

2013
SHAREHOLDER
UPDATE

Q1



TO OUR SHAREHOLDERS

Following is our unaudited report of first quarter 2013 results highlighted by improved margins and growth in data center, wireline business services and residential broadband. Margin improvement came as a result of extensive and ongoing cost management initiatives. In view of the divestiture of our wireless service operations, and in accordance with generally accepted accounting standards, wireless is shown as a discontinued operation in the 2013 statement with 2012 restated for comparative purposes.

The North State team works hard every day to deliver an extraordinary experience to our customers and to deliver extraordinary performance for shareholders. Our industry continues to go through profound changes as we continue to shift our focus to the higher-value components of the evolving digital and data-driven world.

Thank you for your interest and support of North State.



J. Patrick Harman
Chairman and
Chief Executive Officer



Royster Tucker III
Vice Chairman, President
and Chief Operating Officer



Jonathan M. Cage
Vice President, Chief Financial Officer

FIRST QUARTER CONSOLIDATED RESULTS

For the quarter ending March 31, 2013, consolidated net operating revenue from continuing operations totaled \$22 million, up 1% compared to the year earlier first quarter. Operating expenses were \$19.2 million, down 2.3% from the year earlier period. Operating income from continuing operations was \$2.8 million, up 30.2%. Non-operating income was just under \$1.2 million in the first quarter of 2013, down 6.9% from the year earlier period as a 29.7% increase in equity in earnings of our Verizon wireless partnership was partially offset by other expenses, which included the cost of land the company donated to the city of High Point, N.C. to be developed as a municipal park and greenway. This land was purchased as part of our Westchester Operations Center years ago and is not commercially usable.

First quarter 2013 income from continuing operations was \$2.5 million, up from \$2.1 million in the year earlier quarter. Income from discontinued operations was \$1.1 million compared to \$0.8 million. Net income for the first quarter of 2013 totaled \$3.6 million, up 22% compared to the year earlier period. Earnings per share were \$1.56 compared to \$1.28. First quarter 2013 EBITDA was \$11 million compared to \$10 million for the same period of 2012.

Cash from operating activities was \$7.4 million for the first quarter of 2013, up 1% from the year earlier period. Cash distributions from our Verizon partnership totaled \$1.8 million for the quarter. Capital expenditures were \$2.3 million compared to \$10 million. Free cash flow (cash flow from operating activities plus cash flow from the Verizon partnership minus capital expenditures) was \$6.9 million for the quarter, compared to a negative \$2.7 million a year ago. Dividends paid during the quarter totaled \$2.9 million.

BUSINESS SERVICES

Revenues from business services totaled \$9 million in the first quarter of 2013, up 8.5% compared to the

year earlier period. DataChambers revenue was \$2.9 million in the first quarter of 2013, up 11.7% from the year earlier period. Wireline business services revenues were \$6.1 million, up from \$5.7 million. Average monthly wireline revenue per business customer was \$338.98 for the first quarter of 2013, up from \$302.11 for the same period of 2012. (In our Fourth Quarter 2012 Shareholder Update, average wireline revenue per business customer was incorrectly reported as \$370.08. The correct amount for this period was \$331.79.) During the quarter, we launched a new and innovative “Cloud Connections” product, which is a simple, complete “office-in-the-cloud” offering for small and mid-size businesses featuring data, Internet, voice, email, IP phone sets, device monitoring, data storage, advanced messaging, long distance, fax services and more. We remain on track for the opening of our Raleigh, N.C.–area data center at mid-year. At the close of the quarter, business services made up 41% of operating revenue from continuing operations, compared with 38% for the same period last year.

RESIDENTIAL SERVICES

Residential services revenues reached \$8.9 million in the first quarter of 2013, up from \$8.1 million in the year earlier period as our fiber-based broadband products continue to deliver growth from the home market. Broadband made up 60% of residential services revenues for the quarter, with average revenue per broadband connection up 18% compared to the first quarter of 2012. Residential broadband connections totaled 38,473 at the end of the quarter, a 5% increase from the year earlier period. Plex Advanced TV continues to evolve with channel additions, an expanded Video on Demand library and new advanced Pay-Per-View services. Residential services now make up just under 41% of operating revenue from continuing operations, compared with 37% last year.

