LICT CORPORATION

Quarterly Report for period ended March 31, 2014

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LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share amounts)

	March 31, 2014	December 31, 2013	March 31, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	$ 10,559	$ 9,272	$ 9,945
Receivables, less allowances of $381, $343 and $297, respectively	7,604	8,008	8,677
Material and supplies	3,931	3,765	3,877
Prepaid expenses and other current assets	2,262	2,387	3,086
Deposit with FCC*	--	11,000	--
Total current assets	24,356	34,432	25,585
Property, plant and equipment:			
Land	1,022	1,022	1,114
Buildings and improvements	19,740	19,691	19,305
Machinery and equipment	311,380	307,804	302,016
	332,142	328,517	322,435
Accumulated depreciation	(233,532)	(228,959)	(226,551)
	98,610	99,558	95,884
Goodwill	59,465	59,465	59,465
Other intangibles	2,614	2,650	2,757
Investments in and advances to affiliated entities	5,460	5,303	4,992
Other assets	7,679	8,080	8,390
Total assets	$ 198,184	$ 209,488	$ 197,073

See accompanying Notes to Condensed Consolidated Financial Statements.

****Deposit with Federal Communications Commission for Auction 96***

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except share amounts)

	March 31, 2014	December 31, 2013	March 31, 2013
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable to banks	$ 16,600	$ 17,200	$ 13,602
Note payable to affiliate	--	11,000	--
Trade accounts payable	3,225	4,744	3,107
Accrued interest payable	262	294	237
Accrued liabilities	6,788	6,225	9,426
Current maturities of long-term debt	6,838	8,069	6,630
Total current liabilities	33,713	47,532	33,002
Long-term debt	46,563	46,487	55,665
Deferred income taxes	18,436	18,721	17,265
Liability for unrecognized tax benefits	--	--	18
Other liabilities	6,862	6,689	5,697
Total liabilities	105,574	119,429	111,647
Commitments and contingencies			
Shareholders' equity			
Common stock, $0.0001 par value-10,000,000 shares authorized; 26,637.50, issued; 22,327.37, 22,486.37 and 22,684.37 outstanding	--	--	--
Additional paid-in capital	16,637	16,637	16,637
Retained earnings	87,030	84,305	78,769
Accumulated other comprehensive income (loss)	--	--	(19)
Treasury stock, 4,310.13, 4,151.13 and 3,953.13 shares, at cost	(11,575)	(11,379)	(10,397)
Shareholders' equity attributable to LICT	92,092	89,563	84,990
Noncontrolling interests	518	496	436
Total shareholders' equity	92,610	90,059	85,426
Total liabilities and shareholders' equity	$ 198,184	$ 209,488	$ 197,073

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Revenues	$ 24,983	$ 23,467
Costs and expenses:		
Cost of revenue, excluding depreciation	11,354	10,942
General and administrative costs at operations	3,437	3,391
Corporate office expenses	759	754
Depreciation and amortization	4,684	4,315
Total Costs and Expenses	20,234	19,402
Operating profit	4,749	4,065
Other income (expense):		
Investment income	443	470
Interest expense	(1,169)	(1,179)
Equity in earnings of affiliated companies	356	359
Gain on sale of assets	118	406
	(252)	56
Income before income taxes	4,497	4,121
Provision for income taxes	(1,727)	(1,563)
Net income	2,770	2,558
Noncontrolling interests	(21)	(29)
Net income attributable to LICT	$ 2,749	$ 2,529
Basic and diluted weighted average shares	22,478.51	22,953.58
Basic and diluted earnings per share:		
Net income from continuing operations	$ 123.27	$ 111.44
Net income attributable to LICT	122.30	110.18
Net earnings per share, included above, attributable to:		
Gain on sale of assets	-	10.79
Basic and diluted earnings per share excluding unusual items:		
Net income from continuing operations	$ 123.27	$ 100.65
Net income attributable to LICT	122.30	99.39

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Shares of Common Stock Out-standing	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Non-controlling Interest	Total
Balance at December 31, 2013	22,486.37	$ --	$ 16,637	$ 84,305	$ (11,379)	$ 496	$ 90,059
Net income for the period	--	--	--	2,725	--	22	2,747
Purchase of Treasury Stock	(63)	--	--	--	(196)	--	(196)
Balance at March 31, 2014	22,423.37	$ --	$ 16,637	$ 87,030	$ (11,575)	$ 518	$ 92,610

