

Summary of Statements of Net Income—Unaudited

Amounts in millions except per share amounts

	Quarter Ended June 30			Six Months Ended June 30		
	2016	2015	Change	2016	2015	Change
Net operating revenue (after uncollectibles):						
Internet and communications	\$19.1	\$18.4	\$0.7	\$38.3	\$36.4	\$1.9
Information technology services and hardware	8.7	4.9	3.8	18.2	9.4	8.8
Net operating revenue	27.8	23.3	4.5	56.5	45.8	10.7
Operating expense:						
Cost of sales and service	12.9	9.8	3.1	26.4	19.1	7.3
Selling, general, and administrative	8.1	7.4	0.7	15.9	14.3	1.6
Depreciation and amortization	5.1	5.0	0.1	9.9	9.4	0.5
Total operating expense	26.1	22.2	3.9	52.2	42.8	9.4
Operating income	1.7	1.1	0.6	4.3	3.0	1.3
Nonoperating income	2.1	2.0	0.1	3.3	4.0	(0.7)
Income before taxes	3.8	3.1	0.7	7.6	7.0	0.6
Income taxes	1.4	1.1	0.3	2.8	2.6	0.2
Net income	\$2.4	\$2.0	\$0.4	\$4.8	\$4.4	\$0.4
Earnings per share	\$1.05	\$0.82	\$0.23	\$2.09	\$1.91	\$0.18

Summary of Net Operating Revenue—Unaudited

	Quarter Ended June 30			Six Months Ended June 30		
	2016	2015	Change	2016	2015	Change
TOTAL NET OPERATING REVENUE						
Internet and communications:						
Strategic	\$9.5	\$8.4	\$1.1	\$18.9	\$16.4	\$2.5
Legacy	9.6	10.0	(0.4)	19.4	20.0	(0.6)
Total internet and communications	19.1	18.4	0.7	38.3	36.4	1.9
IT services and hardware	8.7	4.9	3.8	18.2	9.4	8.8
Total net operating revenue	\$27.8	\$23.3	\$4.5	\$56.5	\$45.8	\$10.7
TOTAL BUSINESS & WHOLESALE NOR						
Internet and communications:						
Strategic	\$2.6	\$2.4	\$0.2	\$5.0	\$4.7	\$0.3
Legacy	6.7	6.9	(0.2)	13.5	13.4	0.1
Total internet and communications	9.3	9.3	0.0	18.5	18.1	0.4
IT services and hardware	8.7	4.8	3.9	18.2	9.4	8.8
Total net operating revenue	\$18.0	\$14.1	\$3.9	\$36.7	\$27.5	\$9.2
TOTAL CONSUMER NOR						
Internet and communications:						
Strategic	\$6.9	\$6.0	\$0.9	\$13.8	\$11.7	\$2.1
Legacy	2.9	3.2	(0.3)	6.0	6.6	(0.6)
Total net operating revenue	\$9.8	\$9.2	\$0.6	\$19.8	\$18.3	\$1.5

Consolidated Balance Sheets—Unaudited

At June 30,	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,091,216	\$ 4,951,645
Accounts receivable, net of allowance for doubtful accounts	9,949,415	7,845,819
Materials and supplies	2,141,261	2,158,541
Prepayments	2,025,336	1,926,031
Income taxes recoverable	211,706	342,982
Deferred income taxes	621,862	717,754
Total current assets	17,040,796	17,942,772
Property, plant, and equipment	507,587,025	491,369,529
Less accumulated depreciation	355,653,688	339,069,336
Property, plant, and equipment, net	151,933,337	152,300,193
Other assets:		
Investment securities	642,292	4,682,738
Investments in unconsolidated entities	9,161,981	9,456,894
Intangibles, net of amortization	15,906,382	15,459,367
Goodwill	31,794,755	27,232,656
Other noncurrent assets	921,094	1,120,872
Total other assets	58,426,504	57,952,527
Total assets	\$ 227,400,637	\$ 228,195,492
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit note	\$ 4,000,000	\$ -
Current maturities of bank note	-	5,500,000
Current maturities of capital lease obligations	151,437	139,276
Accounts payable and payroll withholdings	2,096,673	2,123,128
Advance billings and customer deposits	3,873,683	3,528,138
Accrued expenses	6,626,659	5,910,582
Accrued taxes	896,307	838,878
Total current liabilities	17,644,759	18,040,002
Other liabilities:		
Bank note, net of current maturities	38,500,000	38,500,000
Capital lease obligations, net of current maturities	5,872,915	6,024,352
Deferred income taxes	25,720,436	25,807,972
Accrued pension benefits	41,336,197	32,324,802
Accrued postretirement benefits	600,073	829,955
Other liabilities and deferred credits	1,371,830	654,424
Total other liabilities	113,401,451	104,141,505
Total liabilities	131,046,210	122,181,507
Stockholders' equity:		
Preferred stock	1,887,600	1,911,600
Common stock	11,357,205	11,371,395
Paid in capital	59,128	55,448
Retained earnings	116,039,670	117,870,767
Accumulated other comprehensive loss	(32,989,176)	(25,195,225)
Total stockholders' equity	96,354,427	106,013,985
Total liabilities and stockholders' equity	\$ 227,400,637	\$ 228,195,492

