ICTC Group, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

This discussion and analysis provides information about material aspects of the Company's operations, and includes discussions of its results of operations, liquidity and capital resources and sources and uses of cash. This discussion and analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and notes of ICTC Group, Inc. for the periods ended September 30, 2013 and 2012.

(A) OVERVIEW

ICTC Group, Inc. (the "Company"), formerly named Sunshine PCS Corporation, serves as a holding company for Lynch Telephone II, LLC ("Lynch II"), which in turn serves as a holding company for Inter-Community Telephone Company LLC ("Inter-Community") and Valley Communications, Inc. ("Valley"). Inter-Community is a Rural Local Exchange Carrier ("RLEC") headquartered in Nome, ND that serves communities in southeastern North Dakota providing regulated telephone services. It has been in existence for nearly 70 years, and currently serves approximately 1,890 access lines, of which approximately 1,260 are residential and 630 are business lines. Valley is a competitive local exchange carrier ("CLEC") that provides internet, broadband data and other non-regulated services to approximately 1,027 customers.

Telecommunications Industry

The telecommunications industry in general and the Company's subsidiaries face a number of economic and industry-wide issues and challenges.

- Regulatory - The Telecommunications Act of 1996 and other federal and state legislation and regulations have a significant impact on the industry and on rural carriers in particular. The FCC's new National Broadband Plan ("NBP") and the FCC's CAF/ ICC order to reform universal service and intercarrier compensation is also likely to ultimately have a substantial impact. Inter-Community serves a very high cost area with a significant portion of its revenues being derived from federal support mechanisms, which are referred to as Universal Service Funds ("USF"). Inter-Community's revenues and margins are largely dependent on the continuation and level of such support mechanisms.

- Competition – Access lines are an important element of Inter-Community's business. Over the past several years, rural telephone companies, such as Inter-Community, have experienced a decline in access lines due to the effects of competition from other telecommunications providers including cable television companies, internet, and wireless service. In addition, customers have cancelled second lines as they have switched from dial-up to DSL.

- The economy - Unemployment, building starts, business bankruptcies and the overall health of the economy have a significant effect on demand for services.

- Market challenges – The Company's subsidiaries are required to comply with industry-wide initiatives such as local number portability and the requirements of the Communications Assistance for Law Enforcement Act ("CALEA") that are expensive to implement and that in some cases have limited demand in our markets.

The following are material opportunities, challenges and risks that the Company is currently focused on, as well as actions that are being taken to address the concerns:

- FCC Order to Reform Universal Service and Intercarrier Compensation - On October 27, 2011, the FCC adopted an Order and Further Notice of Proposed Rulemaking (“NPRM”) on Universal Service and Intercarrier Compensation (“ICC”) reform. On November 18, 2011, the FCC released its comprehensive order to modify the nationwide system of universal support and the Intercarrier Compensation system (“The FCC Order”). In the FCC order, the FCC replaced all existing USF for price cap carriers with its Connect America Fund (“CAF”). The intent of the CAF is to bring high speed affordable broadband services to all Americans. The FCC Order also fundamentally reforms the ICC system that governs how communications companies bill one another for handling traffic, gradually phasing down these charges. Together, the modifications of the CAF and ICC rules are intended to benefit consumers and promote the goals of the NBP, which called for overhauling these two complex systems to address the modern-day mission of supporting broadband deployment as cost-effectively as possible. Inter-Community serves a very high cost area with a significant portion of its revenues being derived from federal support mechanisms including revenues earned from USF. Inter-Community began seeing an impact of the FCC Order in July 2012. The near term impact of the FCC Order will be to reduce access revenue from intrastate calls as intrastate rates are reduced to interstate levels over time. A portion of this revenue loss is being replaced by revenue support from the CAF. Inter-Community’s revenues and net income is largely dependent on the continuation and level of such support mechanisms. It is not known what decisions will be made on these issues nor the extent of they may impact the Company in the future. The Company will continue to monitor these matters, participate in them as we deem appropriate, and assess the potential impact on our consolidated financial position and results of operations.

