LICT CORPORATION AND SUBSIDIARIES

Quarterly Report for period ended June 30, 2024

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Operating Revenues	$33,684	$29,088	$67,183	$58,093
Operating Expenses:				
Cost of revenue	16,763	14,631	32,836	29,532
General and administrative costs at operations	2,730	2,748	5,476	5,381
Corporate office expenses	1,158	1,166	2,437	2,230
Depreciation and amortization	5,803	4,767	11,807	10,065
Total Operating Expenses	26,454	23,312	52,556	47,208
Operating Income	7,230	5,776	14,627	10,885
Other Income (Expense)				
Investment income	315	155	1,208	980
Interest expense	(1,096)	(629)	(2,066)	(1,266)
Unrealized loss on investment	(42)	-	(636)	-
Equity in earnings of affiliated companies	252	24	225	24
Other	28	(49)	67	(110)
Total Other Income (Expense)	(543)	(499)	(1,202)	(372)
Income from Continuing Operations	6,687	5,277	13,425	10,513
Provision for income taxes	(1,780)	(1,484)	(3,541)	(2,773)
Income from Continuing Operations, net of tax	4,907	3,743	9,884	7,740
Income from Discontinued Operations	-	1,766	-	3,277
Tax Provision for Discontinued Operations	-	(493)	-	(851)
Income From Discontinued Operations, net of tax	-	1,273	-	2,426
Net Income	$4,907	$5,066	$9,884	$10,166
Basic & Diluted Weighted-Average Shares Outstanding	16,775	17,224	16,859	17,267
Earnings Per Share:				
Income from continuing operations	$293	$220	$586	$448
Income from discontinued operations [(a)]	-	74	-	141
Basic and Diluted Earnings Per Share	$293	$294	$586	$589

(a) *Spinoff of MachTen on August 31, 2023 – see footnote E. Discontinued Operations*

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2024	December 31, 2023
Assets		
Current Assets:		
Cash and cash equivalents	$14,377	$11,545
Accounts receivable, less allowances of $137 and $140, respectively	9,719	7,123
Note receivable from affiliate, including accrued interest	16,202	15,345
Materials and supplies	14,533	16,825
Prepaid expenses and other current assets	4,453	4,417
Total Current Assets	59,284	55,255
Property, plant and equipment, net	165,233	150,112
Goodwill	48,251	48,251
Other intangibles	34,363	34,590
Investments in affiliated companies	7,006	7,396
Other assets (b)	13,671	11,436
Total Assets	$327,808	$307,040
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$6,928	$7,773
Accrued interest payable	400	272
Accrued liabilities	8,497	7,696
Current maturities of long-term debt	50,075	3,876
Total Current Liabilities	65,900	19,617
Long-term debt	19,839	49,576
Deferred income taxes	28,803	28,898
Other liabilities	13,429	14,261
Total Liabilities	127,971	112,352
Shareholders' Equity		
Common stock, $0.01 par value; 10,000,000 shares authorized; 26,831 issued; 16,674 and 16,971 outstanding		
Additional paid-in capital	10,302	10,302
Retained earnings	287,273	277,389
Treasury stock, 10,157 and 9,860 shares, at cost	(97,738)	(93,003)
Total shareholders' equity	199,837	$194,688
Total Liabilities and Shareholders' Equity	$327,808	$307,040

(b) The company carries 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 as of December 31, 2023	16,971	$10,302	$277,389	$(93,003)	$194,688
Net income for the period			9,884		9,884
Purchase of Treasury Stock	(297)			(4,735)	(4,735)
Balance as of June 30, 2024	16,674	$10,302	$287,273	$(97,738)	$199,837

