LICT CORPORATION AND SUBSIDIARIES

Quarterly Report for period ended March 31, 2021

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

	March 31, 2021	December 31, 2020	March 31, 2020
ASSETS			
Current assets:			
Cash and cash equivalents	$55,231	$67,334	$88,823
Receivables, less allowances of $145, $179, and $229, respectively	7,142	6,443	7,278
Material and supplies	5,779	5,221	4,940
Prepaid expenses and other current assets	4,919	23,458	3,538
Total current assets	73,071	102,446	104,579
Property, plant and equipment:			
Land	1,056	1,056	1,056
Buildings and improvements	17,826	17,795	17,594
Machinery and equipment	398,203	391,696	372,831
	417,085	410,547	391,481
Accumulated depreciation	(305,086)	(301,002)	(291,868)
	111,999	109,545	99,613
Goodwill	48,048	48,048	48,048
Other intangibles	16,099	11,832	7,678
Investments in and advances to affiliated entities	3,821	3,636	3,370
Other assets	7,907	7,869	8,152
Total assets	$260,945	$283,376	$271,440

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2021	December 31, 2020	March 31, 2020
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade accounts payable	$4,684	$4,354	$3,109
Accrued interest payable	189	286	85
Accrued liabilities	9,929	7,089	10,951
Current maturities of long-term debt	12,338	42,338	2,557
Total current liabilities	27,140	54,067	16,702
Long-term debt	20,838	20,838	61,800
Deferred income taxes	22,272	22,357	20,156
Other liabilities	5,685	5,519	5,729
Total liabilities	$75,935	$102,781	$104,387
Shareholders' equity			
Common stock, $0.0001 par value- 10,000,000 shares authorized; 26,831 issued; 18,399, 18,533 and 19,008 outstanding	--	--	--
Additional paid-in capital	17,859	17,859	17,859
Retained earnings	228,453	221,479	200,022
Treasury stock, 8,431, 8,297 and 7,822 shares, at cost	(61,302)	(58,743)	(50,828)
Total shareholders' equity	185,010	180,595	167,053
Total liabilities and shareholders'	$260,945	$283,376	$271,440

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, 2021	Three Months Ended March 31, 2020
Revenues	$32,015	$30,046
Costs and expenses:		
Cost of revenue, excluding depreciation	14,479	13,198
General and administrative costs at operations	3,173	3,099
Corporate office expenses	946	950
Depreciation and amortization	4,636	4,340
Total Costs and Expenses	23,234	21,587
Operating profit	8,781	8,459
Other income (expense):		
Investment income	762	113
Interest expense	(385)	(302)
Equity in earnings of affiliated companies	185	53
Gain from the sale of investment	--	13,071
Other	58	(29)
	620	12,906
Income from operations before taxes	9,401	21,365
Provision for income taxes	(2,427)	(5,554)
Net income	$6,974	$15,811
Earnings per share basic and diluted	$378	$828
Earnings per share excluding the gain from the sale of an investment, net of tax[(a)]	$378	$324
Weighted average shares- basic and diluted	18,458	19,101
Actual shares outstanding	18,399	19,008

a) Please note the Three Months ended March 31, 2020, includes the gain of $13.1 million stemming from the sale of MODOC, which added $504 to earnings per share

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 Outstanding	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2020	18,533	$17,859	$221,479	$ (58,743)	$180,595
Net income for the period			6,974		6,974
Purchase of Treasury Stock	(134)			(2,559)	(2,559)
Balance at March 31, 2021	18,399	$17,859	$228,453	$ (61,302)	$185,010