- Loss of Access Revenues from wireless and VoIP usage – The Company is experiencing revenue losses as usage transfers from landline service provided by the Company’s subsidiaries to either VoIP or wireless services. The Company is participating in the RLEC industry efforts to have VoIP traffic contribute for use of the underlying network on which the VoIP call travels. To offset revenue losses from traditional voice services, The Company’s subsidiaries are installing more broadband services and seeking other revenue generating opportunities.

(B) RESULTS OF OPERATIONS

Revenues

The Company generates cash and earns telecommunications revenues primarily from local network access, intrastate and interstate access revenue, federal USF support mechanisms and internet services. The Company’s revenues and operating expenses have been relatively stable period to period, but are subject to increasing competitive pressures and changing support mechanisms.

- Local Service Telephone Revenues - The number of access lines is the primary driver of local network access revenues. In addition, the ratio of business to residential lines, as well as the number of features subscribed to by customers, are secondary drivers.

- Universal Service Funding and Access Revenues – Includes revenue recognized from intrastate and interstate access revenues and Universal Service Funding (USF) subsidies. Intrastate access revenues are based on customer toll calls within North Dakota. Interstate access revenues are based on customer toll calls outside of North Dakota. Also, Inter-Community participates in both the interstate common line and traffic-sensitive National Exchange Carrier Association ("NECA") access pools. Inter-Community has elected to be "cost based" and its access revenues are directly correlated to the rate-of-return on regulated net investment earned by the NECA access pools plus the interstate portion of regulated operating expenses including taxes. The primary drivers of USF subsidies are investments in specific types of infrastructure, as well as certain operating expenses and taxes of the Company.

- Internet Revenue – The Company also provides non-regulated telecommunications related services, including internet access service, and high speed data circuits in certain of its telephone service and adjacent areas.

- Facility Lease Revenue – Includes revenue from circuit lease agreements entered into by the Company.

- Miscellaneous Revenue – Includes revenues from private line, directory advertising and billing and collection services. The Company recognizes the revenue from these services based on the rates under their respective contracts.

The following table summarizes revenues and percentages from each revenue source for the nine months ended September 30, 2013 and 2012:

	2013		2012	
	$	%	$	%
Revenues:				
Local telephone service revenue	$ 354,243	12.3%	$ 432,297	14.0%
Universal service funding and access revenue	1,712,923	59.5%	1,855,325	60.3%
Internet revenue	400,659	13.9%	387,875	12.6%
Facility lease revenue	365,936	12.7%	354,548	11.5%
Miscellaneous revenue	43,487	1.5%	48,925	1.6%
Total Revenues	$ 2,877,248		$ 3,078,970	

Operating Expenses

The Company's operating expenses consist of cost of revenue, corporate operations expenses, and depreciation and amortization.

- Cost of Revenue **-** Includes both plant specific and plant nonspecific operations. The Company also includes the cost of customer operations and operating taxes in this expense category.

- Corporate Operations Expenses **-** Include the costs of executives and directors fees, internal director fees, accounting and legal fees, external relations, and other general and administrative fees.

- Depreciation– Includes the depreciation of the Company's telecommunications plant and equipment, which includes contracted work, direct labor and materials, and allocable overheads.

The following table summarizes operating costs and expenses and the percent of revenue for the nine months ended September 30, 2013 and 2012:

	2013		2012	
	$	% of Rev.	$	% of Rev.
Operating Costs and Expenses:				
Cost of revenue, excluding depreciation	$1,274,303	44.3%	$1,239,007	40.2%
Corporate operations expenses	680,072	23.6%	546,722	17.8%
Depreciation	550,259	19.1%	555,885	18.1%
Total Operating Cost and Expenses	$2,504,634	87.0%	$2,341,614	76.1%