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,	
	2024	**2023**
Cash Flows from Operating Activities:		
Net income	$9,884	$10,166
Income from discontinued operations	-	2,426
Income from continuing operations	9,884	7,740
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	11,807	10,065
Debt cost amortization	27	51
Equity (gain) in affiliated companies	(225)	(24)
Unrealized loss on investment in MachTen	636	-
Unrealized loss in other investments	43	132
Deferred income tax provision	(95)	54
Changes in operating assets and liabilities:		
Accounts receivables	(2,596)	202
Interest on note receivable	(857)	-
Income taxes receivable	1,299	1,506
Accounts payable and accrued liabilities	594	(71)
Other assets and liabilities	(1,399)	(4,780)
Net Cash Provided by Operating Activities from continuing operations	19,118	14,875
Net Cash Provided by Operating Activities from discontinued operations	-	1,413
Net Cash Provided by Operating Activities	19,118	16,288
Cash Flows from Investing Activities:		
Capital expenditures	(28,115)	(18,867)
Investment in KFN (Kansas Fiber Network)	-	(396)
Other investing activities	102	174
Net Cash Used in Investing Activities for continuing operations	(28,013)	(19,089)
Net Cash Used in Investing Activities for discontinued operations	-	(4,806)
Net Cash Used in Investing Activities	(28,013)	(23,895)
Cash Flows from Financing Activities:		
Borrowing from line of credit, net	16,500	-
Purchase of treasury stock	(4,735)	(3,339)
Payments to reduce long-term debt	(38)	(336)
Net Cash Provided by (Used in) Financing Activities	11,727	(3,675)
Net Increase (Decrease) in Cash and Cash Equivalents	2,832	(11,282)
Cash and Cash Equivalents at beginning of the period	11,545	26,055
Cash and cash equivalents at end of the period	$14,377	$14,773

See accompanying Notes to Condensed Consolidated Financial Statements **.**

LICT CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Organization, Basis of Presentation & Recent Accounting Developments

Organization

LICT Corporation and Subsidiaries (the "Company" or "LICT") is an integrated broadband and communications company that trades on the OTC Pink Sheets under the symbol LICT and has not paid cash dividends since its inception in 1990.

LICT's subsidiaries operate in rural communities in eight states, providing regulated and unregulated broadband and communications services including local telephone service, network access, transport, high-speed internet access, long-distance service, cable television, and competitive local exchange carrier (CLEC) services. LICT's operating telephone companies include Western New Mexico Telephone Company in New Mexico; Cuba City Telephone Exchange Company and Belmont Telephone Company in Wisconsin; J.B.N. Telephone Company and Haviland Telephone Company in Kansas; Central Scott Telephone Company in Iowa; Central Utah Telephone, Skyline Telecom and Bear Lake Communications in Utah; and California-Oregon Telephone Company in California.

The Company elected to treat the spin-off of its Michigan businesses as a discontinued operation. As a result, Michigan's contributions to LICT's consolidated operating results and financial position have been separately reported from amounts previously reported in 2023 as discontinued operations. See additional details in Note E.

The Company has other, less than 50% owned interests, which contribute significant value to the Company.

Brick Skirt Holding Company (formerly DFT Communications) - During the fourth quarter of 2023, LICT completed the sale of 40% of its 20% ownership of Brick Skirt Holding Company to CIBL, Inc. LICT's sale of its remaining 12% ownership of Brick Skirt, is pending regulatory approval.

Aureon Network Services, Inc. ("Aureon") formerly Iowa Network Services, Inc. A wholly-owned subsidiary owns 1,115 shares of Aureon participating preferred stock and 172 shares of Aureon common stock – equating to a 2.56% economic interest. Aureon provides wireline telecommunications access and transport services, long distance, video, and internet to the exchanges of participating telephone companies and other retail and wholesale customers. The company carries its investment in Aureon at a historical $3 million cost.

CVIN LLC ("CVIN"). A wholly-owned subsidiary owns an interest of approximately 2.3% in CVIN, which owns and operates a fiber optic network in the Central Valley and northern areas of California. CVIN provides certain telecommunication support services to its ownership affiliates and others. CVIN generates approximately $22 million in annual revenue and approximately $14 million in annual EBITDA.

Kansas Fiber Network ("KFN"). Two wholly-owned subsidiaries jointly own an interest of approximately 3% in KFN, a statewide fiber network which was formed in early 2009 by approximately thirty Kansas RLECs. KFN is currently providing fiber optic transport and other services to both its RLEC owners and other customers.

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 a former subsidiary, a rural communication and alarm system company in New York (Brick Skirt Holdings Inc.), in which the Company maintains a 12% ownership interest. 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, 2023. 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 and six months ended June 30, 2024, are not necessarily indicative of the results that may be expected for the year ending December 31, 2024. 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.