Consolidated Statements of Net Income—Unaudited

Six Months Ended June 30,	2016	2015
Operating revenues:		
Internet and communications:		
Strategic internet and data	\$ 13,884,403	\$ 12,536,106
Strategic entertainment	5,300,890	4,404,513
Legacy voice	16,911,457	17,093,376
Legacy long distance	1,355,649	1,475,331
Legacy advertising and search	1,277,827	1,400,726
Total internet and communications	38,730,226	36,910,052
Information technology services and hardware:		
Strategic telecom and IT equipment	6,965,338	1,144,410
Strategic colocation	5,690,864	5,705,857
Strategic managed and professional services	4,584,479	1,670,312
Strategic UCAAS	956,943	892,812
Total IT services and hardware	18,197,624	9,413,391
Total operating revenues	56,927,850	46,323,443
Less uncollectible revenue	436,416	474,034
Net operating revenues	56,491,434	45,849,409
Cost of sales and service:		
General support	3,515,330	3,146,221
Central office	4,173,942	4,358,131
Communication termination	12,407,981	5,816,105
Cable and wire facilities	1,506,008	1,725,507
Network operations	4,841,826	4,047,170
Total cost of sales and service	26,445,087	19,093,134
Gross margin	30,046,347	26,756,275
Depreciation and amortization expense	9,908,450	9,419,297
Selling, general, and administrative expense:		
Customer operations	9,425,736	9,093,138
Corporate operations	5,689,770	4,508,105
Taxes, other than income taxes	753,954	689,189
Total selling, general, and administrative expense	15,869,460	14,290,432
Net operating income	4,268,437	3,046,546
Nonoperating income (expense):		
Interest income	11,276	59,909
Interest expense, net of capitalized interest	(783,655)	(480,621)
Equity in earnings of unconsolidated entities	4,097,712	4,284,945
Net gain (loss) on sale of investment securities	-	9,545
Other income (expense), net	(5,821)	89,656
Net nonoperating income	3,319,512	3,963,434
Income before income taxes	7,587,949	7,009,980
Income taxes	2,785,762	2,604,854
Net income	4,802,187	4,405,126
Preferred stock dividends	44,742	45,317
Net income available to common stockholders	\$ 4,757,445	\$ 4,359,809
Earnings per average common share	\$ 2.09	\$ 1.91
Dividends per common share	\$2.60	\$2.60
Weighted average common shares outstanding	2,272,745	2,277,559

Consolidated Statements of Comprehensive Income—Unaudited

Six Months Ended June 30,	2016	2015
Net income	\$ 4,802,187	\$ 4,405,126
Other comprehensive income, net of tax:		
Unrealized holding gain arising during the period, net of tax expense in 2015 of \$8,860	-	14,130
Other comprehensive income, net of tax	-	14,130
Comprehensive income	\$ 4,802,187	\$ 4,419,256

