LICT CORPORATION AND SUBSIDIARIES

Quarterly Report for period ended March 31, 2023

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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,	
	2023	**2022**
Revenues	$32,876	$32,465
Costs and expenses:		
Cost of revenue, excluding depreciation	16,270	15,235
General and administrative costs at operations	2,984	3,223
Corporate office expenses	1,219	1,134
Charitable contributions	--	141
Depreciation and amortization	5,800	5,161
Total Costs and Expenses	26,273	24,894
Operating profit	6,603	7,571
Other income (expense)		
Investment income	842	894
Interest expense	(637)	(291)
Equity in earnings of affiliated companies	--	50
Other	(61)	71
Total other income	144	724
Income from operations before taxes	6,747	8,295
Provision for income taxes	(1,647)	(2,123)
Net income	$5,100	$6,172
Earnings per share basic and diluted	$295	$347
Weighted average shares- basic and diluted	17,309	17,786
Actual shares outstanding	17,263	17,626

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	March 31,2023	December 31,2022
Assets		
Current assets:		
Cash and cash equivalents	$22,417	$27,257
Receivables, less allowances of $164 and $142, respectively	6,591	7,609
Material and supplies	12,748	11,307
Prepaid expenses and other current assets	5,272	4,514
Total current assets	47,028	50,687
Property, plant and equipment, net	155,004	151,789
Goodwill	42,348	42,348
Other intangibles	29,722	29,712
Investments in to affiliated companies	2,318	2,318
Other assets (a)	11,092	10,892
Total assets	$287,512	$287,746
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable	$3,866	$8,962
Accrued interest payable	--	11
Accrued liabilities	7,815	6,145
Current maturities of long-term debt	366	372
Total current liabilities	$12,047	$15,490
Long-term debt	38,240	38,252
Deferred income taxes	29,390	29,418
Other liabilities	8,645	8,893
Total liabilities	$88,322	$92,143
Shareholders' equity		
Common stock, $0.0001 par value-10,000,000 shares authorized; 26,830 issued; 17,263 and 17,341 outstanding	--	--
Additional paid-in capital	17,859	17,859
Retained earnings	269,101	264,001
Treasury stock, 9,567 and 9,489 shares, at cost	(87,770)	(86,257)
Total shareholders' equity	$199,190	195,603
Total liabilities and shareholders' equity	$287,512	$287,746

(a) *Please note we carry a minority investment in Aureon Network Services, Inc., at a 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, 2022	17,341	$17,859	$264,001	(86,257)	$195,603
Net income for the period			5,100		5,100
Purchase of Treasury Stock	(78)			(1,513)	(1,513)
Balance at March 31, 2023	17,263	$17,859	$269,101	(87,770)	$199,190

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,	
	2023	**2022**
Operating activities:		
Net income	$5,100	$6,172
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,800	5,161
Debt cost amortization	13	12
Equity in earnings of affiliated companies	--	(50)
Unrealized gains on securities	83	2
Deferred income tax provision	(28)	(78)
Changes in operating assets and liabilities:		
Accounts receivables	1,018	814
Income tax payable/ receivable	1,707	2,163
Accounts payable and accrued liabilities	(1,819)	(295)
Other operating assets and liabilities	(2,870)	(2,908)
Net cash provided by operating activities	9,004	10,993
Investing activities:		
Capital expenditures	(12,319)	(7,733)
Return of FCC deposit	--	20,000
Acquisition of spectrum licenses	--	(7,742)
Other investing activities	6	(18)
Net cash provided by investing activities	(12,313)	4,507
Financing activities:		
Borrowing (repayment) on line of credit, net	(18)	(25,000)
Purchase of treasury stock	(1,513)	(5,917)
Net cash provided by (used in) financing activities	(1,531)	(30,917)
Net decrease in cash and cash equivalents	(4,840)	(15,417)
Cash and cash equivalents at beginning of period	27,257	42,466
Cash and cash equivalents at end of period	$22,417	$27,049

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, 2022. 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, 2023, are not necessarily indicative of the results that may be expected for the year ending December 31, 2023. 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 SOFR and is determined by the Company's leverage ratio, as defined in the credit agreement. The Company's borrowing rate at March 31, 2023, is SOFR plus 1.50%. The credit facility is secured by a pledge of the stock of the Company's subsidiaries. In the first three months of 2023 and 2022, respectively, the average balance of the line of credit outstanding was $25.0 million and $20.9 million; the highest amount outstanding was $25.0 million and $35.0 million; and the average interest rate was 6.93%% and 1.66%, respectively.

