LICT CORPORATION AND SUBSIDIARIES

Quarterly Report for period ended June 30, 2022

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Revenues	$32,728	$32,287	$65,193	$64,302
Costs and expenses:				
Cost of revenue	15,114	14,519	30,349	28,998
General and administrative costs at operations	2,970	3,016	6,193	6,189
Corporate office expenses	1,219	917	2,353	1,863
Charitable contributions	-	183	141	183
Depreciation and amortization	4,912	4,655	10,073	9,291
Total Costs and Expenses	24,215	23,290	49,109	46,524
Operating profit	8,513	8,997	16,084	17,778
Other income (expense)				
Investment income	29	22	923	784
Interest expense	(285)	(319)	(576)	(704)
Equity in earnings of affiliated companies	23	21	73	206
Other	(182)	(22)	(111)	36
Total other income	(415)	(298)	309	322
Income from operations before taxes	8,098	8,699	16,393	18,100
Provision for income taxes	(2,204)	(2,413)	(4,327)	(4,840)
Net income	$5,894	$6,286	$12,066	$13,260
Weighted average shares outstanding:				
Basic & Diluted average shares outstanding	17,560	18,185	17,672	18,318
Actual shares outstanding	17,513	18,080	17,513	18,080
Earnings per share: from continuing operations				
Basic & Diluted	$336	$346	$683	$724

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$33,309	$42,466
Accounts receivable, less allowances of $152 and $169, respectively	6,743	7,180
Material and supplies	9,893	8,212
Deposits, prepaid expenses, and other current assets	11,830	24,068
Total current assets	61,775	81,926
Property, plant and equipment, net	130,064	123,473
Goodwill	48,048	48,048
Other intangibles	24,133	16,392
Investments in and advances to affiliated entities	2,805	3,822
Other assets (a)	10,510	10,476
Total assets	$277,335	$284,137
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable	$3,833	4,388
Accrued interest payable	106	154
Accrued liabilities	8,542	7,720
Current maturities of long-term debt	300	25,577
Total current liabilities	$12,781	$37,839
Long-term debt	36,448	21,748
Deferred income taxes	24,722	25,025
Other liabilities	9,714	9,323
Total liabilities	$83,665	$93,935
Total shareholders' equity	193,670	190,202
Total liabilities and shareholders' equity	$277,335	$284,137

(a) Please note we carry a minority investment at historical cost of $3.0 million, however, LICT's share of the book value of the investment is approximately $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			12,066		12,066
Purchase of Treasury Stock	(358)			(8,598)	(8,598)
Balance at June 30, 2022	17,513	$17,859	$258,369	$(82,558)	$193,670

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2022	**2021**
Operating activities:		
Net income	$12,066	$13,260
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	10,073	9,291
Debt cost amortization	24	22
Equity in earnings of affiliated companies	(73)	(206)
Unrealized gains on securities	(105)	(74)
Realized loss on securities	--	33
Deferred income tax provision	(303)	(197)
Changes in operating assets and liabilities:		
Accounts receivable	437	(375)
Income tax payable/receivable	1,825	1,059
Accounts payable and accrued liabilities	(585)	(857)
Other operating assets and liabilities	(1,417)	(2,260)
Net cash provided by operating activities	21,942	19,696
Investing activities:		
Capital expenditures	(16,585)	(14,689)
Return of FCC deposit	20,000	20,000
Acquisition of spectrum licenses	(7,741)	(4,267)
Acquisition of business, net of cash acquired	--	(759)
Sales of Securities	--	72
Other investing activities	(7,598)	23
Net cash (used in) provided by investing activities	(11,924)	380
Financing activities:		
Repayment of long-term debt	(577)	(852)
Borrowing (repayment) on line of credit, net	(10,000)	(40,000)
Purchase of treasury stock	(8,598)	(10,060)
Net cash (used in) financing activities	(19,175)	(50,912)
Net decrease in cash and cash equivalents	(9,157)	(30,836)
Cash and cash equivalents at beginning of period	42,466	67,324
Cash and cash equivalents at end of period	$33,309	$36,488

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 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 six months ended June 30, 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 June 30, 2022 is LIBOR plus 1.5%. The credit facility is secured by a pledge of the stock of the Company's subsidiaries. In the first half of 2022 and 2021, the average balance of the line of credit outstanding was $13.9 million and $25.9 million; the highest amount outstanding for 2022 and 2021 was $35.0 million and $50.0 million; and the average interest rate was 1.96% and 2.18%, respectively.

