

LICT CORPORATION

2023
ANNUAL REPORT

LICT Corporation

(Y)our Family

COMMUNICATION · EDUCATION · ENTERTAINMENT
DATA · TECHNOLOGY · VOICE · VIDEO

**CAL-ORE**

**CentraCom**

**WNM**
Communications

**JBN**
TELEPHONE COMPANY, INC.

**Giant**

**Haviland**
Telephone Company
Connecting The World

**CS**
TECHNOLOGIES, INC.

Central Scott
TELEPHONE

Cuba City Telephone Exchange Co.
Belmont Telephone Company
LaGrant Connections, LLC

Financial Highlights

(In thousands, except for share amounts)

Calendar Year	2023	2022
Revenues	\$116,509	\$115,478
EBITDA from Operating Units	\$45,554	\$48,744
Capital Expenditures	\$37,408	\$41,336
Net Income	\$13,388	\$17,698
Basic & Diluted Weighted-Average Shares Outstanding at Year End	17,165	17,551

KEEP CALM AND CARRY ON

The world and the United States have experienced interesting challenges since the beginning of this decade :

- COVID/ WUHAN
- RUSSIAN INVASION
- FINANCIAL CRISIS (SIGNATURE BANK, FIRST REPUBLIC AND ONGOING DYNAMICS RELATED TO COMMERCIAL REAL ESTATE AND “HTMS” ON BANK BOOKS)
- MID-EAST CRISIS
- UNITED STATES PRESIDENTIAL ELECTION (AND SECURING VOTES)

WHAT DOES THAT MEAN FOR LICT?

In past reports we shared with you, LICT and (y)our Future- Project SAAS

Best to echo what was said last year:

- SPEED – We will be stepping up our capital expenditure budget, which has been robust compared to similar RLEC companies. We envision spending over a quarter of a billion dollars over the next 5 years. Contrast this with a comparable amount spent over the last 10 years. In both cases, the government partly funded and will likely continue to fund these expenditures. We will re-examine and deliver our capabilities to best serve our communities.
- ACCESSIBILITY - We will examine our historically served markets and adjacencies efficiently and effectively. Along these lines, we have added and are continuing to add speed to the capabilities of our individual systems. We are also adding teammates at corporate to understand where broadband, fixed wireless, and other types of services need to exist.
- AFFORDABILITY - We intend to re-examine each of our communities, households, and businesses to determine how we may assist in meeting the costs of broadband, voice, and other services. This includes the creation of targeted bundles and pricing.
- SERVICE - As your local provider of communication services, we understand our communities, how to service individual businesses and most importantly, individual residents’ needs. We will step up our operations by adding more teammates to each location to visit and be available.

TODAY

- We announced the launch of Sound Broadband: a fixed wireless effort that will proceed initially with buildouts in New Mexico.
- We are also exploring the use of aerial, old fashioned utility poles to deliver Broadband more cost effectively, as an alternative to underground options.
- As I write this report, Capex is projected at \$510 million over the next five years (2024-2028). Funding through the United States Department of Agriculture’s Rural Utility Service and other programs are expected to cover \$160 million of this cost.
- In addition, the FCC’s Enhanced Alternative Connect America Cost Model (E-ACAM), offers incremental support to companies that were participating in the Alternative Connect America Cost Model Program, (“A-CAM”). Since 2016, under A-CAM, LICT has received \$23.2 million. In 2024, E-ACAM will add an additional \$13 million in funding annually, bringing LICT’s funding to \$37.2 million per year through 2038. This funding requires carriers to deploy broadband service speeds of at least 100 megabits per second download and 20 megabits per second upload speeds.

The concern I must share with you is our ability to bring the projects in at or below the cost, as these projects were bid before the surge in the cost of labor, supplies, and financial charges.

In addition, we still function in many communities as the local telephone company. Our marketing and sales teams in certain of our markets is not compensated and trained the way cable/radio and other media sales teams are.

We are assessing how to re-examine our bidding process on these projects, as the stress on our balance sheet and our management would be pronounced over the next four years. All in all, we will focus our energy to help our communities function in the interconnected world.

More importantly the main question remains- is there sunshine and a bright future after the projects are completed in 2028?

MORE ON DYNAMICS

We finally spun off 81% of our Michigan operations to MachTen (OTC Pink: MACT), which occurred on August 31, 2023. At the time of the spin-off each shareholder of LICT received 150 shares of MachTen per one share of LICT, and LICT maintains a 19% ownership. (You can read MachTen's annual report when it becomes available.)

We closed on portions of the Manti acquisition in Utah and welcome the customers and family to CentraCom. The regulated facet of the Manti acquisition is still a work in process due to regulatory review.

We are still trying to deal with the sale of our 12% remaining investment in Brick Skirt (DFT) to CIBL. We are dealing with the challenge of closing the sale with the legal maze (and costs of time and money) poised over a de minimis transaction by state regulators that benefits all.

FINANCIAL DATA

We had a productive year from a financial point of view.

Revenues were \$116.5 million up over \$1 million (from the restated \$115.5 million spin-off of MachTen). Our EBITDA before corporate expenses and charitable contributions exceeded \$45.6 million.

Equally important is that our financial flexibility remains sound.

We ended the year with net debt of approximately \$26.5 million dollars, *or* less than .6 of debt to EBITDA.

We returned \$6.7 million dollars in repurchase of our shares.

We continue to use our cash flow as shareholder compensation in two ways- first, providing a charitable contribution program of \$100 per share to registered shareholders and second, opportunistically repurchasing shares at what we believe is below an everchanging best estimate of intrinsic value.

(Y)OUR BOARD OF DIRECTORS

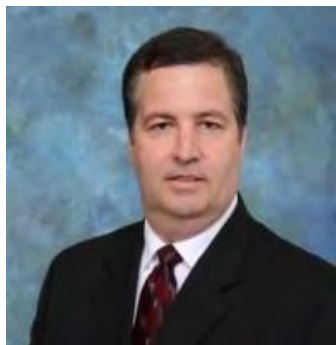
(Y)our Board of Directors continues to evaluate a broad range of strategic alternatives for the company to create shareholder value. As noted above, we have liquidity to effectuate transactions if we find them attractive and appropriate to enhance our Company.

I also wish to acknowledge the longstanding support of board member Philip J. Lombardo with whom I had a business association with, dating back to my founding GAMCO in 1977. Sadly, Phil passed away on January 5, 2024; his contributions will be sorely missed.

We thank our customers in the communities we serve, Board of Directors, Presidents and Teammates. We thank our shareholders for their continued confidence in LICT.

Mario J. Gabelli

Report of the Vice President - Finance



Stephen J. Moore
Vice President- Finance
Team member since 2014

In 2023, LICT continued to pursue our goal of enhancing and extending the services of high-speed broadband connectivity we provide to the many rural communities we serve, along with our work to build our network to deliver these increased speeds in both our regulated and expansion markets. As stated several times previously, we do this by deploying fiber when it's a cost-effective solution. The expansion of our fixed wireless capabilities and assets enable us to build our existing, and new expansion markets quicker where fiber is not a cost-effective solution with competitive speeds and pricing. During the year we faced several challenging issues, including the escalation of increases in competitive pricing pressure in several of our markets combined with the increased levels of inflation and supply chain issues.

We are excited that in 2023, LICT was awarded additional grants under the federal USDA ReConnect programs which we began construction on one of these projects and are eagerly working on getting environmental clearance on the remainder. Construction is anticipated to begin on the remaining projects at some point in the second half of 2024. During the year we submitted two applications for ReConnect V loans that will support our E ACAM build out requirements with below market interest rates and extended amortization periods. These federal programs have offered us the opportunity to secure funding on several large projects. During the year we were also awarded state grants in Kansas and Utah, while we have started our Iowa state grant that will be completed in the first quarter of 2025.

For the year, (y)our company:

- Spun-off of 81% of our Michigan operations to MachTen Inc. was completed on August 31.
- Election of Enhanced ACAM in September 2023, guarantees revenues of \$37 million per year for 15 years, in exchange for commitment to build minimum speeds of 100/20 to over 19,000 locations.
- In the third quarter of 2023 we signed an acquisition agreement with the owners of three related entities in Utah and have closed on two of them, Manti Communications and American Fiber. The closing of Manti Telephone Company is pending regulatory approval.
- Continued investment in our network to expand our fiber network and increase high speed data services to a growing number of consumers and businesses in the rural markets we serve.
- ReConnect III and IV grant awards in seven states totaling \$157 million on fiber to the home projects totaling \$171 million.
- Further deployment of 5G fixed wireless solutions by Sound Broadband.
- During 2023 the company repurchased 370 shares, or 3.0% of our outstanding shares, at an average price of \$18,235 per share for a total of \$6.7 million.
- Gave back to our communities through our shareholder designated charitable contribution program of \$1.2 million in the names our shareholders. Since inception the LICT shareholder designated charitable contributions are over \$9.6 million.

Operating Results

- Our expansion markets accounted for a \$2.6 million or a 3.8% increase to our revenues from continuing operations which offset a \$1.6 million decline in our regulated revenues, resulting total revenues of \$116.5 million in 2023, This compares to \$115.4 in 2022.
- EBITDA from continuing operations was \$45.6 million in 2023 compared to \$48.7 million in 2022. This change was driven by a decline in our regulated revenues which has a direct impact on EBITDA. The cost of sales in our expansion markets and the inflationary pressures and supply chain issues during the year also impacted our profitability.
- Capital expenditures for the year came in at \$37.4 million compared to \$41.3 in 2022.

Operations – During 2023 LICT subsidiaries continued the process of increasing broadband speeds for our customers while adding new services, expanding our network territory to expand our addressable

market and drive overall revenue growth. We realize that even with grant funding support there are areas and customers in which fiber solutions are not economically feasible. Based on these circumstances we continue our expanded utilization of fixed wireless solutions where fiber was not a cost-effective solution. Fixed wireless solutions have become a critical technology needed to meet our goals. During 2023 LICT's subsidiary Sound Broad, began to deploy 5G fixed wireless solutions in three of our expansion markets in the states of California, New Mexico and Utah.

	Year Ended December 31,		Increase (Decrease)	Percent
	2023	2022		
(In Thousands)				
<u>Revenues from Continuing Operations</u>				
Regulated	\$46,067	\$47,622	\$(1,555)	(-3.3%)
Non-regulated	70,442	67,856	2,586	3.8%
Revenues	<u>\$116,509</u>	<u>\$115,478</u>	<u>\$1,031</u>	<u>0.9%</u>
<u>EBITDA from Continuing Operations</u>				
EBITDA from operations	45,554	48,744	(3,190)	-6.5%
Corporate expense	(4,922)	(4,400)	(502)	(11.9%)
Charitable donations	(1,161)	(1,051)	110	10.31
EBITDA	<u>\$39,471</u>	<u>\$43,293</u>	<u>\$(3,822)</u>	<u>-8.8%</u>

2024 Challenges and Opportunities – The Grant awards combined with the acceptance of E-ACAM presents LICT with a new set of significant opportunities and challenges. The grants must be completed within five years from date of acceptance of awards. To execute these significant project builds throughout our network we will be required to acquire and implement new skills, equipment and processes throughout our organization. The buildout requirements of these projects and respective completion dates will challenge us to execute and deliver these projects. Significant emphasis will be place on sales activities to quickly upgrade existing customers or add new ones as we expand our network. This will put further pressure on the financial flexibility of the organization in a time of higher interest rates.

We expect continued growth of our non-regulated services and expansion markets combined with stable regulated revenues, mostly due to E ACAM, while we continue to invest in our network and speed offerings. There will be further opportunities for grant funding, as we begin to evaluate the various state grant funding programs that will begin to roll out in 2024. There will be some growth in our total revenues and EBITDA from Operations, the acquisition and integration of the Manti companies will drive much of this growth.as the organization begins the work on these significant projects ahead of us. Our capital spending is forecasted to significantly increase above our all-time high of \$41.3 million in 2022, which will require us to reevaluate our current \$50million line of Credit facility. Additionally, we are awaiting notice on our application for ReConnect V Loans to support our E ACAM projects a two of our markets.

LICT has committed to assist those customers who recently lost their federally funded Affordable Connectivity Program funds. LICT will honor these discounts though January 2025.

Our commitment to execute our strategic business plan will enable us to better serve our communities, our customers, and our shareholders. We will remain flexible and available to our communities, as we understand the importance of available and affordable high-speed data connectivity, and we are dedicated to deliver high-speed broadband to the largest number of residential and business customers possible.

Stephen J. Moore

Report of the Senior Vice President - Regulatory Dynamics



Evelyn C. Jerden
Senior Vice President
Regulatory Dynamics
Team member since 1992

2023 was an important year for LICT increasing future regulated revenues as the Federal Communications Commission (FCC) substantially enhanced a voluntary Universal Service Fund (USF) mechanism. The USF was set to expire at the end of 2028 and has now been extended for an additional ten years through 2038 at significantly higher annual support for LICT. Given that USF is one of LICT's major sources of regulated revenues, LICT's decision to elect the enhanced USF program provides increased stability and predictability based on our commitment to build infrastructure capable of at least 100/20 Mbps to specific locations.

As our customers desperately want higher broadband speeds, electing the FCC's enhanced USF program is extremely beneficial to both our company and customers. High-speed service is no longer a luxury but rather essential in today's society. LICT is working hard to make certain our customers are not left behind in a world where lives can dramatically improve for those who have access to high-speed broadband service.

The USF expansion dovetails with LICT's success in being awarded grants to build critical infrastructure to provide fiber-to-the-home to some of the most remote, sparsely populated locations in the nation. Customers will have access to services that can transform their lives and enable distance learning, remote work, telemedicine, and entertainment.

Efforts are underway to obtain environmental clearances and permits necessary to build these facilities, essential to provide the high-speed services to all of our customers. No longer will our customers suffer from limited availability of service because our facilities cannot provide the speeds needed to perform critical remote tasks without traveling from their homes.

It has previously been difficult to cost justify building high-speed infrastructure in LICT's extremely sparsely populated areas. Now, thanks to the federal and state grants and the FCC's enhanced USF program, the goal of providing high-speed broadband service to these locations can come to fruition, which will be outstanding for LICT's shareholders, employees and customers. I believe 2024 will continue to be extremely positive as we work together to bring high-speed broadband to locations never expected to be served with state-of-the-art facilities.

Evelyn C. Jerden

(Y)our Teammates

Cal-Ore Telephone (California/Oregon) - Joddie Amidon, Lori Anderson, Mario Andreatta, Michael Atkinson, Sabino Bocanegra, Charles Boening, Michael Bray, Danielle Burrow, Bryan Coutier-Coates, Eugene Cesar, Marisol Esquivel, Marc Estep, Carolyn Field, Darin Fine, Kevin Fine, Brandon Fowler, Brandon Hensley, Paul Hensley, Melinda Hill, Joleen Hogan, Elizabeth Jimenez, Yvonne Kilano, Darrel Lemos, Dan Morrison, Veronica Mozqueda, Keith Nielson, Kristi Olson, Shannon Pannell, Ana Marie Perez, Christopher Randolph, Trevor Rote, Jennifer Skoog, Ryan Stevenson, Andrew Ulbricht, Becky Vaughan, Jerry Vazquez, Evan White, Rodney Wood

Haviland Telephone (Kansas) – Aaron Adams, Brandon Adams, Rochelle Ann, Barber, Alex S. Breising, Jessica Brown, Vesta Charbonneau, Ladonna Erker, Giuseppe Ferrara, Sabrina Freeman, Mildred A. Hannan, Michael Harding, Nathan M. James, Lori E. Larsh, Kay E. Lewis, Stephen C. Lewis, Heather Long, Robert Lyle Long, Michael Mcbeath, James Mevey, Ryan R. Oren, Sandra Raynes, Casey Smith, David Dwight Smitherman, Jayci M. Smitherman, Jacob Smock, Marcy Sparks, Brent A. Swingle, Diane M. Thompson, Kevin Volavka, Mark A. Wade, Lyle Whitaker

JBN Telephone (Kansas) - Jarrett Bell, William Brian Atwood, Caleb Barkman, Taelor Belshe, Daniel Bradley, David W Callison Jan A. Charles, Glenn J Chiles, Jevon Coleman, Sheri L. Cothran, Janet Curtis, Jeremy L Dallas, Alexandra Durdle, Scott Dutt, Kyle J. Edwards, Travis A. Feltner, Roger N. Johnson, Diane S. Kathrens, Lance M. Lyman, Ethan Marcotte, Jeremy Marcotte, Susan L. McGhee, Trevor Miller, Travis L. Peek, Thomas Ryan IV, David E. Schraer, Judy A. Sextro, Jacob Sherer, Desiree Taliaferro LaMastus, Austin F. Taylor, Jamika W. Teel, Audrey Wade, Jodi Whipple, Dana Williams

CS Technology (Iowa/Wisconsin) – Mark Harvey, Kent Dau, Brent Lindle, Chris Garrison, Tyler Bindrum, John Holland, Tony Dahms, Dylan Huizenga, Kent Mattoon, Abbigail Stolley, Jolene Pingel, Steven Collier, Melissa Beuthien, Michael Trevino, Ted Matten, Travis Eversoll, Joshua Lee, Sibusiso Dlamini, Deb Schuppener, Jessica Mockler, Jerome Cullen, Nicholas Averkamp, Jesse Longhenry

Western New Mexico Telephone (New Mexico) - Jarah Aguirre, Rudy Arambula, Sherman Baird, Wayne Baxter, Nichole Bouvet, Matthew Brown, JR Bruton, Patricia Jo Bryant, Jessica Trujillo-Burns, Rylan Carver, Becky Cooper, Walter DeBolt, Jamie Diaz, Nick Deratany, Kristi Dutton, Willie Fletcher, Tony Garcia, Kyle Goar, Jackie Gonzales, James Guck, Lexus Guck, Sonia Holguin, Kaye Jackson, Evelyn Jerden, Anthony Jimenez, Jason Jimenez, James Johnson, Coy Judd, Brandi Jump, Marvin Kartchner, John Keen, Billie Knight, Aaron Laney, Rob Larson, Tyler Leyba, Justin Luster, Tamra Manning, Daniel Meszler, Tammie Mize, Micheal Montoya, Steven Montoya, Justin Murillo, Rusty Nations, Gary Nicklaw, Vanessa Orosco, Alec Paez, Aubrey Palmer, Carrie Rice, Chance Rice, Belinda Rogers, Holly Rogers, Jesse Rogers, Stewart Rooks, Melissa Saenz, Lebert Saulsberry, Chance Stevens, Cory Stevenson, Debra Sutton, Kenny Sutton, Justin Taylor, James Tibbs, Jane Tibbs, Brendan Trujillo, Gary Trujillo, Vince Vega, Shelli Watkins, Kory Webb, Jeremy Wilson, Kandra Young

CentraCom (Utah) - Nathan Abrams, Clay Anderson, Erika Anderson, Jared Anderson, Jason Anderson, Kenyon Anderson, Todd Anderson, Trenton Anderson, Jax Arthur, Kevin Arthur, Bryce Bair, David Barlow, Daniel Barton, David Barton, Timothy Beesley, James Blackham, Nina Blackham, Tammy Bowers, LaTaya Boylan, Mackenzie Brown, Kenneth Carlson, Richard Carpenter, Faylyn Catmull, Virgil Chappell, Brandon Childs, Monte Christensen, Eris Cloward, Olivia Clyde, Patrick Coates, Donald Cohee, Megan Cook, Carl Cornista, Bert Cox, Casey Cox, Cory Cox, Eddie Cox, Iven Cox, Jeffrey Cox, Lillian Cox, Steven Cox, Aaron Davis, Helena De-St-Jeor, Laramy Draper, Kevin Dutt, Gayle Earl, Jess Earl, Parker Earl, Clint England, Alisa Faatz, Eric Forbush, Angela Galbraith, Jonathon Gale, Tamara Golden-Roberts, Justus Gordon, Julie Hansen, Kristene Hansen, Bradly Hardy, Les Haskins, Jason Hathaway, Larry Hawkins, Barrett Hilton, Kelby Hoenicke, Jonathan Hoyt, Kristie Ison, Robert Jenkins, Duane Jensen, Jeramy Johnson, Jerry Johnson, Richard Johnson, Steven Johnson, Wyatt Johnson, Koltan Kendall, Eloisa Lemus, Jason Lewellyn, Spencer Lewis, Lynn Litnak, Kaleb Litster, James Maendl, Tory McArthur, Janet McFarland, Lissette Mendez, Sterling Monk, Nathan Morrill, Zach Naumu, Tanner Nelson, Ann Nielsen, Julie Nielsen, Robert Nielsen, Todd O'Neal, Keven Olson, Ernesto Oribio, Nathan Palmer, Colton Parks, Paul Peckham, Benjamin Pehrson, Jeff Petersen, Jolynn Peterson, Mike Plows, Daniel Roberts, Kristin Rosenlof, Alexandra Roundy, Alexander Rugg, Paul Rymer, Tyrel Sackett, Dennis Sampson, Tyler Schlappi, Ryan Shaw, Calvin Shelley, Brok Shepherd, Abdiel Silva, Jose Freddy Soriano, Jose Soriano, Kord Staples, Randy Stewart, Derek Stoker, Alicia Story, Matthew Tabolt, Sione Taufa, Manase Tesi, Bryan Thompson, Shayne Thompson Trayson Thompson, Angel Valdivia, Jared Wahlberg, Bradley Welch, Keller Wheeler, Erin Williams, Heidi Williams, Joseph Williams, Travis Williams, Marnee Winn, Brandon Woodbury, Chad Wray

Manti (Utah)- Andrew Adamson, Wesly Christiansen, Adam Coombs, Dallas Cox, Gavin Cox, Timothy Cox, Laura Dahl, Paul Davis, Shaylyn Duval, Rodrigo Guitron, Tami Hansen, Gary Hughes, WendyJo Jensen, Cory Johnson, Robert Kirkham, James Lutts, Nicholas Lyon, Tammy Moore, Monica Nielson Kyle, Petersen Jason Sorensen, Jeremy Stilson

Utah



Eddie L. Cox (l) -President
I. Branch Cox (r) - CEO
Team members since 2001

2023 continued with many challenges and opportunities. The CentraCom team worked diligently to provide the broadband services that our communities require. The pandemic of a few years ago, brought about lifestyle change it created have intensified the need for our broadband service as many of our customers continue the transition to remote work and distance learning. The CentraCom team members continue to work diligently to provide essential services.

