

## Summary of Statements of Net Income—Unaudited

<b>Three Months Ended March 31,</b>	<b>2017</b>	<b>2016</b>	<b>% Change</b>
Net operating revenue (after uncollectibles):			
Internet and communications	\$19.7	\$19.2	3%
Information technology services and hardware	9.4	9.5	-1%
Net operating revenue	29.1	28.7	1%
Operating expense:			
Cost of sales and service	13.7	13.6	1%
Selling, general, and administrative	7.9	7.8	1%
Depreciation and amortization	5.0	4.8	3%
Total operating expense	26.6	26.2	1%
Operating income	2.5	2.5	2%
Nonoperating income	1.1	1.3	-15%
Income before taxes	3.6	3.8	-4%
Income taxes	1.3	1.4	-4%
Net income	\$2.3	\$2.4	-3%
Earnings per share	\$1.01	\$1.04	-3%

## Summary of Net Operating Revenue—Unaudited

Three Months Ended March 31,	2017	2016	% Change
<b>TOTAL NET OPERATING REVENUE</b>			
Internet and communications:			
Strategic	\$10.4	\$9.4	11%
Legacy	9.3	9.8	-5%
Total internet and communications	19.7	19.2	3%
IT services and hardware-strategic	9.4	9.5	-1%
Total net operating revenue	\$29.1	\$28.7	1%
<b>TOTAL BUSINESS &amp; WHOLESALE NOR</b>			
Internet and communications:			
Strategic	\$2.8	\$2.4	14%
Legacy	6.6	6.8	-2%
Total internet and communications	9.4	9.2	2%
IT services and hardware-strategic	9.4	9.5	-1%
Total net operating revenue	\$18.8	\$18.7	1%
<b>TOTAL CONSUMER NOR</b>			
Internet and communications:			
Strategic	\$7.6	\$6.9	10%
Legacy	2.7	3.1	-12%
Total net operating revenue	\$10.3	\$10.0	3%

## Consolidated Balance Sheets—Unaudited

At March 31,	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 11,249,738	\$ 3,364,866
Accounts receivable, net of allowance for doubtful accounts	8,140,725	9,874,306
Materials and supplies	2,602,630	2,204,183
Prepayments	2,807,157	2,208,097
Income taxes recoverable	-	206,788
Deferred income taxes	627,380	620,214
Total current assets	25,427,630	18,478,454
Property, plant, and equipment	515,755,253	502,585,924
Less accumulated depreciation	366,683,201	351,017,996
Property, plant, and equipment, net	149,072,052	151,567,928
Other assets:		
Investment securities	1,983,801	642,292
Investments in unconsolidated entities	9,601,573	8,864,395
Intangibles, net of amortization	14,841,177	16,261,451
Goodwill	31,844,755	31,794,755
Other noncurrent assets	925,224	972,834
Total other assets	59,196,530	58,535,727
Total assets	\$ 233,696,212	\$ 228,582,109
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Revolving credit note	-	\$ 4,500,000
Current maturities of bank note	1,875,000	1,375,000
Current maturities of capital lease obligations	159,550	148,907
Accounts payable and payroll withholdings	1,974,636	2,243,383
Advance billings and customer deposits	4,241,664	3,342,746
Income taxes payable	1,350,506	-
Accrued expenses	6,098,116	5,987,409
Accrued taxes	554,126	643,246
Total current liabilities	16,253,598	18,240,691
Other liabilities:		
Bank note, net of current maturities	47,776,915	38,500,000
Capital lease obligations, net of current maturities	5,751,248	5,910,799
Deferred income taxes	25,432,830	25,175,798
Accrued pension benefits	44,950,038	41,759,936
Accrued postretirement benefits	729,916	620,092
Other liabilities and deferred credits	1,329,125	1,377,204
Total other liabilities	125,970,072	113,343,829
Total liabilities	142,223,670	131,584,520
Stockholders' equity:		
Preferred stock	1,873,100	1,888,600
Common stock	11,331,195	11,365,255
Paid in capital	65,218	58,658
Retained earnings	113,172,631	116,674,252
Accumulated other comprehensive loss	(34,969,602)	(32,989,176)
Total stockholders' equity	91,472,542	96,997,589
Total liabilities and stockholders' equity	\$ 233,696,212	\$ 228,582,109

## Consolidated Statements of Net Income—Unaudited

Three Months Ended March 31,	2017	2016
Operating revenues:		
Internet and communications:		
Strategic internet and data	\$ 7,493,667	\$ 6,884,750
Strategic entertainment	3,036,933	2,645,014
Legacy voice	7,899,630	8,515,347
Legacy long distance	584,299	690,749
Legacy advertising and search	711,317	628,340
Total internet and communications	19,725,846	19,364,200
Information technology services and hardware:		
Strategic telecom and IT equipment	3,487,879	3,973,872
Strategic colocation	2,942,411	2,809,319
Strategic managed and professional services	2,481,621	2,234,941
Strategic UCAAS	507,701	470,352
Total IT services and hardware	9,419,612	9,488,484
Total operating revenues	29,145,458	28,852,684
Less uncollectible revenue	41,661	175,611
Net operating revenues	29,103,797	28,677,073
Cost of sales and service:		
General support	1,828,479	1,699,788
Central office	2,034,897	2,052,512
Communication termination	6,555,962	6,699,367
Cable and wire facilities	949,447	778,961
Network operations	2,306,669	2,338,326
Total cost of sales and service	13,675,454	13,568,954
Gross margin	15,428,343	15,108,119
Depreciation and amortization expense	5,001,715	4,843,733
Selling, general, and administrative expense:		
Customer operations	4,753,584	4,509,729
Corporate operations	2,788,068	2,850,860
Taxes, other than income taxes	346,652	420,535
Total selling, general, and administrative expense	7,888,304	7,781,124
Net operating income	2,538,324	2,483,262
Nonoperating income (expense):		
Interest income	9,613	5,962
Interest expense, net of capitalized interest	(452,955)	(383,330)
Equity in earnings of unconsolidated entities	1,466,964	1,650,241
Other income (expense), net	51,098	(3,592)
Net nonoperating income	1,074,720	1,269,281
Income before income taxes	3,613,044	3,752,543
Income taxes	1,315,974	1,377,690
Net income	2,297,070	2,374,853
Preferred stock dividends	-	-
Net income available to common stockholders	\$ 2,297,070	\$ 2,374,853
Earnings per average common share	\$ 1.01	\$ 1.04
Dividends per common share	\$1.30	\$1.30
Weighted average common shares outstanding	2,267,504	2,273,362
Operating income margin	8.7%	8.7%
Operating expense, including depreciation/amortization	\$ 26,565,473	\$ 26,193,811
Operating expense, excluding depreciation/amortization	\$ 21,563,758	\$ 21,350,078
OIBITDA	\$ 7,540,039	\$ 7,326,995
OIBITDA margin	25.9%	25.6%
EBITDA	\$ 9,067,714	\$ 8,979,606
EBITDA margin	31.2%	31.3%

