the Company's competitive position. The Company cannot predict the number, type or capabilities of competitors that will emerge, whether as a result of existing or new technologies, or from federal and state regulatory or legislative actions. However, increased competition from existing and new entities is very likely and could have a materially adverse effect on the Company's businesses.

ICTC may not be able to successfully integrate new technologies, respond effectively to customer requirements, or provide new services.

The communications industry in general, and the RLEC and CLEC segments where the Company operates in particular, are subject to rapid and significant changes in technology, frequent new service introductions and evolving industry standards. The Company cannot predict the effect of these changes on its competitive position or profitability. Technological developments may reduce its competitiveness and require unbudgeted upgrades or the procurement of additional products. These developments could be expensive as well as time-consuming and difficult to implement. In addition, new products and services arising out of technological and/or market evolution may reduce the attractiveness of the services the Company currently provides. If the Company fails to adapt successfully to technological changes or obsolescence, or fails to respond successfully to changes in the marketplace, its results could suffer.

The Company may have difficulty raising additional capital to meet its business objectives.

ICTC may need additional capital to meet its business objectives and develop its operations. Such additional capital may need to be in the form of debt, and the Company may not be able to borrow or to raise sufficient additional capital at all or on terms that it considers acceptable. The inability to raise capital as needed or on favorable terms could adversely affect ICTC's existing operations and its ability to expand or otherwise develop its businesses.

A system failure could cause delays or interruptions of the Company's communications services, which could cause it to lose customers.

To be successful, ICTC's communications operations must continue to provide their customers reliable service. Some of the risks to the reliability of those services include:

- Physical damage to communication lines, switches or other facilities;
- Power surges or outages;
- Software and hardware defects; and
- Other environmental disruptions beyond the Company's control.

These and other events may cause interruptions or delays in service, or reduced capacity to serve customers, either of which could cause the Company to lose customers and/or incur expenses. ICTC's competitive position could also be adversely affected by such disruptions or delays.

Risks Related to Our Regulatory Environment

We are subject to significant regulations that could change in a manner adverse to us.

The Company operates in a heavily regulated industry and the majority of its revenues are supported by governmental regulations, including ICC and USF support for the provision of telephone services in rural areas. As discussed above, the FCC Order, the impending A-CAM program and subsequent regulatory developments could ultimately effect fundamental changes in the financial structure and characteristics of the telecommunications industry. Moreover, existing laws and regulations applicable to the Company and its competitors may be, and have been, challenged in the courts, and could be changed by Congress or regulators in a manner adverse to ICTC. In addition, any of the following have the potential to have a significant impact on the Company:

- *Risk of loss or reduction of network access revenues*. A significant portion of the Company's revenues come from network access charges, which are paid to it 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 the Company's access services could negatively impact its business, financial condition and results of operations. Furthermore, the amount of access charge revenues that ICTC currently receives is based on rates set by federal and state regulatory bodies, and those rates are being impacted by the FCC Order as noted above. The FCC 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. The significant changes in the access charge system, if not offset by a revenue replacement mechanism, could result in a significant decrease in the Company's revenues. Decreases in or loss of access charges may or may not result in offsetting increases in local, or subscriber line, revenues. The FCC Order and regulatory developments of this type could adversely affect our business, financial condition and results of operations.

- *Risk of loss or reduction of USF support*. We receive USF payments to help fund our operations. Any changes to the existing rules could reduce the USF revenues we receive. 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. Moreover, 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*. Inter-Community is exempt from the Telecom 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. Although it appears highly unlikely, if the NDPSC were to decide that some or all of these requirements should be imposed upon Inter-Community, we would be required to provide unbundled network elements to competitors in our service areas. As a result, more competitors could enter the Company's 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*. Regulations create significant compliance costs for the Company, and are expected to continue to do so. With regard to the provision of intrastate services, Inter-Community is currently subject only to minimal certification and tariff filing requirements, but these requirements could be increased in the future. Its interstate access services are currently provided in accordance with tariffs filed with the FCC by NECA. Challenges in the future to NECA's tariffs by regulators or others, or delays in the Company obtaining certifications and regulatory approvals could adversely affect its revenues. We are also occasionally 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 adverse actions.

The Company's 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 the Company's business.

- *Additional regulatory changes in the communications industry could adversely affect the Company's business by facilitating greater competition, reducing potential revenues or raising its costs*.

  The Telecom Act provides for significant, 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 could be subjected to additional judicial review or affected by future rulings of the FCC, thus making it impossible to predict whether, on an ongoing basis, the legislation will have a material adverse effect on the Company's business, financial condition or results of operations. In addition to the implementation of the FCC Order and the A-CAM program, other regulatory or judicial proceedings may address issues affecting our operations and those of our competitors. The Company cannot predict the timeframe or outcome of these developments, nor is there any assurance that these changes will not have a material adverse effect on ICTC.

Risks Related to our Stock

We are currently controlled by CIBL, which may elect all of our Directors and determine the Company's actions and policies.

CIBL directly owns approximately 43.5% of our outstanding Class A common stock. Through a voting rights agreement with MJG-IV LP, a partnership of which Mr. Mario J. Gabelli is the general partner, CIBL acquired the right to vote an additional 46,000 shares of our outstanding Class A common stock. As a result, CIBL now controls approximately 55.5% of the voting power of our outstanding Class A common stock.

For as long as CIBL continues to control the power to vote more than a majority of the voting power of our shares of Class A common stock, CIBL will be able to direct the election of all of the members of our Board of Directors and exercise a controlling influence over our business and affairs, including any determinations with respect to mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional common stock or other equity securities, the repurchase or redemption of common stock and the payment of dividends. Similarly, CIBL will have the power to determine matters submitted to a vote of our stockholders without the consent of our other stockholders, will have the power to prevent a change in our control and could take other actions that might be favorable to CIBL. The interests of CIBL may not always fully coincide with the interests of other stockholders, and CIBL may act in a manner that advances its own best interests. This possibility may affect the prevailing market price for our securities.

We do not currently plan to pay cash dividends.

The Company does not have any plan to pay cash dividends on its common stock. Whether the Company pays cash dividends in the future will be at the discretion of its board of directors and will be dependent upon its legal obligations, financial condition, results of operations, capital requirements, and any other factors that its board of directors decides are relevant

Our common stock lacks a significant trading market.

Our common stock is quoted on the OTC Pink ® market. However, there is a limited trading market for our common stock at this time. There is no assurance that an active trading market in our common stock will develop, or if such a market develops, that it will be sustained. The OTC Pink® market for out stock is highly illiquid. As a result, an investor may find it difficult or inconvenient to dispose of, or to obtain accurate quotations as to the market value of, our common stock or to obtain coverage for significant news events concerning us. In addition, our common stock could be or become relatively unattractive for margin loans, for investment by financial institutions, as consideration in future capital raising transactions or for other purposes.

Future sales and issuances of our equity securities or rights to purchase our equity securities would result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to fall.

To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine appropriate from time to time. If we sell common stock, convertible securities or other equity securities in more than one transaction, investors may be further diluted by subsequent sales. Such sales may also result in material dilution to our existing stockholders, and new investors could gain rights superior to existing stockholders.