CentraCom made a major acquisition of Manti Telephone Company and its sister companies Manti Tele

Communications Company and American Fiber Inc. With CentraCom's statewide fiber network, these additional communities will be better positioned to attract and support the growth of businesses and residential access with advanced telecommunication services. This strategic move reinforces CentraCom's commitment to delivering high-quality telecommunication services while expanding its footprint to support the rural communities of Manti, Sterling, Ephraim, and beyond.

CentraCom continued substantial support to local schools and communities their proprietary streaming platform as teamhive.live to increase awareness of CentraCom service. With the new brand, CentraCom extended the service to more communities throughout the expanding service area. CentraCom lived-streamed over 1,300 events, resulting in over 790,000 sessions and 5.4 million page views. A 135% increase from the previous year. This has enhanced CentraCom's reputation and recognition in the community and throughout Utah.

CentraCom continued to expand its fiber network throughout Utah, adding fiber facilities along the Wasatch Front and in the rural areas of Utah, including new FTTH deployment in many ILEC and CLEC municipalities. CentraCom has connected over 5,981 homes to fiber internet. The company now has over 2,650 route miles of fiber, an addition of over 262 miles of fiber in a single year.

CentraCom also continues to see unprecedented growth in broadband services via our cable modem, fixed wireless and FTTH. In 2023 there was a net addition of 1,852 broadband customers representing 9% growth. At the end of 2023, the company had 22,657 residential broadband customers.

In 2024, CentraCom is looking forward to continued growth in its operations, as well as supporting the communities it serves.

*Branch Cox
Eddie Cox*

California-Oregon

Cal-Ore Telephone (COT) and its affiliates provide regulated voice and broadband services in Northern California along the Oregon border in North East Siskiyou and North Western Modoc Counties. Cal-Ore Communications (COM) provides non-regulated services in southern Klamath County, Oregon, and along the Interstate 5 corridor in Siskiyou County, California. At the end of 2023, our network had expanded to cover 574 route miles of fiber, enabling us to provide even more access to rural and underserved communities. Cal-Ore ended 2023 with 3,358 broadband customer connections, and Cal-Ore Telephone had 1,611 customer voice lines at the year's end.



Dan Morrison
President Cal-Ore
Team Member Since 2013

Expansion into New Markets

In 2023, Cal-Ore made significant strides in entering the new markets of Merrill and Malin, Oregon, and Montague, California, adding 1,180 passings to our service area when completed. We have commenced active sales efforts in these areas and anticipate going live in the first quarter of 2024 in Merrill and Malin. This expansion underscores our dedication to serving more underserved communities and adapting to evolving customer needs.

Enhanced Speeds and Connectivity

Cal-Ore initiated a five-year plan to enhance internet speeds across our regulated territory, focusing on delivering fiber internet services and high-speed wireless to all locations. Through Reconnect 3 and 4 grants and participation in the Enhanced ACAM program, we will provide reliable, high-speed internet access to remote areas, ensuring that all residents can benefit from fast and dependable connectivity.

Community

In 2023, Cal-Ore supported local schools, FFA, 4H, and other community services through annual donations, fair participation, and local fundraisers. We are grateful to reside in this region of the country and remain inspired by the resilience of our neighbors. We take pride in contributing to their success.

Looking Ahead

In 2024, Cal-Ore will focus on delivering practical results and continued improvement to our network infrastructure. We are committed to expanding our market presence while prioritizing customer satisfaction. We appreciate the support of our customers and team members as we continue to provide reliable internet service and serve the communities in which we live and work.

Kansas



Mark Wade
President
Team member since 1990

In 2023, the Kansas operations' fiber subscriber count surpassed its copper subscriber and cable modem subscriber counts. Currently, about 67% of locations can receive 1 gigabit per second speeds in both upstream and downstream directions.

The Kansas LICT companies include 2 ILEC's, J.B.N. Telephone and Haviland Broadband ("HBB"), which provide traditional broadband and voice services, in 27 small towns and nearby rural areas. J.B.N. operates principally in 5 counties in northeast Kansas, while HBB operates in 8 counties southwest of Wichita. Under these ILEC brands we serve about 2,300 traditional telephone subscribers and about 4,000 broadband subscribers. About 51% of these broadband customers are served via fiber-to-the-home ("FTTH"); about 42% are served by copper, while the remainder are served via fixed wireless.

Our affiliated CLEC, Giant Communications, is our primary vehicle for out-of-territory business, providing broadband, TV, and phone services in Holton and 9 other towns in northeast Kansas. Giant also provides fiber-based broadband, cloud-based voice, and TV services in Topeka as well as cloud-based off-network phone services in Wichita and other areas. Cloud-based voice seats total about 3,800 in these areas. Giant currently provides service to about 4300 broadband subs in these areas. Service is provided to about 68% of subscribers via hybrid fiber-coaxial networks. About 13% of these subscribers are served via FTTH, and the remainder via fixed wireless or resell.

Giant continues to expand in the Topeka area, expanding distribution fiber off our established rectilinear route. We also continue to aggressively place fiber for customers in the adjacent Jefferson and Jackson County areas, with currently about 85 miles of fiber in the tri-county area.

The HBB brand also provides broadband services to just under 700 broadband customers in the Greensburg and Coldwater out-of-territory areas, with 74% of these served with fiber and the remainder via fixed wireless. HBB also provides managed services to both on-network and off-network customers near its traditional ILEC area. HBB now provides voice services out-of-territory, primarily via cloud-based service to schools and businesses, discussed elsewhere.

Each company continues to explore broadband grant and loan opportunities that make financial sense and provide future-proof service to subscribers.

The Kansas operations developed primarily in and around rural service areas and reflect the LICT's commitment to their communities' rural values. Investment in our networks to improve broadband speed and reliability needed by our subscribers is the most significant contribution we can make to our rural communities.

Iowa and Wisconsin

In 2023 we continued to add fiber to our networks, fiber to the home construction and customer conversions continue in Eldridge Iowa. As a result of the mild winter, we were able to begin the construction on our Iowa state grant project (NOFA #6) in rural area of our regulated exchange in Scott County Iowa. This NOFA project will continue throughout 2024 and must be completed in the 1st quarter of 2025.



Mark Harvey
President
Team member since 2022

Our Cuba City Wisconsin exchange is now completely served by fiber to the home and our work continues in the Belmont Wisconsin exchange as the mainline fiber construction was completed in 2023. We are now focused on monetizing this fiber and converting existing

customers from copper to fiber is the focus while also adding new customers. As we complete the build out of our regulated footprint, in late 2024 the team in Wisconsin will begin construction of fiber to the home in the out-of-territory markets outside of our exchange.

The management Team continues work to uncover growth opportunities both organically and through acquisitions.

We continue to look at ways to improve our customer service and brand recognition in the communities we serve. Beginning in early 2024, all Iowa and Wisconsin ILEC and CLEC companies will be branded Central Broadband. This is an important step in the growth of our company, and we will work to make a Brand for our company that is easy to recognize and consistent across all our markets.

Western New Mexico



Daniel Meszler
General Manager
Team Member since 2019

Western New Mexico Communications and Telephone companies operates in approximately 17,000 square miles of South West New Mexico. We currently have over 5,075 miles of plant of which includes over 880 miles of fiber optic cable. In 2023 approximately 30 miles of fiber was installed to support the operations.

WNM remains dedicated to the communities it serves, supporting the local community and local schools giving students the resources they need work and learn remotely. Annually, WNM supports over 50 local organizations in one fashion or another and is well known for its charitable assistance to the communities it serves.

The WNM Communications Team (“WNM”) continues our expansion efforts of broadband fiber delivery in strategic areas as well as providing wireless broadband. The use of newer licensed frequencies has provided the capability to provide higher bandwidth solutions to additional customers while still providing a cost-effective internet solution to small businesses and residential consumers. Additionally, at the end of 2023 WNM successfully deployed 5G wireless in its Deming, NM and is in the process of transitioning current wireless deployments to 5G.

WNM strives to develop ways to increase operational efficiency while increasing high-speed broadband offerings and market footprint for business and residential customers. As always, we remain dedicated to the mutual relationships we have with the communities we serve and work with industry partners, which in turn provide for additional prospects for market growth.

As we push forward, we are faced with an unprecedented demand for broadband expansion which is further reinforced by activities at the federal and state level.

Daniel Meszler

Sound Broadband

2023 marked the first 5G deployments across the LICT footprint. Sound Broadband partnered with the LICT subsidiaries in California, New Mexico and Utah to deploy 5G Fixed Wireless Access (FWA) in multiple markets. Sound Broadband has begun to use LICT's 177 spectrum licenses across 103 counties to provide 5G FWA and Private 5G to new and existing customers. We created strategic partnerships with Ericsson and Nokia to bring the best equipment and quality service to our customers and the communities that we serve.



Dylan Larmore
President
Team member since 2022

California

Sound Broadband deployed two 5G sites on Herd Peak and Lake Shastina, enabling Cal-Ore to offer higher broadband speeds to the local communities.

New Mexico

Deployed 5G/LTE in Silver City, Deming, Pie Town, and Magdalena. Pie Town and Magdalena are ILEC areas, and 5G meets the requirements for EACAM. Deming and Silver City are expansion markets in the CLEC and present growth opportunities.

Utah

Deployed 5G in Delta, a CLEC market. The deployment covers the surrounding areas of Sutherland, Hinckley, Deseret, and Oasis.

Looking Ahead

As we look ahead to 2024 and beyond, Sound Broadband will continue to deploy 5G services to new and existing markets, enabling LICT to expand its reach. At the same time we expect that these deployments will enable us to reduce broadband costs and maintain next-generation networks while capturing new 5G business opportunities. Sound Broadband is committed to expanding and growing network speeds and capabilities across LICT and beyond.

Dylan Larmore

DESCRIPTION OF BUSINESS

BACKGROUND AND HISTORY OF LICT CORPORATION

LICT Corporation (“LICT” or the “Company” as used herein, “LICT” and the “Company” includes our subsidiaries) was incorporated under the laws of the State of Delaware in 1996 as a subsidiary of Lynch Corporation (now “LGL Group Inc.”) and was originally named Lynch Interactive Corporation. The Company was spun off from Lynch Corporation in 1999 and has been named LICT Corporation since March 2007. LICT's executive offices are located at 401 Theodore Fremd Avenue, Rye, New York 10580-1430. Its telephone number is (914) 921-8821.

The Company is an integrated provider of broadband, voice, and video services. It provides high-speed broadband services, including internet access, through fiber optic facilities, copper-based digital subscriber lines (“DSL”), fixed wireless, and coax cable via cable modems. The Company also provides a number of other services, including video services through both traditional cable television services (“CATV”) and Internet Protocol Television services (“IPTV”), Voice over Internet Protocol (“VoIP”), wireless voice communications, and several related telecommunications services. On the voice side, the Company has traditionally operated as both a Rural Local Exchange Carrier (“RLEC”, an incumbent local telephone company serving a rural area) and a Competitive Local Exchange Carrier (“CLEC”, a local telecommunications provider which competes with the incumbent telephone company) in our expansion markets.

The Company's business development strategy is to expand its existing operations and service offerings through both internal growth and acquisitions. The company is continuously in search of acquisition opportunities that are complements to current offerings. It may also, from time to time, consider the acquisition of other assets or businesses that are not directly related to its present businesses.

In 2007, we spun off to our shareholders shares in a wholly-owned subsidiary named CIBL, Inc. (“CIBL”). In 2010, we spun off to our shareholders ICTC Group Inc, (“ICTC”), which consisted of two broadband telecommunications companies operating in North Dakota, Inter-Community Telephone Company, LLC (an RLEC) and Valley Communications, Inc. (a CLEC). Both spin-offs have benefited the Company and the spun-off entities in a number of ways, serving to optimize their efficiency and future development.

In 2014, we sold our DFT Communications (“DFT”) subsidiary, which held the telephone companies serving Dunkirk/Fredonia and Cassadaga, New York, as well as a CLEC operation. This sale generated additional liquidity for the Company and returned ownership of DFT to the Maytum family, who had originally founded the telephone companies over a century ago. As part of the transaction, we retained, and subsequently exercised, the right to acquire a 20% minority equity interest in DFT.

On December 31, 2019, the Company completed the sale of its New Hampshire operations (“NH”) to CIBL, Inc.

On January 2, 2020, the Company closed the sale of its 25% minority interest in the MODOC RSA Limited Partnership (“MODOC”).

On August 31, 2023 the Company spun off 81% its wholly owned Michigan subsidiary through a pro rata distribution into a newly formed publicly traded parent company MachTen, Inc. LICT shareholders received a distribution of 150 shares of MachTen common stock for every one share of LICT. In addition, LICT maintains a 19% ownership in MachTen, Inc.

The Company's shares are quoted on OTC Pink® under the symbol “LICT”. The Company has approximately 77 stockholders of record. The Company disseminates quarterly and audited annual financial statements as well as press releases to its shareholders and the financial community.

COMMUNICATIONS OPERATIONS

Broadband Data and Voice Services

Organization and Locations

We provide services through subsidiary companies. The broadband data and voice services groups have been expanded through the selective acquisition of RLECs and other service providers, coupled with a renewed focus on bringing affordable connectivity to rural markets. Our service offerings include broadband internet access, long-distance voice, cable television, and VoIP. Since 1989, the Company has acquired ten RLECs, excluding RLECs which have been divested as described above. These operations range in size from approximately 800 to over 7,000 access lines with locations in California, Iowa, Kansas, New Mexico, Utah, and Wisconsin. At December 31, 2023, LICT's operations deployed 6,329 miles of fiber optic cable, 9,040 miles of copper cable and 839 miles of coaxial cable. In addition, we operate 82 towers to serve fixed wireless broadband customers and lease space to other wholesale carriers.

Principal Products and Services:

Non-Regulated Services

Broadband and voice services. We provide non-regulated high-speed broadband services, including internet access and data transport, in our traditional RLEC territories and adjacent areas. We also provide local telephone and other telecommunications services outside certain of our franchise areas through CLEC operations in nearby areas. The Company has established expansion markets (CLECs) in such varied locations as Dubuque, IA, the Quad Cities area (Davenport/Bettendorf, IA and Moline/Rock Island, IL), Holton, Wichita, and Topeka, KS, Las Cruces, Silver City, and Deming, NM, Elko, Nevada, Klamath Falls, OR, and Provo/Orem and Salt Lake City, UT.

Cellular backhaul and other data transport services. We have constructed fiber optic facilities for numerous cell tower sites and are continuing to expand these facilities which allows us to participate in the growing demand for wireless broadband services and opens new broadband opportunities in our markets. We expect continued demand for transport services from wireless providers as mobile data usage grows, and we have secured long-term contracts that will help support our revenue growth objectives for years to come. In addition, there is significant demand from schools, healthcare facilities, government agencies, and other public institutions for data transport, particularly at our operations in Utah and California.

Subscription video. We provide video service in our Utah, Kansas, Iowa, and New Mexico, locations. We have 3,341 video subscribers.

Hosted voice services. Hosted voice services are a cost-effective, scalable alternative to traditional on-premises business telephone systems. We are currently serving 8,293 "seats". (A "seat" is the unit by which hosted voice services are sold. Seats are equivalent to the number of IP, or Internet Protocol phones, or devices, at the customer's premises that can access the hosted voice service.). We believe that this is an attractive service offering that we can deliver in large markets near our existing RLEC operations.

Traditional Regulated RLEC Services

Local network services. We provide telephone wireline access services to residential and business customers in our service areas with a full range of calling features including call forwarding, conference calling, caller identification, voicemail, and call waiting. We provide broadband services, by means of fiber optic, DSL, coaxial cable via cable modem, and wireless technology to both business and residential users. In our RLEC service territories, the broadband penetration levels of our subsidiaries are currently in the 80% range. We are continuing our efforts to increase our broadband customer base and to expand our broadband services. We also offer packages of telecommunications services which permit customers to bundle their basic telephone line with their

choice of enhanced services or to customize a set of selected enhanced features that fit their specific needs. As of December 31, 2023, total voice lines, including both ILEC and CLEC, but excluding hosted seats, were 23,836 as compared to 25,179 at December 31, 2021.

Network access services. We provide network access services to long-distance and other carriers which involve the use of our network to originate and terminate interstate and intrastate telephone calls. Such services are generally offered on a month-to-month basis and the service is billed on a minutes-of-use basis. Access charges to long-distance carriers and other customers are based on access rates filed with the Federal Communications Commission (“FCC”) for interstate services and with the respective state regulatory agencies for intrastate services.

This table summarizes certain operational data:

	Years Ended December 31,	
	2023	2022
Operations:		
Fiber / DSL Connections	21,715	19,638
Cable Modems	16,420	17,134
Wireless	6,232	5,746
Total Broadband Connections	44,367	42,518
In-Territory (RLEC) access lines ^(a)	17,549	18,717
Out-of-Territory (CLEC) lines	6,287	6,462
Total voice lines	23,836	25,179
% Residential	74%	74%
% Business	26%	26%
Video subscribers	3,341	3,629
Hosted voice seats ^(b)	8,293	8,387
<u>Total Revenues</u>		
Local service	5%	5%
Network access	41%	43%
Non-Regulated businesses ^(c)	54%	52%
Total revenues	100%	100%

(a) An “access line” is a telecommunications circuit between the customer’s establishment and the central switching office.

(b) A “seat” is the unit by which we sell Hosted Voice services. Seats are equivalent to the number of IP phones or devices at the customer’s premises that can access the service.

(c) Non-Regulated Businesses include Broadband Data, CATV, Hosted Voice, IPTV, and several other related services.

Expansion and Development of New Products and Services

The Company continually seeks to introduce new services based on technological advances and expanding commercial initiatives. Our subsidiaries constantly seek to expand their service offerings beyond their regulated geographic territories, primarily by establishing and developing broadband connections in adjoining or nearby areas where economically feasible. This is accomplished by building facilities utilizing fiber optic and coax

cable, along with fixed wireless solutions, directly to the customer premises to provide services and when needed, leasing facilities from the local telephone company (the serving RLEC or, in non-rural areas, the Incumbent Local Exchange Carrier or “ILEC”) or other carriers to reach customers.

As described in greater detail below, we expect future growth in operations to be derived from a broad range of activities, including providing service to new customers, primarily through broadband both over fiber and fixed wireless connections, and providing a broader range of services to existing customers including increased broadband speed offerings and additional services.

