LICT CORPORATION AND SUBSIDIARIES

Quarterly Report for period ended March 31, 2018

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

	March 31, 2018	December 31, 2017	March 31, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	$10,045	$7,054	$11,566
FCC Deposit-Auction 1002[(a)]	--	--	11,000
Receivables, less allowances of $316, $348, and $308, respectively	7,996	8,737	7,838
Material and supplies	4,500	4,205	4,183
Prepaid expenses and other current assets	2,544	2,151	2,246
Total current assets	25,085	22,147	36,833
Property, plant and equipment:			
Land	955	955	955
Buildings and improvements	17,641	17,648	17,450
Machinery and equipment	343,291	339,439	323,856
	361,887	358,042	342,261
Accumulated depreciation	(270,196)	(266,391)	(256,240)
	91,691	91,651	86,021
Goodwill	48,764	48,764	48,764
Other intangibles	2,623	2,628	1,963
Investments in and advances to affiliated entities	4,584	5,201	5,018
Other assets	9,292	9,534	9,149
Total assets	$182,039	$179,925	$187,748

(a) Received refund of $10.3 million in April 2017, which is net of license awarded

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2018	December 31, 2017	March 31, 2017
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable	$2,566	$3,089	$2,524
Accrued interest payable	136	119	158
Accrued liabilities	6,287	5,139	9,542
Current maturities of long-term debt	2,425	2,425	4,711
Total current liabilities	11,414	10,772	16,935
Long-term debt	26,576	28,576	34,888
Deferred income taxes	14,648	14,673	20,008
Other liabilities	3,704	3,665	3,914
Total liabilities	56,342	57,686	75,745
Shareholders' equity			
Common stock, $0.0001 par value-10,000,000 shares authorized; 26,830.50, 26,795.50, 26,637.50 issued; 20,427.37, 20,509.37 and 21,266.37outstanding	--	--	--
Additional paid-in capital	17,484	17,470	17,393
Retained earnings	136,555	131,734	112,953
Treasury stock, 6,403.13, 6,286.13 and 5,530.98 shares, at cost	(28,342)	(26,965)	(18,343)
Total shareholders' equity	125,697	122,239	112,003
Total liabilities and shareholders' equity	$182,039	$179,925	$187,748

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, 2018	Three Months Ended March 31, 2017
Revenues	$27,168	$26,086
Costs and expenses:		
Cost of revenue, excluding depreciation	11,933	11,840
General and administrative costs at operations	2,799	2,813
Corporate office expenses	982	1,053
Depreciation and amortization	5,064	4,595
Total Costs and Expenses	$20,778	$20,301
Operating profit	6,390	5,785
Other income (expense):		
Investment income	283	275
Interest expense	(493)	(592)
Equity in earnings of affiliated companies	345	396
Other	19	2
	154	81
Income before income taxes	6,544	5,866
Provision for income taxes	(1,723)	(2,258)
Net income	$4,821	$3,608
Weighted average shares outstanding:		
Basic average shares outstanding	20,459	21,176
Diluted average shares outstanding	20,483	21,270
Actual shares outstanding	20,427	21,266
Earnings per share:		
Basic	$235.64	$170.38
Diluted	235.37	169.63

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	Total
Balance at December 31, 2017	20,509.37	$--	$17,470	$131,734	($26,965)	$122,239
Net income for the period	--	--	--	4,821	--	4,821
Restricted and Other Stock Awards	35.00	--	14	--	--	14
Purchase of Treasury Stock	(117.00)	--	--	--	(1,377)	(1,377)
Balance at March 31, 2018	20,427.37	$--	$17,484	$136,555	($28,342)	$125,697