Operating Income

The following is a breakdown of revenue and operating costs and expenses and the amount of increase (decrease) in these areas when compared to the three months and nine months ended September 30, 2013 and 2012:

	Three Months Ended Sept 30,		Increase
	2013	2012	(Decrease)
Revenues:			
Local telephone service revenue	$ 119,766	$ 132,108	$ (12,342)
Universal service funding and access revenue	543,892	587,789	(43,897)
Internet revenue	129,755	130,249	(494)
Facility lease revenue	125,656	128,069	(2,413)
Miscellaneous revenue	1,872	(4,425)	6,297
Total Revenues	920,941	973,790	(52,849)
Operating Costs and Expenses:			
Cost of revenue, excluding depreciation	428,426	369,673	58,753
Corporate operations expenses	194,281	192,636	1,645
Depreciation	185,482	187,392	(1,910)
Total operating cost and expenses	808,189	749,701	58,488
Operating Income	$ 112,752	$ 224,089	$ (111,337)

	Nine Months Ended Sept 30,		Increase
	2013	2012	(Decrease)
Revenues:			
Local telephone service revenue	$ 354,243	$ 432,297	$ (78,054)
Universal service funding and access revenue	1,712,923	1,855,325	(142,402)
Internet revenue	400,659	387,875	12,784
Facility lease revenue	365,936	354,548	11,388
Miscellaneous revenue	43,487	48,925	(5,438)
Total Revenues	2,877,248	3,078,970	(201,722)
Operating Costs and Expenses:			
Cost of revenue, excluding depreciation	1,274,303	1,239,007	35,296
Corporate operations expenses	680,072	546,722	133,350
Depreciation	550,259	555,885	(5,626)
Total operating cost and expenses	2,504,634	2,341,614	163,020
Operating Income	$ 372,614	$ 737,356	$ (364,742)

Operating revenues decreased by $52,849 or 5.4% and $201,722 or 6.6% in the third quarter and year-to-date periods of 2013 as compared to the same periods in 2012. Local telephone service revenues decreased by $12,342 or 9.3% and $78,054 or 18.1% in the third quarter and year-to-date periods of 2013 as compared to the same periods in 2012 as a result of a decrease in access lines. This decrease in access lines is due to competition with wireless companies and customers who have shifted from dial-up to DSL internet access. Universal service funding and access revenues decreased $43,897 or 7.5% and $142,402 or 7.7% in the third quarter and year-to-date periods of 2013 as compared to the same periods in 2012. This decrease is the result of lower capital spending in 2012 than what was previously forecasted. The Company deferred certain fiber projects that were not completed as planned in 2012.

Operating costs and expenses increased by $58,488 or 7.8% and $163,020 or 7.0% in the third quarter and year-to-date periods of 2013 as compared to the same periods in 2012. The increase was primarily due to an increase in corporate operations expenses. The increase in corporate expenses was the result of an increase in legal, audit and accounting costs.

As a result of the above, operating profit decreased by $111,337 or 49.7% and $364,742 or 49.5% in the third quarter and year-to-date periods of 2013 as compared to the same periods in 2012.

Non-operating income (expense)

The following is a breakdown of non-operating income (expense) and the amount of increase (decrease) in these areas when compared to the three months and nine months ended September 30, 2013 and 2012:

	Three Months Ended Sept 30,		Increase
	2013	2012	(Decrease)
Nonoperating Income (Expense)			
Dividend income	$ 44,072	$ 32,643	$ 11,429
Equity in earnings of investee	95,250	106,244	(10,994)
Interest expense	32,910	37,827	(4,917)
Total Nonoperating Income	$ 172,232	$ 176,714	$ (4,482)

	Nine Months Ended Sept 30,		Increase
	2013	2012	(Decrease)
Nonoperating Income (Expense)			
Dividend income	$ 126,054	$ 145,050	$ (18,996)
Amortization of loan fees	-	(66,375)	66,375
Equity in earnings of investee	320,126	340,727	(20,601)
Interest expense	97,039	113,366	(16,327)
Total Nonoperating Income	$ 543,219	$ 532,768	$ 10,451