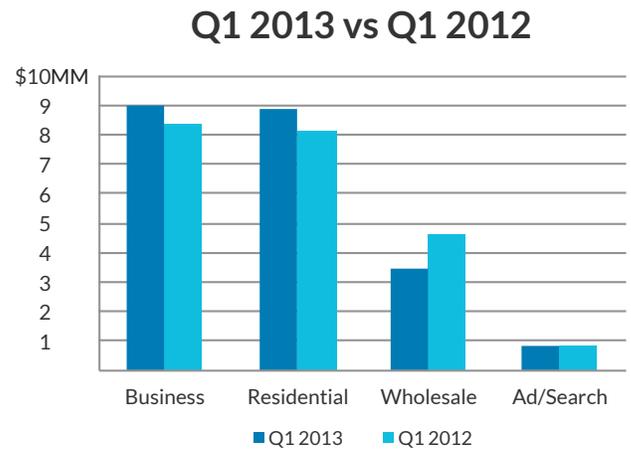
WHOLESALE SERVICES

Wholesale revenues were \$3.4 million in the first

quarter of 2013 compared to \$4.7 million in the year earlier period as a result of reductions in access revenues driven by intercarrier compensation reform (ICC), USF reform, declines in use of the legacy wireline network and mid-year 2012 settlement reductions. Wholesale revenues were \$3.6 million in the fourth quarter of 2012.

ADVERTISING & SEARCH

For the first quarter of 2013, Advertising and Search revenues totaled \$0.8 million, up 2.3% from the prior year due to increases in sales of online advertising and search products.



Consolidated Balance Sheets—Unaudited

At March 31,	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,290,294	\$ 2,252,803
Investment securities	-	4,609,562
Accounts receivable, net of allowance for doubtful accounts	8,518,180	7,822,349
Materials and supplies	5,101,317	7,178,169
Prepayments	1,605,318	1,777,647
Income taxes recoverable	2,423,604	2,471,001
Deferred income taxes	787,810	3,997,348
Assets held for sale, net of liabilities	13,741,791	14,300,793
Total current assets	34,468,314	44,409,672
Property, plant, and equipment	456,165,803	442,375,554
Less accumulated depreciation	310,617,498	298,148,530
Property, plant, and equipment, net	145,548,305	144,227,024
Other assets:		
Investment securities	3,888,352	3,744,398
Investments in unconsolidated entities	9,683,959	12,951,542
Intangibles, net of amortization	18,376,417	19,649,357
Goodwill	27,232,656	27,232,656
Other noncurrent assets	1,360,267	1,464,595
Total other assets	60,541,651	65,042,548
Total assets	\$ 240,558,270	\$ 253,679,244
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit note	\$ 500,000	\$ 6,500,000
Current maturities of long term debt	4,125,000	-
Accounts payable and payroll withholdings	2,507,737	3,959,744
Advance billings and customer deposits	2,947,879	2,699,947
Income taxes payable	884,253	-
Accrued expenses	5,451,817	5,976,650
Accrued taxes	599,391	669,856
Total current liabilities	17,016,077	19,806,197
Other liabilities:		
Bank note, net of current maturities	50,875,000	55,000,000
Deferred income taxes	24,126,391	23,094,009
Accrued pension benefits	42,256,927	38,428,849
Accrued postretirement benefits	1,495,803	1,609,753
Other liabilities and deferred credits	780,166	936,982
Total other liabilities	119,534,287	119,069,593
Total liabilities	136,550,364	138,875,790
Stockholders' equity:		
Preferred stock	1,961,400	1,985,100
Common stock	11,457,485	11,473,450
Paid in capital	47,422	43,718
Retained earnings	116,605,092	125,142,429
Accumulated other comprehensive loss	(26,063,493)	(23,841,243)
Total stockholders' equity	104,007,906	114,803,454
Total liabilities and stockholders' equity	\$ 240,558,270	\$ 253,679,244