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,	
	2018	**2017**
Operating activities:		
Net Income	$4,822	$3,608
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,086	4,624
Equity in earnings of affiliated companies	(345)	(396)
Distributions received from affiliated companies	873	213
Deferred income tax provision	(60)	(89)
Restricted and Other Stock Award Expense	13	231
Changes in operating assets and liabilities:		
Accounts receivables	741	(433)
Income tax payable/ receivable	1,389	2,484
Accounts payable and accrued liabilities	(704)	(143)
Other Operating assets and liabilities	(697)	(1,004)
Other	(25)	(44)
Net cash provided by operating activities	11,093	9,051
Investing activities:		
Capital expenditures	(5,089)	(3,446)
Other	371	296
Net cash used in investing activities	(4,718)	(3,150)
Financing activities:		
Repayments of long term debt	--	(988)
Repayments related to lines of credit, net	(2,000)	(1,500)
Purchase of treasury stock	(1,384)	(312)
Other	--	(5)
Net cash used in financing activities	(3,384)	(2,805)
Net increase in cash and cash equivalents	2,991	3,096
Cash and cash equivalents at beginning of period	7,054	8,470
Cash and cash equivalents at end of period	$10,045	$11,566

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 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 New York, California and Utah (5% to 20% 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, 2017. 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 month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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. Investments in Affiliated Companies

A subsidiary of LICT owns a 25% partnership interest in a cellular communications provider in Northern California, California RSA #2 ("RSA #2"). As of March 31, 2018, December 31, 2017 and March 31, 2017, the net investment in the partnership was $3.3 million, $3.8 million, and $4.0 million, respectively. The Company's share of income, included in Equity in Earnings of Affiliated Companies was $335 thousand and $421 thousand for the three months ended March 31, 2018 and 2017, respectively. Cash distributions from RSA # 2 for the three months ending March 31, 2018 and 2017 were $538 thousand and $213 thousand, respectively.

	March 31,	
	2018	**2017**
OPERATING RESULTS		
Three Months Ended		
Revenues	$5,785	$5,519
Gross Margin	3,646	3,346
Net profit	2,076	1,685
BALANCE SHEET		
Current assets	$5,577	$4,728
Property, plant and equipment and Other – net	11,008	11,351
	$16,585	$16,079
Current liabilities	$1,367	$1,435
Long-term liabilities	2,048	2,111
Partners' equity	13,170	12,533
	$16,585	$16,079

C. Indebtedness

The Company has a $50 million line of credit agreement with CoBank, ACB ("CoBank"), which expires in December 2019 with an interest rate of LIBOR plus 2.5%. The average balance of notes payable outstanding was $9.7 million in the first quarter of 2018; the highest amount outstanding was $10.6 million in 2018; and the average interest rate was 4.15% in 2018.

Long-term debt at March 31, 2018, December 31, 2017, and March 31, 2017 consists of (all interest rates are at March 31, 2018) (in thousands):

	March 31, 2018	**December 31, 2017**	**March 31, 2017**
Rural Electrification Administration ("REA") and Rural Telephone Bank ('RTB") notes payable	$--	$--	$1,351
Bank Credit facilities utilized by certain telephone and telephone holding companies due through 2019, at variable interest rate of 3.25%.	--	--	1,415
Secured notes issued to sellers in connection with acquisitions at fixed interest rate of 6.0%	7,647	7,647	7,647
Unsecured notes issued in connection with acquisitions at fixed interest rates or either $6.0% or 8.0%	12,754	12,754	14,729
Revolving credit facility from CoBank, ACB at Brighton Communications Corporation, secured by the assets of certain operations and holding companies at variable interest rate of 4.43%	8,600	10,600	14,500
Deferred Finance Costs	--	--	(43)
	29,001	31,001	39,599
Current maturities	(2,425)	(2,425)	(4,711)
	$26,576	$28,576	$34,888

D. Litigation

LICT or a subsidiary thereof 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.

E. Related Party Transactions

At March 31, 2018, December 31, 2017 and March 31, 2017, assets of \$4.6 million, \$3.3 million and \$7.9 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 serves 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, primarily in rural areas but with continuing expansions in adjacent urban communities, which are detailed in the Telecommunications Operations section of this report. 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 California, Iowa, Kansas, Michigan, New Hampshire, New Mexico, Utah and Wisconsin.