Non-operating income (decreased) increased by ($4,482) or (2.5%) and $10,451 or 2.0% in the third quarter and year-to-date periods of 2013 as compared to the same periods in 2012. The change in dividend income resulted from changes in dividends received from the Company’s minority interest in two cellular corporations that are invested in joint ventures with Verizon Wireless. The cellular corporations decreased their dividends for the first six months of the year due to LTE expansion. The amortization of loan fees in 2012 is the result of the payoff of short term loans which caused a write-off of unamortized loan fees. The reduction of interest expense is also a result of the payoff of debt during 2012.

Income tax expense

Income tax expense totaled $68,036 and $102,936 for the 3 months ended September 30, 2013 and 2012, respectively and $235,610 and $350,951 for the nine months ended September 30, 2013 and 2012, respectively. The decrease in income tax expense is the result of the decrease in net income for each period.

Earnings before interest, taxes, depreciation, and amortization

Earnings before interest, taxes, depreciation, and amortization (EBITDA) is used by the Company's management as a supplemental financial measure to evaluate the operating performance of its business and, when viewed with its GAAP results and the accompanying reconciliations, the Company believes it provides a more complete understanding of factors and trends affecting its business than the GAAP results alone. In addition, the Company routinely uses EBITDA as a metric for valuing potential acquisitions. The Company understands 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.

ICTC Group's management believes strongly in growing intrinsic value as a long-term prescription for managing an enterprise's health. The Company's local management teams run their respective businesses as stand-alone, entrepreneurial units although it attempts to use economies of scale and other efficiencies (such as joint purchasing) where they are available. The Company believes that EBITDA is the clearest indicator of the cash flow generating ability and long-term health of such units. The Company values potential acquisitions on the same basis.

The term EBITDA refers to, for any period, net income before any interest, income taxes, depreciation and amortization. The following table provides the components of EBITDA before all components of "other income" which consists of dividend income, earnings from affiliates, amortization of deferred loan fees and other income for the three months and nine months ended September 30, 2013 and 2012:

	Three Months Ended Sept 30, 2013	Three Months Ended Sept 30, 2012	Increase (Decrease)
EBITDA	$ 298,234	$ 411,481	$ (113,247)
Reconciliation to net income:			
EBITDA	$ 298,234	$ 411,481	$ (113,247)
Depreciation	(185,482)	(187,392)	1,910
Dividend income	44,072	32,643	11,429
Earnings from equity affiliates	95,250	106,244	(10,994)
Interest expense	(32,910)	(37,827)	4,917
Income taxes	(68,036)	(102,936)	34,900
Net Income	$ 151,128	$ 222,213	$ (71,085)

	Nine Months Ended Sept 30, 2013	2012	Increase (Decrease)
EBITDA	$ 922,873	$ 1,293,241	$ (370,368)
Reconciliation to net income:			
EBITDA	$ 922,873	$ 1,293,241	$ (370,368)
Depreciation	(550,259)	(555,885)	5,626
Dividend income	126,054	145,050	(18,996)
Amortization of deferred loan fees	-	(66,375)	66,375
Earnings from equity affiliates	320,126	340,727	(20,601)
Interest expense	(97,039)	(113,366)	16,327
Income taxes	(235,610)	(350,951)	115,341
Net Income	$ 486,145	$ 692,441	$ (206,296)

The decrease in the Company's EBITDA was primarily the result of the decrease in operating revenues and increase in corporate operations expenses as noted above.

(C) LIQUIDITY AND CAPITAL RESOURCES

On January 31, 2012, the Company entered into a line of credit and term loan agreement with a local bank for $500,000 and $530,000, respectively. The Company borrowed $530,000 on the term loan agreement and repaid the CoBank loan on January 31, 2012. The credit facility is secured by certain assets owned by the Company. The line of credit accrues interest at a rate of 5% and expired January 30, 2013, while the term loan accrues interest at a fixed rate of 5.25% with a maturity date of January 15, 2017. The term loan was paid off as of December 31, 2012.