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,	
	2021	**2020**
Operating activities:		
Net income	$6,974	$15,811
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,689	4,182
Equity in earnings of affiliated companies	(185)	(53)
Distributions received from affiliated companies	--	542
Unrealized gains on securities	(96)	--
Realized loss on securities	33	--
Deferred income tax provision	(85)	(31)
Gain from sale of investments	--	(13,071)
Changes in operating assets and liabilities:		
Accounts receivables	(699)	734
Income tax payable/ receivable	2,417	5,406
Accounts payable and accrued liabilities	233	(749)
Other operating assets and liabilities	(1,530)	(702)
Net cash provided by operating activities	11,751	12,069
Investing activities:		
Capital expenditures	(7,123)	(4,996)
Return of FCC deposit	20,000	20,000
Acquisition of spectrum licenses	(4,267)	(170)
Proceeds from sale of investments	--	16,900
Sale of Securities	72	--
Other investing activities	33	29
Net cash provided by investing activities	8,715	31,763
Financing activities:		
Repayments of long-term debt	--	(1,321)
Borrowing (repayment) on lines of credit, net	(30,000)	41,000
Purchase of treasury stock	(2,559)	(3,103)
Net cash provided by (used in) financing activities	(32,559)	36,576
Net increase in cash and cash equivalents	(12,093)	80,408
Cash and cash equivalents at beginning of period	67,324	8,415
Cash and cash equivalents at end of period	$55,231	$88,823

See accompanying Notes to Condensed Consolidated Financial Statements.

LICT CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED 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 affiliated companies on the equity basis of accounting: telecommunications operations in New York, California and Utah (2% to 14% owned through partnerships) and the previously sold rural communication and alarm system subsidiary in New York, in which the Company owns 20%. Marketable securities are measured at Fair Value and all other investments are measured at cost.

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, 2020. 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 months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021. 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.

Recently Adopted Accounting Pronouncements

ASU No. 2016-02 — The Company adopted ASU 2016-02, *Leases (Topic 842) (the New Lease Standard)* as of January 1, 2019. The New Lease Standard requires lessees to recognize a right-of-use (ROU) asset and a lease liability on the balance sheet for operating leases. Accounting for finance leases is substantially unchanged.

B. Investments in Affiliated Companies

A subsidiary of LICT owned a 25% partnership interest in a cellular telephone provider in Northern California, California RSA #2 (RSA #2). On January 2, 2020, the Company sold its equity investment in RSA #2 for proceeds of $16.9 million, resulting in a gain on sale of $13.1 million recorded in other income (expense) in the condensed consolidated statements of income.

C. Indebtedness

On January 17, 2020, the Company entered into a new credit agreement with CoBank for a $50 million revolving credit facility. The term of the credit agreement is five years and expires on January 17, 2025. The interest rate on the credit facility is based on a spread over LIBOR and is determined by the Company's leverage ratio, as defined in the credit agreement. The Company's borrowing rate at March 31, 2021 is LIBOR plus 2.0%. The credit facility is secured by a pledge of the stock of the Company's subsidiaries. In 2021 and 2020, respectively, the average balance of the line of credit outstanding was $33.2 million and $39.3 million; the highest amount outstanding for 2021 and 2010 was $50.0 million; and the average interest rate was 2.13% and 2.2%, respectively.

Long-term debt at March 31, 2021, December 31, 2020, and March 31, 2020 consists of (all interest rates are at March 31, 2021) (in thousands):

	March 31, 2021	**December 31, 2020**	**March 31, 2020**
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 of 4.0% and 6.0%	5,529	5,529	6,710
Revolving credit facility from CoBank at a variable rate at Libor plus 2.00% which was 2.11% as of March 31, 2021	20,000	50,000	50,000
Total debt	33,176	63,176	64,357
Current maturities	(12,338)	(42,338)	(2,557)
Long term debt	$20,838	$20,838	$61,800

D. Spectrum Transactions

In November 2020, the Company deposited $20 million with the FCC to participate in Auction 107, which relates to mid-band wireless spectrum known as C-Band. The auction concluded on February 24, 2021, with the FCC announcing final results. LICT was the winning bidder on five spectrum licenses totaling $4,267,000. In March 2021, the FCC returned $15,733,000 from the original $20,000,000 deposit.

In October 2019, the Company deposited $20 million with the FCC to participate in Auction 103, for spectrum licenses in upper 37 GHz, 39 GHz and 47 GHz bands. In March 2020, the auction concluded and LICT was the winning bidder on two spectrum licenses totaling $170,000. In March 2020, the FCC returned $19,830,000 cash from the original $20,000,000 deposit.