Consolidated Statements of Net Income with Discontinued Operations—Unaudited

Three Months Ended March 31,	2013	2012
Operating revenues:		
Local service	\$ 6,192,317	\$ 6,190,233
Network access	3,973,252	5,357,734
Long distance	918,806	977,263
Miscellaneous	396,806	324,656
Legacy telecom	11,481,181	12,849,886
Broadband	7,363,955	6,056,509
Total wireline	18,845,136	18,906,395
Data center	2,860,860	2,560,066
Advertising and search	829,643	811,253
Total operating revenues	22,535,639	22,277,714
Less uncollectible revenue	441,961	407,528
Net operating revenues	22,093,678	21,870,186
Cost of sales and service:		
General support	1,164,767	1,159,181
Central office	2,365,083	2,930,295
Communication termination	2,555,127	2,535,643
Cable and wire facilities	1,063,410	1,371,989
Network operations	1,834,719	1,930,386
Total cost of sales and service	8,983,106	9,927,494
Gross margin	13,110,572	11,942,692
Depreciation and amortization expense	4,631,036	4,662,764
Selling, general, and administrative expense:		
Customer operations	3,562,069	3,427,695
Corporate operations	1,716,482	1,296,657
Taxes, other than income taxes	318,784	341,557
Total selling, general, and administrative expense	5,597,335	5,065,909
Net operating income	2,882,201	2,214,019
Nonoperating income (expense):		
Interest income	13,959	46,079
Interest expense, net of capitalized interest	(265,733)	(311,682)
Equity in earnings of unconsolidated entities	1,801,001	1,388,710
Net gain on sale of investment securities	-	126,590
Other income (expense), net	(387,535)	(1,516)
Net nonoperating income	1,161,692	1,248,181
Income from continuing operations before income taxes	4,043,893	3,462,200
Income taxes from continuing operations	1,538,214	1,306,737
Income from continuing operations	2,505,679	2,155,463
Discontinued operations:		
Income from operations of discontinued business segment	1,755,374	1,274,428
Income taxes from discontinued operations	678,632	491,343
Income from discontinued operations	1,076,742	783,085
Net income	3,582,421	2,938,548
Preferred stock dividends	-	-
Net income available to common stockholders	\$ 3,582,421	\$ 2,938,548
Earnings per average common share	\$1.56	\$1.28
Weighted average common shares outstanding	2,291,744	2,295,357
Dividends per common share	\$1.30	\$1.30

Consolidated Statements of Comprehensive Income—Unaudited

Three Months Ended March 31,	2013	2012
Net income	\$ 3,582,421	\$ 2,938,548
Other comprehensive income, net of tax:		
Unrealized holding gains arising during the period, net of tax expense in 2013 of \$69,079 and tax expense in 2012 of \$80,873	105,875	123,950
Other comprehensive income, net of tax	105,875	123,950
Comprehensive income	\$ 3,688,296	\$ 3,062,498

Consolidated Statements of Stockholders' Equity—Unaudited

	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income			Total Stockholders' Equity
					Retirement Plans	Marketable Securities	Total	
Three Months Ended March 31								
Balance, January 1, 2012	\$ 1,985,100	\$ 11,478,450	\$ 43,718	\$ 125,264,278	\$ (23,822,385)	\$ (142,808)	\$ (23,965,193)	\$ 114,806,353
Acquisition of stock		(5,000)						(5,000)
Net income				2,938,548				2,938,548
Preferred stock dividends				-				-
Common stock dividends		(2,984,397)		(2,984,397)				(2,984,397)
Acquisition of common stock in excess of stated value				(76,000)				(76,000)
Retirement plans-current adjustment								
Unrealized gain (loss) on marketable securities						123,950	-	123,950
Balance, March 31, 2012	\$ 1,985,100	\$ 11,473,450	\$ 43,718	\$ 125,142,429	\$ (23,822,385)	\$ (18,858)	\$ (23,841,243)	\$ 114,803,454
Balance, January 1, 2013	\$ 1,965,600	\$ 11,463,565	\$ 45,658	\$ 116,084,044	\$ (26,160,721)	\$ (8,647)	\$ (26,169,368)	\$ 103,389,499
Acquisition of stock	(4,200)	(6,080)	1,764	3,582,421				(8,516)
Net income								3,582,421
Preferred stock dividends				-				-
Common stock dividends		(2,980,150)		(2,980,150)				(2,980,150)
Acquisition of common stock in excess of stated value				(81,223)				(81,223)
Retirement plans-current adjustment								
Unrealized gain (loss) on marketable securities						105,875	-	105,875
Balance, March 31, 2013	\$ 1,961,400	\$ 11,457,485	\$ 47,422	\$ 116,605,092	\$ (26,160,721)	\$ 97,228	\$ (26,063,493)	\$ 104,007,906