Long-term debt at March 31, 2023, and December 31, 2022, consists of (all interest rates are at March 31, 2022) (in thousands):

	March 31, 2023	**December 31, 2022**
Long-term debt consists of:		
Revolving credit facility from CoBank, ACB	$25,000	$25,000
Secured notes issued to sellers in connection with acquisitions at fixed interest rate of 6.0%	7,647	7,647
Unsecured notes issued to sellers in connection with acquisition at fixed interest rates of 4.0% and 6.0%	5,101	5,101
Cache Valley Mortgage 10 year 5.25%	858	875
Total Debt	38,606	38,623
Current maturities	(366)	(372)
Long-Term Debt	$38,240	$38,252

C. Spectrum Transactions

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.

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 March 31, 2023, and December 31, 2022, assets of $14.4 million, and $5.4 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 $17 thousand in the first quarter of 2023.

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, 2023, the Company provided service to 79,243 revenue generating units consisting of 46,505 broadband data lines, 29,269 voice lines, and 3,469 video subscribers. Comparable amounts at March 31, 2022 were 44,506, 30,368, and 4,019 respectively. Operations are deployed through 6,773 miles of fiber optic cable, 11,255 miles of copper cable, and 832 miles of coaxial cable and 86 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;
- Fixed wireless broadband service, primarily for more remote customers.
- 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; and
- Managed Hosting, where we host virtual switchboards for 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. The Company expects this broadband growth to accelerate as we deploy additional Fiber-To-The-Home ("FTTH") to more locations, including locations being built partially or completely with grant funding. The Company is currently working on obtaining environmental clearance on eight significant United States Department of Agriculture ("USDA") ReConnect III and IV grants that have been awarded and completing engineering for one ReConnect III grant in Kansas which environmental clearance has been completed.

The broadband subscribers growth 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 had policies promoting communication services in rural areas because it benefits the nation. These policies were initially deployed for voice service, but have expanded to include broadband. Government funding and support has increased significantly with the passage of the Infrastructure Investment and Jobs Act ("IIJA") where Congress took a significant step towards the goal of providing broadband access to the entire country by providing funding of $65 billion investment for 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. The FCC is currently proposing a voluntary enhanced A-CAM program which would extend beyond 2028 and require build-out of at least 100/20 Mbps to all A-CAM locations. The Company will analyze the FCC's enhanced A-CAM program when it is ordered.

Three Months Ended March 31, 2023 compared to 2022

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

	2023	2022
Non-regulated revenues:		
Broadband and related services	$15,916	$15,060
Video	1,202	1,279
Other	1,147	1,145
Total non-regulated revenues	18,264	17,484
Regulated revenues:		
Local access	1,469	1,520
Interstate access	11,013	11,222
Intrastate access	1,816	1,943
Other regulated	314	296
Total regulated revenues	14,612	14,981
Total revenues	32,876	32,465
Operating Cost and Expense:		
Cost of revenue, excluding depreciation	16,270	15,235
General and administrative costs at operations	2,984	3,223
Corporate office expenses	1,219	1,134
Charitable contributions	--	141
Depreciation and amortization	5,800	5,161
Total operating costs and expenses	26,273	24,894
Operating profit	$6,603	$7,571

In the first quarter of 2023, non-regulated revenues increased by $0.8 million, or 4.5%, to $18.3 million, from $17.5 million in 2022. 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. 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 55.6% of our revenue streams in the first quarter of 2023 and are expected to continue to grow.

Regulated revenues decreased by $0.4 million to $14.6 million in the first quarter of 2023, from $15.0 million in 2022. Combining the non-regulated and regulated revenues in the first quarter, total revenues in 2023 increased by $0.4 million or 1.3%, to $32.9 million compared to $32.5 million in 2022.