E. Litigation

LICT or a subsidiary thereof is a party to routine litigation and threatened 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.

F. Related Party Transactions

At March 31, 2021, December 31, 2020, and March 31, 2020 assets of $24.1 million, $61.9 million and $83.1 million, which are classified as cash and cash equivalents, were 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 fund.

G. Other Income

Included in other income are investments in equity securities. The changes in fair values are attributable to $58 thousand in the first quarter of 2021.

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

Our history is principally as a provider 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 Mexico, Utah and Wisconsin. Today, LICT provides an array of broadband and communications services, primarily in rural areas but with continuing expansions in adjacent urban communities.

As of March 31, 2021, LICT provided service to 76,025 revenue generating units consisting of 40,556 broadband data lines, 31,162 voice lines, and 4,307 video subscribers. Comparable amounts at March 31, 2020 were 35,903, 31,908, and 4,545, respectively. Operations are deployed through 5,251 miles of fiber optic cable, 11,492 miles of copper cable, and 767 miles of coaxial cable and 45 towers.

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

- Broadband services, principally Digital Subscriber Lines (“DSL”) and cable modem services, which are increasingly provided through fiber optic facilities;
- Local and long-distance telephone service;
- Video services, including cable television, Internet Protocol Television (“IPTV”) and Over The Top;
- 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
- Fixed wireless broadband service, primarily for more remote customers.

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.

The federal and state governments have long policies promoting communication services in rural areas because it benefits the nation. These policies were initially meant for voice service, but have expanded to include broadband. 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 federal and state support mechanisms, which are generally referred to as Universal Service Funds (“USF”). We devote considerable management attention to understanding, utilizing and complying with these various governmental programs, incentives and regulatory structures, including that the rates we can charge for some of our services are regulated by the Federal Communications Commission (“FCC”) and in many cases, the various state public utility commission. USF mechanisms change periodically and while there is no certainty that such support programs will continue at the same levels as they have in the past, the FCC’s new Alternative Connect America Cost model (“A-CAM”) support program, which commenced January

1, 2017, with revisions in 2018 and 2019, and the addition of A-CAM II in Wisconsin in 2019, and which runs through 2028 with a predictable set amount of support has significantly increased the stability and predictability of our USF revenues. The amount of federal support we are receiving comes with the required obligation to build broadband to a specific number of locations in rural America. A-CAM and A-CAM II replaced two prior legacy FCC USF mechanisms which LICT had been receiving.

Three Months Ended March 31, 2021 compared to 2020

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

	2021	2020
Regulated revenues:		
Local access	$1,589	$1,639
Interstate access	11,569	11,533
Intrastate access	2,103	2,040
Other regulated	322	271
Total regulated revenues	15,583	15,483
Non-regulated revenues:		
Broadband and related services	13,925	12,007
Video (including cable modem)	1,330	1,410
Other	1,177	1,146
Total non-regulated revenues	16,432	14,563
Total revenues	32,015	30,046
Operating Cost and Expense:		
Cost of revenue, excluding depreciation	14,479	13,198
General and administrative costs at operations	3,173	3,099
Corporate office expenses	946	950
Depreciation and amortization	4,636	4,340
Total operating costs and expenses	23,234	21,587
Operating profit	$8,781	$8,459

In the first quarter of 2021, non-regulated revenues increased by $1.9 million, or 13%, to $16.4 million, from $14.6 million in 2020. Non-regulated revenues from both broadband services and other non-regulated services increased, primarily from our Utah ($1.1 million), New Mexico ($0.3 million), Kansas ($0.3 million) and California-Oregon ($0.2 million) operations. These increased sales came primarily from additional broadband circuits outside of our regulated service territory and additional cable modem revenue. Non-regulated revenues currently represent 51% of our revenue streams and are expected to continue to grow.

Regulated revenues increased slightly by $0.1 million to $15.6 million in the first quarter of 2021, from $15.5 million in 2020. Combining the non-regulated and regulated revenues, total revenues in 2021 increased by $2.0 million or 6.6%, to $32.0 million compared to $30.0 million in 2020.