The Company has subordinated notes with former shareholders for $2,071,800. The Company restructured the interest rate on the notes from 8% to 6% effective January 1, 2012, and the maturity date was extended to December 31, 2022. Interest on the notes is paid quarterly. The notes may be prepaid at any time without penalty.

The Company was awarded a stimulus loan and grant pursuant to the American Recovery and Reinvestment Act of 2009 to finance the construction of a broadband infrastructure project in rural areas. The $2,338,651 project is expected to be completed during 2013. The project is being funded through a broadband loan from the Rural Utilities Service (RUS) of $713,289, and a grant through the Broadband Initiatives Program administered by RUS, of $1,625,362. Construction costs related to the project through September 30, 2013 were $1,174,021 including $861,061 in accounts payable as of September 30, 2013. The Company has received $204,942 in advances on the broadband loan and $466,998 in grant funds relating to the project and has recorded a receivable of $315,682 for grants related to eligible costs incurred through September 30, 2013. The Company has applied the grant funds against construction costs. Loan and grant funds totaling $358,980 are restricted for payment of eligible project costs and are included in Restricted Cash as of September 30, 2013.

During the nine months ended September 30, 2013, the Company received an advance of $204,942 on the broadband loan. The loan is due in monthly payments of principal and interest over 23 years at an interest rate of 2.7324%. The funds advanced were deposited into a pledged deposit account, the disbursements from which are restricted by the provisions of the loan/grant agreement. The loan/grant agreement also includes certain financial and other covenant requirements.

Principal repayments on the Company's outstanding debt for the next five years are estimated to be approximately $7,000 per year.

(D) SOURCES AND USES OF CASH

As of September 30, 2013, the Company had cash and cash equivalents of $2,915,689. Net cash from operations was $851,748 and $1,365,996 for the nine months ended September 30, 2013 and 2012, respectively. The decrease in operating cash flows primarily resulted from the timing of the payment of income taxes. The overpayment of income taxes as of December 31, 2011 due to bonus depreciation elections resulted in insignificant payments of income taxes during 2012.

Net cash used in investing activities was $460,898 and $985,065 for the nine months ended September 30, 2013 and 2012, respectively. Net cash used in investing activities for the nine months ended September 30, 2013 include advances on the Broadband Initiatives Program grant of $466,998 and the change in cash restricted for expenditures of $358,980 related to the broadband infrastructure project discussed above. In addition, the Company received $328,755 in contributions in aid for the construction of facilities. The remaining cash used for investing activities of $897,671 and $985,065 for the nine months ended September 30, 2013 and 2012, respectively are comprised of capital expenditures.

Net cash from (used for) financing activities was $204,589 and ($63,834) for the nine months ended September 30, 2013 and 2012, respectively. The $204,589 cash from financing activities for the nine months ended September 30, 2013 related to advances on the Broadband Initiatives Program loan of $204,942 less payments of $353 on the loan.

The Company does not currently plan to pay cash dividends. 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.

(E) CAPITAL EXPENDITURES

The Company requires significant capital expenditures to maintain, upgrade and enhance its network facilities and operations. During the nine months ended September 30, 2013, the amount of capital expenditures that the Company incurred was in the amount of $1,758,732 including construction payables. As mentioned above, Inter-Community has been awarded a Broadband loan and grant in the amount of $2,338,651 to finance the construction of a broadband infrastructure project in rural areas. The total amount of funding from the grant and loan is split $1,625,362 and $713,289, respectively.

The Company's capital budget for 2013 includes the above project and $800,000 in other capital improvements that will be financed through internally generated funds. Total capital expenditures will be used to upgrade the Company's fiber backbone, extend fiber to the home, increase the Company's fiber footprint and replace and/or repair equipment and vehicles that have exceeded their useful lives.