LICT CORPORATION AND SUBSIDIARIES

Quarterly Report for period ended March 31, 2022

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

	Three Months Ended March 31,	
	2022	**2021**
Revenues	$32,465	$32,015
Costs and expenses:		
Cost of revenue, excluding depreciation	15,235	14,479
General and administrative costs at operations	3,223	3,173
Corporate office expenses	1,134	946
Charitable contributions	141	--
Depreciation and amortization	5,161	4,636
Total Costs and Expenses	24,894	23,234
Operating profit	7,571	8,781
Other income (expense)		
Investment income	894	762
Interest expense	(291)	(385)
Equity in earnings of affiliated companies	50	185
Other	71	58
Total other income	724	620
Income from operations before taxes	8,295	9,401
Provision for income taxes	(2,123)	(2,427)
Net income	$6,172	$6,974
Earnings per share basic and diluted	$347	$378
Weighted average shares- basic and diluted	17,786	18,458
Actual shares outstanding	17,626	18,399

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$27,049	$42,466
Receivables, less allowances of $153 and $169, respectively	6,366	7,180
Material and supplies	9,176	8,212
Prepaid expenses and other current assets	5,350	24,068
Total current assets	47,941	81,926
Property, plant and equipment, net	125,858	123,473
Goodwill	48,048	48,048
Other intangibles	24,134	16,392
Investments in and advances to affiliated entities	2,765	3,822
Other assets (a)	10,548	10,476
Total assets	$259,294	$284,137
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable	$4,031	$4,388
Accrued interest payable	12	154
Accrued liabilities	7,929	7,720
Current maturities of long-term debt	577	25,577
Total current liabilities	12,549	37,839
Long-term debt	21,748	21,478
Deferred income taxes	24,947	25,025
Other liabilities	9,593	9,323
Total liabilities	68,837	93,935
Shareholders' equity		
Common stock, $0.0001 par value-10,000,000 shares authorized; 26,830 issued; 17,626 and 17,871 outstanding	--	--
Additional paid-in capital	17,859	17,859
Retained earnings	252,475	246,303
Treasury stock, 9,204 and 8,959 shares, at cost	(79,877)	(73,960)
Total shareholders' equity	190,457	190,202
Total liabilities and shareholders' equity	$259,294	$284,137

(a) *Please note we carry a minority investment in Aureon Network Services, Inc., at historical cost of $3.0 million, however, LICT's share of the book value of the investment is probably closer to $9.0 million.*

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, 2021	17,871	$17,859	$246,303	(73,960)	$190,202
Net income for the period			6,172		6,172
Purchase of Treasury Stock	(245)			(5,917)	(5,917)
Balance at March 31, 2022	17,626	$17,859	$252,475	(79,877)	$190,457

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,	
	2022	**2021**
Operating activities:		
Net income	$6,172	$6,974
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,161	4,636
Debt cost amortization	12	53
Equity in earnings of affiliated companies	(50)	(185)
Unrealized gains on securities	2	(96)
Realized loss on securities	--	33
Deferred income tax provision	(78)	(85)
Changes in operating assets and liabilities:		
Accounts receivables	814	(699)
Income tax payable/ receivable	2,163	2,417
Accounts payable and accrued liabilities	(295)	233
Other operating assets and liabilities	(2,908)	(1,530)
Net cash provided by operating activities	10,993	11,751
Investing activities:		
Capital expenditures	(7,733)	(7,123)
Return of FCC deposit	20,000	20,000
Acquisition of spectrum licenses	(7,742)	(4,267)
Sale of Securities	--	72
Other investing activities	(18)	33
Net cash provided by investing activities	4,507	8,715
Financing activities:		
Borrowing (repayment) on line of credit, net	(25,000)	(30,000)
Purchase of treasury stock	(5,917)	(2,559)
Net cash provided by (used in) financing activities	(30,917)	(32,559)
Net decrease in cash and cash equivalents	(15,417)	(12,093)
Cash and cash equivalents at beginning of period	42,466	67,324
Cash and cash equivalents at end of period	$27,049	$55,231

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 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, 2021. 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, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. 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. Indebtedness

On January 17, 2020, the Company entered into a new credit agreement with CoBank for a $50.0 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, 2022 is LIBOR plus 1.72%. The credit facility is secured by a pledge of the stock of the Company's subsidiaries. In the first three months of 2022 and 2021, respectively, the average balance of the line of credit outstanding was $17.1 million and $33.2 million; the highest amount outstanding was $35.0 million and $50.0 million; and the average interest rate was 1.66% and 2.13%, respectively.