Sound Broadband – In the fourth quarter of 2022, LICT announced the launch of a new wireless company, Sound Broadband, to provide 5G wireless services to business and residential customers within the Company’s footprint as well as additional markets, and initiated the installation of wireless broadband services in a portion of areas we serve in Utah, California and New Mexico. Sound Broadband analyzes how the implementation of wireless broadband services in our other locations could efficiently provide faster broadband speeds to the many communities we serve.

In addition to organic growth opportunities, the Company routinely evaluates acquisition and other joint-venture or partnership opportunities. We typically seek companies with local management who wish to remain actively involved in maintaining the entrepreneurial spirit and operational expertise that we believe is critical to ensuring the continued success of their business post-acquisition. Telephone holding companies and others often compete aggressively for the acquisition of such properties, and the acquisitions are typically subject to the consent or approval of regulatory agencies on the Federal and state level. In addition, any acquisition is subject to various risks, including the ability to find and complete the transaction at an attractive price, and to successfully integrate and operate the acquired entity. Although our evaluation of potential acquisitions is ongoing, there can be no assurance that we will be able to identify suitable transactions or to conclude them successfully.

Manti Telephone - LICT’s acquisition of Manti Telephone Company (MTC) and its partner companies, Manti Tele Communications Company (MTCC), and American Fiber, Inc. (AFI) is nearly complete. The Manti transaction closed on November 30, 2023, and the MTC transaction will close pending regulatory approval.

All of our current in-territory companies offer broadband internet access service, either directly or through affiliated companies. At December 31, 2023, broadband access customers totaled 44,367, compared to 42,518 at December 31, 2022, a year-over-year increase of approximately 4.3%. Our companies have substantially increased their broadband subscriber base, but this growth has been offset by a decrease in our traditional telephone service resulting from several factors, including competition from wireless and cable companies. Expansion market affiliates of all our in-territory telephone companies offer broadband, VoIP, and long-distance services.

LICT continues to review available broadband infrastructure programs to determine eligibility. Many of these programs provide funding through the states. The Company’s subsidiaries have applied for state broadband grants and, in several cases, have been successful and have accepted state broadband grants. Iowa was awarded a \$4.3 million grant in 2021 with required matching funds from the Company. Iowa commenced construction in 2022 on the multiple-year fiber-to-the-home (“FTTH”) construction project and expects completion by 2025. Utah was awarded a \$1.1 million grant, with associated company provided matching funds. Utah has completed engineering on the multiple-year FTTH construction project and also expects completion of the project by 2025. Kansas was the successful recipient of several smaller state grants and has already completed the majority of the required build-outs.

Federal broadband grant funding of \$157.5 million has been awarded from the U.S. Department of Agriculture (“USDA”) Rural Development Broadband ReConnect Programs to build 1 Gig high-speed broadband to some of the Company’s most rural, sparsely populated customer locations with total project costs of \$171.2 million for seven ReConnect III and IV broadband grants. The Company currently has two ReConnect III and three ReConnect IV grant awards totaling \$116.2 million in our New Mexico and California operations for 100% grant

funding with no match required. In addition, two ReConnect III grants funding 75% of the project costs are in Kansas and New Mexico totaling \$55 million, of which, LICT is required to match \$13.7 million or 25% of the total project cost. Construction has begun on the \$8.4 million ReConnect III project in Kansas and the Company is actively working on obtaining environmental clearance on the other six ReConnect grants that LICT was successfully awarded.

Below we offer a state-by-state review of our subsidiaries' expansion and development of new products and services:

Utah

CentraCom, based in Fairview, Utah, is successfully providing high-capacity Ethernet circuits over its extensive fiber network to schools, hospitals, government users, cell towers and private business facilities. The Company also continues to aggressively expand its CLEC business operations in the Provo/Orem, Utah area. CentraCom continues to deploy fixed wireless broadband Internet to (1) protect existing service areas by providing more adequate speed than the DSL was capable of at greater distances, and (2) open up additional competitive service areas. The Company has a total of 3,673 fixed wireless customers, and have deployed CBRS technology using licensed spectrum. CentraCom also continues to see unprecedented growth in FTTH Internet customers. CentraCom crews have installed 262 miles of new fiber lines throughout its service area, passing 16,900 service-ready locations. The company also expanded in service access as a provider on community networks. In 2023, there was a net addition of 2,269 FTTH customers. At the end of 2023, the company had 22,657 residential broadband customers. Finally, CentraCom has applied for and been awarded a Utah State Broadband Access grant for \$1.1M, which will allow CentraCom to provide gig speeds to 473 locations in Millard county that were previously underserved. This project is expected to be completed by 2025.

In October 2023, CentraCom announced the acquisition of Manti Telephone Company, its sister company Manti Tele Communications Company and American Fiber, Inc. This strategic move reinforces CentraCom's commitment to delivering high-quality telecommunication services while expanding its footprint to support the rural communities of Manti, Sterling, Ephraim, and beyond. CentraCom retained all MTC staff in their positions to expand their customer support.

This strategic acquisition signifies a major milestone for CentraCom and the rural communities it serves. With CentraCom's statewide fiber network, these additional communities will be better positioned to attract and support the growth of businesses and residential access with advanced telecommunication services.

CentraCom and MTC, with the full support of LICT, are poised to create a brighter future for telecommunications in Utah, fostering growth, connectivity, and prosperity for the communities they serve. This acquisition represents a new chapter in the journey of delivering cutting-edge telecommunications services to rural Utah.

New Mexico

In 2023, WNM Communications Corporation ("WNM") continued its expansion of broadband facilities to additional service footprint areas by building out additional fiber optic miles, wireless platforms, and associated electronics to support the expansion of faster broadband services in the Regulated and Non-Regulated areas. The operations deployed additional fiber optic routes and wireless point to multipoint broadcast utilizing licensed spectrum to increase the capability of the number of business and residences it can serve. Wireless deployments focused testing and deploying 5G technology, making WNM one of the first to bring 5G to market in the US. This activity has allowed WNM to increase service to a number of subscribers providing revenue opportunities. WNM is not only increasing speed profiles for service in its

Regulated areas, but also expanding its penetration of Non-Regulated areas in Las Cruces, Silver City, Deming NM and the new market of Socorro, NM.

Kansas

Giant Communications, Inc., an affiliate of JBN Telephone Company, our non-regulated services brand, serves over 960 business or school accounts in Topeka, Wichita, and our traditional footprint. In 2023, Giant began selling the new product offering of multi-dwelling unit (“MDU”) in the residential market of Topeka, we currently serve 337 MDU units via fiber at one gigabit symmetrical speeds. In addition, Giant completed a state of Kansas grant project to build FTTH in the small town of Denison, touching about 160 locations. We continue to look for these opportunities.

Prior to 2023, Giant transitioned from traditional cable TV service to a streaming service for our customers. This new service has continued to grow from its kick-off, helped somewhat by FTTH locations in our ILEC area in addition to upgrading our coaxial cable plant and related equipment in 2023. We are now offering synchronous residential broadband speeds of up to 1 gigabit per second across this portion of our network.

JBN, our regulated business rehabilitated 2 additional towns’ aging copper with FTTH in 2023 and will complete the 15th and last town with this service, protecting our highest density and lowest cost areas by the end of 2024. In addition, JBN will target some rural locations that are required as part of the FCC’s Alternative Connect America Model (“A-CAM”) support.

JBN will begin construction on its ReConnect3 grant project and expect to have this completed in 2025. Upon completion nearly 90% of JBN ILEC locations will be covered with fiber-based services. As we gain FTTH subs in the ILEC area, we will look to further monetize this fiber with other non-regulated service offerings to our customer base.

In 2023, Haviland Broadband (“HBB”), completed out-of-territory FTTH expansions in the Comanche county seat of Coldwater, Kiowa County seat, Greensburg, and the ILEC town of Mullinville. This Greensburg expansion included a redundant fiber ring that protects services in the event of a fiber cut and replaces equipment that limited broadband speeds to one gigabit per second with equipment that permits speeds of up to 10 gigabits per second.

Last year HBB began replacing aging copper plant with FTTH and will complete the location conversions in 2024 in the Norwich towns, HBB’s fastest growing market, adjacent to Wichita. This project protects the area with additional fiber builds, especially in areas with new homes. HBB will replace aging copper plant in the 5th largest town it serves which is part of a grant proposal. Completing these ILEC area projects will protect about 60% of ILEC subscribers with fiber services. Additionally, HBB materially complete two small grant FTTH projects in our rural markets. The Greensburg area project will also eliminate an ILEC copper-fed serving area. Crucially, the Coldwater project will provide an additional route to protect about 450 locations, if transmission fiber is cut. Most of the existing route is 34 years old and has been damaged by rodents repeatedly. In both CLEC towns, our success with residential, schools, government, and businesses means the towns rely on our uninterrupted service.

Customers have continued to have an appetite to increase broadband speeds, especially since the Covid pandemic. Currently, across the 3 companies, 67% of subs take a broadband service at 100mbps or faster. Last year, we added 85 miles of fiber; 2024 will see continued progress for local fiber access to broadband and expand our out of territory reach and product offerings. Fiber deployments, co-axial plant remediation, and fixed wireless improvements protect our future.

Iowa/Illinois

CS Technologies, Inc. (“CST”) provides CLEC services, both voice and data, in the Quad Cities and Dubuque, Iowa areas, primarily through its own facilities. CST has built a 29-mile metro fiber network in Dubuque, and an 86-mile metro fiber network in Davenport and Bettendorf. CST now serves approximately 1,022 CLEC customers in the Quad Cities and Dubuque

Our FTTH project in Eldridge, Iowa was completed in 2022 passing 1,750 locations. We have committed to convert the towns of Long Grove and Parkview by year-end 2024, bringing another 1,050 homes within our fiber network. In 2021, Central Scott Telephone Company was awarded a State of Iowa Broadband Grant, this grant will enable us to build out an additional 1,200 rural homes within our exchange by the end of 2025. In total, by year-end 2024, we anticipate having over 4,000 homes in Iowa connected with FTTH. Network conversions and transition work will continue into 2025 and beyond as we decommission the copper plant that once served this exchange.

Wisconsin

Our commitment to FTTH in Wisconsin has created enhanced capabilities for our 2,400-plus residential homes and businesses. Cuba City now has 100% FTTH, including its most rural portions; this work was completed in 2023. We continue work on a four year plan launched in 2020, to over-build the rural portion of the exchanges of both Cuba City and Belmont. Our Belmont FTTH project is anticipated to add 468 connected homes, which would aggregate 1,108 homes.

California/Oregon

Cal-Ore Communications is based in Dorris, CA, with offices in Klamath Falls, OR. The Company owns approximately 227 miles of fiber optic cable serving broadband customer needs. In 2023, Cal-Ore Communications continued to expand in California and Oregon markets including Mt. Shasta, Weed, Dunsmuir, Merrill, and Malin with fiber and high-speed wireless products and services.

At year-end 2023, Cal-Ore Telephone had 1141 residential lines and 425 business lines. Cal-Ore Telephone owns a total of 709 miles of copper cable and 347 miles of fiber optic cable.

LICT Corporation Cautionary Note

There is no assurance that the Company can successfully acquire or develop new businesses or make acquired or expanded businesses profitable within a reasonable period of time. New businesses, and in particular any CLEC business, may be expected to operate at a loss initially and for a period of time. In addition, competition in the CLEC and other telecommunications businesses is substantial and may increase in the future.

Regulatory Environment. The Company’s subsidiaries that provide telecommunications services are subject to varying degrees of Federal and state regulation. Our operating telephone companies are regulated by the FCC with respect to interstate telecommunications services and by state regulatory agencies with respect to intrastate telecommunications services. They are also subject to local government regulation in some instances, such as the use of local streets and rights of way. The FCC and the state authorities do not regulate all providers that come under their jurisdiction in the same way. While some regulation of ILECs has eased as competition has increased, in general, regulation of ILECs (which includes RLECs) remains more highly regulated and comprehensive than the regulation of CLECs. The extent and nature of regulation, by the FCC and by states, are evolving for various reasons, such as Congressional and judicial mandates, public policy decisions, and other factors.

A-CAM

The FCC's Alternative Connect America Cost Model ("ACAM") and ACAM II programs were effective in 2017 and 2019, respectively. All of the Company's RLECs elected to participate in ACAM or ACAM II when they became eligible in order to provide substantially greater, predictable, set amounts of support.

In 2023, LICT elected to participate in the Federal Communications Commission's ("FCC's") new voluntary Enhanced ACAM ("E-ACAM") program for all of its telephone companies effective January 1, 2024. The E-ACAM program is designed to further increase broadband speed and expand the deployment of broadband capabilities throughout the nation's rural areas. LICT's mandatory build-out requirements of 100/20 Mbps by December 31, 2028 to 19,609 E-ACAM locations is required for receipt of increased E-ACAM support through 2038. 2023 annual ACAM and ACAM II revenues of \$23.2 million which required a maximum build-out speed of 25/3 Mbps increased in 2024 to \$37.2 million annually for E-ACAM. LICT is actively building and expanding broadband facilities to serve our rural communities.

ACAM and ACAM II revenues were \$23.2 million in both 2023 and 2022. The annual ACAM transitional ACAM decrease for our California and Iowa companies was completed in 2022. LICT's total ACAM and ACAM II would be \$23.2 million annually from 2023 through the completion in 2028 if E-ACAM had not been elected.

Some of our RLEC companies also receive state USF which totaled \$6.9 million and \$7.0 million in 2023 and 2022, respectively. We expect that states will continue to support broadband deployment, but it is unclear if or to what extent other state support revenues may be affected by E-ACAM.

LICT has participated in the FCC's Affordable Connectivity Program ("ACP") which is terminating in May 2024 due to a lack of funding from Congress. ACP provides eligible customers a broadband credit of up to \$30 per month (up to \$75 for households on Tribal Lands) towards their qualifying internet plan. Since the most economically fragile customers rely on ACP, we informed our ACP customers that LICT will continue an equivalent Extended Broadband Discount ("EBD") through January 31, 2025 for our customers who rely upon this additional financial assistance to get the broadband service they need.

National Exchange Carrier Association

The Company's telephone subsidiaries are all rural, rate-of-return companies for interstate regulatory purposes. Rate-of-return companies receive support based on their costs or the costs of similarly situated companies through formulas developed by the National Exchange Carrier Association ("NECA") referred to as "average schedules". The Company has five average-schedule companies and six cost-based companies. Cost companies determine interstate revenues through cost studies computed based on the Company's own interstate costs, subject to the FCC caps and phase-downs. RLECs electing ACAM, ACAM II or E-ACAM cannot participate in NECA's Common Line ("CL") tariffs and access revenue pool; however, the FCC permits ACAM, ACAM II and E-ACAM companies to remain in NECA's tariff for access rates. In addition to receiving ACAM, ACAM II, or E-ACAM revenues, all of the Company's RLECs continue to participate in NECA's Traffic Sensitive ("TS") pool for both special access and switched access.

Interstate access revenue for rate-of-return carriers is based on an FCC regulated rate-of-return on investment and recovery of operating expenses related to interstate access. FCC rules mandate that frozen TS Switched Access earns 11.25%, whereas TS Special Access is authorized to recover 9.75%. Unlike TS Switched Access which has a guaranteed rate-of-return, there is no guarantee TS Special Access will achieve the 9.75% rate-of-return. The TS Special Access rate-of-return is derived based on the actual demand during the year and actual costs of the RLECs participating in the TS pool.

ACAM, ACAM II and E-ACAM was set at a 9.75% rate-of-return and remains constant through 2038.

Intercarrier Compensation

The transition of terminating Intercarrier Compensation (“ICC”) culminated to a default bill-and-keep arrangement as of July 1, 2020. The Company receives certain access charge revenues from other carriers to transport and terminate calls that originate on those carriers' networks. The FCC discussed modifying originating ICC in various proceedings but has not yet done so. There is no active FCC Notice of Proposed Rulemaking (“NPRM”) underway to modify originating access and it is not possible to predict the impact of any future changes to originating ICC.

Eligible Telecommunication Carrier

The FCC requires all companies receiving federal USF support to obtain designation by their state regulator annually as an eligible telecommunications carrier (“ETC”) in order to continue to receive USF. All of our subsidiaries receiving federal USF are currently designated as ETCs and we expect that they will continue to be so designated.

Intrastate Access Revenues

Our subsidiaries are compensated for their intrastate costs through a bill and keep intrastate access charge. (i.e., there are no intrastate access revenue pools). Intrastate access charge revenues are based on intrastate access rates filed with the state regulatory agency. The FCC requires that the company’s intrastate access charge rates be at or below interstate rates by July 1st of each tariff year; therefore, the LICT companies were required to reduce their intrastate rates on July 1st of both 2023 and 2022 and will continue with each subsequent interstate tariff filing thereafter, as needed.

Voice over Internet Protocol

VoIP services are prevalent across the nation, including in the areas served by LICT companies. Competition from VoIP services has a detrimental impact on current and future revenues. Because of the rural nature of their operations and related low population densities, our RLEC subsidiaries are generally high-cost operations which receive substantial federal and state support. In at least some areas, the regulatory environment for RLEC operations is becoming less supportive than has historically been the case, which may enhance the competitive impact of VoIP. The FCC’s regulations provide that all carriers originating and terminating VoIP calls will be on equal footing in their ability to obtain compensation for this traffic.

Competitive Developments. In addition to the VoIP competition described above, competition in the telecommunications industry is increasing across the board. Competition in the Company’s wireline telecommunications markets is growing fastest in the areas close to larger towns or metropolitan areas. All of our telephone companies have historically been monopoly wireline providers in their respective areas for local telephone exchange service, but the competitive aspect of the regulatory landscape is continually evolving. We now experience competition in most locations from long-distance carriers, cable companies for voice, data, and video, internet service providers for internet access, or wireless carriers. Competition is resulting in a continuing loss of access lines and minutes of use, and in the conversion of retail lines to wholesale lines, which negatively affects revenues and margins from those lines. The Competition also puts pressure on the prices we are able to charge for some services, particularly for some non-residential services. The total number of competitors is difficult to estimate since many of the companies do not have a local presence, but instead compete for customers via the internet using VoIP or wireless operations. It is difficult to estimate how much traffic is lost to VoIP or wireless competitors.

Wireless and Other Interests. 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.

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.

Federal Communications Commission ("FCC") Auctions. In February 2005, Lynch 3G participated in the FCC's Auction 58 for PCS Spectrum and was a high bidder for two licenses, Marquette, MI, and Klamath Falls.

Lynch PCS Corporation G, a wholly-owned subsidiary, holds a PCS license in Las Cruces, NM which covers a population of approximately 281,000.

Advanced Wireless Services ("AWS") Spectrum. In September 2006, Lynch AWS Corporation participated in the FCC's Auction No. 66 and was a high bidder for an AWS license in Topeka, KS. The licenses cover a population of approximately 476,000. This license was sold on November 2, 2020, for \$3.9 million.

600 MHz Spectrum. In January 2017, LICT Wireless Broadband Company acquired two 600 MHz licenses in the Broadband Spectrum Auction in Traverse City and Alpena, Michigan. The license covers a total population of approximately 511,000.

The Company participated in FCC Auction 101-28 GHz and Auction 102- 24 GHz during 2019. Auction 101 was completed on January 24, 2019, and Auction 102 was completed on May 28, 2019. In Auction 101, LICT acquired 10 licenses of 28 GHz spectrum in Kansas and Nevada. In Auction 102, LICT acquired 47 licenses of 24 GHz spectrum in California, Iowa, Kansas, Michigan New Hampshire, New Mexico, Utah, and Wyoming.

The Company participated in FCC Auction 105 – CBRS band which ended on August 25, 2020. In this auction, LICT acquired 162 licenses in 78 counties.

In Auction 904, also known as Rural Development Opportunity Fund or "RDOF", which ended on November 23, 2020, LICT was awarded eight census block groups in three states. Auction 904 is a part of the Federal Communications Commission's Universal Service Fund supporting the expansion of broadband internet services to underserved rural areas of the United States. We have since returned all eight census block groups back to the FCC.

The Company participated in FCC Auction 107 – 3.7 GHz band ended on February 18, 2021. In this auction, LICT acquired 5 licenses in Deming, New Mexico, Anamosa, Iowa, and Kanab, Saint George, and Richfield, Utah. The 5 Partial Economic Area ("PEA") market licenses cover a total population of approximately 432,000.

FCC Auction 110 – 3.45 to 3.55 GHz band for next-generation wireless services began in October 2021 and ended in January 2022. Upon completion of the auction, LICT acquired market licenses in 12 PEA's that include

Garden City, Kansas, Kanab, Logan, Saint George, and Richfield, Utah, Alamogordo, Deming and Socorro, New Mexico, Escanaba and Traverse City, Michigan and Jackson, Wyoming.