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31, 2014	2013
Operating activities:		
Net Income attributable to LICT	$ 2,749	$ 2,529
Adjustments to reconcile net income attributable to LICT to net cash provided by operating activities:		
Depreciation and amortization	4,684	4,314
Equity in earnings of affiliated companies	(356)	(359)
Distributions received from affiliated companies	313	--
Other gains	(118)	(406)
Deferred income tax provision	(262)	--
Noncontrolling interest	21	29
Changes in operating assets and liabilities:		
Accounts receivables	404	466
Income tax payable/ receivable	1,923	1,204
Accounts payable and accrued liabilities	(3,250)	(1,437)
Other Operating assets and liablities	(41)	(49)
Other	212	--
Net cash provided by operating activities	6,279	6,291
Investing activities:		
Capital expenditures	(3,332)	(3,426)
Stimulus grant spending	--	(251)
Stimulus grant recoveries	--	397
Investment in restricted cash	(71)	--
Proceeds from sale of investments	--	499
Other	360	239
Net cash provided by (used in) investing activities	(3,043)	(2,542)
Financing activities:		
Issuance of long term debt	--	458
Repayments of long term debt	(1,109)	(1,195)
Borrowings related to lines of credit, gross	--	--
Repayments related to lines of credit, gross	(600)	(1,560)
Purchase of treasury stock	(196)	(537)
Deferred debt issue costs	(44)	--
Net cash used in financing activities	(1,949)	(2,834)
Net increase/(decrease) in cash and cash equivalents	1,287	915
Cash and cash equivalents at beginning of period	9,272	9,030
Cash and cash equivalents at end of period	$ 10,559	$ 9,945
Cash paid for:		
Interest expense	$ 234	$ 1,191
Income taxes	54	520
Non cash transactions:		
Purchases of property, plant and equipment included in payables or accruals at:		
- End of period	222	392
- Beginning of period	1,082	698

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Basis of Presentation

LICT Corporation ("LICT" or the "Company") consolidates the operating results of its subsidiaries. All material intercompany transactions and balances have been eliminated. Investments in affiliates in which the Company does not have a majority voting control, but has the ability to significantly influence management decisions, are accounted for in accordance with the equity method. The Company accounts for the following affiliated companies on the equity basis of accounting: a cellular partnership in California (25% owned) and telecommunications operations in Iowa and New York (5% to 14% owned).

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they are not audited and do not include all of the information and footnotes required for complete financial statements. These consolidated financial statements and footnotes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report for the year ended December 31, 2013. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

B. Other gains

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. In May 2014, WAPSI Wireless LLC., in which a subsidiary of LICT has a 14.2% ownership interest, completed the sale of assets and distributed the net proceeds to its owners. As a result of this transaction LICT recognized a pretax gain of $50 thousand.

C. Investments in Affiliated Companies

A subsidiary of LICT owns a 25% partnership interest in a cellular telephone provider in Northern California, California RSA #2 ("RSA #2). As of March 31, 2014, December 31, 2013 and March 31, 2013, the net investment in the partnership was $4.1 million, $4.0 million and $3.5 million, respectively. The Company's share of income, included in Equity in Earnings of Affiliated Companies was $0.3 million for the three months ended March 31, 2014 and 2013.

D. Indebtedness

In May 2014, the Company executed a line of credit agreement with an affiliate of its Chairman and Chief Executive Officer. This new line of credit replaces the previous line of credit facility with similar terms. This short-term line of credit facility totals $25.0 million expires on March 31, 2015. Borrowings under this and earlier facilities were $16.6 million, $17.2 million and $13.6 million at March 31, 2014, December 31, 2013 and March 31, 2013, respectively. Borrowing under the line of credit facility are included in Notes payable to banks. Long-term debt consists of (all interest rates are at March 31, 2014) (in thousands):

	March 31, 2014	December 31, 2013	March 31, 2013
Rural Electrification Administration (“REA”) and Rural Telephone Bank (‘RTB”) notes payable due quarterly through 2027 at fixed interest rates ranging from 2% to 7.5%. (5.1% weighted average, secured by assets of the telephone companies with a net book value of $38 million)	$ 8,042	$ 8,663	$ 12,640
Bank Credit facilities utilized by certain telephone and telephone holding companies due through 2017, at variable interest rates averaging 3.4%	12,380	13,346	15,828
Unsecured notes issued in connection with acquisitions at fixed interest rates averaging 8.0%	31,697	31,697	33,198
Other	1,281	850	629
	53,400	54,556	62,295
Current maturities	(6,838)	(8,069)	(6,630)
	$ 43,563	$ 46,487	$ 55,665

F. Litigation

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

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.

G. Related Party Transactions

At March 31, 2014, December 31, 2013 and March 31, 2013, assets of $5.6 million, $4.4 million and $4.3 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 and Chief Executive Officer serve as investment manager to the respective funds.

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 provide a broad array of communications services to residential, commercial and governmental customers, principally in or near our historic telephone coverage areas.

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.

First quarter ended March 31, 2014 compared to 2013

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

	2014	2013
Regulated revenues:		
Local access	$ 2,421	$ 2,613
Interstate access	9,606	8,726
Intrastate access	2,530	2,498
Other regulated	393	456
Total regulated revenues	14,950	14,293
Broadband and other non-regulated	10,033	9,174
Total revenues	24,983	23,467
Operating Cost and Expense:		
Cost of revenue, excluding depreciation	11,354	10,942
General and administrative costs at operations	3,437	3,391
Corporate office expenses	759	754
Depreciation and amortization	4,684	4,315
Total	20,234	19,403
Operating profit	$ 4,749	$ 4,065

Total revenues in 2014 increased $1.5 million, or 6.5%, to $25.0 million compared to $23.5 million in 2013. While regulated regulated revenues increased by $0.7 million or 4.6% to $15.0 million. Interstate access revenue increased $0.9 million in 2014. Revenues from broadband and other non-regulated services increased $0.9 million or 9.3% primarily due to the sale of additional broadband circuits outside of our regulated service territory, additional video revenue and the sale of communications equipment. Our DSL penetration was 71.7% at March 31, 2014 compared to 67.8% at March 31 2013.