Recent Accounting Developments

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, to enhance the transparency and decision usefulness of income tax disclosures. The amendments in ASU 2023-09 provide improvements primarily related to the rate reconciliation and incomes taxes paid information included in income tax disclosures. The Company would be required to disclose additional information regarding reconciling items equal to or greater than five percent of the amount computed by multiplying pretax income (loss) by the applicable statutory tax rate. Similarly, the Company would be required to disclose income taxes paid (net of refunds received) equal to or greater than five percent of total income taxes paid (net of refunds received). The amendments in ASU 2023-09 are effective January 1, 2025, including interim periods. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company will evaluate the impact of ASU 2023-09 on its financial statements.

We have implemented all new, applicable accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

We have reviewed all other significant newly issued accounting pronouncements and determined that they are either not applicable to our business or that no material effect is expected on our financial position and results of operations.

B. <u>Indebtedness</u>

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 June 30, 2025. The interest rate on the credit facility is based on a spread over SOFR (Secured Overnight Financing Rate) and is determined by the Company's leverage ratio, as defined in the credit agreement. The Company's borrowing rate at June 30, 2024 is SOFR plus 2.0%. The credit facility is secured by a pledge of the stock of the Company's subsidiaries. In the first half of 2024 and 2023, respectively, the average balance of the line of credit outstanding was $39.4 million and $25.0 million; the highest amount outstanding for 2024 and 2023 was $50.0 million and $25.0 million; and the average interest rate was 7.05% and 6.79%, respectively.

Long-term debt at June 30, 2024, and December 31, 2023 consists of (in thousands):

	June 30, 2024	**December 31, 2023**
Revolving credit facility from CoBank at SOFR plus 2.0%, expires June 30, 2025	$ 50,000	$ 33,500
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 6.0%	10,501	10,501
Other at a fixed rate of 5.25%	1,766	1,804
Total debt	69,914	53,452
Current maturities	(50,075)	(3,876)
Long term debt	$ 19,839	$ 49,576

C. Litigation

The Company or a subsidiary of the company 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.

D. Related Party Transactions

As of June 30, 2024, and December 31, 2023, assets of $6.1 million, and $4.9 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.

E. Discontinued Operations – Spin-off of Michigan Businesses

On August 31, 2023, the Company completed the spin-off of 81% of the shares of LMT Holdings Corporation ("LMT Holding"), which was formally launched as MachTen Inc., "MAC" as an independent company. Each LICT stockholder received 150 shares of MAC common stock for every one share of LICT common stock held at close of business on the record date and LICT retaining 19% of the outstanding stock of MachTen, Inc. The Company's financial results reflect the spin-off of MachTen at August 31, 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 June 30, 2024, the Company provided service to 72,262 revenue generating units consisting of 45,358 broadband data lines, 23,394 voice lines, and 3,510 video subscribers. Comparable amounts at December 31, 2023 were 71,544, 44,367, 23,836, and 3,341, respectively. Operations are deployed through 6,713 miles of fiber optic cable, 9,040 miles of copper cable, and 841 miles of coaxial cable and 95 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.

As previously announced, LICT has been awarded $157.5 million for seven United States Department of Agriculture (USDA) ReConnect III and ReConnect IV grants to build fiber with a total project cost of $171.2 million. The Company has received environmental clearance for two of these projects and is actively working on obtaining environmental clearance for the remaining five grants. Five of these grants provide 100% funding to build fiber projects totaling $117 million in our New Mexico and California operations. The Company has also been awarded grants Kansas and New Mexico in which we will receive 75% funding totaling $55 million and LICT is required to match 25% or $14 million of the total project. We have commenced an $8.4 million project in Kansas to build fiber to provide 1 Gig broadband service.

In addition, the Federal Communications Commission has recently accepted our notice to withdraw from the Rural Digital Opportunity Fund (RDOF) support program for both Cuba City and Cal-Ore Communications. The decision to withdraw from this program is due to substantial cost increases and other significant changes within the organization since we first participated and won in the RDOF public auction.