FCC Auction 108 – 2.5 GHz band licenses concluded on August 29, 2022, and established LICT Wireless Broadband Company, LLC (“LICT Wireless”), a wholly owned subsidiary, as the winning bidder of 46 licenses in 9 states for \$5.5 million. These newly acquired licenses, along with the various other licenses we have won in past auctions, will further the Company’s efforts to expand our network reach.

There are many risks related to FCC wireless licenses, including, without limitation, the generally high cost of the licenses; the start-up nature of these businesses; the FCC’s rules imposing build-out requirements on all spectrum licenses; the need to raise substantial funds to pay for the licenses and their build-out; the decisions on how best to develop the licenses and which technology to use; the small size and limited resources of our companies compared to other potential competitors; existing and changing regulatory requirements; additional auctions of wireless telecommunications spectrum; and the challenges of actually building out and operating new businesses profitably in a highly competitive environment featuring already-established cellular telephone operators and other new licensees. There are substantial restrictions on the transfer of control of licensed spectrum. There can be no assurance that any licenses granted to entities in which subsidiaries of LICT have interests can be successfully sold, financed, or developed, thereby allowing LICT’s subsidiaries to recover their investments.

Other Patents, Licenses, Franchises. The Company holds other licenses of various types, but it does not believe they are material to the conduct or results of its basic business and ongoing operations, which are its RLEC companies complemented by its CLEC operations.

Environmental Compliance. Capital expenditures, earnings, and the competitive position of the Company have not been materially affected by compliance with current federal, state, and local laws and regulations relating to the protection of the environment. We cannot predict the effect of future laws and regulations on environmental compliance or the costs thereof.

Seasonality. No significant portion of the Company’s business is regarded as seasonal. While the Company’s Michigan operations usage varies somewhat during the year due to tourism and the presence of vacation homes, this variation is not material to LICT’s operations or results as a whole.

Dependence on Particular Customers. The Company does not believe that its business is dependent on any single customer or group of customers. Most ILECs, including LICT’s RLECs, received a significant amount of revenues in the form of access fees from IXCs. Bankruptcy of a significant IXC, or of several IXCs in the same period, could have a material adverse effect. We cannot predict which, if any, IXCs or other significant customers may go bankrupt in the future.

Government Contracts. In some instances, the Company provides service to the government under tariff and/or special contracts. Government contracts are not material to our operations as a whole and the elimination of those contracts would not significantly impact operations or financial results.

Employees. The Company had a total of 342 employees as of December 31, 2023, compared to 319 employees at December 31, 2022, including five and six corporate employees, respectively, with the remainder responsible for providing telecommunications services and support.

EXECUTIVE OFFICERS

The following list of the Company’s senior executive employees as of December 31, 2022 sets forth the positions and offices with the Company held by each such person, and the principal employment by, or other service of these persons during past years.

<u>Name</u>	<u>Officers and Positions Held</u>	<u>Age</u>
Mario J. Gabelli	Chief Executive Officer since December 2010, Chairman since December 2004 (and also served as Chairman from September 1999 to December 2002), Vice Chairman from December 2002 to December 2004, Chief Executive Officer from September 1999 to November 2005.	81
Stephen J. Moore	Vice President - Finance since April 2014; prior to LICT, served as Controller North America – Poyry Management Consulting (USA) Inc. from January 2008 to October 2013, Controller at Dorian Drake International Inc. from June 1997 to December 2007.	59
Evelyn C. Jerden	Senior Vice President – Regulatory Dynamics since December 2008, Senior Vice President - Operations from September 2003 to December 2008, Vice President-Regulatory Affairs from 2002 to 2003, Director of Revenue Requirements of Western New Mexico Telephone Company, Inc. from 1992 to present.	65
Christina M. McEntee	Secretary since June 2019; Chief Administrator since 2016; served as Executive Coordinator from 2008-2016.	59

The executive officers of the Company are elected annually by the Board of Directors and hold office until the organizational meeting in the next subsequent year and until their respective successors are chosen and qualified, or until their earlier resignation or removal.

REAL ESTATE PROPERTIES

LICT leases office space in a building in Rye, New York, owned by an affiliate of Mr. Gabelli, the Company's Chairman. Annual lease payments are \$222,348. There is an annual escalation adjustment, and the lease expires in December 2028.

CentraCom and its subsidiaries and affiliates own a total of 12.7 acres at 21 sites, with an additional 5.8 acres at 29 sites which are under leases, permits or easements. These sites are located in the central, northeastern and midwestern areas of Utah. CentraCom's principal operating facilities are located in Fairview, Utah, where it owns a commercial office building containing 14,400 square feet, and a plant office and central office building containing 5,200 square feet. In addition, CentraCom has 4,804 square feet of office space, 5,760 square feet of warehouse space, 8,100 square feet of vehicle maintenance facilities, 6,352 square feet of protective cover and three rental homes. In 2022 CentraCom purchased a building and property in Provo, Utah for an additional 3,200 square feet of office space, 3,000 square feet of environmentally controlled storage, and 18,000 square feet of outdoor fenced area for material and equipment storage. CentraCom owns smaller facilities used mainly for housing central office switching equipment with a total of 14,485 square feet in 32 various locations. In addition, the company owns 1,043 miles of copper cable, 626 miles of coaxial cable and 2,403 miles of fiber optic cable running through rights-of-way within its 10,483 square mile service area and servicing 28 cellular towers with ethernet backhaul.

Western New Mexico Telephone Company, Inc. ("WNM") owns a total of 16.9 acres at 15 sites located in southwestern New Mexico. Its principal operating facilities are located in Silver City, where WNM owns one building with a total of 6,480 square feet housing its administrative offices and certain storage facilities, and another building of 216 square feet which houses core network equipment. In Cliff, New Mexico, WNM owns six buildings with a total of 16,238 square feet which contain additional offices and storage facilities, as well as a vehicle shop, a fabrication shop, and central office switching equipment. Smaller facilities used mainly for storage and for housing central office switching equipment, with a total of 9,984 square feet, are located in Lordsburg, Reserve, Magdalena, and five other localities in New Mexico. In addition, WNM leases 1.28 acres.

It also owns and operates 22 towers and 20 associated equipment buildings. WNM has the use of 59 other sites under permits or easements at which it has installed various types of equipment either in small company-owned buildings (totaling 2,403 square feet) or under protective cover. WNM also owns 4,174 miles of copper cable and 820 miles of fiber optic cable within its service area of approximately 17,000+ square miles.

J.B.N. Telephone Company ("JBN") owns or leases a total of approximately 2.25 acres located in northeast Kansas. Its administrative and commercial office consisting of 7,000 square feet is located in Holton, Kansas and a 3,000 square-foot garage/warehouse facility is located in Wetmore, Kansas. JBN owns 15 smaller facilities housing broadband and switching equipment in small towns inside its ILEC territory. Giant Communications, Inc., its CLEC affiliate, owns a 1,200 sq. ft headend and communication tower on 3.1 acres near Holton, and smaller facilities holding additional equipment in various small towns. Giant leases small office spaces in Wichita and Topeka. In Topeka, Giant owns a .5 acre lot that houses its permanent equipment. JBN with its affiliate Giant, owns 574 miles of fiber optic cable, 1,203 miles of copper cable, and 70 miles of coaxial cable.

Haviland Telephone Company (dba "Haviland Broadband") owns a total of approximately 3.9 acres at 21 sites located in south central Kansas. It has administrative and commercial offices in Haviland and Conway Springs totaling 13,375 square feet, some of which is leased to other parties. Haviland owns 19 other facilities housing garage, warehouse facilities, and central office switching equipment in several small towns in its ILEC area. Haviland has approximately 1,408 miles of copper cable, 605 miles of fiber optic cable, and 3 communications towers.

Central Scott Telephone Company ("Central Scott") owns 4 acres of land at 6 sites. Its main office in Eldridge, Iowa, contains 3,104 square feet of office, 341 square feet of storage space and 2,183 square feet utilized for its switching facilities. A nearby warehouse has 3,360 square feet of garage space together with office space for our technical operations. Central Scott, including its subsidiary CS Technologies, has 483 miles of copper cable, 335 miles of fiber optic cable and 137 miles of coaxial cable.

Cuba City Telephone Exchange Company ("Cuba City") and Belmont Telephone Company ("Belmont") are located in two small communities in Wisconsin. Cuba City Telephone is located in a 3,800 square-foot brick building which it owns on 0.4 acre in Cuba City. The building serves as the central office, commercial office, and garage for vehicle storage. The Company also owns a 0.1-acre site with a 1,400 square foot cement block building and a 600 square foot metal building for storage of materials and equipment. Belmont is located in a cement block building of 800 square feet on 0.5 acre of land in Belmont. The building houses its central office equipment. The companies own a combined total of 11 miles of copper cable and 472 miles of fiber optic cable.

Cal-Ore Telephone Company (Cal-Ore) owns a total of 35.4 acres at 8 sites located in north central California. Its principal operating facilities are in Dorris, CA, where Cal-Ore owns three buildings comprising a total of 4,727 square feet housing its administrative offices and central office switching terminals, 11,500 square feet of maintenance shop with offices and truck bays, and another building which houses record storage. Cal-Ore owns two buildings in Tulelake, CA with a total of 1,913 square feet containing business offices, central office switching terminals and storage facilities, as well as a vehicle maintenance shop of 4,450 square feet. Smaller facilities, used mainly for storage and for housing central office switching equipment, with a total of 1,893 square feet, are located in Macdoel, Tennant, and Newell, CA. Cal-Ore has the use of 5 other sites under permits or easements at which it has constructed six microwave towers and installed various items of equipment either in small company owned buildings (totaling 824 square feet) or under protective cover. One of these sites is in Klamath Falls, OR.

It is the Company's opinion that all of the facilities referred to above are in good operating condition and are suitable and adequate for present uses.

LEGAL PROCEEDINGS

See Footnote 15 to the Company's Audited Financial Statements.

RISK FACTORS

In addition to the risks noted above, any of the following risks could materially adversely affect our business, consolidated financial condition, results of operations or liquidity, or the market price of our common stock. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations, and other factors noted above.

Risks related to our ability to complete construction as stipulated from the federal and state grant awards and E ACAM build-out requirements over the next five years.

LICT's business plan includes a significantly elevated level of construction and capital expenditures to meet the build-out requirements of the various federal and state grants, in addition to the E ACAM requirements. For some of our operations, the level of projected annual capital expenditures will be equal to two to four times that operation's traditional level of annual capital expenditure. These build-outs require the build out of both fiber and fixed wireless networks that must meet minimum speed requirements and be completed in full by the end of calendar year 2028. Additionally, there are incremental annual benchmarks and reporting requirements that must be met.

In order to achieve these construction programs, LICT must:

- Expand its internal construction capability and must be able to get access to labor, equipment and materials, and specifically to provide detailed oversight to third-party construction vendors;
- Access to quality construction vendors to execute major portions of both fiber routes and tower/wireless portions of these builds;
- Obtain environmental clearance, permits, any related zoning variance or other governmental or third party approvals for network construction;
- Execute the required operational and financial reporting as required
- Raise sufficient debt and/or equity facilities to finance the significant cost of these projects,
- Successfully overcome potentially external issues such as extreme weather conditions, global and domestic economic issues, as inflation or supply chain interruptions, or other third-party generated disturbances

Any failure to fulfill our obligations under these Government Commitments in a timely manner could result in a substantial risk of revenues, fines, penalties, or other legal and administrative actions and/or reputational harm.

We expect to continue incurring significant costs, expenses, and fees to track, monitor, comply with and fulfill our obligations under these commitments over a number of years. In addition, abiding by the commitments may divert our management's time and energy away from other business operations and could force us to make business decisions we would not otherwise make and forego taking actions that might be beneficial to the Company. The challenges in continuing to satisfy the large number of commitments in the required time frames and the cost incurred in tracking, monitoring, and complying with them could also adversely impact our business, financial condition, and operating results and hinder our ability to effectively compete.

Risks Related to Our Indebtedness

To operate and expand our business, service our indebtedness, and complete future acquisitions, we will require a significant amount of cash. Our ability to generate cash will depend on many factors beyond our control. We may not generate sufficient funds from operations to repay or refinance our indebtedness at maturity or otherwise, to consummate future acquisitions or to fund our operations. A significant amount of our cash flow

from operations will be dedicated to capital expenditures and debt service. As a result, there can be no assurance that the cash that we retain will be sufficient to finance growth opportunities, including acquisitions, and we may be required to devote additional cash to unanticipated capital expenditures or to fund our operations. Our ability to make payments on our indebtedness will depend on our ability to generate cash flow from operations in the future, as well as our ability to refinance existing debt. This ability, to a significant extent, will be subject to general economic, financial, competitive, legislative, regulatory, and other factors that will be beyond our control. There can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our indebtedness, to make payments of principal at maturity, or to fund our capital expenditures and other liquidity needs.

We may also be forced to raise additional capital or sell assets and, if we are forced to pursue any of these options under distressed conditions, our business and the value of our common stock could be adversely affected. In addition, these alternatives may not be available to us when needed or on satisfactory terms due to prevailing market conditions, a decline in our business, legislative and regulatory factors, or restrictions contained in the agreements governing our indebtedness.

Our indebtedness could restrict our ability to pay dividends on our common stock and have an adverse impact on our financing options and liquidity position. This indebtedness could have important adverse consequences for the holders of our common stock, including:

- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations, including under our existing credit facilities;
- limiting our ability in the future to obtain additional financing for working capital, capital expenditures or acquisitions;
- causing us to be unable to refinance our indebtedness on terms acceptable to us or at all;
- limiting our flexibility in planning for, or reacting to, changes in our business and the communications industry generally;
- requiring a significant portion of our cash flow from operations to be dedicated to the payment of interest and principal on our indebtedness, thereby reducing funds available for future operations, dividends on our common stock, capital expenditures or acquisitions;
- making us more vulnerable to economic and industry downturns and conditions, including but not limited to increases in interest rates; and
- placing us at a competitive disadvantage compared to those of our competitors that have less indebtedness.

The Company and certain of its subsidiaries are holding companies and rely on dividends, and other payments, advances, and transfers of funds from operating subsidiaries and investments to meet debt service and other obligations. The Company and certain of its subsidiaries are holding companies and conduct all of their operations through operating subsidiaries. The Company and these holding subsidiaries currently have no significant assets other than equity interests in the operating subsidiaries. As a result, the Company and these holding subsidiaries rely on dividends and other payments or distributions from operating subsidiaries to meet their debt service obligations and all of their other financial needs or requirements generally. The ability of the Company's operating subsidiaries to pay dividends or make other payments or distributions to the Company and the non-operating subsidiaries will depend on their respective operating results and may be restricted by, among other things:

- the laws of their jurisdiction of organization;
- the rules, regulations and orders of state regulatory authorities;
- agreements of those subsidiaries; and
- the terms of agreements governing indebtedness of those operating subsidiaries.

The Company's operating subsidiaries generally have no obligation, contingent or otherwise, to make funds available to the Company or its other subsidiaries, whether in the form of loans, dividends, or other distributions.

Our existing credit facilities and other agreements governing our indebtedness contain covenants that limit our business flexibility through operating and financial restrictions, including on the payment of dividends. Our existing credit facilities impose certain operating and financial restrictions on us. These restrictions prohibit, require prior lender approval of, and/or limit, among other things:

- incurrence of additional indebtedness and the issuance by our subsidiaries of preferred stock;
- payment of dividends on, and purchases or redemptions of, capital stock;
- a number of other types of payments, including investments;
- creation of liens;
- ability of each of our subsidiaries to guarantee indebtedness;
- specified sales of assets;
- creation of encumbrances or restrictions on the ability of our subsidiaries to distribute and advance funds or transfer assets to us or any other subsidiary;
- sale and leaseback transactions; and
- certain consolidations and mergers and sales and/or transfers of assets by or involving us.

Our existing credit facilities also require us to maintain specified financial ratios and satisfy financial condition tests, including, without limitation, a maximum total leverage ratio and a minimum interest coverage ratio. It is possible that a new credit facility, if we were successful in negotiating one, would contain similar provisions on some of these points. Our ability to comply with these covenants, ratios, or tests contained in the agreements governing our indebtedness may be affected by events beyond our control, including prevailing and evolving economic, financial regulatory, and industry conditions. A breach or violation of any of these covenants, ratios, or tests could result in a default under the agreements governing our indebtedness. In current economic and financial circumstances, obtaining a waiver of such a breach or violation, or a modification of the covenant or other provision involved, may become more difficult and expensive.

Under certain conditions, covenants prohibit us from making dividend payments on our common stock. In addition, upon the occurrence of an event of default, the lenders under our existing credit facilities (or a new credit facility, following the consummation of such a transaction) could have the option to declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If we were to be unable to repay those amounts, the lenders under our existing credit facilities (or a new credit facility, following the consummation of such a transaction) could proceed against the security granted to them to secure that indebtedness or commence collection or bankruptcy proceedings against us.

If the lenders accelerate the payment of any outstanding indebtedness, our assets may not be sufficient to repay all of our indebtedness. Due to general economic conditions, conditions in the lending markets, the results of our business, or for other reasons, we may elect or be required to amend or refinance our existing credit facilities (or a new credit facility, following the consummation of such a transaction), at or prior to maturity, or enter into additional agreements for indebtedness. Any such amendment, refinancing, or additional agreement may contain covenants which could limit in a significant manner our operations, our competitiveness, and/or our financial flexibility generally.

The price of our common stock may fluctuate substantially, which could negatively affect holders of our common stock. The market price of our common stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in our operating results, the volume of sales of our common stock, developments in the communications industry, the failure of securities analysts to cover our common stock or changes in financial estimates by analysts, competitive factors, regulatory developments, economic and other external factors, general market conditions and market conditions affecting the stock of communications companies in particular. Communications companies have in the past experienced extreme volatility in the trading prices and volumes of their securities, which has often been unrelated to operating performance. High levels of market volatility may have a significant adverse effect on the market price of our common stock and may generate litigation which could result in substantial costs and divert management's attention and resources.

Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of our common stock. Our stock is thinly traded, and future sales, or the availability for sale in the public market, of substantial amounts of it could adversely affect the prevailing market price of the stock. The market price of our common stock could decline as a result of the perception that a relatively high volume of sales could occur, whether or not such sales are actually contemplated by the Company or are actually made.

Risks Related to Our Business

We provide services to customers over access lines, and if we lose access lines, our business, financial condition, and results of operations may be adversely affected. We generate revenue primarily by delivering voice and data services over access lines. We have experienced net access line losses in the past years. These losses resulted mainly from competition, the use of alternative technologies, and to a lesser degree, challenging economic conditions and the offering of DSL services, which has prompted most customers to cancel their second line service. In addition to line losses, the usage of our networks, generally measured in Minutes of Use (“MOUs”), has also been decreasing. It is reasonable to expect that we will continue to experience net access line and MOU losses in our markets. Our inability to retain access lines and the declining usage of the lines we do retain could adversely affect our business, financial condition, and results of operations.

We are subject to competition that may adversely impact our business, financial condition, and results of operations. As the incumbent telephone company, we historically had experienced little competition in our RLEC markets. However, many of the competitive threats confronting large communications companies, such as competition from VoIP, cable providers, and wireless services, are becoming more widespread in the rural markets that we serve. Regulations and technology change quickly in the communications industry, and changes in these factors historically have had, and may in the future have, a significant impact on the competitive dynamics of our industry. In most of our rural markets, we are facing competition from wireless technology, which may increase as wireless technology improves. We are also likely to face increased competition from wireline and cable television operators. We may face additional competition from providers of wireless broadband, as that technology is entering an era of rapid expansion, VoIP, satellite communications, and electric utilities. The internet services market is also highly competitive, and we expect that this competition will intensify. Many of our competitors have brand recognition, offer online content services, and have financial, personnel, marketing, and other resources that are significantly greater than ours. We believe that a growing percentage of our current and potential customers will have access to a cable modem offering, and the cable industry is continuing to greatly increase its broadband capacities and eventually a wireless broadband offering.

In addition, consolidation and strategic alliances within the communications industry or the development of other new technologies could affect our competitive position. We cannot predict the number of competitors that will emerge from technological developments or as a result of existing or new federal and state regulatory or legislative actions. However, increased competition from existing and new entities could have a material adverse effect on our business, financial condition, and results of operations. Competition may lead to loss of revenues and profitability as a result of numerous factors, including, but not limited to:

- loss of customers;
- reduced usage of our network by our existing customers, who may use alternative providers for long-distance and data services;
- reductions in the prices for our services which may be necessary to meet competition; and/or
- increases in marketing expenditures and discount and promotional campaigns.