Long-term debt at June 30, 2022, and December 31, 2021 consists of (in thousands):

	June 30, 2022	December 31, 2021
Revolving credit facility from CoBank at a variable rate at LIBOR plus 1.5% which was 2.5% as of June 30, 2022	$ 25,000	$ 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%	4,101	4,678
Total debt	36,748	47,325
Current maturities	(300)	(25,577)
Long term debt	$36,448	$21,748

C. Spectrum Transactions

The Company was accepted to participate in FCC Auction 108- 2.5 GHz band licenses. The Company intends on participating in the auction in order to bid on spectrum in various markets that will enhance the speed and extend the range of our current networks. FCC rules preclude any discussion as the auction is ongoing.

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.

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.

D. 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.

E. Related Party Transactions

As of June 30, 2022, and December 31, 2021, assets of $12.8 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.

F. Other Income

Included in other income are investments in equity securities. The changes in fair values are attributable to approximately $0.1 million loss in the second 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 June 30, 2022, the Company provided service to 79,632 revenue generating units consisting of 45,250 broadband data lines, 30,399 voice lines, and 3,983 video subscribers. Comparable amounts at June 30, 2021 were 40,607, 30,854, and 4,307, respectively. Operations are deployed through 6,080 miles of fiber optic cable, 11,529 miles of copper cable, and 819 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 June 30, 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	$12,051	$11,166
Video (including cable modem)	4,502	4,462
Other	1,173	1,175
Total non-regulated revenues	17,726	16,803
Regulated revenues:		
Local access	1,525	1,596
Interstate access	11,246	11,519
Intrastate access	1,936	2,100
Other regulated	295	269
Total regulated revenues	15,002	15,484
Total revenues	32,728	32,287
Operating Cost and Expense:		
Cost of revenue, excluding depreciation	15,114	14,519
General and administrative costs at operations	2,970	3,016
Corporate office expenses	1,219	917
Charitable contributions	--	183
Depreciation and amortization	4,912	4,655
Total operating costs and expenses	24,215	23,290
Operating profit	$8,513	$8,997

In the second quarter of 2022, non-regulated revenues increased by $0.9 million, or 5.4%, to $17.7 million, from $16.8 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) and Kansas ($0.2 million) operations. Non-regulated revenues currently represent 54% of our revenue streams and are expected to continue to grow.

Regulated revenues decreased by $0.5 million to $15.0 million in the first quarter of 2022, from $15.5 million in 2021. Combining the non-regulated and regulated revenues, total revenues in 2022 increased by $0.4 million, or 1.4%, to $32.7 million compared to $32.3 million in 2021.

Total operating costs and expenses were $24.2 million in 2022, an increase of $0.9 million as compared to 2021. The costs of revenue increased by $0.6 million, due to incremental non-regulated revenue, while general and administrative costs incurred at the operations remained relatively flat at $3.0 million. Corporate expenses increased by $0.3 million compared to 2021. Charitable contributions decreased by $0.2 million. Depreciation and amortization increased by $0.2 million from 2021 to 2022. As a result of the above, operating profit in 2022 decreased by $0.5 million from $9.0 million in 2021 to $8.5 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 following table provides the components of EBITDA and reconciles it to net income from continuing operations:

	2022	2021
EBITDA from:		
Operating units	$14,644	$14,752
Corporate expense	(1,219)	(917)
Charitable Contributions	--	(183)
EBITDA	$13,425	$13,652
Reconciliation to net income:		
EBITDA	$13,425	$13,652
Depreciation and amortization	(4,912)	(4,655)
Investment income	29	22
Interest expense	(285)	(319)
Equity in earnings of affiliated companies	23	21
Other	(182)	(22)
Income tax provision	(2,204)	(2,413)
Net income	$5,894	$6,286

Other Income (Expense)

In the second quarter of 2022, other expenses increased by $0.1 million primarily driven from unrealized losses on marketable securities.

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 27.2% and 27.7%, respectively.

Net Income

Net income for the second quarter of 2022 was $5.9 million, or $336 per basic and diluted share. In 2021, net income was $6.3 million, or $346 per basic and diluted share.