Total operating costs and expenses were $23.2 million in 2021, an increase of $1.6 million as compared to 2020. The costs of revenue increased by $1.2 million, due to incremental non-regulated revenue, while general and administrative costs incurred at the operations increased by $0.1 million. Corporate expenses remain consistent compared to 2020. Depreciation and amortization increased by $0.3 million from 2020 to 2021. As a result of the above, operating profit in 2021 increased by $0.3 million from $8.5 million in 2020 to $8.8 million in 2021.

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. 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.

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

	2021	2020
EBITDA from:		
Operating units	$14,363	$13,749
Corporate expense	(946)	(950)
EBITDA	$13,417	$12,799
Reconciliation to net income:		
EBITDA	$13,417	$12,799
Depreciation and amortization	(4,636)	(4,340)
Investment income	762	113
Interest expense	(385)	(302)
Equity in earnings of affiliated companies	185	53
Gain from the sale of investment	--	13,071
Other	58	(29)
Income tax provision	(2,427)	(5,554)
Net income	$6,974	$15,811

Other Income (Expense)

In the first quarter of 2021, investment income increased by $0.7 million primarily due from Patronage distributions of $0.4 million and the Company's investment in Aureon Network Services, Inc. of $0.3 million.

Equity in earnings of affiliates were $0.2 million primarily attributed to the Company's investment in DFT Communications and Kansas Fiber Network.

On January 2, 2020, the company recognized a $13.1 million gain on the sale of investment in MODOC.

Interest expense increased by $0.1 million primarily due to higher utilization of the line of credit, which was offset by lower interest rates.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2021 and 2020 represent effective tax rates of 25.8% and 26.4%, respectively.

Net Income

Net income for the first quarter of 2021 was $6.9 million, or $378 per basic and diluted share. In 2020, net income was $15.8 million, or $828 per basic and diluted share.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company closed on a new five-year, $50 million unsecured Revolving Credit Facility with CoBank. In addition to extending the Revolving Credit Facility through 2025, the new loan facility is unsecured, provides for lower borrowing rates, and has more flexible terms. As of March 31, 2021, there was $20.0 million outstanding under the $50 million facility. The average balance outstanding under the facility was $33.2 million at an average interest rate of 2.13%.

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, 2021 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, notes to sellers	$13,176	$12,338	$838	--	--
Revolving credit facility, principal only	20,000	--	--	20,000	--
Interest on debt and notes	2,016	783	888	345	
Operating leases	4,429	865	897	601	2,066
Total contractual cash obligations and commitments	$39,621	$13,986	$2,623	$20,946	$2,066

At March 31, 2021, total debt was $33.2 million, a decrease of $30.0 million from December 31, 2020, which represented average interest rate debt outstanding at 3.6% interest. The revolving credit facility contain certain covenants restricting share repurchases, among other things.

As of March 31, 2021, LICT had current assets of $73.1 million and current liabilities of $27.1 million resulting in working capital of $46.0 million compared to $48.3 million at December 31, 2020.

Sources and Uses of Cash

Cash at March 31, 2021 was $55.2 million, as compared to $67.3 million at December 31, 2020. During the first quarter of 2021, the company paid down $30.0 million of the CoBank revolving credit facility offset by a $15.7 million return from its 2020 deposit of $20.0 million related to FCC spectrum auction 107. The FCC announced the results of this auction on February 24, 2021, and the Company acquired three licenses of $4.3 million. In the first quarter of 2021, net cash provided by operations of $11.8 million was primarily used to invest in plant and equipment ($7.1 million), and purchase treasury shares ($2.6 million).

In the first quarter of 2021, capital expenditures were $7.1 million in 2021 as compared to $4.9 million in 2020.

Since 2008, the Company continues to take 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's Board of Directors has authorized the purchase of up to 8,999 shares of the Company's common stock. During the first quarter of 2021, 134 shares of company stock were purchased at an average investment of $19,100 per share. Through March 31, 2021, we have purchased 8,311 shares in total.

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..