

## Summary of Statements of Net Income—Unaudited

Amounts in millions except per share amounts

	Quarter Ended September 30				Nine Months Ended September 30			
	2016	2015	Change	% Change	2016	2015	Change	% Change
Net operating revenue (after uncollectibles):								
Internet and communications	\$19.2	\$18.5	\$0.7	4%	\$57.5	\$55.0	\$2.5	5%
Information technology services and hardware	10.2	8.7	1.5	17%	28.4	18.1	10.3	57%
Net operating revenue	29.4	27.2	2.2	8%	85.9	73.1	12.8	18%
Operating expense:								
Cost of sales and service	14.4	12.9	1.5	12%	40.9	32.0	8.9	28%
Selling, general, and administrative	8.1	7.6	0.5	7%	24.0	21.9	2.1	10%
Depreciation and amortization	5.0	4.9	0.1	2%	14.9	14.4	0.5	4%
Total operating expense	27.5	25.4	2.1	8%	79.8	68.3	11.5	17%
Operating income	1.9	1.8	0.1	5%	6.1	4.8	1.3	27%
Nonoperating income	1.8	1.4	0.4	28%	5.1	5.4	(0.3)	-5%
Income before taxes	3.7	3.2	0.5	15%	11.2	10.2	1.0	10%
Income taxes	1.4	1.2	0.2	16%	4.1	3.8	0.3	8%
Net income	\$2.3	\$2.0	\$0.3	15%	\$7.1	\$6.4	\$0.7	11%
Earnings per share	\$1.04	\$0.89	\$0.15	17%	\$3.13	\$2.80	\$0.33	12%

## Summary of Net Operating Revenue—Unaudited

	Quarter Ended September 30				Nine Months Ended September 30			
	2016	2015	Change	% Change	2016	2015	Change	% Change
<b>TOTAL NET OPERATING REVENUE</b>								
Internet and communications:								
Strategic	\$9.7	\$8.4	\$1.3	15%	\$28.6	\$24.9	\$3.7	15%
Legacy	9.5	10.1	(0.6)	-6%	28.9	30.1	(1.2)	-4%
Total internet and communications	19.2	18.5	0.7	4%	57.5	55.0	2.5	5%
IT services and hardware-strategic	10.2	8.7	1.5	17%	28.4	18.1	10.3	57%
Total net operating revenue	<u>\$29.4</u>	<u>\$27.2</u>	<u>\$2.2</u>	8%	<u>\$85.9</u>	<u>\$73.1</u>	<u>\$12.8</u>	18%
<b>TOTAL BUSINESS &amp; WHOLESALE NOR</b>								
Internet and communications:								
Strategic	\$2.6	\$2.3	\$0.3	13%	\$7.6	\$7.0	\$0.6	8%
Legacy	6.6	6.7	(0.1)	-1%	20.1	20.2	(0.1)	-1%
Total internet and communications	9.2	9.0	0.2	2%	27.7	27.2	0.5	2%
IT services and hardware-strategic	10.2	8.7	1.5	17%	28.4	18.1	10.3	56%
Total net operating revenue	<u>\$19.4</u>	<u>\$17.7</u>	<u>\$1.7</u>	10%	<u>\$56.1</u>	<u>\$45.3</u>	<u>\$10.8</u>	24%
<b>TOTAL CONSUMER NOR</b>								
Internet and communications:								
Strategic	\$7.2	\$6.2	\$1.0	16%	\$21.0	\$17.9	\$3.1	17%
Legacy	2.8	3.3	(0.5)	-15%	8.8	9.9	(1.1)	-11%
Total net operating revenue	<u>\$10.0</u>	<u>\$9.5</u>	<u>\$0.5</u>	5%	<u>\$29.8</u>	<u>\$27.8</u>	<u>\$2.0</u>	7%