Total costs and expenses were $20.2 million in 2014, an increase of $1.8 million compared to 2013. Costs of revenue increased $0.9 million, primarily due to increased costs from the growing internet and cable television operations. Both corporate office expenses and general and administrative costs incurred at the operations increased by less than $0.1 million. Depreciation and amortization increased by $0.4 million from 2013 to 2014, due to recent capital expenditures.

As a result of the above, operating profit in 2014 increased by $0.7 million from $4.0 million in 2013 to $4.7 million in 2014.

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.

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

	2014	2013
EBITDA from:		
Operating units	$ 10,505	$ 9,134
Dividends from equity affiliates	313	--
	10,192	9,134
Corporate expense	(759)	(754)
EBITDA	$ 9,433	$ 8,380
Reconciliation to net income:		
EBITDA	$ 9,433	$ 8,380
Less dividends from equity affiliates	(313)	--
Depreciation and amortization	(4,684)	(4,315)
Investment income	444	470
Interest expense	(1,169)	(1,179)
Equity in income of affiliates	356	359
Other gains	118	406
Income tax	(1,727)	(1,563)
Net income	$ 2,770	$ 2,558

Other Income (Expense)

In 2014, investment income and interest expense were the same as 2013.

Equity in earnings of affiliates increased in 2014 primarily due 2013 first quarters equity in affiliates being received in the 2nd quarter of 2013.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2014 and 2013, represent effective tax rates of 38.4% and 37.9%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes.

Net Income

Net income in the first quarter of 2014 was $2.8 million, or $123.27 per share (basic and diluted), compared to a net income last year of $2.6 million, or $111.44 per share (basic and diluted). The Company has no dilutive instruments outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The debt at certain of LICT's subsidiary companies contains restrictions on the amount of funds that can be transferred to their respective parent companies. For the subsidiaries with restrictions, 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 by the sale of assets.

In May 2014 the company secured a $25 million line of credit facility with an affiliated partner, which will expire on March 31, 2015. This new line of credit facility replaces its existing $17.5 million line of credit, that was set to expire on June 30, 2014. Management believes this new line of credit provides adequate liquidity for the next twelve months, while it continues to pursue various refinancing options. This will enhance its ability to take the financial and operations steps necessary for to secure the future growth of the Company.

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 March 31, 2014: LICT spent $7.1 million on such stimulus projects, of which it has recovered $4.9 million and expects to recover an additional $1.7 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 March 31, 2014 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	$ 53,400	$ 6,838	$ 25,210	$ 18,987	$ 2,365
Operating leases	893	156	159	485	93
Notes payable to banks, principal only	16,600	16,600	--	--	--
Interest on debt and notes	8,768	3,249	4,117	1,389	12
Total contractual cash obligations and commitments	$ 79,661	$ 26,843	$ 29,487	$ 20, 861	$ 2,470

At March 31, 2014, total debt (including notes payable to banks) was $70.8 million, a decrease of $2.6 million from December 31, 2013. At March 31, 2014, there was $41.6 million of fixed interest rate debt outstanding, averaging 6.7%, and $12.1 million of variable interest rate debt, averaging 3.2%. The debt at fixed interest rates includes $31.2 million of subordinated notes at interest rates averaging 7.2% 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.

LICT has a manageable degree of financial leverage. As of March 31, 2014, the ratio of total debt to total EBITDA, on a trailing twelve month basis, was 2.1 to 1. Certain subsidiaries have higher debt to EBITDA profit ratios.

As of March 31, 2014, LICT had current assets of $24.3 million and current liabilities of $33.7 million resulting in negative working capital of $9.3 million compared to negative $13.3 million at December 31, 2013.

Sources and Uses of Cash

Cash at March 31, 2014, was $10.6 million, an increase of $1.3 million compared to December 31, 2013. In the first three months of 2014, net cash provided by operations of $6.3 million was primarily used to invest in plant and equipment and repay debt.

In the three months, capital expenditures were $3.7 million in 2014 compared to $3.4 million in 2013, of which 71% and 67% were spent at the RLECs and, for our cost based companies, will be included in their rate bases for rate setting purposes.

In 2008 through the present, the Company has taken bonus depreciation deductions for eligible property additions as allowed by the Internal Revenue Service of 50%, starting January 1, 2008, 100%, starting September 9, 2010 through December 31, 2011 and 50% starting January 1, 2013. Such deductions which 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 $0.4 million in the six months of 2013 compared to $0.4 million in the current period.

The Company's Board of Directors has authorized the purchase of up to 5,000 shares of the Company's common stock. Through March 31, 2014, 4,214 shares have been purchased at an average investment of $2,746 per share, including 63 shares purchased in 2014 at an average investment of $3,109 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.