The broad array of communications services which we provide to residential, commercial and governmental customers include:

- Local and long-distance telephone service;
- Broadband services, principally Digital Subscriber Lines (“DSL”) and cable modem services which are increasingly provided through fiber optic technologies;
- Video services, including cable television and Internet Protocol Television (“IPTV”);
- Access for other telephone service providers to the intra-state and interstate networks;
- Private line connections between, for example, two branches of a business;
- Public access, including, for example, 911 service;
- Managed Hosting, where we host virtual switchboards for customers; and
- Wireless broadband service, primarily for very remote customers

The federal and state governments have long had a policy of encouraging and promoting telephone and other communication services in rural areas because it provided benefits to all Americans and to the nation as a whole. 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 economically feasible without numerous federal and state support mechanisms, which are generally referred to as Universal Service Funds (“USF”). Such programs evolve constantly to take into consideration customer needs, as well as new services and technologies, and to encourage RLECs to invest in and support the new technologies and provide new services to their customers. In addition, the rates we can charge for some of our services are regulated by the FCC and in many cases, the various state public utility commissions. We devote considerable management attention to understanding, utilizing and complying with these different governmental programs, incentives and regulatory structures. There is no certainty that such support programs will continue at the same levels as they have in the past, and some reductions have already occurred although the FCC’s new A-CAM support program, discussed below, has significantly increased the amount of federal support we are receiving. Overall, we believe that the various governmental agencies will continue to encourage and support the provision of modern communications services for people living in high-cost, rural areas. People are communicating more, and in more ways, than ever before – including the rural population as well as urban dwellers. We believe that this expansion of communications creates an opportunity for us to successfully develop the Company’s business, as rural customers demand additional and better communications infrastructure.

The spreading acceptance and demand of high-speed internet has been a major growth area for our Company. In particular, the number of broadband subscribers has grown dramatically in recent years. This has been offset, in part, by reductions in the number of traditional voice telephone lines we serve, as consumers replace traditional telephone connections with new technologies. We expect such shifts in consumer behavior to continue and we, in turn, are continuing to develop our Company as a broad-based communications provider, whatever the technology, rather than simply a provider of rural voice telephone connections.

First quarter ended March 31, 2018 compared to 2017

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

	2018	2017
Regulated revenues:		
Local access	$1,846	$1,914
Interstate access	10,555	10,345
Intrastate access	2,302	2,274
Other regulated	297	325
Total regulated revenues	15,000	14,858
Non-regulated revenues:		
Broadband and related services	7,848	7,379
Video (including cable modem)	3,186	2,818
Other	1,134	1,031
Total non-regulated revenues	12,168	11,228
Total revenues	27,168	26,086
Operating Cost and Expense:		
Cost of revenue, excluding depreciation	11,933	11,840
General and administrative costs at operations	2,799	2,813
Depreciation and amortization	5,064	4,595
Total operating costs and expenses	19,796	19,248
Operating profit before corporate expenses	7,372	6,838
Corporate office expenses	982	1,053
Operating profit	$6,390	$5,785

In the 1st Quarter of 2018, our non-regulated revenues grew by $1.0 million to $12.2 million, a 8.4% increase as compared to 2017. Non-regulated revenues, revenues from broadband services and other non-regulated services increased, primarily from our Utah ($0.6 million) and Kansas ($0.2 million) operations. These increased sales came primarily from additional broadband circuits outside of our regulated service territory and additional video (cable modem) revenue. Non-regulated revenues currently represent 45% of our revenue streams and are expected to continue to grow. Regulated revenues remained consistent in March 2018 at $15.0 million or 1.0% above the $14.9 million. Combining the non-regulated and regulated revenues, total revenues in 2018 increased by $1.1 million or 4.1%, to $27.2 million compared to $26.1 million in 2017.

Total operating costs and expenses were $19.8 million in 2018, an increase of $0.6 million as compared to 2017. Depreciation and amortization increased by $470 thousand from 2018 to 2017, due to increased capital expenditures in late 2017 and early 2018, this was driven by the changes in the tax laws and earlier project builds in 2018 due to favorable weather. The costs of revenue increased marginally by $93 thousand while general and administrative costs incurred at the operations decreased by $14 thousand. Corporate expenses decreased by $71 thousand to $982 thousand in 2018 from $1,053 thousand in 2017 due to stock compensation award in 2017. As a result of the above, operating profit in 2018 increased by $0.6 million from $5.8 million in 2017 to $6.4 million in 2018.