Supreme Court Ends the Chevron deference doctrine

On June 28, 2024 the U.S. Supreme Court ended the Chevron deference doctrine. With this ruling, the Supreme Court cut back sharply on the power of federal agencies to interpret the laws they administer and ruled that courts should rely on their own interpretation of ambiguous laws. The chief justice of the U.S. Supreme Court, John Roberts, indicated that the court's decision would not require earlier cases that relied on Chevron to be overturned. The decision will likely have far-reaching effects across the country, from environmental regulation to healthcare costs. Management will continue to monitor the impacts of this ruling on the business of the company and specifically the funding provided by government programs.

Three Months Ended June 30, 2024 compared to June 30, 2023

The following is a breakdown of Operating Revenues and Operating Expenses (in thousands):

	2024	2023
Non-regulated revenues:		
Broadband and related services	$16,556	$15,302
Video	1,186	1,106
Other	1,028	1,005
Total non-regulated revenues	18,770	17,413
Regulated revenues:		
Local access	1,025	1,127
Interstate access	11,798	8,448
Intrastate access	1,796	1,794
Other regulated	295	306
Total regulated revenues	14,914	11,675
Total Operating Revenues	33,684	29,088
Operating Expenses:		
Cost of revenue, excluding depreciation	16,763	14,631
General and administrative costs at operations	2,730	2,748
Corporate office expenses	1,158	1,166
Depreciation and amortization	5,803	4,767
Total Operating Expenses	26,454	23,312
Operating Income	$7,230	$5,776

In the second quarter of 2024, non-regulated revenues increased by $1.4 million, or 8.0%, to $18.8 million, from $17.4 million in 2023. Non-regulated revenues from both broadband services and other non-regulated services increased, primarily from our Utah ($1.3 million, which includes $0.75 million in revenues from the Manti non-regulated entities which were acquired on December 1, 2023), and Kansas ($0.1 million) operations. These increased sales came primarily from additional broadband circuits outside of our regulated service territory, added subscribers of broadband services over fiber and cable modems as well as the sale of communications equipment. Non-regulated revenues currently represent 55.7% of our revenue streams and are expected to continue to grow. Regulated revenues increased by $3.2 million to $14.9 million in the second quarter of 2024, from $11.7 million in 2023. The acceptance of Enhanced ACAM (E-ACAM) accounted for a $3.5 million increase in regulated revenues for the quarter. Combining the non-regulated and regulated revenues in the second quarter, total revenues in 2024 increased by $4.6 million or 15.8%, to $33.7 million compared to $29.1 million in 2023.

Total operating expenses were $26.5 million in 2024, an increase of $3.1 million as compared to the second quarter of 2023. The costs of revenue increased by $2.1 million, due to the cost of adding incremental non-regulated customers, increases in staffing as well as and continued inflationary pressure on labor and supplies, while general and administrative costs incurred at the operations remained flat at $2.7 million. Corporate expenses were unchanged at $1.2 million. Depreciation and amortization increased by $1.0 million from $4.8 million in 2023. As a result of the above, operating profit in the second quarter increased by $1.5 million from $5.8 million in 2023 to $7.2 million in 2024.

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 for the three months ended:

	June 30, 2024	June 30, 2023
EBITDA from:		
Operating units	$14,191	$11,709
Corporate expense	(1,158)	(1,166)
EBITDA	$13,033	$10,543
Reconciliation to net income:		
EBITDA	$13,033	$10,543
Depreciation and amortization	(5,803)	(4,767)

Investment income	315	155
Interest expense	(1,096)	(629)
Unrealized loss on investment	(42)	-
Equity in earnings of affiliated companies	252	24
Other	28	(49)
Income tax provision	(1,780)	(1,484)
Discontinued operations, net of tax	-	1,273
Net income	$4,907	$5,066

Other Income (Expense)

Other income (expense) for the three months ended June 30, 2024, and 2023, were flat at $0.5 million. The main drivers were as follows:

Interest expense increased by $0.5 million due to higher interest rates and higher debt balances in the second quarter of 2024 versus 2023. This was offset by an increase in investment income of $0.2 million primarily due to interest income accrued on the notes receivable from MachTen, Inc. as well an increase of $0.2 million in equity in earnings of affiliates which primarily represents our investment in DFT Communications.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for the second quarter of 2024 and 2023 represent effective tax rates of 26.6% and 28.1%, respectively.