In addition, our provision of long-distance service is subject to a highly-competitive market served by large nationwide carriers that enjoy brand name recognition and have other financial and operational advantages over us.

We may face 5G Wireless Competition in the future. National wireless carriers provide service in most of our service territories. As wireless carriers continue to build out and enhance their voice and data networks and add

5G products and services intended to improve their high-speed data service, we may experience increased competition which could have an adverse effect on our business, revenue, and cash flow.

We may not be able to successfully integrate new technologies, respond effectively to customer requirements or provide new services. The communications industry is subject to rapid and far-reaching changes in technology, frequent new service introductions, competitive pricing changes, and evolving industry standards. We cannot predict the effect of these changes on our competitive position, profitability, or financial condition. Technological developments may reduce the competitiveness of our networks and require unbudgeted upgrades or the procurement of additional products that could be expensive, technologically complex, and time-consuming to implement. In addition, new products and services arising out of technological developments may reduce the attractiveness of our services. If we fail to adapt successfully to technological changes or obsolescence or fail to obtain access to important new technologies, we could lose customers and be limited in our ability to attract new customers and/or sell new services to our existing customers.

Our relationships with other communications companies are material to our operations and their financial difficulties may adversely affect our business, financial condition, and results of operations. We originate and terminate calls for interexchange and other carriers over our network. For those services, we receive payments for access charges. These payments represent a significant portion of our revenues and are material to our business. If one or more of these carriers go bankrupt or experience substantial financial difficulties, our inability to collect access charges from them could have a negative effect on our business, financial condition, and results of operations.

We face risks associated with acquired businesses and potential acquisitions. We have grown in the past, in part, by acquiring other businesses and a portion of our future growth may result from additional acquisitions. Growth through acquisitions entails numerous risks, including but not limited to:

- strain on our financial, management, and operational resources, including the distraction of our management team in identifying potential acquisition targets, conducting due diligence, and negotiating acquisition agreements;
- the potential loss of key employees or customers of the acquired businesses or our existing business;
- unanticipated liabilities or contingencies of the acquired businesses;
- unbudgeted costs which we may incur in connection with pursuing potential acquisitions, whether or not the acquisitions are consummated.
- failure to achieve projected cash flow or realize anticipated cost-saving synergies from acquired businesses;
- fluctuations in our operating results caused by incurring expenses to acquire businesses before receiving the anticipated revenues expected to result from the acquisitions;
- difficulties in finding suitable acquisition candidates;
- difficulties in making acquisitions on attractive terms due to a potential increase in competitors; and
- difficulties in obtaining and maintaining any required regulatory authorizations in connection with acquisitions.

In the future, we may need additional capital to continue growing through acquisitions. This additional capital may be raised in the form of additional debt, which would increase our leverage and further limit our financial flexibility. We may not be able to raise sufficient capital on terms we consider acceptable, or at all. We may not be able to successfully complete the integration of other businesses that we have previously acquired or successfully integrate any businesses that we might acquire in the future. If we fail to do so, or if we do so but at a greater cost than we anticipated, our business, financial condition, results of operations, and our ability to expand in the future may be adversely affected.

A network disruption could cause delays or interruptions of service, which could cause us to lose customers. To be successful, we will need to continue to provide our customers with reliable service over our network. Some of the risks to our network and infrastructure include:

- physical damage to access lines;
- widespread power surges or outages;
- software defects in critical systems; and
- disruptions beyond our control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and/or revenues and incur expenses.

Our billing systems or the billing systems of our third-party vendors may not function properly. The failure of any of our billing systems or the billing systems of any of our third-party vendors could result in our inability to adequately bill and provide service to our customers. The failure of any of our billing systems could have a material adverse effect on our business, financial condition, and results of operations.

We depend on third parties for our provision of long-distance and broadband services. Our provision of long-distance and broadband services is dependent on underlying agreements with other carriers that provide us with transport and termination services. If these carriers fail to meet their obligations, or if the provisions in our agreements with them prove unfavorable to us due to changes in market conditions or other factors, our business and operations may be adversely affected.

We may not be able to maintain the necessary rights-of-way for our networks. We are dependent on rights-of-way and other permits from railroads, utilities, state highway authorities, local governments, transit authorities, and others to install and maintain conduit and related communications equipment for any expansion of our networks. We may need to renew current rights-of-way for our networks and there can be no assurance that we would be successful in renewing each of these agreements on acceptable terms or at all. Some of our agreements may be short-term, revocable at will, or subject to termination upon customary default provisions, and we may not have access to existing rights-of-way after they have expired or been terminated. If any of these agreements are terminated or not renewed, we could be required to remove or abandon our facilities. Similarly, we may not be able to obtain right-of-way agreements on favorable terms, or at all, in new service areas, and, if we are unable to do so, our ability to expand our networks could be impaired.

Our success depends on our ability to attract and retain qualified management and other personnel. Our success depends upon the talents and efforts of our all of our personnel. The loss of any member of our senior management team, and the inability to attract and retain highly qualified technical and management personnel in the future, could have an adverse effect on our business, financial condition, and results of operations.

We may face significant future liabilities or compliance costs in connection with environmental and worker health and safety matters. Our operations and properties are subject to federal, state, and local laws and regulations relating among other things the protection of the environment, natural resources, and worker health and safety, including laws and regulations governing the management, storage, and disposal of hazardous substances, materials and wastes, and remediation of contaminated sites. Under certain environmental laws, we could be held liable, jointly, and severally and without regard to fault, for the costs of investigating and remediating any contamination at owned or operated properties, or for contamination arising from the disposal by us or our predecessors of regulated materials at formerly owned or operated properties or at third-party waste disposal sites. In addition, we could be held responsible for third-party property or personal injury claims relating to any such contamination or relating to any violations of environmental laws. Changes in existing laws or regulations, future acquisitions of businesses, or any newly discovered information could require us to incur substantial costs relating to these matters.

We have a significant amount of goodwill and other intangible assets on our balance sheet. If our goodwill or other intangible assets become impaired, we may be required to record a significant non-cash charge to earnings and reduce our stockholders' equity. Under generally accepted accounting principles, intangible assets are reviewed for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. The Company monitors relevant circumstances,

including general economic conditions, enterprise value EBITDA multiples for RLEC properties, the Company's overall financial performance, and the potential that changes in such circumstances might have on the valuation of the Company's intangible assets, including goodwill. If our intangible assets are determined to be impaired in the future, we may be required to record a significant non-cash charge to earnings during the period in which the impairment is determined.

Risks Related to Our Regulatory Environment

We are subject to significant regulations that could change in a manner adverse to us. We operate in a heavily regulated industry, and substantial portions of our revenues are supported by regulations, including access revenue and USF support for the provision of telephone services in rural areas. As discussed above, the new A-CAM program substantially increases the support being provided to LICT's telephone company subsidiaries, but future rules and regulations issued by the FCC could ultimately effect fundamental changes in the financial structure and characteristics of the telecommunications industry. Moreover, existing laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts, and could be changed by Congress or regulators in a manner adverse to us. In addition, any of the following have the potential to have a significant impact on us:

Risk of loss or reduction of network access revenues. A significant portion of our revenues comes from network access charges, a portion of which are paid to us by intrastate and interstate long-distance carriers for originating and terminating calls and for providing special access services which connect carriers to their end users in our service areas. In past years, several long-distance carriers have declared bankruptcy. Future declarations of bankruptcy by carriers that utilize our access services could negatively impact our business, financial condition, and results of operations. In addition, the amount of access charge revenues that we currently receive is based on rates set by federal and state regulatory bodies, and those rates could change in the future. Also, from time to time, federal and state regulatory bodies conduct rate cases, and earnings reviews, or make adjustments to average schedule formulas that may result in such rate changes. In addition, reforms of the federal and state access charge systems, combined with the development of competition, have caused the aggregate amount of access charges paid by long-distance carriers to decrease. Significant changes in the access charge system, if not offset by a revenue replacement mechanism, could result in a significant decrease in our revenues. Decreases in or loss of access charges may or may not result in offsetting increases in local, or subscriber line, revenues. Regulatory developments of this type could adversely affect our business, financial condition, and results of operations.

Risk of loss or reduction of Universal Service Fund support. We receive USF revenues in addition to A-CAM from both the federal and, in some cases, state universal service support mechanisms to help fund our operations. Any changes to the existing rules could reduce the USF revenues we receive. Corresponding changes in state universal service support could likewise have a negative effect on the revenues we receive. If we raise prices for services to offset losses of USF payments, the increased pricing of our services may disadvantage us competitively in the marketplace, resulting in additional potential revenue loss. Furthermore, any changes in the rules and regulations governing the distribution of such support or the manner in which USF contributions are obtained or calculated could have a material adverse effect on our business, financial condition, or results of operations.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on incumbent local exchange carriers. Our RLECs are exempt from some of the Telecom Act's more burdensome requirements governing the rights of competitors to interconnect to ILEC networks and to utilize discrete elements of the ILEC's network at favorable rates. To the extent that state regulators may decide that some or all of these requirements should be imposed upon our RLECs, we could be required to provide unbundled network elements or other facilities or services to competitors in our service areas. As a result, more competitors could enter our traditional telephone markets than are currently active there, which could have a material adverse effect on our business, financial condition, and results of operations.

Risks posed by costs of regulatory compliance. Regulatory requirements create significant compliance costs for us and are expected to continue to do so. Our subsidiaries that provide intrastate services may be or become subject to certification, tariff filing, and other ongoing regulatory requirements imposed by state regulators. Our interstate access services are currently provided in accordance with tariffs filed with the FCC by NECA. Challenges in the future to NECA's tariffs by regulators or delays in the Company's obtaining certifications and regulatory approvals could adversely affect the rates that we are able to charge our customers. We are also subject to audits by both federal and state regulatory authorities, which may be costly and burdensome and may result in fines, penalties, refunds, or other unfavorable and burdensome requirements.

Our business also may be impacted by legislation or regulations imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, protecting customer privacy, or addressing other issues that impact our business. For example, existing provisions of the Communications Assistance for Law Enforcement Act ("CALEA") and FCC regulations implementing that legislation requires communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. We cannot predict whether or to what extent the FCC might modify its CALEA rules or any other rules, or what compliance with new rules might cost. Similarly, we cannot predict whether or to what extent federal or state legislators or regulators might impose new security, environmental or other obligations on our business, although it is possible that they may do so.

Risk of loss from rate reduction. Most of our local exchange companies that operate pursuant to intrastate rate of return regulation are subject to state regulatory authority over their intrastate telecommunications service rates. State review of these rates could lead to rate reductions, which in turn could have a material adverse effect on our business, financial condition, and results of operations.

Regulatory changes in the communications industry could adversely affect our business by facilitating greater competition, reducing potential revenues, or raising our costs. Over the past several years, the FCC has made fundamental changes in its regulation of the telecommunications industry and this regulatory regime is continuing to evolve. In addition, the Telecom Act also provides for ongoing changes and increased competition in the telecommunications industry, including competition for local communications and long-distance services. This statute and the FCC's regulations may be subject to additional Congressional amendment, regulatory modification, or judicial review. It is not possible to predict what effects future legislation, FCC regulatory actions or court decisions will have on our business, financial condition, or results of operations. However, such effects could be materially adverse to our business and financial results.

MANAGEMENT'S DISCUSSION OF OPERATIONS

This discussion should be read together with the Consolidated Financial Statements of LICT Corporation and the notes thereto.

Forward-Looking Statements and Uncertainty of Financial Projections

The following discussion contains certain forward-looking statements. Forward-looking statements are not based on historical information but relate to future operations, strategies, financial results or other developments. Forward-looking statements are based on estimates and assumptions that are inherently subject to significant business, financial, economic and competitive uncertainties and contingencies, many of which are beyond our control and all of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

RESULTS OF OPERATIONS

Overview of Continuing Operations

LICT provides an array of broadband and communications services, primarily in rural areas but with continuing expansions in adjacent urban communities, which are detailed in the Telecommunications Operations section of this report. Our history was principally as an operator of rural telephone service (known as Rural Local Exchange Carriers, or “RLECs”), with operations in rural parts of California, Iowa, Kansas, New Mexico, Utah and Wisconsin. While we have continued to operate in the space, we have been actively transitioning to a high-speed broadband provider. As technologies have evolved, LICT has also evolved and adjusted our service offerings.

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

- Broadband services, fiber optic facilities, digital subscriber lines (“DSL”), and coaxial cable via cable modem and;
- Fixed wireless technologies, including 5G wireless technologies;
- Video services, including cable television and Internet Protocol Television (“IPTV”);
- Local and long-distance telephone service;
- 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;

Increasing demand for high-speed connectivity has been a major driver of growth for our Company. In particular, the number of broadband subscribers has grown dramatically in the past few years with transition to remote work, distance learning and other on-line activities and this has further been fueled by the recent surge in new software and technologies, artificial intelligence is a prime example. 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, regardless of the technology.

The federal and state governments have long had a policy of encouraging and promoting telephone, broadband and other communication services in rural areas because it provided a benefit to all Americans and to the nation as a whole. 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 numerous federal and state support mechanisms, which are generally referred to as Universal Service Funds (“USF”). Such programs evolve constantly to take into consideration customer needs, as well as new services and technologies, and to encourage RLECs to invest in and support the new technologies and provide new services to their

customers. In addition, the rates we can charge for some of our services are regulated by the FCC and in many cases, the various state public utility commissions. There is no certainty that such support USF programs will continue at the same levels as they have in the past.

In 2023, LICT elected to participate in the Federal Communications Commission's ("FCC's") new voluntary Enhanced Alternative Connect America Cost Model ("E-ACAM") program for all of its telephone companies effective January 1, 2024. The E-ACAM program is designed to further increase broadband speed and expand the deployment of broadband capabilities throughout the nation's rural areas. LICT's mandatory build-out requirements of 100/20 Mbps by December 31, 2028 to 19,609 E-ACAM locations is required for receipt of increased E-ACAM support through 2038. E-ACAM, with speed requirements of 100/20, replaced ACAM and ACAM II with their speed requirements of 25/3. 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. LICT is actively building and expanding broadband facilities to serve our rural communities. The rural location and speed requirement will necessitate a significant level of additional capital expenditures over the next five years, see Liquidity and Capital Section below.

A portion of LICT's most sparsely populated, remote customer locations will be served high-speed broadband on fiber infrastructure funded, in part, by federal, and state grants. LICT was awarded \$157.5 million for seven grants by the United States Department of Agriculture ("USDA") Rural Utilities Service ("RUS") under the ReConnect III and ReConnect IV programs. The total projected cost of these grants is \$171.2 million. Five of the grants provide for 100% funding for the project, totaling \$116.2 million for our New Mexico and California operations. The Company has also been awarded grants in which we will receive \$41.2 million for 75% of project costs in Kansas and New Mexico totaling \$55 million, of which, LICT is required to match \$13.7 million or 25% of the total project cost. All of these grant projects will build fiber to provide 1 Gig broadband service to customers we serve. Construction has begun on the \$8.4 million ReConnect III project in Kansas and the Company is actively working on obtaining environmental clearance on the other six ReConnect grants that LICT was successfully awarded.

The Company's subsidiaries have also applied for state broadband grants. In several cases, they have been successful and have accepted state broadband grants. Iowa was awarded a \$4.3 million grant in 2021 for a total project cost of \$13.2 million with required capital expenditure funds from the Company. Iowa has been notified by the Iowa state broadband office that an additional \$2.9 million has become available under the state grant program and Iowa is in the process of applying for those funds. Iowa commenced construction in 2023 on the multiple-year fiber-to-the-home ("FTTH") construction project and expects completion by 2025. Utah was awarded approximately a \$1 million grant, with associated company provided matching funds. Utah has completed engineering on the multiple-year FTTH construction project and also expects completion of the project by 2025. Kansas was the successful recipient of several smaller state grants and has already completed the majority of the required build-outs.

As mandated by the FCC, LICT notified customers participating in the FCC's Affordable Connectivity Program ("ACP") that absent the ACP program receiving additional funding from Congress, ACP discounts would have to be terminated in May 2024. ACP supports affordable broadband to the rural communities to help close the digital divide. ACP provides consumers who are eligible, a broadband credit of up to \$30 per month (up to \$75 for households on Tribal Lands) towards their qualifying internet plan. We offer a variety of broadband options that qualify under the ACP. Since the most economically fragile customers rely on ACP, we informed our ACP customers that LICT will continue an equivalent Extended Broadband Discount ("EBD") through January 31, 2025 for our customers who rely upon this additional financial assistance to get the broadband service they need.

Overall, we believe that the various governmental agencies will continue to encourage and support the provision of modern communications services for people living in high-cost, rural areas. High-speed broadband is essential as people are connecting more for distance learning, remote work, telemedicine, as well as entertainment. We believe that this expansion of communications creates an opportunity for us to successfully develop the Company's business, as rural customers demand additional and better communications infrastructure.

Discontinued Operations

On August 31, 2023, the Company completed the spin-off of 81% of the shares of LMT Holdings Corporation (“LMT Holding”), which formally launched 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 MAC. Prior to being spun-off LMT-Holding Inc declared a \$15 million distribution of a note due to LICT. The Note is due on August 31, 2024 and pays interest at a variable rate%. The company recorded this transaction as a tax-free spin-off, the note receivable and our 19% equity interest are included on our December 31, 2023 balance sheet.

Prior to the spin-off, LICT transferred its wholly-owned indirect subsidiary, LMT Holding, and each of LMT Holding’s indirect wholly-owned operating subsidiaries, Upper Peninsula Telephone Company (“UPTC”), Michigan Central Broadband Company, LLC (“MCBC”), and Alpha Communications Limited, Inc. (“Alpha” and together with LMT Holding, UPTC and MCBC, the “Michigan Businesses”), to MAC.

We believe that separating the Michigan businesses from LICT is in the best interest of both MAC and LICT. The spin-off will permit each company to tailor its strategic plans and growth opportunities, more efficiently raise and allocate resources, including capital raised through debt or equity offerings, and provide investors a more targeted investment opportunity.

The following is a breakdown of revenue and operating costs and expenses from continuing operations (in thousands):

	2023	2022
Revenue:		
Regulated revenue:		
Local access	\$4,471	\$4,768
Interstate access & USF	33,353	34,257
Intrastate access & USF	7,167	7,371
Other	1,076	1,226
Total regulated revenue	<u>46,067</u>	<u>47,622</u>
Non-regulated revenues:		
Broadband and related services	61,852	58,917
Video (including cable modem)	4,467	4,831
Other	4,123	4,108
Total non-regulated revenue	<u>70,442</u>	<u>67,856</u>
Total revenue	<u>116,509</u>	<u>115,478</u>
Operating Costs and Expenses:		
Cost of revenue, excluding depreciation	59,914	55,954
General and administrative costs at operations	11,041	10,780
Goodwill asset impairment write down	3,500	5,700
Corporate office expenses	4,922	4,400
Charitable contributions	1,161	1,051
Depreciation and amortization	20,115	18,291
Total operating costs and expenses	<u>100,653</u>	<u>96,176</u>
Operating profit	<u>\$15,856</u>	<u>\$19,302</u>

Total revenues in 2023 increased \$1.0 million, or 0.9%, to \$116.5 million.

Our regulated revenues decreased by \$1.6 million to \$46.1 million, a 3.3% decrease as compared to 2022. Local access revenue decreased \$0.3 million, or 6.2%, due to a decrease in in-territory telephone access lines. Interstate access revenue decreased by 2.6% or \$0.9 million as compared to 2022. Intrastate revenue also declining in 2023 by \$0.2 million or 2.8% mainly in Western New Mexico. Other regulated revenue decreased by \$0.2 million or 12.2% mainly in Wisconsin and California as a result of returning our previously awarded RDOF markets to the FCC. These RDOF projects were reevaluated by management and determined to be much less profitable and less important than the many grants and project builds we will be pursuing in the coming years.

Our non-regulated revenues grew by \$2.6 million to \$70.4 million, a 3.8% increase as compared to 2022. Non-regulated revenues from our broadband, both in and out-of-territory services and other out-of-territory services increased by \$2.9 million dollars from \$58.9 million to \$61.9 million. The increase was driven by additional broadband customers within our regulated footprint as well as circuits outside of our regulated service territory, added subscribers of broadband services over fiber and cable modems and the sale of communications equipment. In addition, our revenues from video product offerings totaled \$4.5 million, which declined by \$0.4 million from 2022. Non-regulated revenues have grown to represent over 60% of our revenue streams and are expected to continue to grow in future years.