<u>Six Months Ended June 30, 2021 compared to 2020</u>

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

	2022	**2021**
Non-regulated revenues:		
Broadband and related services	$23,871	$22,044
Video (including cable modem)	9,022	8,839
Other	2,321	2,353
Total non-regulated revenues	35,214	33,236
Regulated revenues:		
Local access	3,045	3,185
Interstate access	22,467	23,088
Intrastate access	3,879	4,203
Other regulated	588	590
Total regulated revenues	29,979	31,066
Total revenues	65,193	64,302
Operating Cost and Expense:		
Cost of revenue, excluding depreciation	30,349	28,998
General and administrative costs at operations	6,193	6,189
Corporate office expenses	2,353	1,863
Charitable contributions	141	183
Depreciation and amortization	10,073	9,291
Total operating costs and expenses	49,109	46,524
Operating profit	$16,084	$17,778

Total revenues in the first half of 2022 increased by $0.8 million, or 1.2%, to $65.1 million compared to $64.3 million in 2021.

Non-regulated revenues increased by $2.0 million, or 6.0%, to $35.2 million, from $33.2 million in 2021. Non-regulated revenues from both broadband services and other non-regulated services increased, primarily from our Utah ($1.3 million), New Mexico ($0.2 million) and Kansas ($0.3 million) and California-Oregon ($0.1 million) operations. Non-regulated revenues currently represent 54% of our revenue streams and are expected to continue to grow.

Regulated revenues decreased by $1.2 million to $29.9 million in the first half of 2022, from $31.1 million in 2021.

Total operating costs and expenses were $49.1 million in 2022, an increase of $2.6 million as compared to 2021. The costs of revenue increased by $1.4 million, due to incremental non-regulated revenue, while general and administrative costs incurred at the operations remained flat. Corporate expenses increased by $0.5 compared to 2021. Depreciation and amortization increased by $0.8 million from 2021 to 2022. As a result of the above, operating profit in the first half of 2022 decreased by $1.7 million from $16.1 million in 2020 to $17.8 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, because this non-GAAP financial measure eliminates from earnings financial items that have less bearing on our performance.

	2022	2021
EBITDA from:		
Operating units	$28,651	$29,115
Corporate expense	(2,353)	(1,863)
Charitable Contributions	(141)	(183)
EBITDA	$26,157	$27,069
Reconciliation to net income:		
EBITDA	$26,157	$27,069
Depreciation and amortization	(10,073)	(9,291)
Investment income	923	784
Interest expense	(576)	(704)
Equity in earnings of affiliated companies	73	206
Other	(111)	36
Income tax provision	(4,327)	(4,840)
Net income	$12,066	$13,260

Other Income (Expense)

In the first half 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 2020.

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

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

Other expenses increased by $0.1 million primarily driven from unrealized losses on marketable securities.

Income Tax Provision

The income tax provision includes federal, state and local taxes. The tax provision for 2022 and 2021 represent effective tax rates of 26.4% and 26.7%, respectively.

Net Income

Net income for the first half of 2022 was $12.0 million, or $683 per basic and diluted share. The 2021 net income was $13.3 million, or $724 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 June 30, 2022, there was $25.0 million outstanding under the $50.0 million facility. The average balance outstanding under the facility was $13.9 million at an average interest rate of 1.96%.

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 June 30, 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	$11,748	$300	$3,801	$7,647	--
Revolving credit facility, principal only	25,000	--	25,000	--	--
Interest on debt and notes	4,123	1,618	2,505	--	
Operating leases	7,329	954	1,629	1,337	3,409
Total contractual cash obligations and commitments	$48,200	$2,872	$32,935	$8,984	$3,409

At June 30, 2022, total debt was $36.7 million, a decrease of $10.6 million from December 31, 2021. The average interest rate for the debt outstanding was 4.40% and 2.72% as of June 30, 2022, and December 31, 2021, respectively. The revolving credit facility contain certain covenants restricting share repurchases, and other items.

As of June 30, 2022, the Company had current assets of $61.8 million and current liabilities of $12.8 million resulting in working capital of $35.4 million compared to $44.1 million at December 31, 2021.

At June 30, 2022, the Company carries a minority investment 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

As of June 30, 2022, cash was $33.3 million, as compared to $42.5 million at December 31, 2021. During the first six months of 2022, the company paid down $25.0 million of the CoBank revolving credit facility offset by a $15 million drawdown of cash from CoBank, and 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 six months of

2022, net cash provided by operations of $21.9 million was primarily used to invest in plant and equipment ($16.5 million), and purchase treasury shares ($8.6 million).

In the first six months of 2022, capital expenditures were $16.5 million in 2021 as compared to $14.6 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 six months of 2022, 358 shares of company stock were purchased for $8.6 million, at an average cost of $24,021 per share. Through June 30, 2022, the Company has purchased 9,197 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.