Net Income

Net income from continuing operations for the second quarter of 2024 was $4.9 million, or $293 per basic and diluted share versus $3.8 million, or $220 per basic and diluted share in the second quarter of 2023. The increase of $1.1 million is due to the impact of LICT's participation in the E-ACAM program which was effective January 1, 2024. Annual revenues from the existing E-ACAM program are expected to be $37.2 million beginning in 2024, as compared to ACAM and ACAM II revenues of $23.2 million in 2023.

Six Months Ended June 30, 2024 compared to June 30, 2023

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

	2024	2023
Non-regulated revenues:		
Broadband and related services	$32,992	$30,498
Video (including cable modem)	2,287	2,298
Other	1,966	2,004
Total non-regulated revenues	37,245	34,800
Regulated revenues:		
Local access	2,077	2,282
Interstate access	23,675	16,819
Intrastate access	3,595	3,591
Other regulated	591	601

Total regulated revenues	29,938	23,293
Total revenues	67,183	58,093
Operating Cost and Expense:		
Cost of revenue, excluding depreciation	32,836	29,532
General and administrative costs at operations	5,476	5,381
Corporate office expenses	2,437	2,230
Depreciation and amortization	11,807	10,065
Total operating costs and expenses	52,556	47,208
Operating profit	$14,627	$10,885

In the first six months of 2024, non-regulated revenues increased by $2.4 million, or 7.0%, to $37.2 million, from $34.8 million in 2023. Non-regulated revenues from both broadband services and other non-regulated services increased, primarily from our Utah ($2.2 million), and Kansas ($0.2 million) operations. These increased sales came primarily from additional broadband circuits outside of our regulated service territory, added subscribers of broadband services over fiber and cable modems and the sale of communications equipment. Non-regulated revenues currently represent 55.4% of our revenue streams and are expected to continue to grow. Regulated revenues decreased by $6.6 million to $29.9 million in the first six months of 2024, from $23.3 million in 2023. The acceptance of Enhanced ACAM (E-ACAM) accounted for a $7.0 million increase in regulated revenues for the first six months of 2024. As a result, total revenues for the first six months of 2024 increased by $9.1 million, or 15.6%, to $67.2 million compared to $58.1 million in the first six months of 2023.

Total operating costs and expenses were $52.6 million in the first six months of 2024, an increase of $5.3 million as compared to 2023. The costs of revenue increased by $3.3 million non-regulated customers, increase in staffing as well as and continued inflationary pressure on labor and supplies, while general and administrative costs incurred at the operations increased by $0.1 million. Corporate office expenses increased by $0.2 million compared to 2023. Depreciation and amortization increased by $1.7 million from 2024 to 2023. As a result of the above, operating profit in the first six months of 2024 increased by $3.7 million from $10.9 million in 2023 to $14.6 million in 2024.

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.

	June 30, 2024	June 30, 2023
EBITDA from:		
Operating units	$28,871	$23,180
Corporate expense	(2,437)	(2,230)
EBITDA	$26,434	$20,950
Reconciliation to net income:		
EBITDA	$26,434	$20,950
Depreciation and amortization	(11,807)	(10,065)
Investment income	1,208	980
Interest expense	(2,066)	(1,266)
Unrealized loss on investment	(636)	-
Equity in earnings of affiliated companies	225	24
Other	67	(110)
Income tax provision	(3,541)	(2,773)
Discontinued operations, net of tax	-	2,426
Net income	$9,884	$10,166

Other Income (Expense)

Other income (expense) for the first six months of 2024 decreased by $0.8 million to expense of $1.2 from expense of $0.4 million in 2023. The main drivers of this change were as follows:

Interest expense increased by $0.8 million due to higher interest rates and higher debt balances in the first six months of 2024 versus 2023.

In the first six months of 2024, our investments decreased by $0.6 million primarily due to a lower fair value of the share price in MachTen, Inc.

Investment income increased by $0.2 million primarily due to interest income accrued on the notes receivable from MachTen, Inc.

Equity in earnings of affiliates increased by $0.2 million which primarily represents our investment in DFT Communications.

Income Tax Provision

The income tax provision includes federal, state and local taxes. The tax provision for the first six months of 2024 and 2023 represent effective tax rates of 26.4% and 26.3%, respectively.