Total operating costs and expenses were \$100.7 million in 2023 and \$96.2 million in 2022, resulting in a \$4.5 million increase. Our cost of revenues increased by \$3.9 million, in part related to our continued effort to expand our broadband speed offerings and the increased number of customer additions, with the related customer premises equipment (CPE). Also throughout the year the company faced inflationary pressure that impacted both staffing and material expenses. In addition, the increases in capital expenditure to expand our network reach and add customers resulted in an increase of \$1.8 million in depreciation expense for the year. Corporate office expenses increased \$0.5M (12%), to \$4.9 million in 2023 from \$4.4 million in 2022, mainly driven by increased consulting costs. In both 2023 and 2022, the Company executed its charitable giving program resulting in donations of \$1.2 million and \$1.1 million, respectively. We performed our annual impairment test of goodwill which resulted in an impairment loss of \$3.5 million in 2023, compared to \$5.7 million in 2022. Based on the analysis and procedures performed, the fair value of the net equity of the Company's Iowa and Wisconsin reporting units did not exceed its carrying amount for both years. Beginning in 2021 both Iowa and Wisconsin began the process of replacing its aging copper facilities with fiber. This is a multi-year project that requires a significant increase in capital expenditure. The Wisconsin build-out was completed in 2023 and the Iowa build will continue through 2026. Going forward these markets are transitioning their focus from construction to monetizing these fiber assets by adding new customers and also selling additional services over this fiber.

As a result of the above factors, Operating Profit in 2023 decreased by \$3.5 million to \$15.9 million.

EBITDA

EBITDA is used by our management as a supplemental financial measure to evaluate the operating performance of our business. When viewed with our GAAP results and the accompanying reconciliations, we believe it provides a more complete understanding of the 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 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 statement 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.

LICT’s management believes strongly in growing intrinsic value as a long-term prescription for managing an enterprise’s health. Our local management teams run their respective businesses as stand-alone, entrepreneurial units although we attempt to use economies of scale and other efficiencies (such as joint purchasing) where feasible. 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, and minority interests.

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

	2023	2022
EBITDA from:		
Operating units	\$45,554	\$48,744
Corporate expense	(4,922)	(4,400)
Charitable contributions	(1,161)	(1,051)
EBITDA	<u>\$39,471</u>	<u>\$43,293</u>
Reconciliation to net income:		
EBITDA	\$39,471	\$43,293
Depreciation and amortization	(20,115)	(18,291)
Investment income	1,438	1,214
Interest expense	(2,629)	(1,617)
Goodwill asset impairment write down	(3,500)	(5,700)
Equity in earnings of affiliates	371	109
Other expense	(322)	(142)
Income tax provision	(4,454)	(5,911)
Discontinued operations, net of tax	3,128	4,743
Net income	<u>\$13,388</u>	<u>\$17,698</u>

Other Income (Expense)

Investment income increased by \$0.2 million in 2023, primarily due to increased distributions from the Company’s investment in Aureon Network Services, Inc, an increase in patronage capital receipts and interest income on the note receivable from MachTen, Inc.

Interest expense increased by \$1.0 million in 2023 to \$2.6 million, primarily due to higher debt balances and a higher interest rate environment in 2023.

Equity in earnings of affiliates in 2023 were \$0.4 million which primarily represent our investments in DFT Communications and MachTen, Inc.

Income Tax Provision

The income tax provision includes federal, as well as state and local taxes. The tax provision for 2023 and 2022 represents effective tax rates of 30.3% and 31.3%, respectively. The driving factor increasing the effective tax rate from last year is the Goodwill asset impairment loss is not tax deductible and thereby increases our tax rate.

Additional, The difference between these effective rates and the federal statutory rate is principally the increase in depreciation and the goodwill impairment which is a non-taxable transaction.

Income from continuing operations

Income from continuing operations, net of tax was \$10.3 million, or \$598 per share in 2023, compared to \$13.0 million, or \$738 per share in 2022.

Income from discontinued operations, net of tax was \$3.1 million, or \$182 per share in 2023, compared to \$4.7 million, or \$270 per share in 2022.

LIQUIDITY AND CAPITAL

LICT closed on a five year, \$50 million secured Revolving Credit Facility with CoBank in January of 2020. This loan facility provides for lower borrowing rates. On May 1, 2024 the Company extended this line through June 30, 2025. The December 31, 2023 outstanding balance for the Revolving Credit Facility was \$33.5 million. As of December 31, 2023 the Company was in compliance with one of the covenant ratios and not in compliance with the second ratio, for which we received a waiver from CoBank. On May 1, 2024 the Company extended the termination date of its existing \$50.0 million line of credit with CoBank, from January 17, 2025 to June 30, 2025.

Prior to the MachTen spin-off, LMT-Holdings Inc. declared a \$15 million distribution due to LICT. This distribution was in the form of a note with a maturity date of August 30th, 2024, with an interest rate based on the Secured Overnight Financing Rate (SOFR) + 1.5%.

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 December 31, 2023, and 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
Revolving credit facility with bank, principal only	\$33,500	\$ -	\$33,500	\$ -	\$ -
Notes to sellers, principal only	18,148	3,801	7,647	-	6,700
Operating leases	6,177	1,011	1,749	1,532	1,885
Interest on notes and credit facility	5,577	3,358	1,065	684	470
Debt on Building acquisition, principle only	1,804	75	163	1,181	385
Total contractual cash obligations and commitments	\$65,206	\$8,245	\$44,124	\$3,397	\$9,440

At December 31, 2023, total debt, was \$53.5 million, compared to \$38.6 million at December 31, 2022. As of December 31, 2023, there was \$12.5 million of fixed interest rate debt at 4% or 6%, as well as the \$0.8 million of building debt at fixed rate of 5.3%. Our variable interest rate debts consist of our revolving credit line with \$33.5 million of variable interest rate debt, averaging 6.9% and \$6.7 million of seller notes with an average interest rate of 6.8%. In addition, the revolving credit facility is secured by the common stock of the subsidiaries that are not already pledged.

With the company's election to accept E-ACAM and grant awards (ReConnect III & IV), management's preliminary estimate of total capital expenditures for these projects over the next five years will total just over \$500 million, or just under \$350 million, after grant receipts of \$157 million. This includes E-ACAM build-out requirements, other regulated upgrades, various grant awards and our desire to continue the growth of our expansion markets and services which compares to our 2023 and 2022 capital expenditures of \$37.4 million and \$41.3 million, respectively. Such construction programs require significant incremental operational and financial resources. Management and the board continue to evaluate our current project plans to reduce costs where possible. As an example, we are reviewing the possibility of increasing the deployment of high-speed fixed wireless solutions in place of fiber where feasible. We continue to evaluate our various alternative financing options, with the focus on ensuring the company has financial resources necessary to complete these projects. This includes the possibility of ReConnect V loans at below market rates with deferred payments during initial build out and extended amortization periods.

As of December 31, 2023, the ratio of total debt (excluding the operating leases and future interest) to EBITDA was 1.35 to 1 compared to 0.89 to 1 as of December 31, 2022.

ALLOWANCE for CREDIT LOSSES

AR are recorded at amortized cost less an allowance for credit losses (AFCLs) that are not expected to be recovered. The gross amount of AR is recorded net of the corresponding AFCLs in the consolidated balance sheets. We maintain AFCLs resulting from the expected failure or inability of our customers to make their required payments. We recognize the AFCLs based on management's expectation of the asset's collectability. The allowance is based on multiple factors including historical experience with bad debts, the credit quality of the customer base, the aging of such receivable and current macroeconomic conditions, as well as management's expectation of conditions in the future, as applicable. Our AFCLs are recorded on a quarterly basis based on the aging of our overall AR. Our AR collection policy includes internal collection efforts after an AR balance is past 15 days due with service being suspended after approximately 30 days past due.

Our AFCLs were \$140,000 and \$142,000 as of December 31, 2023, and 2022.

WORKING CAPITAL

As of December 31, 2023, LICT had current assets of \$55.3 million and current liabilities of \$19.6 million resulting in working capital of \$35.7 million, compared to working capital of \$34.9 million at December 31, 2022.

The Company continues to evaluate significant refinancing initiatives which will enhance our ability to take the operational steps necessary to position the organization for future success.

Sources and Uses of Cash

Subsidiaries of the Company continue to participate in the FCC's Auctions. As part of the prescribed auction procedures, these subsidiaries are required to make an upfront deposit to participate in these Auctions. This upfront deposit would be used to pay for spectrum licenses acquired in the Auctions, if any, and excess returned to the Company's subsidiaries. Participation in these Auctions impacts the Company's short-term liquidity and if significant licenses are successfully acquired, they could impact long-term liquidity.

In Auction 904, also known as Rural Development Opportunity Fund or "RDOF", which ended on November 23, 2020, LICT was awarded 8 census block groups in California, Iowa and Wisconsin. Auction 904 is a part of the Federal Communications Commission's Universal Service Fund supporting the expansion of broadband internet services to underserved rural areas of the United States. We have since returned all eight census block groups back to the FCC.

FCC Auction 108 – 2.5 GHz band licenses concluded on August 29, 2022, and established LICT Wireless Broadband Company, LLC (“LICT Wireless”), a wholly owned subsidiary, as the winning bidder of 46 licenses in 9 states for \$5.5 million. These newly acquired licenses, along with the various other licenses we have won in past auctions, will further the Company’s efforts to expand our network reach.

As of January 1, 2019 all LICT subsidiaries have converted to A-CAM funding support through 2028 and the total A-CAM and A-CAM II cash receipts were \$23.2 million in 2023 and 2022 respectively. Beginning in January 2024 the company will receive \$37.1 million for its election of E-ACAM through 2038

Cash and cash equivalents at December 31, 2023, was \$11.5 million, a decrease of \$14.5 million from 2022.

Net cash provided by operations of \$28.4 million in 2023 and \$39.7 million in 2022 was primarily used to invest in plant and equipment, acquisitions, repay debt, acquire spectrum licenses and acquire treasury shares.

Cash Capital expenditures from operations were \$37.4 million in 2023 and \$41.3 million in 2022.

From 2008 through 2023, the Company has taken bonus depreciation deductions for eligible property additions as allowed by the Internal Revenue Service of 50%, starting January 1, 2008; 100%, starting September 9, 2010 through December 31, 2011; 50% starting January 1, 2012 and ended on September 28, 2017 and, as a result of the Tax Cuts and Jobs Act, 100% after September 28, 2017. Such deductions have the effect of reducing current taxes payable but will increase tax payments in future years.

The Company’s Board of Directors has authorized the purchase of up to 10,715 shares of the Company’s common stock. Through December 31, 2023, the Company purchased 9,860 shares in the open market at an average investment of \$9,494 per share, including 370 shares purchased in 2023 at an average investment of \$18,235 per share. The Company has not paid any cash dividends since its spin-off from Lynch Corporation in 1999.

LICT Corporation and Subsidiaries

Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022

LICT Corporation and Subsidiaries

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Tel: 203-905-6300
Fax: 203-905-6301
www.bdo.com

BDO
1055 Washington Blvd. - 5th Floor
Stamford, CT 06901
USA

Independent Auditor's Report

Board of Directors
LICT Corporation and Subsidiaries
Rye, New York

Opinion

We have audited the consolidated financial statements of LICT Corporation and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal



control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, P.C.

May 14, 2024

LICT Corporation and Subsidiaries

Consolidated Balance Sheet (in thousands, except share data)

<i>Year Ended December 31,</i>	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 11,545	\$ 26,055
Accounts receivable, less allowances of \$140 and \$142, respectively	7,123	6,613
Note receivable from affiliate, including accrued interest	15,345	-
Materials and supplies	16,825	9,899
Prepaid expenses and other current assets	4,417	4,281
Total Current Assets	55,255	46,848
Property, Plant and Equipment, Net	150,112	130,941
Goodwill	48,251	42,248
Other Intangibles	34,590	29,712
Investments in Affiliated Companies	7,396	2,318
Other Assets	11,436	10,088
Assets Held for Sale	-	25,591
Total Assets	\$ 307,040	\$ 287,746
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 7,773	\$ 5,599
Accrued interest payable	272	11
Accrued liabilities	7,696	5,990
Current maturities of long-term debt	3,876	372
Total Current Liabilities	19,617	11,972
Long-Term Debt	49,576	38,252
Deferred Income Taxes	28,898	26,755
Other Liabilities	14,261	8,158
Liabilities Held for Sale	-	7,006
Total Liabilities	112,352	92,143
Commitments and Contingencies (Note 15)		
Shareholders' Equity		
Common stock, \$0.01 par value; 10,000,000 shares authorized; 26,831 issued; 16,971 and 17,341 outstanding, respectively	-	-
Additional paid-in capital	10,302	17,859
Retained earnings	277,389	264,001
Treasury stock, 9,860 and 9,489 shares, respectively, at cost	(93,003)	(86,257)
Total Shareholders' Equity	194,688	195,603
Total Liabilities and Shareholders' Equity	\$ 307,040	\$ 287,746

See accompanying notes to consolidated financial statements.

LICT Corporation and Subsidiaries

Consolidated Statements of Income (in thousands, except share and per share data)

<i>Year ended December 31,</i>	2023	2022
Revenues	\$ 116,509	\$ 115,478
Operating Costs		
Cost of revenue, excluding depreciation and amortization	59,914	55,954
General and administrative costs at operations	11,041	10,780
Goodwill asset impairment write down	3,500	5,700
Corporate office expense	4,922	4,400
Charitable contributions	1,161	1,051
Depreciation and amortization	20,115	18,291
Total costs and expense	100,653	96,176
Operating Profit	15,856	19,302
Other Income (Expense)		
Investment income	1,438	1,214
Interest expense	(2,629)	(1,617)
Equity in earnings of affiliated companies	371	109
Other	(322)	(142)
Total Other (Expense) Income	(1,142)	(436)
Income from Continuing Operations	14,714	18,866
Provision for income taxes	(4,454)	(5,911)
Income from Continuing Operations, net of tax	10,260	12,955
Income from Discontinued Operations	4,473	6,390
Tax Provision for Discontinued Operations	(1,345)	(1,647)
Income From Discontinued Operations, net of tax	3,128	4,743
Net Income	\$ 13,388	\$ 17,698
Basic and Diluted Weighted-Average Shares Outstanding	17,165	17,551
Earnings Per Share:		
Income from continuing operations	\$ 598	\$ 738
Income from discontinued operations	182	270
Basic and Diluted Earnings Per Share	\$ 780	\$ 1,008

See accompanying notes to consolidated financial statements.

LICT Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity
(in thousands, except share data)

	Shares of Common Stock Outstanding	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2021	17,871	\$ 17,859	\$ 246,303	\$ (73,960)	\$ 190,202
Income from continuing operations	-	-	12,955	-	12,955
Income from discontinued operations	-	-	4,743	-	4,743
Purchase of treasury stock	(530)	-	-	(12,297)	(12,297)
Balance, December 31, 2022	17,341	17,859	264,001	(86,257)	195,603
Income from continuing operations	-	-	10,260	-	10,260
Income from discontinued operations	-	-	3,128	-	3,128
Distribution of Michigan business unit, net of remaining investment in new co. (MachTen, Inc.)	-	(7,557)	-	-	(7,557)
Purchase of treasury stock	(370)	-	-	(6,746)	(6,746)
Balance, December 31, 2023	16,971	\$ 10,302	\$ 277,389	\$ (93,003)	\$ 194,688

See accompanying notes to consolidated financial statements.

LICT Corporation and Subsidiaries
Consolidated Statements of Cash Flows (in thousands)

<i>Year ended December 31,</i>	2023	2022
Cash Flows from Operating Activities		
Net Income	\$ 13,388	\$ 17,698
Income from discontinued operations	3,128	4,743
Income from continuing operations	10,260	12,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,115	18,291
Goodwill asset impairment write down	3,500	5,700
Debt costs amortization	54	51
Equity in earnings of affiliated companies	(371)	(109)
Deferred income tax provision	1,705	4,205
Unrealized losses on securities	241	108
Realized (gains) losses on securities	99	(7)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net of allowances	(510)	(984)
Dividend receivable	(345)	-
Income taxes receivable (payable)	(369)	(294)
Trade accounts payable and accrued liabilities	1,123	1,099
Other assets and liabilities	(7,125)	(1,337)
Net Cash Provided by Operating Activities from continuing operations	28,377	39,678
Net Cash Provided by Operating Activities from discontinued operations	1,219	6,708
Net Cash Provided by Operating Activities	29,596	46,386
Cash Flows from Investing Activities		
Capital expenditures	(37,408)	(41,336)
Acquisition of Manti	(1,815)	-
Acquisition of licenses	-	(13,320)
Deposit with FCC for auctions ^{(a)(b)}	-	(7,500)
Return of deposit from FCC ^{(a)(b)}	-	27,500
Investment in KFN (Kansas Fiber Network)	(395)	-
Proceeds from sale of securities	-	182
Other	624	157
Net Cash Used in Investing Activities for continuing operations	(38,994)	(34,317)
Net Cash Used in Investing Activities for discontinued operations	(6,493)	(6,444)
Net Cash Used in Investing Activities	(45,487)	(40,761)

(Continued)

LICT Corporation and Subsidiaries
Consolidated Statements of Cash Flows (in thousands)

<i>Year ended December 31,</i>	2023	2022
Cash Flows from Financing Activities		
Payments to reduce long-term debt	\$ (373)	\$ (601)
Borrowings from (repayment of) line of credit, net	8,500	(10,000)
Proceeds from issuance of long-term debt	-	1,900
Purchase of treasury stock	(6,746)	(12,297)
Payments of debt issuance cost	-	(11)
Net Cash Provided By (Used in) Financing Activities	1,381	(21,009)
Net (Decrease) in Cash from continuing operations	(9,236)	(15,648)
Net (Decrease) Increase in Cash from discontinued operations	(5,274)	264
Net (Decrease) in Cash and Cash Equivalents	(14,510)	(15,384)
Cash and Cash Equivalents at beginning of year	26,055	41,439
Cash and Cash Equivalents at end of year	\$ 11,545	\$ 26,055

Supplemental Cash Flow Information from continuing operations

Cash paid during the year for:		
Interest	\$ 2,256	\$ 1,379
Income tax payments, net of refunds	3,979	3,596
Non-cash transactions:		
Right-of-use assets obtained in exchange for new operating lease liabilities	363	820
Net change of capital expenditures in accounts payable	\$ 1,312	\$ 324

(a) In August 2022, Auction 108 concluded and LICT was the winning bidder on forty-six spectrum licenses totaling \$5,498,000. The FCC returned \$2,002,000 cash from the original \$7,500,000 deposit, which was paid in 2022

(b) In January 2022, Auction 110 concluded and LICT was the winning bidder on twelve spectrum licenses totaling \$7,742,000. The FCC returned \$12,258,000 cash from the original \$20,000,000 deposit, which was paid in 2021.

See accompanying notes to consolidated financial statements.

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

1. Accounting and Reporting Policies

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 and 2022 as discontinued operations. (See additional details in Note 14)

Basis of Presentation

The accompanying consolidated financial statements represent the accounts of LICT and its wholly owned subsidiaries, which provide communications (voice and data), cable television, and internet services. All significant inter-company transactions and balances have been eliminated in consolidation. Investments in affiliates in which the Company does not have majority voting control but has the ability to significantly influence financial and operating policies are accounted for in accordance with the equity method of accounting. The Company accounts for affiliated companies on the equity method of accounting: telecommunications operations in California, Kansas, and Utah (2% to 14% owned through partnerships), and the former subsidiary, rural communication and alarm system subsidiary in New York, in which the Company maintains 12% ownership interest. Marketable securities are measured at Fair Value and all other investments are measured at cost.

The Company’s telephone subsidiaries are public utilities that are regulated by both the Federal Communications Commission (FCC) and various state commissions. The subsidiaries follow the accounting prescribed by the Uniform System of Accounts of the FCC, the state commissions, and regulated accounting practices. Where applicable, this regulated accounting recognizes the economic effects of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, the Company is required to depreciate telephone plant over useful lives prescribed by regulators that would otherwise be determined by management. Criteria that would give rise to the discontinuance of regulatory accounting practices include (1) increasing competition restricting the Company’s wireline businesses’ ability to establish prices to recover specific costs, and (2) significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company periodically reviews the applicability of regulatory accounting guidelines based on the developments in its current regulatory and competitive environments.