Total operating costs and expenses were $26.3 million in 2023, an increase of $1.4 million as compared to the first quarter of 2022. The costs of revenue increased by $1.0 million, due to the cost of adding incremental non-regulated customers and continued inflation pressure on labor and supplies, while general and administrative costs incurred at the operations decreased by $0.2 million. Corporate expenses increase by $0.1 million compared to 2022 which include Michigan spin-off expenses of $0.2 for audit and consulting fees. Depreciation and amortization increased by $0.6 million from $5.2 million in 2022. Approximately $0.3 million of this increase will not repeat in future quarters as it was a correction. As a result of the above, operating profit in the first quarter decreased by $1.0 million from $7.6 million in 2022 to $6.6 million in 2023.

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. 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 as of March 31, 2023, and 2022 (in thousands):

	2023	2022
EBITDA from:		
Operating units	$13,622	$14,007
Corporate expense	(1,219)	(1,134)
Charitable Contributions	--	(141)
EBITDA	$12,403	$12,732
Reconciliation to net income:		
EBITDA	$12,403	$12,732
Depreciation and amortization	(5,800)	(5,161)
Investment income	842	894
Interest expense	(637)	(291)
Equity in earnings of affiliated companies	--	50
Other	(61)	71
Income tax provision	(1,647)	(2,123)
Net income	$5,100	$6,172

Other Income (Expense)

In the first quarter of 2023, investment income decreased 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 2022. This was offset by a reduction of $0.2 million in CoBank Patronage income.

Interest expense increased by $0.3 million due to higher interest rates charged by CoBank related to the higher inflationary environment in the first quarter. Our borrowing is tied to variable interest rates.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for the first quarter of 2023 and 2022 represent effective tax rates of 24.5% and 25.6%, respectively.

Net Income

Net income for the first quarter of 2023 was $5.1 million, or $295 per basic and diluted share. In 2022, net income was $6.2 million, or $347 per basic and diluted share.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

In January of 2020, the Company closed on a 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, 2023, there was $25 million outstanding under the $50 million facility. The average balance outstanding under the facility was $25 million at an average interest rate of 6.93%.

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, 2023, 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	1 year	2 – 3 years	4 – 5 years	Over 5 years
Long-term debt, notes to sellers, principal only	$11,748	$300	$3,801	$7,647	--
Debt on Building acquisition, principle only	1,858	72	157	1,174	455
Revolving credit facility with bank, principal only	25,000	--	25,000	--	--
Interest on debt and notes	4,896	2,291	2,331	219	55
Operating leases	7,655	1,092	1,760	1,550	3,253
Total contractual cash obligations and commitments	$51,157	$3,755	$33,049	$10,590	$3,763

As of March 31, 2023, the Company had current assets of $47 million and current liabilities of $12 million resulting in working capital of $35 million compared to working capital of $35.2 million at March 31, 2022.

Sources and Uses of Cash

Cash at March 31, 2023 was $22.4 million, as compared to $27.3 million at March 31, 2022. During the first quarter of 2022, the company paid down $25 million of the CoBank revolving credit facility offset by a $12.3 million return from its 2021 deposit of $20 million related to FCC spectrum auction 110.

In the first quarter of 2023, capital expenditures were $12.3 million as compared to $7.4 million in 2022. The first quarter capital expenditures are elevated as both our Michigan and Utah operations were completing fiber to the home projects that began in 2022. Future quarters capital expenditures are expected to be lower than the elevated levels of the first quarter.

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%. However, currently, bonus depreciation in 2023 is limited to 80%. 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 10,715 shares of the Company's common stock. During the first quarter of 2023, 78 shares of company stock were purchased at an average investment of $19,380 per share.

The Company has submitted a Form 10 Registration Statement with the U.S. Securities and Exchange Commission ('SEC') for the spin-off of its Michigan operations to a wholly owned subsidiary, MachTen, Inc. (MachTen). The Form 10 submission is preliminary and is subject to change upon SEC review. LICT expects a third-quarter distribution to its shareholders.