Net Income

Net income from continuing operations for the first six months of 2024 was $9.9 million, or $586 per basic and diluted share versus $7.7 million, or $448 per basic and diluted share in the first six months of 2023. The increase of $2.2 million is due to the impact of LICT's participation in the E-ACAM program which was effective January 1, 2024. Annual revenues from E-ACAM will be $37.2 million beginning in 2024, as compared to ACAM and ACAM II revenues of $23.2 million in 2023.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company currently has a $50.0 million five-year secured Revolving Credit Facility with CoBank, due on June 30, 2025. As of June 30, 2024, there was $50.0 million outstanding under the $50.0 million facility. The average balance outstanding under the facility was $39.4 million at an average interest rate of 7.05%. The company is in the process of closing on a new $100 million secured revolving credit facility with CoBank for an extended five-year term. This new facility will provide the company with an additional $50 million in available liquidity with terms similar to our current revolving credit facility, we expect the facility to be closed by the end of August. For the period ended June 30, 2024, the funds drawn on the existing $50 million CoBank facility are presented on the balance sheet as Current Maturities of Long-Term debt, as required under the terms of US Generally Accepted Accounting Principles (US GAAP), as the debt is due within one year of the financial statement date. Once the new five-year facility has been closed the related borrowings will be classified as Long-term Debt on the balance sheet.

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, 2024, 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**	**2 – 3 years**	**4 – 5 years**	**After 5 years**
Long-term debt, notes to sellers	$18,148	$0	$11,448	$6,700	--
Debt on Building acquisition, principal only	1,766	75	165	1,184	342
Revolving credit facility, principal only	50,000	50,000	--	--	--
Interest on debt and notes	7,330	4,907	1,768	625	29
Operating leases	6,038	1,033	1,785	1,332	1,919
Total contractual cash obligations and commitments	$83,282	$55,985	$15,166	$9,841	$2,290

At June 30, 2024, total debt was $69.9 million, an increase of $16.5 million from December 31, 2023. The average interest rate for the debt outstanding was 6.80% and 6.54% as of June 30, 2024, and December 31, 2023, respectively. The revolving credit facility contains certain covenants restricting share repurchases, and other items.

As of June 30, 2024, the Company had current assets of $59.3 million and current liabilities of $65.9 million resulting in working capital of $(6.6) million compared to $35.6 million at December 31, 2023.

At June 30, 2024, 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

As of June 30, 2024, cash was $14.4 million, as compared to $11.5 million at December 31, 2023. In the first six months of 2024 net cash provided by operations of $19.1 million was primarily used to invest in plant and equipment ($28.1 million), and purchase treasury shares ($4.7 million).

In the first six months of 2024, capital expenditures were $28.1 million as compared to $18.9 million in 2023.

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%. In 2023, allowable bonus depreciation deduction decreased to 80% and in 2024 the allowable bonus depreciation deduction further decreased to 60%. 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, as of June 30, 2024. During the first six months of 2024, 297 shares of company stock were purchased for $4.7 million, at an average cost of $15,943 per share.

The Company has not paid any cash dividends since its spin-off from Lynch Corporation in 1999. The Company has spun-off four entities: MachTen, Inc., Morgan Group Holding Co., CIBL, Inc., and ICTC Group, Inc.

Subsequent Events

The company is in the process of closing on a new $100 million secured revolving credit facility with CoBank for an extended five-year term. This new facility will provide the company with an additional $50 million in available liquidity with terms similar to our current revolving credit facility, we expect the facility to be closed by the end of August.

On August 8, 2024, at a meeting of the company's board of directors, the board increased the authorization to repurchase shares by an additional 400 shares of company stock, bringing the total remaining number of shares authorized for repurchase to 514 as of the date of the release of these financials. We will continue to repurchase shares on an opportunistic basis.

In July 2024 the company received environmental clearance for the $25 million ReConnect III program grant for its New Mexico operation. To date the company has received environmental clearance for two out of the seven grants (totaling $157.5 million) that the company was awarded by the United States Department of Agriculture ("USDA"). All of these grant projects will build fiber to provide 1 Gig broadband service to customers we serve. The company is actively working on obtaining environmental clearance on the other five ReConnect grants that LICT was successfully awarded.