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts; the valuation of deferred tax assets; goodwill and other intangible assets; marketable securities; liabilities for income tax uncertainties; the application of regulated accounting practices; reserves for National Exchange Carrier Association (NECA) revenues; and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Cash Equivalents

Cash equivalents consist of highly liquid investments and treasury bills with original maturities of three months or less when purchased.

Concentration of Risks

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents. Management believes the financial risks associated with these financial instruments are minimal.

Cash equivalents held in United States Treasury money market funds totaled \$4.9 million and \$4.7 million at December 31, 2023 and 2022, respectively, and are insured by the Securities Investor Protection Corporation up to \$500,000 per separate capacity account. The Company maintains its cash balance in accounts that, at times, may exceed the \$250,000 Federal Deposit Insurance Corporation limits per financial institution.

The Company received \$33.3 million and \$34.1 million in 2023 and 2022 respectively, from the Federal Universal Service Fund, various state funds and NECA. This equates to 28.6% and 29.5% of its revenue for each 2023 and 2022.

Investment in Securities

The Company carries its investments in marketable equity securities at fair value and records the subsequent changes in fair values in the consolidated statements of income as a component of other income (expense).

Investment Income – Patronage

The Company has loans with CoBank, a cooperative owned and controlled by its members that requires each customer to own a restricted share of CoBank. Each member borrowing from CoBank receives patronage refunds. Patronage refunds received in cash were \$0.3 million in 2023 and \$0.2 million in 2022, with the balance in CoBank stock. Total patronage refunds were \$0.4 million in 2023 and \$0.3 million in 2022 and were included as investment income in the Company's consolidated statements of income. Patronage stock is redeemed at its face value for cash ten years after the related debt is paid off. Patronage redemptions were less than \$0.1 million in 2023 and \$0.1 million in 2022.

Asset Retirement Obligations

The Company's asset retirement obligation ("ARO") primarily represents the fair value of a liability that the Company will incur to restore leased locations to their pre-lease conditions. In the determination of fair value for an ARO, the Company uses various assumptions and judgments, including such factors as the existence of a

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

legal obligation, estimated amounts and timing of settlements, discount and inflation rates. AROs are primarily recorded for the Company's leased fiber, leased tower sites, and pole attachments.

Accounts Receivables

As of December 31, 2023, and 2022 our consolidated accounts receivable (AR) totaled \$7,123 and \$6,613, net of the allowance for credit losses (AFCLs). We believe our receivables as of December 31, 2023, and 2022 are recorded at their fair value.

AR consists primarily of amounts due to the Company from normal business activities and do not bear interest. Uncollectible accounts are written-off (removed from AR and charged against the AFCLs) when internal collection efforts have been unsuccessful. Subsequently, if payment is received from the customer, the recovery is credited to the AFCLs.

Due to the dispersed geographic nature of the Company's operations and the residential nature of its customers, no single customer, or identifiable group of customers, accounts for a significant amount of the Company's receivable balances, other than from NECA, as discussed in *Revenue Recognition* below.

Allowance for Credit Losses

AR are recorded at amortized cost less AFCLs that are not expected to be recovered. The gross amount of AR is recorded net of the corresponding AFCLs in the consolidated balance sheets. We maintain AFCLs resulting from the expected failure or inability of our customers to make their required payments. We recognize the AFCLs based on management's expectation of the asset's collectability. The allowance is based on multiple factors including a heavy weighting of historical experience with bad debts, the credit quality of the customer base, the aging of such receivables and current macroeconomic conditions, as well as management's expectation of conditions in the future, as applicable. Our AFCLs are recorded on a quarterly basis based on the aging of our overall AR. Our AR collection policy includes internal collection efforts after an AR balance is 15 days due with service being suspended after approximately 30 days past due. Our AFCLs decreased during the year ended December 31, 2023, compared to 2022.

Note Receivable

The MachTen Inc. ("MAC") spin-off which occurred on August 31, 2023 where LICT shareholders received 150 shares of MAC for every 1 share of LICT common stock owned. Prior to being spun-off LMT-Holding Inc declared a \$15 million distribution of a note payable due to LICT on August 31, 2024. The company recorded this transaction as a note receivable on our balance sheet reflecting this matter. (Refer to Note 14 – Discontinued Operations, for further information).

Materials and Supplies

Materials and supplies are stated at cost and are not held for sale, but rather for purposes of supporting the Company's business.

Deposits

From time to time, the Company participates in spectrum auctions with the FCC that require upfront deposits to participate. FCC rules restrict information that bidders may disclose about their participation in these auctions, including the amount of their upfront payments.

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Reclassification

Certain reclassifications of amounts previously reported have been made to conform to the current presentation.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and include expenditures for additions and major improvements for the Company's regulated telephone companies, and an allowance for funds used during construction. Maintenance and repairs are charged to operations as incurred. Depreciation of telephone plant is computed on the straight-line method using class or overall group rates acceptable to regulatory authorities. This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment, and as such, amounts are recovered through rates authorized by regulatory authorities. Accordingly, the Company is required to depreciate plant and equipment over the useful lives that would otherwise be determined by management. Depreciation of non-telephone property is computed on the straight-line method over the estimated useful lives of the assets

Depreciable lives for the Company's telephone and non-telephone properties, excluding land, range from 15 to 40 years for buildings, 3 to 50 years for machinery and equipment and 3 to 25 years for other assets. Regulated telecommunication assets acquired from other regulated entities are capitalized using the pre-existing entity's gross cost and associated accumulated depreciation.

When a portion of the Company's depreciable property, plant and equipment relating to its telephone operations business is retired, the gross carrying value of the assets, including cost of disposal and net of any salvage value, is charged to accumulated depreciation, in accordance with regulated accounting procedures.

Business Acquisitions

The Company accounts for business acquisitions using the purchase method of accounting and, accordingly, the consolidated financial statements reflect the allocations of the total purchase price to the net tangible and intangible assets acquired, based on their respective fair values at the date of acquisition. The results of operations of acquired businesses are reflected by the Company from the date of acquisition. Transaction costs related to the business acquisitions are expensed as incurred and included in general and administrative costs in the consolidated statements of income.

In October 2023, Lynch Telephone Corporation X (, the "Buyer", or "LICT") executed agreements to acquire the assets and operations of the Manti Telephone Company ("MTC"), Manti Tele Communications Co., Inc. ("MTCC"), and American Fiber, Inc ("American Fiber" or "AFI"). The MTCC and AFI acquisitions closed on December 1, 2023. The closing of the MTC acquisition is pending regulatory approval (See additional details in Note 13).

MTCC owns, operates, and maintains a telephone, internet, and cable television system located in Manti, Utah and AFI owns, operates and maintains a broadband internet access system in American Fork, Utah.

Expanding LICT's fiber network footprint to the rural communities of Manti, Sterling, Ephraim, and beyond, supports the growth of business and residential access to advanced communication services.

Goodwill and Other Intangible Assets

On January 1, 2017, the Company adopted Accounting Standards Update (ASU) 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, and the guidance was applied prospectively. Under the standard, if "the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.” As of September 30, 2023, the Company performed its annual impairment tests of goodwill. Based on the analysis and procedures performed, the fair value of the net equity of the Company’s Iowa and Wisconsin reporting units did not exceed its carrying amount. As such, the Company recognized an impairment charge of \$3.5 million and \$5.7 million for 2023 and 2022, respectively.

The Company evaluates the recoverability of goodwill and other intangible assets with indefinite lives for impairment annually, or more often, whenever events or circumstances indicate that such assets may be impaired. With respect to goodwill, the Company estimates the fair value of each reporting unit based on a number of subjective factors, including: (a) appropriate weighting of valuation approaches (income approach and market approaches), (b) estimates of the Company’s future cost structure, (c) discount rates for the Company’s estimated cash flows, (d) selection of peer group companies for the market approach, (e) required level of working capital, (f) assumed terminal value and (g) time horizon of cash flow forecasts.

The impairment test for other intangible assets not subject to amortization consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The Company estimates the fair value using Level 3 inputs.

In addition to goodwill, intangible assets with indefinite lives, including spectrum licenses, had a carrying value of \$29.9 million and \$29.5 million at December 31, 2023 and 2022, respectively. The Company’s carrying value of intangibles assets increased as a result of the acquisition of MTCC and AFI. The Company performed its annual assessment of impairment for these assets as of December 31, 2023 and 2022 and no impairment charge was required.

The Company’s subscriber lists and related rights are generally amortized on a straight-line basis over a eight to fifteen-year life. Such intangible assets had a gross value of \$8.4 million and \$3.7 million at December 31, 2023 and 2022 and accumulated amortization of \$3.8 million and \$3.5 million at December 31, 2023 and 2022. Amortization expense was \$218,000 and \$1,000 in 2023 and 2022. Such intangible assets are included in other intangibles.

The following table provides a summary of future amortization of subscriber lists, trade names and trademarks (in thousands):

<i>Year ending December 31,</i>	
2024	\$ 507
2025	507
2026	507
2027	507
2028	507
Thereafter	2,122
Total Amortization of Subscriber Lists, Trade Names and Trademarks	\$ 4,657

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to estimated undiscounted future cash flows expected to be generated

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases. There were no asset impairments recorded during the years ended December 31, 2023 and 2022.

Deferred Financing Costs

Expenses incurred in connection with the issuance of long-term debt are deferred and are amortized over the life of the respective debt issued. During 2023 and 2022, the Company incurred deferred financing fees of approximately \$0 and \$11,000, respectively. Amortization amounted to \$54,000 for 2023 and \$51,000 for 2022. These amounts were recorded as interest expense.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, earnouts and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Revenue Recognition

Revenue is measured according to ASC 606, Revenue from Contracts with Customers, which outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. The core principle, involving a five-step process, of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This principle is achieved through applying the following five-step approach: (1) identification of the contract, or contracts, with a client, (2) identification of the performance obligations in the contract, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligations in the contract, and (5) recognition of revenue when, or as, we satisfy a performance obligation.

At contract inception, the Company assesses the goods and services to be provided to the customer and identifies the associated performance obligation. The Company considers all obligations, whether they are explicitly stated in the contract or are implied by customary business practices.

See Note 10 “Revenue Recognition” for a discussion of our revenue recognition policies.

Leases

The Company recognizes leases in accordance with ASC 842, Leases, which requires lessees to recognize a right-of-use (ROU) asset and a lease liability on the balance sheet.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. If a discount rate is not stated within the lease agreement, the estimated incremental borrowing rate is derived from information available at the lease commencement date to determine the present value of lease payments. To estimate the incremental borrowing rate, a risk-free rate plus incremental interest rate spread for collateralized debt is used and updated on an annual basis. Multiple incremental borrowing rates that correspond to the term of the leases are used.

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

Short-term leases primarily consist of month-to-month leases where either party has the option to cancel with less than one year's notice, or for those leases where the agreement terms are not final. Expenses are recognized as incurred.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax effects attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Accounting guidance concerning uncertain income tax positions requires the Company to recognize the effect of income tax positions only if those positions are more likely than not to be sustained. There were no uncertain tax positions to report in 2023 and 2022. Recognized income tax positions are measured at the largest amount that is greater than 50% likely to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Earnings per Share

Basic and diluted earnings per common share amounts are based on the weighted-average number of common shares outstanding during each period.

Accounting Pronouncements Recently Adopted

In June 2016, the FASB issued guidance (FASB ASC 326 - Measurement of Credit Losses on Financial Instruments, as amended) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. The financial assets held by the company that are subject to the guidance in FASB ASC 326 were trade accounts receivable.

The amendment is currently effective for the Company for annual reporting periods beginning after December 15, 2022. As of January 1, 2023, the Company adopted ASC 326; the impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

2. Investments in Affiliated Companies

During the third quarter of 2023, LICT completed the sale of 40% of its 20% ownership of Brick Skirt Holdings Company (formerly DFT Communications) to CIBL, Inc. LICT's sale of its remaining 12% ownership of Brick Skirt, is pending regulatory approval. CIBL's New Hampshire operations, continue to utilize Brick Skirt for certain administrative functions as it has since 2014, when LICT sold DFT back to its founding family, but retained a 20% equity interest. The interest in Brick Skirt is recorded using the equity accounting method.

Undistributed earnings of all companies accounted by LICT using the equity method that are included in consolidated retained earnings are \$0.1 million as of December 31, 2023 and 2022, respectively.

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

3. Property, Plant and Equipment

Components of the Company's property, plant and equipment and accumulated depreciation are as follows (in thousands):

<i>Year ended December 31,</i>	2023	2022
Land	\$ 1,111	\$ 1,003
Buildings and leasehold improvements	17,029	15,810
Machinery, vehicles, equipment and construction in process	434,997	402,099
	453,137	418,912
Accumulated depreciation	(303,025)	(287,971)
	\$ 150,112	\$ 130,941

Depreciation and amortization expense for 2023 and 2022 was \$20.1 million and \$18.3 million, respectively.

4. Line of Credit and Debt

The Company's long-term debt facilities contain covenants that restrict the distribution of cash and other net assets between subsidiaries or to the parent company. The table below represents long-term debt borrowings by various subsidiaries of LICT (in thousands):

<i>Year ended December 31,</i>	2023	2022
Long-term debt consists of:		
Revolving credit facility from CoBank, ACB through 2025	\$ 33,500	\$ 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 acquisitions at fixed and variable interest rates of 4.0% and 6.0%	10,501	5,101
Other at fixed rates of 5.25% and 6%	1,804	875
Total Debt	53,452	38,623
Current maturities	(3,876)	(371)
Long Term Debt	\$ 49,576	\$ 38,252

On January 17, 2020, the Company entered into a new credit agreement with CoBank for a \$50 million revolving credit facility. The term of the credit agreement is five years and was to expire on January 17, 2025. On May 1, 2024 the Company extended the termination date of its existing \$50.0 million line of credit with CoBank, from January 17, 2025 to 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 December 31, 2023 is SOFR plus 2.0%. The credit facility is secured by a pledge of the stock of the Company's subsidiaries. The outstanding balance under the line-of-credit facility with CoBank, included as revolving credit facility in the table above, was \$33.5 million at December 31, 2023 and \$25.0 million at December 31, 2022. The average balance of the line of credit outstanding was \$25.9 million in 2023 and \$19.5 million in 2022; the highest amount outstanding was \$33.5 million in 2023; and the average interest rate was 6.9% in 2023, 3.0% in 2022. As of December 31, 2023 and 2022, the Company was in

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

compliance with one of the covenant ratios and not in compliance with the second ratio, for which we received a waiver from CoBank.

Aggregate principal maturities of long-term debt at December 31, 2023 for each of the next five years are as follows: 2024 - \$3.9 million, 2025 - \$33.6 million, 2026 - \$7.7 million, 2027 - \$1.1 million and 2028 - \$6.8 million.

In 2021, the Company modified its agreement with CoBank to allow for letters of credit. An irrevocable standby letter of credit was required by the Universal Service Administrative Company (USAC) for the Rural Digital Opportunity Fund (RDOF) in which the Company is involved with their California and Wisconsin companies. The letter of credit was opened in the amount of \$0.05 million. The FCC has accepted our notice to withdraw from the RDOF 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.

5. Related Party Transactions

Since 1998, LICT has leased its corporate headquarters from an affiliate of its Chairman. The lease expires in 2028 and includes utilities and escalation. The annual lease payments totaled \$222,000 in 2023 and \$210,000 in 2022. 2022 includes the assumption of a lease from another affiliate which was vacated on January 1, 2022. In addition, expenses relating to administrative support and transportation paid to the same affiliate were \$90,000 and \$103,000 for 2023 and 2022, respectively.

At December 31, 2023 and 2022, assets of \$4.9 million and \$4.7 million, which are classified as cash and cash equivalents, are invested in United States Treasury money market funds for which affiliates of the Company's Chairman serve as investment managers to the respective funds.

Shares of CIBL, Inc. (CIBL) were distributed to LICT shareholders in 2007. LICT was party to a Transitional Administrative and Management Services Agreement (TAMSA) through June 30, 2022, under which LICT provided management and administrative services to CIBL. Payments under these agreements were \$67,500 in 2022.

The Company has subordinated notes payable to former owners of certain of its telephone companies in connection with acquisitions (see Note 4).

The Company has a \$15.0 million note receivable with MachTen which is related to the spin-off of LICT's Michigan operations which occurred on August 31, 2023 (see note 14). In 2023 the Company has recorded interest income and a related receivable of \$345,000.

6. Shareholders' Equity

For the year ended December 31, 2023 and 2022, shares have been purchased on the open market in the amount of 370 and 530, respectively at an average investment per share of \$18,235 in 2023 and \$23,204 in 2022. LICT's Board of Directors has authorized the purchase of up to 10,715 shares of its common stock.

7. Income Taxes

LICT files a consolidated income tax return with its subsidiaries for federal income tax purposes. Certain entities file separate state and local income tax returns, while others file on a combined or consolidated basis.

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The provision for income taxes is summarized as follows (in thousands):

<i>Year ended December 31,</i>	2023	2022
Current taxes:		
Federal	\$ 2,937	\$ 1,324
State and local	(188)	382
Total Current Taxes	2,749	1,706
Deferred taxes:		
Federal	1,309	3,308
State and local	396	897
Total Deferred Taxes	1,705	4,205
Total Provision for Income Taxes	\$ 4,454	\$ 5,911

A reconciliation of the provision for income taxes and the amount computed by applying the statutory federal income tax rate to income before income taxes follows (in thousands).

<i>Year ended December 31,</i>	2023	2022
Tax at statutory rate	\$ 3,085	\$ 3,962
Increases (decreases):		
State and local taxes, net of federal benefit	682	652
Other	687	1,297
Total Provision for Income Taxes	\$ 4,454	\$ 5,911

Deferred income taxes for 2023 and 2022 are provided for the temporary differences between the financial reporting basis and the tax bases of the Company's assets and liabilities. Cumulative temporary differences are as follows (in thousands):

<i>Year ended December 31,</i>	2023	2022
Fixed assets and depreciation	\$ 25,967	\$ 23,896
Partnership tax losses in excess of book losses	66	52
Goodwill	3,643	3,643
Right-of-use asset	2,424	(1,495)
Lease liability	(2,420)	1,523
Other reserves and accruals	(782)	(864)
Total Deferred Tax Liabilities	\$ 28,898	\$ 26,755

The Company has performed a review of the deferred tax provisions and has concluded that there is no valuation allowance adjustment needed. The Company recognizes tax liabilities in accordance with guidance for uncertain tax positions and adjusts these liabilities when its judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the Company's current estimate of the tax

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Notes to Consolidated Financial Statements

liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined. During 2023, the Company did not record or maintain any balance in its consolidated financial statements for uncertain tax positions. The Company does not anticipate significant changes to its unrecognized tax benefits in the next 12 months. The Company remains subject to examination for tax years 2020 through 2023 by the Internal Revenue Service and, with few exceptions, is subject to state examinations by tax authorities for the same four years.

8. Fair Value Measurement

The Company follows the authoritative guidance for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis, and of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis or are presented only in disclosures. Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, or quoted prices for identical assets and liabilities in inactive markets. Level 3 inputs are unobservable.

The Company has assets that are measured at fair value: U.S. Treasury money market funds, included in cash and cash equivalents in the accompanying consolidated balance sheets, which are classified as Level 1 inputs because they are valued using quoted market prices. U.S. Treasury money market funds had a value of \$4.9 million and \$4.7 million at December 31, 2023 and 2022, respectively.

Cash in banks, trade accounts receivable, trade accounts payable and accrued liabilities are carried at cost, which approximates fair value due to the short-term maturity of these instruments and are classified as Level 1. The fair value of the Company's borrowings under its long-term debt obligations is approximately \$1.1 million higher than its carrying value as a result of the higher interest rate environment. The fair value of the Company's revolving line of credit approximates carrying amount, as the obligations bear interest at a variable rate which approximates the fair value and classified as Level 1.