Long-term debt at March 31, 2022, and December 31, 2021 consists of (all interest rates are at March 31, 2022) (in thousands):

	March 31, 2022	**December 31, 2021**
Revolving credit facility from CoBank at a variable rate at LIBOR plus 1.72% which was 1.95% as of March 31, 2022	$ 10,000	$ 35,000
Secured notes issued to sellers in connection with acquisitions at fixed interest rate of 6.0%	7,647	7,647
Unsecured notes issued in connection with acquisitions at fixed interest rates of 4.0% and 6.0%	4,678	4,678
Total debt	22,325	47,325
Current maturities	(577)	(25,577)
Long term debt	$21,748	$21,748

D. Spectrum Transactions

In November 2020, the Company deposited $20.0 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. The Company was the high bidder on five spectrum licenses totaling $4,3 million. In March 2021, the FCC returned $15.7 million from the original $20.0 million deposit.

In September 2021, the Company deposited $20.0 million with the FCC to participate in Auction 110, which relates to 3.45-3.55GHz bands. The auction concluded on January 14, 2022, and the Company was the high bidder on twelve spectrum licenses totaling $7.7 million. In January 2022, the FCC returned $12.3 million from the original $20.0 million deposit.

E. Litigation

The Company 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

As of March 31, 2022, and December 31, 2021, assets of $8.0 million, and $3.8 million, which are classified as cash and cash equivalents, were invested in 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 approximately $17 thousand in the first quarter of 2022.

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, the Company provides an array of broadband and communications services, primarily in rural areas but with continuing expansions in adjacent urban communities.

As of March 31, 2022, the Company provided service to 78,893 revenue generating units consisting of 44,506 broadband data lines, 30,368 voice lines, and 4,019 video subscribers. Comparable amounts at March 31, 2021 were 35,903, 31,908, and 4,545, respectively. Operations are deployed through 5,759 miles of fiber optic cable, 11,515 miles of copper cable, and 778 miles of coaxial cable and 84 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 the Company had been receiving.

Three Months Ended March 31, 2022 compared to 2021

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

	2022	**2021**
Non-regulated revenues:		
Broadband and related services	$15,060	$13,925
Video (including cable modem)	1,279	1,330
Other	1,145	1,177
Total non-regulated revenues	17,484	16,432
Regulated revenues:		
Local access	$1,520	$1,589
Interstate access	11,222	11,569
Intrastate access	1,943	2,103
Other regulated	296	322
Total regulated revenues	14,981	15,583
Total revenues	32,465	32,015
Operating Cost and Expense:		
Cost of revenue, excluding depreciation	15,235	14,479
General and administrative costs at operations	3,223	3,173
Corporate office expenses	1,134	946
Charitable contributions	141	--
Depreciation and amortization	5,161	4,636
Total operating costs and expenses	24,894	23,234
Operating profit	$7,571	$8,781

In the first quarter of 2022, non-regulated revenues increased by $1.1 million, or 13%, to $17.5 million, from $16.4 million in 2021. Non-regulated revenues from both broadband services and other non-regulated services increased, primarily from our Utah ($0.6 million), New Mexico ($0.1 million), Kansas ($0.2 million) and California-Oregon ($0.1 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 54% of our revenue streams and are expected to continue to grow.

Regulated revenues decreased by $0.6 million to $15.0 million in the first quarter of 2022, from $15.6 million in 2021. Combining the non-regulated and regulated revenues, total revenues in 2022 increased by $0.4 million or 1.4%, to $32.5 million compared to $32.0 million in 2021.