## Consolidated Balance Sheets—Unaudited

At September 30,	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,935,888	\$ 2,449,452
Accounts receivable, net of allowance for doubtful accounts	9,304,103	12,374,678
Materials and supplies	2,398,997	2,105,708
Prepayments	1,570,760	1,657,129
Income taxes recoverable	235,759	263,883
Deferred income taxes	683,692	738,922
Total current assets	25,129,199	19,589,772
Property, plant, and equipment	509,182,622	494,881,977
Less accumulated depreciation	359,077,441	342,722,706
Property, plant, and equipment, net	150,105,181	152,159,271
Other assets:		
Investment securities	586,456	4,415,855
Investments in unconsolidated entities	9,930,486	9,185,114
Intangibles, net of amortization	15,551,314	15,135,242
Goodwill	31,794,755	33,808,546
Other noncurrent assets	921,097	1,072,539
Total other assets	58,784,108	63,617,296
Total assets	\$ 234,018,488	\$ 235,366,339
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Revolving credit note	\$ -	\$ 7,500,000
Current maturities of bank note	625,000	5,500,000
Current maturities of capital lease obligations	154,018	142,253
Accounts payable and payroll withholdings	1,934,553	3,272,775
Advance billings and customer deposits	3,632,672	4,204,138
Income taxes payable	-	1,457
Accrued expenses	6,253,438	6,816,982
Accrued taxes	1,245,865	1,143,308
Total current liabilities	13,845,546	28,580,913
Other liabilities:		
Bank note, net of current maturities	48,986,361	37,125,000
Capital lease obligations, net of current maturities	5,834,297	5,988,315
Deferred income taxes	26,845,853	25,132,412
Accrued pension benefits	40,912,459	31,560,270
Accrued postretirement benefits	618,412	525,124
Other liabilities and deferred credits	1,366,456	1,553,680
Total other liabilities	124,563,838	101,884,801
Total liabilities	138,409,384	130,465,714
Stockholders' equity:		
Preferred stock	1,874,600	1,896,600
Common stock	11,346,775	11,370,200
Paid in capital	64,588	55,298
Retained earnings	115,334,911	116,921,812
Accumulated other comprehensive loss	(33,011,770)	(25,343,285)
Total stockholders' equity	95,609,104	104,900,625
Total liabilities and stockholders' equity	\$ 234,018,488	\$ 235,366,339

## Consolidated Statements of Net Income—Unaudited

Nine Months Ended September 30,	2016	2015
Operating revenues:		
Internet and communications:		
Strategic internet and data	\$ 21,065,588	\$ 18,896,826
Strategic entertainment	8,095,774	6,744,026
Legacy voice	25,196,772	25,785,872
Legacy long distance	1,998,043	2,198,009
Legacy advertising and search	1,919,545	2,079,463
Total internet and communications	58,275,722	55,704,196
Information technology services and hardware:		
Strategic telecom and IT equipment	11,165,416	4,591,390
Strategic colocation	8,653,218	8,658,332
Strategic managed and professional services	7,146,751	3,555,168
Strategic UCAAS	1,424,533	1,337,456
Total IT services and hardware	28,389,918	18,142,346
Total operating revenues	86,665,640	73,846,542
Less uncollectible revenue	711,976	694,330
Net operating revenues	85,953,664	73,152,212
Cost of sales and service:		
General support	5,277,925	4,734,444
Central office	6,214,494	6,466,400
Communication termination	19,784,851	12,027,097
Cable and wire facilities	2,421,443	2,645,596
Network operations	7,202,427	6,168,975
Total cost of sales and service	40,901,140	32,042,512
Gross margin	45,052,524	41,109,700
Depreciation and amortization expense		
	14,948,331	14,369,466
Selling, general, and administrative expense:		
Customer operations	14,229,248	13,382,439
Corporate operations	8,620,610	7,485,798
Taxes, other than income taxes	1,127,231	1,034,114
Total selling, general, and administrative expense	23,977,089	21,902,351
Net operating income	6,127,104	4,837,883
Nonoperating income (expense):		
Interest income	21,625	69,400
Interest expense, net of capitalized interest	(1,173,948)	(855,628)
Equity in earnings of unconsolidated entities	6,260,737	6,104,945
Net gain on sale of investment securities	-	9,545
Other income, net	42,585	71,581
Net nonoperating income	5,150,999	5,399,843
Income before income taxes	11,278,103	10,237,726
Income taxes		
	4,122,497	3,810,395
Net income	7,155,606	6,427,331
Preferred stock dividends		
	44,742	45,317
Net income available to common stockholders	\$ 7,110,864	\$ 6,382,014
Earnings per average common share		
	\$3.13	\$2.80
Dividends per common share		
	\$3.90	\$3.90
Weighted average common shares outstanding		
	2,272,004	2,276,408

## Consolidated Statements of Comprehensive Income—Unaudited

Nine Months Ended September 30,	2016	2015
Net income	\$ 7,155,606	\$ 6,427,331
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) arising during the period, net of tax benefit in 2016 of \$13,608 and tax benefit in 2015 of \$82,853	(22,594)	(133,930)
Other comprehensive income (loss), net of tax	(22,594)	(133,930)
Comprehensive income	\$ 7,133,012	\$ 6,293,401