Consolidated Statements of Stockholders' Equity—Unaudited

Six Months Ended June 30,	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income			Total Stockholders' Equity
					Retirement Plans	Marketable Securities	Total	
Balance, January 1, 2015	\$ 1,915,200	\$ 11,395,825	\$ 53,936	\$ 119,745,974	\$ (25,616,655)	\$ 407,300	\$ (25,209,355)	\$ 107,901,580
Acquisition of stock	(3,600)	(24,430)	1,512					(26,518)
Net income				4,405,126				4,405,126
Preferred stock dividends				(45,317)				(45,317)
Common stock dividends				(5,922,839)				(5,922,839)
Acquisition of common stock in excess of stated value				(312,177)				(312,177)
Unrealized gain on marketable securities, net of tax expense						14,130	14,130	14,130
Balance, June 30, 2015	\$ 1,911,600	\$ 11,371,395	\$ 55,448	\$ 117,870,767	\$ (25,616,655)	\$ 421,430	\$ (25,195,225)	\$ 106,013,985
Balance, January 1, 2016	\$ 1,888,600	\$ 11,370,200	\$ 58,658	\$ 117,296,892	\$ (33,011,770)	\$ 22,594	\$ (32,989,176)	\$ 97,625,174
Acquisition of stock	(1,000)	(12,995)	470					(13,525)
Net income				4,802,187				4,802,187
Preferred stock dividends				(44,742)				(44,742)
Common stock dividends				(5,908,425)				(5,908,425)
Acquisition of common stock in excess of stated value				(106,242)				(106,242)
Balance, June 30, 2016	\$ 1,887,600	\$ 11,357,205	\$ 59,128	\$ 116,039,670	\$ (33,011,770)	\$ 22,594	\$ (32,989,176)	\$ 96,354,427

Consolidated Statements of Cash Flows—Unaudited

Six Months Ended June 30,	2016	2015
Cash flows from operating activities:		
Net income	\$ 4,802,187	\$ 4,405,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,908,450	9,419,297
Change in the allowance for doubtful accounts	125,000	-
Loss (gain) on sale of investment securities	-	(9,545)
Loss (gain) on sale, disposal, and abandonment of other assets	61,291	115,944
Equity in earnings of unconsolidated entities	(4,097,712)	(4,284,945)
Deferred income taxes	1,265,883	(927,297)
Deferred pension and postretirement benefits	1,231,223	761,935
Changes in operating assets and liabilities:		
Accounts receivable	1,098,163	(112,763)
Materials and supplies	(306,736)	(493,024)
Other assets	5,013,897	4,422,986
Accounts payable and payroll withholdings	(2,732,852)	(4,263,502)
Accrued expenses	710,744	(450,041)
Other liabilities	(2,144,151)	(590,712)
Net cash provided by operating activities	14,935,387	7,993,459
Cash flow from investing activities:		
Additions to property, plant, and equipment	(9,308,681)	(13,005,552)
Cost of removal of telephone plant, net of salvage	33,910	(51,584)
Proceeds from sale of wireless assets-escrow, net	-	2,350,000
Proceeds from sale of investment securities	-	3,685,000
Distributions from equity investments	-	23,834
Distributions from unconsolidated entities	3,602,510	3,195,775
Net cash provided by (used in) investing activities	(5,672,261)	(3,802,527)
Cash flows from financing activities:		
Principal payments on term loan	(2,750,000)	(2,750,000)
Repayments of line of credit, net of proceeds	(500,000)	-
Principal payments on capital leases	(71,262)	(49,889)
Loan origination fees	-	(1,606)
Acquisition of preferred stock	(530)	(2,088)
Acquisition of common stock	(119,237)	(336,607)
Cash dividends paid	(5,953,167)	(5,968,156)
Net cash used in financing activities	(9,394,196)	(9,108,346)
Net change in cash and cash equivalents	(131,070)	(4,917,414)
Cash and cash equivalents at beginning of period	2,222,286	9,869,059
Cash and cash equivalents at end of period	\$ 2,091,216	\$ 4,951,645
Supplemental disclosure of cash flow information:		
Cash paid for (refunds of) income taxes	\$ (2,630,000)	\$ 880,000
Cash paid for interest	\$ 714,451	\$ 448,831
Supplemental schedule of noncash investing and financing activities:		
Property, plant, and equipment funded by capital lease obligations	\$ -	\$ 6,213,517

I, Jonathan M. Cage, hereby certify that the accompanying unaudited consolidated balance sheets of North State Telecommunications Corporation and Subsidiaries as of June 30, 2016 and 2015 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' equity, and cash flows for the six months then ended have been prepared from the Corporation's and Subsidiaries' accounting records. Internal accounting controls and review procedures provide assurance that these statements are materially accurate.

This is the 29th day of August 2016.



Jonathan M. Cage
VP-Chief Financial Officer