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:

	2018	2017
EBITDA from:		
Operating units	$12,436	$11,433
Dividends from equity affiliates	538	213
EBITDA before corporate expenses	12,974	11,646
Corporate expenses	(982)	(1,053)
EBITDA	$11,992	$10,593
Reconciliation to net income:		
EBITDA	$11,992	$10,593
Less dividends from equity affiliates	(538)	(213)
Depreciation and amortization	(5,064)	(4,595)
Investment income	283	275
Interest expense	(493)	(592)
Equity in income of affiliates	345	396
Other income (expense) – Other	19	2
Income tax	(1,723)	(2,258)
Net income	$4,821	$3,608

Other Income (Expense)

In the first quarter of 2018, investment income increased slightly by $8 thousand and interest expense decreased by $99 thousand, primarily due to lower borrowing amounts at higher interests rates.

Equity in earnings of affiliates in the first quarter of 2018 decreased by $51 thousand and represents earnings from our 25% partnership interest in a cellular telephone provider, California RSA #2 Partnership.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2018 and 2017, represent effective tax rates of 26% and 39%, respectively. The difference between these effective rates and the federal statutory rate is principally due to state income taxes and the lowering of the federal income tax rate from 34% in 2017 to 21% in 2018.

Net Income

Net income for 2018 was $4.8 million, or $235.64 per basic share and $235.37 per diluted share, compared to a net income of $3.6 million, or $170.38 per basic share and $169.63 per diluted share in 2017.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Brighton Communications Corporation ("Brighton"), a wholly-owned subsidiary of LICT, has a $50 million revolving credit facility from CoBank, ACB. The facility, which expires in December 2019. Brighton owns substantially all of the subsidiaries within the LICT consolidated group of companies. As of March 31, 2018, there was $8.6 million outstanding under the $50 million facility, classified as long-term debt. The average balance outstanding under the facility was $9.7 million at an average interest rate of 4.15%. Management believes that the current CoBank facility provides adequate liquidity for at least the next twelve months.

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, 2018 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	$20,401	$2,425	$5,356	$12,620	$--
Notes payable	8,600	--	8,600	--	--
Operating leases	2,452	575	868	678	331
Interest on long-term debt	3,263	1,492	1,438	333	--
Total contractual cash obligations and commitments	$34,716	$4,492	$16,262	$13,631	$331

At March 31, 2018, total debt was $29.0 million, a decrease of $2.0 million from December 31, 2017, which included $20.4 million of fixed interest rate debt outstanding, averaging 7.0%, and $8.6 million of variable interest rate debt, averaging 4.3%. 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, 2018, the ratio of total debt to total EBITDA, on a trailing twelve-month basis, was 0.53 to 1. Certain subsidiaries have higher debt to EBITDA ratios.

As of March 31, 2018, LICT had current assets of $25.1 million and current liabilities of $11.4 million resulting in working capital of $13.7 million compared to $11.4 million at December 31, 2017.

Sources and Uses of Cash

As described in more detail below, the Company's operating cash flows in 2018 and beyond will be impacted by the A-CAM election by several of its RLEC operations.

Cash at March 31, 2018 was $10.0 million, as compared to $7.1 million at December 31, 2017. In the first three months of 2018, net cash provided by operations of $11.1 million was primarily used to invest in plant and equipment ($5.1 million), repay debt ($2.0 million), and purchase treasury shares ($1.4 million).

In the first three months, capital expenditures were $5.1 million in 2018 as compared to $3.4 million in 2017.

Since 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; 50% starting January 1, 2012; and 100% starting September 27, 2017. Such deductions have the effect of reducing current taxes payable, but will increase tax payments in future years.

The Company received cash distributions from a 25% interest in the California RSA # 2 Partnership of $0.5 million in the first quarter of 2018 compared to $0.2 million in the prior year period. The Partnership projects that the Company's share of the total 2018 distribution will be $2.0 million.

The Company's Board of Directors has authorized the purchase of up to 6,700 shares of the Company's common stock. Through March 31, 2018, 6,283 shares have been purchased at an average investment of $4,425 per share, including 117 shares purchased in 2018 at an average investment of $11,758 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, Inc. has made cash distributions to shareholders of $170 per share