## Consolidated Statements of Stockholders' Equity—Unaudited

Nine Months Ended September 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	(18,600)	(25,625)	1,362					(42,863)
Net income				6,427,331				6,427,331
Preferred stock dividends				(45,317)				(45,317)
Common stock dividends				(8,879,220)				(8,879,220)
Acquisition of common stock in excess of stated value				(326,956)				(326,956)
Unrealized gain (loss) on marketable securities, net of tax						(133,930)	(133,930)	(133,930)
<b>Balance, September 30, 2015</b>	<b>\$ 1,896,600</b>	<b>\$ 11,370,200</b>	<b>\$ 55,298</b>	<b>\$ 116,921,812</b>	<b>\$ (25,616,655)</b>	<b>\$ 273,370</b>	<b>\$ (25,343,285)</b>	<b>\$ 104,900,625</b>
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	(14,000)	(23,425)	5,930					(31,495)
Net income				7,155,606				7,155,606
Preferred stock dividends				(44,742)				(44,742)
Common stock dividends				(8,860,541)				(8,860,541)
Acquisition of common stock in excess of stated value				(212,304)				(212,304)
Unrealized gain (loss) on marketable securities, net of tax						(22,594)	(22,594)	(22,594)
<b>Balance, September 30, 2016</b>	<b>\$ 1,874,600</b>	<b>\$ 11,346,775</b>	<b>\$ 64,588</b>	<b>\$ 115,334,911</b>	<b>\$ (33,011,770)</b>	<b>\$ -</b>	<b>\$ (33,011,770)</b>	<b>\$ 95,609,104</b>

## Consolidated Statements of Cash Flows—Unaudited

Nine Months Ended September 30,	2016	2015
<b>Cash flows from operating activities:</b>		
Net income	\$ 7,155,606	\$ 6,427,331
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,948,331	14,369,466
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	180,570
Equity in earnings of unconsolidated entities	(6,260,737)	(6,104,945)
Deferred income taxes	2,343,077	(1,390,435)
Deferred pension and postretirement benefits	1,846,834	1,041,248
Changes in operating assets and liabilities:		
Accounts receivable	1,743,475	572,919
Materials and supplies	(564,472)	(440,191)
Other assets	5,525,927	4,715,982
Accounts payable and payroll withholdings	(3,135,984)	(3,837,774)
Accrued expenses	687,081	683,746
Other liabilities	(3,180,167)	(2,097,619)
Net cash provided by operating activities	21,295,262	14,110,753
<b>Cash flow from investing activities:</b>		
Additions to property, plant, and equipment	(12,241,701)	(17,297,407)
Cost of removal of telephone plant, net of salvage	5,907	(25,339)
Proceeds from sale of wireless assets-escrow, net	-	2,350,000
Proceeds from sale of investment securities	-	3,685,000
Purchases of investment securities	(1,000)	-
Investment in the assets of Stalwart Systems, LLC, net of assumed liabilities	-	(9,545,426)
Distributions from equity investments	70,020	23,834
Distributions from unconsolidated entities	4,997,030	5,287,555
Net cash provided by (used in) investing activities	(7,169,744)	(15,521,783)
<b>Cash flows from financing activities:</b>		
Proceeds from term loan	50,000,000	-
Principal payments on term loan	(41,250,000)	(4,125,000)
Repayments of line of credit, net of proceeds	(4,500,000)	7,500,000
Principal payments on capital leases	(107,298)	(82,949)
Loan origination fees	(405,536)	(6,272)
Acquisition of preferred stock	(8,070)	(17,238)
Acquisition of common stock	(235,729)	(352,581)
Cash dividends paid	(8,905,283)	(8,924,537)
Net cash used in financing activities	(5,411,916)	(6,008,577)
Net change in cash and cash equivalents	8,713,602	(7,419,607)
Cash and cash equivalents at beginning of period	2,222,286	9,869,059
Cash and cash equivalents at end of period	\$ 10,935,888	\$ 2,449,452
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for (refunds of ) income taxes	\$ (2,355,000)	\$ 2,610,000
Cash paid for interest	\$ 1,047,067	\$ 846,471
<b>Supplemental schedule of noncash investing and financing activities:</b>		
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 September 30, 2016 and 2015 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' equity, and cash flows for the nine 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 the 24<sup>th</sup> day of October 2016.



Jonathan M. Cage  
VP-Chief Financial Officer