On December 1, 2023, the Company, in connection with the Asset Purchase Agreements ("APA") entered on October 4, 2023, acquired substantially all the assets and assumed certain liabilities of Manti Tele Communications Co., Inc. ("MTCC"), and American Fiber, Inc ("American Fiber" or "AFI") (collectively, "the Sellers") (the "Acquisition") in exchange for total consideration of \$15.3 million – including contingent considerations (the "earnout") for \$6.8 million (see note 13 for further detail). The earnout liability is included in the consolidated balance sheet as a component of other liabilities. The earnout requires the Company to pay a multiple of the twelve-month trailing EBITDA on December 1, 2025. This is classified as a Level 3 liability. Level 3 valuations involve a combination of: management forecasts, macroeconomic and internal data, mathematical models, and proprietary techniques. Some examples of unobservable inputs that are typically considered Level 3 include Management assumptions that cannot be corroborated with observable market data. The \$6.8 million earnout is calculated using management's assumptions of revenues and EBITDA for the applicable time period. As the acquisition closed 30 days prior to the end of the year management believes that there is no discernable difference between carrying value and fair value as of December 31, 2023.

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The following table includes the equity securities included in other assets on the consolidated balance sheets based on management's intent to hold them indefinitely and represents the fair value measurements and the level within the fair value hierarchy in which the fair value measurements are classified (in thousands):

December 31, 2023

	Fair Value	Level 1	Level 2	Level 3
Equity securities:				
Common Stock	\$ 5,648	\$ 5,648	\$ -	\$ -
Total Assets Accounted for, at fair value	\$ 5,648	\$ 5,648	\$ -	\$ -

December 31, 2022

	Fair Value	Level 1	Level 2	Level 3
Equity securities:				
Common Stock	\$ 565	\$ 565	\$ -	\$ -
Total Assets Accounted for, at fair value	\$ 565	\$ 565	\$ -	\$ -

The following table includes the earnout liability included in other liabilities on the consolidated balance sheets and represents the fair value measurements and the level within the fair value hierarchy in which the fair value measurements are classified (in thousands):

December 31, 2023

	Fair Value	Level 1	Level 2	Level 3
Earnout	\$ 6,820	\$ -	\$ -	\$ 6,820
Total Liabilities Accounted for, at fair value	\$ 6,820	\$ -	\$ -	\$ 6,820

December 31, 2022

	Fair Value	Level 1	Level 2	Level 3
Earnout	\$ -	\$ -	\$ -	\$ -
Total Liabilities Accounted for, at fair value	\$ -	\$ -	\$ -	\$ -

9. Employee Benefit Plans

LICT maintains several defined contribution plans at its telephone subsidiaries and corporate office. LIC T's contributions under these plans, which vary by subsidiary, are based primarily on the financial performance of the business units and employee compensation. Total discretionary employer contribution expense related to these plans was \$2.0 million in 2023 and \$1.9 million in 2022.

The Company has a Principal Executive Bonus Plan, for which \$0.3 million was recorded in 2023 and \$0.2 million in 2022.

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10. Revenue Recognition

Revenue Accounted for in Accordance with ASC 606

Local access revenue is accounted for under ASC 606 and comes from providing local telephone exchange services and is billed to end users in accordance with tariffs filed with each state's Public Utilities Commission. Local access revenue is predominantly billed in advance and recognized as revenue when earned.

Interstate and intrastate access revenues handled as "bill-and-keep" (see notes under *Revenue Accounted for in Accordance with Other Guidance*) are accounted for under ASC 606, for which revenues are recognized as services are provided.

Broadband and related services, video including cable modem and other non-regulated revenues are accounted for under ASC 606, for which revenues are recognized as services are provided.

Revenue Accounted for in Accordance with Other Guidance

Regulated Rural Local Exchange Carriers (RLEC) are required to follow the Code of Federal Regulations ("CFR") Title 47- Telecommunications Part 32 established by the FCC; therefore, Part 32 contains the Other Guidance which the Company's RLECs follow. Certain revenues for regulated companies are derived from the Company's cost for providing services. Revenue that is billed in arrears includes most intrastate and interstate network access services, nonrecurring local services, and long-distance services. The earned but unbilled portion of this revenue is recognized as revenue in the period that the services are provided.

Revenues from intrastate access are based on tariffs approved by each state's Public Utilities Commission and are subject to ASC 606 because they are handled on a bill-and-keep basis. Revenues from interstate access are either bill-and-keep or are derived from settlements with NECA and the Universal Service Administrative Company. Intrastate Universal Service Fund (USF), Interstate USF and Interstate settlement revenues are not accounted for under ASC 606. NECA was created by the FCC to administer interstate access rates and revenue pooling on behalf of small local exchange carriers who elect to participate in a pooling environment. LICT's RLEC subsidiaries include eight cost-based companies and five average schedule companies. Interstate settlements for cost-based companies are determined based on the Company's cost of providing interstate telecommunications service, including investments in specific types of infrastructure and operating expenses and taxes. Interstate settlements for average schedule companies are determined based on formula-based costs using industry averages, which are intended to represent a surrogate for company-specific costs.

As of December 31, 2019, all of LICT's RLECs have voluntarily moved to a fixed amount of USF support based on the FCC's Alternative-Connect America Cost Model (A-CAM) and A-CAM II federal programs. The A-CAM and A-CAM II programs provide revenue for a ten-year period based on a cost model, rather than company-specific costs. Carriers electing A-CAM and A-CAM II are required to maintain voice and existing broadband service. In addition, they are required to offer at least 10/1 Mbps or 25/3 Mbps to a certain percentage of locations by the end of the ten-year support term in 2028, with deployment milestones along the way. The build-out requirements differ between the A-CAM and A-CAM II programs. Total 2023 A-CAM and A-CAM II revenues were \$23.2 million, in 2023 and 2022.

For certain revenues, the Company collects taxes from its customers on behalf of various governmental authorities and remits these taxes to the appropriate authorities. The collection of such taxes and fees is not recognized as revenue. Deferred revenue resulting from large business installations or other services are included in other liabilities and are amortized over the customer life.

LICT Corporation and Subsidiaries

Notes to Consolidated Financial Statements

The following tables provide the Company's revenue disaggregated on the basis of revenue source and products (in thousands):

December 31, 2023

	Accounted for Under ASC 606	Accounted for Under Other Guidance	Total Revenue
Non-Regulated Revenue			
Broadband and related services	\$ 61,852	\$ -	\$ 61,852
Video	4,467	-	4,467
Other	4,123	-	4,123
Total Non-Regulated Revenue	70,442	-	70,442
Regulated Revenue			
Local access	\$ 4,471	\$ -	\$ 4,471
Interstate access and USF	3,223	30,131	33,354
Intrastate access and USF	272	6,895	7,167
Other	1,028	47	1,075
Total Regulated Revenue	8,994	37,073	46,067
Total Revenue	\$ 79,436	\$ 37,073	\$ 116,509

December 31, 2023

	Accounted for Under ASC 606
Revenue accounted for in accordance with ASC 606 consisted of the following:	
Services transferred over time	\$ 78,709
Equipment and long-distance service transferred at a point in time	727
Total Revenue	\$ 79,436

December 31, 2022

	Accounted for Under ASC 606	Accounted for Under Other Guidance	Total Revenue
Non-Regulated Revenue			
Broadband and related services	\$ 58,917	\$ -	\$ 58,917
Video	4,831	-	4,831
Other	4,108	-	4,108
Total Non-Regulated Revenue	67,856	-	67,856
Regulated Revenue			
Local access	\$ 4,768	\$ -	\$ 4,768
Interstate access and USF	3,818	30,439	34,257
Intrastate access and USF	325	7,046	7,371
Other	1,178	48	1,226

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Notes to Consolidated Financial Statements

Total Regulated Revenue		10,089		37,533		47,622
Total Revenue	\$	77,945	\$	37,533	\$	115,478

December 31, 2022

				Accounted for Under ASC 606
Revenue accounted for in accordance with ASC 606 consisted of the following:				
Services transferred over time	\$			77,061
Equipment and long-distance service transferred at a point in time				884
Total Revenue	\$			77,945

Transaction Price Allocated to Remaining Performance Obligations

The aggregate amount of the transaction price allocated to the remaining performance obligations for contracts with customers that are unsatisfied, or partially unsatisfied, are accounted for in accordance with ASC 606. For equipment delivery, installation and configuration, and services, the performance obligation is expected to be satisfied within 12 months. For business broadband and other services, the performance obligation will be satisfied as the service is provided over the terms of the contracts, which typically range from one to five years. The Company's agreements with its residential customers are typically originated on a month-to-month basis, or one to two-year contracts converting to a month-to-month basis after expiration, and no provision is made for future performance obligations.

Contract Assets and Liabilities

The Company incurs certain incremental costs to obtain contracts that it expects to recover. These costs consist primarily of sales commissions and other directly related incentive compensation payments related to customer contracts. Incremental costs of obtaining contracts for which the term is one year or less are expensed as incurred. The Company does not incur material contract fulfillment costs associated with its contracts with customers. The cost of the Company's network and related equipment, and enhancements to the network required under customer contracts, is accounted for in accordance with ASC 360, *Property, Plant and Equipment*. When a customer adds a distinct service to an existing contract for the standalone selling price of that service, the new service is treated as a separate contract. Contract modifications and cancellations did not have a material effect on contract assets in the year ended December 31, 2023.

The Company pays incremental commission fees in connection with revenue from contracts with customers. The Company capitalizes commission fees as contract assets that are amortized based on the period of expected benefit to which the assets relate and are included in cost of revenue. Current and long-term portions of these costs were \$335,000 and \$695,000, respectively, at December 31, 2023. Amortization was \$539,000 and \$479,000 in 2023 and 2022, respectively. There was no impairment loss in relation to the costs capitalized.

The Company invoices business customers for large installation and infrastructure costs associated with providing new services at the beginning of the contract. These revenues are capitalized as contract liabilities and are amortized, on a straight-line basis, over the customer life under ASC 606. Current and long-term portions of these costs were \$348,000 and \$1,917,000 respectively, at December 31, 2023.

LICT Corporation and Subsidiaries

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11. Leases

Leases Accounted for in Accordance with ASC 842

The Company's leases primarily consist of buildings for corporate and sales offices, and land for remote equipment facilities.

Lease terms may include options to extend or terminate the lease. Options to extend leases are included when, based on the individual lease and the Company's business objectives at lease inception, it is reasonably certain they will be exercised. Leases with a term of 12 months or less are not recorded on the consolidated balance sheets.

The practical expedient was elected to combine the lease and non-lease components for all asset classes. The following table summarizes the components of lease expense (in thousands):

<i>Year ended December 31,</i>	2023		2022	
Operating lease cost	\$	1,116	\$	1,119
Short-term lease cost		-		53
Finance Lease Cost:				
Amortization of right-of-use assets		10		10
Interest on lease liabilities		1		2
Total Lease Cost	\$	1,127	\$	1,184

The weighted-average remaining lease term and the weighted-average discount rate for operating leases are as follows:

<i>Year ended December 31,</i>	2023	2022
Weighted-average remaining lease term - operating leases	8.7 years	9.5 years
Weighted-average discount rate - operating leases	4.2%	3.2%

The following table provides a summary of minimum payments for operating leases (in thousands):

<i>Year ending December 31,</i>		
2024	\$	1,011
2025		905
2026		843
2027		777
2028		755
Thereafter		1,885
Total Obligation		6,176
Less: amount representing interest and discount		(1,119)
Present Value of Future Minimum Lease Payments		5,057
Less: current portion		(903)
Lease Obligations, net of current portion	\$	4,154

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ROU assets were approximately \$5.1 million and \$5.3 million at December 31, 2023 and 2022, respectively, and are included in other assets.

12. Charitable Contribution Programs

During 2023 and 2022, the Company's Board of Directors approved a Shareholder Designated Charitable Contribution program. Under the program, each shareholder is eligible to designate a charity to which the Company would donate \$100 per share based upon the number of shares registered in the shareholder's name, to the shareholder's designated 501C3 charity. Shares held in nominee or street name are not eligible to participate. During 2023 and 2022, respectively, the Company recorded a charge of \$1.2 million and \$1.1 million before tax benefit for both years.

The impact of these programs per diluted share were \$50 in 2023 and \$44 in 2022, net of tax benefit related to the contributions, which was included in operating costs in the consolidated statements of income.

13. Acquisition

On December 1, 2023, the Company, in connection with the Asset Purchase Agreements ("APA") entered on October 4, 2023, acquired substantially all the assets and assumed certain liabilities of Manti Tele Communications Co., Inc. ("MTCC"), and American Fiber, Inc ("American Fiber" or "AFI") (collectively, "the Sellers") (the "Acquisition") in exchange for total consideration of \$15.3 million, which consists of: (i) \$1.8 million in cash consideration, (ii) notes payable issued to Sellers of \$6.7 million and (iii) contingent considerations whose present value is estimated at \$6.8 million ("earnout liability"). The earnout liability is included in the consolidated balance sheet as a component of other liabilities. The acquisition was treated as a business combination. The acquired businesses provide cable television, telephone and broadband internet services. As part of the October 4, 2023, Asset Purchase Agreement, the Company has also agreed to acquire Manti Telephone Company ("MTC"). The closing of MTC is pending regulatory approval.

The AFI earnout requires the Company to pay a multiple of the twelve-month trailing EBITDA on December 1, 2025. This amount will be reduced by a portion of the initial purchase price.

The Company has determined the preliminary fair values of the assets acquired and liabilities assumed in the Acquisition. Due to the timing of the completion of the acquisition, the purchase price and related allocation are preliminary and could be revised as a result of adjustments made to the purchase price, additional information obtained regarding assets acquired and liabilities assumed, and revisions of provisional estimates of fair values, including, but not limited to, the completion of independent appraisals and valuations related to contingent consideration, tangible assets and intangible assets. These changes to the purchase price allocation could be significant. The purchase price allocation will be finalized within the measurement period of up to one year from the acquisition date.

The following table summarizes the purchase price and preliminary purchase price allocations relating to the Acquisition (in thousands):

Fixed assets	\$	1,143
Right-of-Use Asset		317
Total Tangible Assets		1,460
Subscriber Relationships		4,400
Trade Names and Trademarks		290
Total Identifiable Intangibles		4,690
Residual Goodwill		9,503

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Assumed Liabilities⁽¹⁾	
Lease Liability	<u>(318)</u>
Total Allocated Purchase Price	<u>\$ 15,335</u>

(1) Assumed liabilities does not include deferred tax liabilities, if any.

The subscriber relationships represent the fair value associated with present value of future net cash flows to be generated from the current subscriber list, adjusted for estimated subscriber attrition, discounted at 12%. The franchise rights represent the fair value of net cash flows to be generated from franchise revenues, discounted at 16%. Trade names and trademarks represent the value associated with those names and marks determined on a relief from royalty method. Goodwill represents the excess fair value after the allocation to the identifiable net assets.

The Company incurred approximately \$49,000 of cost related to the acquisition that were expensed as general and administrative expenses for the year ended December 31, 2023.

14. 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.

LICT transferred its wholly-owned indirect subsidiary, LMT Holding, and each of LMT Holding’s indirect wholly-owned operating subsidiaries, Upper Peninsula Telephone Company (“UPTC”), Michigan Central Broadband Company, LLC (“MCBC”), and Alpha Communications Limited, Inc. (“Alpha” and together with LMT Holding, UPTC and MCBC, the “Michigan Businesses”), to MAC on August 31, 2023 as part of a tax free spinoff.

The following is a summary of the consolidated Michigan assets and liabilities classified as discontinued operations as of December 31, 2022 (in thousands):

	<u>December 31, 2022</u>
Assets Held for Sale:	
Current assets	\$ 3,842
Property, plant and equipment, net	20,847
Other assets	902
Assets of discontinued operations	<u>\$ 25,591</u>
Liabilities Held for Sale:	
Current liabilities	\$ 3,520
Other liabilities	3,486
Liabilities of discontinued operations	<u>\$ 7,006</u>

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The following is a summary of consolidated Michigan directly attributable operating results, which are included in income from discontinued operations for the years ended December 31, 2023, and 2022 (in thousands)

<i>Year ended December 31,</i>		2023(a)		2022
Revenues	\$	10,602	\$	15,815
Cost of revenues		(4,892)		(7,264)
Depreciation and amortization		(1,279)		(2,171)
Operating Profit		4,431		6,380
Other income		42		10
Income before taxes		4,473		6,390
Provision for income taxes		(1,345)		(1,647)
Income from discontinued operations	\$	3,128	\$	4,743

(a) Results through August 31, 2023.

15. Commitments and Contingencies

Litigation

The Company is involved from time to time in various legal proceedings, regulatory investigations, and claims arising in the normal conduct of business, which may include proceedings that are specific to the Company and others generally applicable to business practices within the industries in which the Company operates. A substantial legal liability or a significant regulatory action against the Company could have an adverse effect on the business, financial condition, and on the results of operations in a particular year. LICT was not involved in any legal proceedings in 2023 and 2022 that had any significant effect on its financial results and is not involved in any ongoing material legal proceedings that are expected to exceed our insurance coverage.

Earnout Liability

As part of the acquisition of MTCC and AFI, LICT has an earnout provision on the American Fiber, company segment. The earnout is based on a multiple of twelve-months trailing EBITDA, two years after the closing date, the anniversary of which will be on December 1, 2025. The present value of the earnout liability, is estimated at \$6.8 million and is included in other liabilities.

Phantom Stock Plan

On December 15, 2020, the Company adopted the LICT Phantom Stock Plan. Under this plan 132 shares of phantom stock were awarded to 15 employees of the organization. Each award represents a contractual right to receive an amount in cash equal to the fair market value of a share of our common stock on the settlement date. Each award vests and will be paid out to active participants at 30% of award after year three and the remaining 70% after year five. If a Participant ceases to be employed by the Company all Phantom Shares held by such Participant which have not vested shall automatically and without further notice terminate and become null and void. Since the awarding of the phantom shares, three participants are no longer employed and have forfeited their phantom awards.

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On December 15, 2023, 31 shares of phantom stock were vested at an approximate fair value of \$0.6 million. These awards were paid \$0.3 million in 2023 and \$0.3 million in January 2024. During 2023, eight phantom stock shares were forfeited. As of December 31, 2023, we have 65 phantom shares outstanding which are the remaining 70% of the initial award to be paid after five years. The liability for unvested phantom stock awards as of December 31, 2023, was \$1.0 million. Estimated expense through the remaining two years of the program totals \$450,000; \$226,000 in 2024 and \$224,000 in 2025.

16. Subsequent Events

The Company has evaluated events subsequent to the consolidated balance sheet date and prior to issuance of the consolidated financial statements for the year ended December 31, 2023 through May 14, 2024, the issuance date of the consolidated financial statements.

LICT elected to participate in the FCC's Enhanced Alternative – Connect America Cost Model (“Enhanced A-CAM” or “E-ACAM”), which replaces ACAM and ACAM II. This election is made by state and is for all LICT operating company subsidiaries, located in California, Iowa, Kansas, New Mexico, Utah and Wisconsin. Enhanced A-CAM will provide LICT a fixed level of annual funding commencing January 1, 2024, through December 31, 2038, in exchange for building facilities to provide a broadband speed of 100/20 Mbps or greater to approximately 19,600 locations.

The Affordable Connectivity Program (“ACP”) will expire in May 2024, unless it is renewed. LICT will continue to support those individuals who risk losing ACP funding through January 2025. LICT has notified all customers that were participating in the ACP program that the Company will continue to offer the monthly credit through the end of January 2025.

On May 1, 2024 the Company extended the termination date of its existing \$50.0 million line of credit with CoBank, from January 17, 2025 to June 30, 2025.

LICT CORPORATION
DIRECTORS, OFFICERS, AND OTHER INFORMATION

Board of Directors

Mario J. Gabelli

Executive Chairman & Interim Chief Executive Officer
GAMCO Investors, Inc.

Salvatore Muoio

Managing Member
S. Muoio Co. LLC

Robert E. Dolan, CPA

Former Executive Vice President and Chief Financial Officer
LICT Corporation

Salvatore M. Salibello, CPA

Senior Partner
Bright Side Consulting

Gary L. Sugarman

Private Investor

Andrew Sinwell

Founder & Portfolio Manager
N2 Capital Management

Officers & Staff

Mario J. Gabelli

Chairman of the Board &
Interim Chief Executive Officer

Alexander Dominguez

Controller

Stephen J. Moore

Vice President-Finance

Evelyn Jerden

Senior Vice President- Regulatory Dynamics

Christian Mueller

Corporate Controller

Transfer Agent and Registrar For Common Stock

Equiniti
48 Wall Street
New York, NY 10005

Trading Information

OTC Pink®
Common Stock
Symbol: LICT

Investor Relations Contact

Stephen J. Moore
914-921-8821

LICT CORPORATION
401 Theodore Fremd Avenue, Rye, New York 10580
Tel: 914-921-8821
www.lictcorp.com