Consolidated Statements of Cash Flows—Unaudited

Three Months Ended March 31,	2013	2012
Cash flows from operating activities:		
Net income	\$ 3,582,421	\$ 2,938,548
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,908,897	4,943,174
Gain on sale of investment securities	-	(126,590)
Donated land	372,414	-
Loss on sale, disposal, and abandonment of other assets	62,714	157,101
Equity in earnings of unconsolidated entities	(1,801,001)	(1,388,710)
Deferred income taxes	195,736	1,617,290
Deferred pension and postretirement benefits	686,180	520,024
Changes in operating assets and liabilities:		
Accounts receivable	56,248	1,305,822
Inventory	451,423	(1,180,836)
Other assets	(1,131,793)	2,169,904
Accounts payable	(1,845,537)	(3,459,638)
Accrued expenses	939,550	147,237
Other liabilities	960,738	(266,481)
Net cash provided by operating activities	<u>7,437,990</u>	<u>7,376,845</u>
Cash flow from investing activities:		
Additions to property, plant, and equipment	(2,294,616)	(10,135,934)
Cost of removal of telephone plant, net of salvage	3,358	(4,989)
Proceeds from sale of investment securities	-	496,760
Purchases of investment securities	-	(343,516)
Distributions from unconsolidated entities	1,801,255	-
Net cash used in investing activities	<u>(490,003)</u>	<u>(9,987,679)</u>
Cash flows from financing activities:		
Proceeds (repayments) from line of credit, net	(5,500,000)	4,000,000
Loan origination fees	-	(4,210)
Acquisition of preferred stock	(2,436)	-
Acquisition of common stock	(87,303)	(81,000)
Cash dividends paid	(2,980,150)	(2,984,397)
Net cash used in financing activities	<u>(8,569,889)</u>	<u>930,393</u>
Net change in cash and cash equivalents	(1,621,902)	(1,680,441)
Cash and cash equivalents at beginning of year	<u>3,912,196</u>	<u>3,933,244</u>
Cash and cash equivalents at end of period	<u>\$ 2,290,294</u>	<u>\$ 2,252,803</u>
Short term investment securities at end of period	<u>\$ -</u>	<u>\$ 4,609,562</u>
Total cash, cash equivalents, and short term investment securities	<u>\$ 2,290,294</u>	<u>\$ 6,862,365</u>
Supplemental cash flow information:		
Cash payments (refunds) of income taxes	\$ -	\$ (200,000)
Cash paid for interest	\$ 270,894	\$ 291,645

I, Jonathan M. Cage, hereby certify that the accompanying unaudited consolidated balance sheets of North State Telecommunications Corporation and Subsidiaries as of March 31, 2013 and 2012 and the related unaudited consolidated statements of net income, comprehensive income, stockholder's equity, and cash flows for the years 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 26th day of April 2013.



Jonathan M. Cage

Vice President, Chief Financial Officer

BOARD OF DIRECTORS

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Royster Tucker III—Vice Chairman
C. Hayden McKenzie
Jonathan M. Cage
William H. Dula

David L. Harman
Coulson S. Mucher
Sarah M. Olson
Lizbeth W. Privette

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Chairman and
Chief Executive Officer

James D. McCarson
Vice President,
Corporate Administration

Royster Tucker III
Vice Chairman, President
and Chief Operating Officer

W. Mark Dula
Vice President,
Technology and Operations

Jonathan M. Cage
Vice President, Chief Financial Officer

Richard P. Worden
Vice President,
Sales and Marketing

CORPORATE OFFICES

111 North Main Street, High Point, North Carolina 27260

Telephone: (336) 886-3600