Total operating costs and expenses were $24.9 million in 2022, an increase of $1.7 million as compared to 2021. The costs of revenue increased by $0.8 million, due to incremental non-regulated revenue, while general and administrative costs incurred at the operations increased by $0.1 million. Corporate expenses increase by $0.2 million compared to 2021. Depreciation and amortization increased by $0.5 million from

2021 to 2022. As a result of the above, operating profit in 2022 decreased by $1.1 million from $8.8 million in 2021 to $7.6 million in 2022.

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.

The Company'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:

	2022	2021
EBITDA from:		
Operating units	$14,007	$14,363
Corporate expense	(1,134)	(946)
Charitable Contributions	(141)	--
EBITDA	$12,732	$13,417
Reconciliation to net income:		
EBITDA	$12,732	$13,417
Depreciation and amortization	(5,161)	(4,636)
Investment income	894	762
Interest expense	(291)	(385)
Equity in earnings of affiliated companies	50	185
Other	71	58
Income tax provision	(2,123)	(2,427)
Net income	$6,172	$6,974

Other Income (Expense)

In the first quarter of 2022, investment income increased by $0.1 million primarily driven from a $0.5 million dividend received from Aureon Network Services, Inc. versus $0.2 million in the first quarter of 2021. This was offset by a reduction of $0.2 million in CoBank Patronage income.

Equity in earnings of affiliates decreased by $0.1 million primarily attributed to the financial performance of DFT Communications.

Interest expense decreased by $0.1 million due to lower balances of total outstanding debt coupled with lower interest rates.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2022 and 2021 represent effective tax rates of 26.4% and 26.4%, respectively.

Net Income

Net income for the first quarter of 2022 was $6.2 million, or $347 per basic and diluted share. In 2021, net income was $6.9 million, or $378 per basic and diluted share.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company closed on a new five-year, $50.0 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, 2022, there was $10.0 million outstanding under the $50.0 million facility. The average balance outstanding under the facility was $17.1 million at an average interest rate of 1.66%.

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, 2022 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	$12,325	$577	$4,101	$7,647	--
Revolving credit facility, principal only	10,000	--	10,000	--	--
Interest on debt and notes	3,130	945	1,621	564	
Operating leases	7,329	964	1,629	1,337	3,409
Total contractual cash obligations and commitments	$32,784	$2,486	$17,351	$9,548	$3,409

At March 31, 2022, total debt was $22.3 million, a decrease of $25.0 million from December 31, 2021. The average interest rate for the debt outstanding was 4.11% and 2.72% as of March 31, 2022 and December 31, 2021, respectively. The revolving credit facility contain certain covenants restricting share repurchases, among other things.

As of March 31, 2022, the Company had current assets of $47.9 million and current liabilities of $12.5 million resulting in working capital of $35.4 million compared to $44.1 million at December 31, 2021.

At March 31, 2022, the Company carries a minority investment in Aureon Network Services, Inc., at historical cost of $3.0 million, however, the Company's share of the book value of the investment is probably closer to $9.0 million.

Sources and Uses of Cash

Cash at March 31, 2022 was $27.0 million, as compared to $42.4 million at December 31, 2021. During the first quarter of 2022, the company paid down $25.0 million of the CoBank revolving credit facility offset by a $12.3 million return from its 2021 deposit of $20.0 million related to FCC spectrum auction 110. The FCC announced the results of this auction on January 14, 2022, and the Company acquired twelve licenses of $7.7 million. In the first quarter of 2022, net cash provided by operations of $11.0 million was primarily used to invest in plant and equipment ($7.7 million), and purchase treasury shares ($5.9 million).

In the first quarter of 2022, capital expenditures were $7.7 million in 2021 as compared to $7.1 million in 2021.

The Company continues to take bonus depreciation deductions for eligible property additions as allowed by the Internal Revenue Service. Starting September 27, 2017 the allowable bonus depreciation deduction increased to 100%. 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 9,644 shares of the Company's common stock. During the first quarter of 2022, 245 shares of company stock were purchased at an average investment of $24,153 per share. Through March 31, 2022, we have purchased 9,084 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.