## Consolidated Statements of Comprehensive Income—Unaudited

<b>Three Months Ended March 31,</b>	<b>2017</b>	<b>2016</b>
Net income	<u>\$ 2,297,070</u>	<u>\$ 2,374,853</u>
Other comprehensive income (loss), net of tax	-	-
Comprehensive income (loss)	<u>\$ 2,297,070</u>	<u>\$ 2,374,853</u>

## Consolidated Statements of Stockholders' Equity—Unaudited

Three Months Ended March 31,	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income			Total Stockholders' Equity
					Retirement Plans	Marketable Securities	Total	
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		(4,945)						(4,945)
Net income				2,374,853				2,374,853
Preferred stock dividends				-				-
Common stock dividends				(2,954,966)				(2,954,966)
Acquisition of common stock in excess of stated value				(42,527)				(42,527)
Balance, March 31, 2016	<u>\$ 1,888,600</u>	<u>\$ 11,365,255</u>	<u>\$ 58,658</u>	<u>\$116,674,252</u>	<u>\$ (33,011,770)</u>	<u>\$ 22,594</u>	<u>\$ (32,989,176)</u>	<u>\$ 96,997,589</u>
Balance, January 1, 2017	\$ 1,873,100	\$ 11,341,520	\$ 65,218	\$113,950,232	\$ (35,846,131)	\$ 876,529	\$ (34,969,602)	\$ 92,260,468
Acquisition of stock	-	(10,325)	-					(10,325)
Net income				2,297,070				2,297,070
Preferred stock dividends				-				-
Common stock dividends				(2,948,504)				(2,948,504)
Acquisition of common stock in excess of stated value				(126,167)				(126,167)
Balance, March 31, 2017	<u>\$ 1,873,100</u>	<u>\$ 11,331,195</u>	<u>\$ 65,218</u>	<u>\$113,172,631</u>	<u>\$ (35,846,131)</u>	<u>\$ 876,529</u>	<u>\$ (34,969,602)</u>	<u>\$ 91,472,542</u>

## Consolidated Statements of Cash Flows—Unaudited

Three Months Ended March 31,	2017	2016
Cash flows from operating activities:		
Net income	\$ 2,297,070	\$ 2,374,851
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,001,715	4,843,733
Loss (gain) on sale, disposal, and abandonment of other assets	-	2,044
Equity in earnings of unconsolidated entities	(1,466,964)	(1,650,241)
Deferred income taxes	656,347	722,893
Deferred pension and postretirement benefits	651,179	615,611
Changes in operating assets and liabilities:		
Accounts receivable	6,860,726	1,298,272
Materials and supplies	(431,551)	(369,658)
Other assets	(197,054)	4,834,775
Accounts payable and payroll withholdings	(3,174,861)	(3,117,080)
Accrued expenses	(785,348)	(181,568)
Other liabilities	(532,645)	(1,052,880)
Net cash provided by operating activities	8,878,614	8,320,752
Cash flow from investing activities:		
Additions to property, plant, and equipment	(4,244,076)	(4,229,814)
Cost of removal of telephone plant, net of salvage	51,372	12,364
Purchases of investment securities	(13,934)	-
Distributions from unconsolidated entities	1,220,205	1,452,625
Net cash provided by (used in) investing activities	(2,986,433)	(2,764,825)
Cash flows from financing activities:		
Principal payments on term loan	-	(1,375,000)
Principal payments on capital leases	(39,564)	(35,909)
Acquisition of common stock	(136,492)	(47,472)
Cash dividends paid	(2,948,504)	(2,954,966)
Net cash used in financing activities	(3,124,560)	(4,413,347)
Net change in cash and cash equivalents	2,767,621	1,142,580
Cash and cash equivalents at beginning of period	8,482,117	2,222,286
Cash and cash equivalents at end of period	\$ 11,249,738	\$ 3,364,866
Supplemental disclosure of cash flow information:		
Cash paid for (refunds of ) income taxes	-	\$ (3,500,000)
Cash paid for interest	\$ 445,317	\$ 365,862

I, Scott D. Toth, hereby certify that the accompanying unaudited consolidated balance sheets of North State Telecommunications Corporation and Subsidiaries as of March 31, 2017 and 2016 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' equity, and cash flows for the quarter 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 the 28<sup>th</sup> day of April 2017.



Scott D. Toth  
EVP, Chief Financial Officer