

Summary of Statements of Net Income—Unaudited

Amounts in millions except per share amounts

Year Ended December 31,	Quarter Ended December 31,			Year Ended December 31,		
	2016	2015	% Change	2016	2015	% Change
Net operating revenue (after uncollectibles):						
Internet and communications	\$19.3	\$19.1	1%	\$76.9	\$74.1	4%
Information technology services and hardware	14.0	11.2	25%	42.4	29.3	44%
Net operating revenue	33.3	30.3	10%	119.3	103.4	15%
Operating expense:						
Cost of sales and service	18.6	14.9	25%	59.5	46.9	27%
Selling, general, and administrative	8.8	7.8	12%	32.8	29.7	10%
Depreciation and amortization	5.2	5.2	0%	20.1	19.5	3%
Total operating expense	32.6	27.9	17%	112.4	96.1	17%
Operating income	0.7	2.4	-70%	6.9	7.3	-6%
Nonoperating income	0.8	2.0	-59%	5.9	7.5	-19%
Income before taxes	1.5	4.4	-65%	12.8	14.8	-12%
Income taxes	(0.1)	1.0	-110%	4.0	4.9	-17%
Net income	\$1.6	\$3.4	-51%	\$8.8	\$9.9	-10%
Earnings per share	\$0.72	\$1.46	-51%	\$3.85	\$4.27	-10%

Summary of Net Operating Revenue—Unaudited

Year Ended December 31,	Quarters Ended December 31,			Year Ended December 31,		
	2016	2015	% Change	2016	2015	% Change
TOTAL NET OPERATING REVENUE						
Internet and communications:						
Strategic	\$10.0	\$8.7	14%	38.5	33.6	15%
Legacy	9.3	10.4	-10%	38.4	40.5	-5%
Total internet and communications	19.3	19.1	1%	76.9	74.1	4%
IT services and hardware-strategic	14.0	11.2	25%	42.4	29.3	44%
Total net operating revenue	\$33.3	\$30.3	10%	\$119.3	\$103.4	15%
TOTAL BUSINESS & WHOLESALE NOR						
Internet and communications:						
Strategic	\$2.8	\$2.4	17%	10.4	9.4	10%
Legacy	6.6	7.2	-8%	26.8	27.5	-2%
Total internet and communications	9.4	9.6	-2%	37.2	36.9	1%
IT services and hardware-strategic	13.9	11.2	25%	42.3	29.3	44%
Total net operating revenue	\$23.3	\$20.8	12%	\$79.5	\$66.2	20%
TOTAL CONSUMER NOR						
Internet and communications:						
Strategic	\$7.2	\$6.4	13%	28.2	24.2	16%
Legacy	2.8	3.2	-13%	11.6	13.0	-11%
Total net operating revenue	\$10.0	\$9.6	4%	\$39.8	\$37.2	7%

Consolidated Balance Sheets—Unaudited

At December 31,	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,482,117	\$ 2,222,286
Accounts receivable, net of allowance for doubtful accounts	15,001,452	11,172,578
Materials and supplies	2,171,079	1,834,525
Prepayments	2,429,331	1,422,343
Income taxes recoverable	26,335	4,361,585
Deferred income taxes	654,595	458,949
Total current assets	<u>28,764,909</u>	<u>21,472,266</u>
Property, plant, and equipment	512,707,582	500,094,316
Less accumulated depreciation	<u>363,024,470</u>	<u>346,840,571</u>
Property, plant, and equipment, net	<u>149,683,112</u>	<u>153,253,745</u>
Other assets:		
Investment securities	1,969,866	642,883
Investments in unconsolidated entities	9,354,814	8,666,779
Intangibles, net of amortization	15,196,245	16,616,519
Goodwill	31,844,755	31,794,755
Other noncurrent assets	<u>894,516</u>	<u>998,890</u>
Total other assets	<u>59,260,196</u>	<u>58,719,826</u>
Total assets	<u>\$ 237,708,217</u>	<u>\$ 233,445,837</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit note	-	\$ 4,500,000
Current maturities of bank note	1,250,000	2,750,000
Current maturities of capital lease obligations	156,622	145,251
Accounts payable and payroll withholdings	4,780,388	5,200,379
Advance billings and customer deposits	4,610,773	3,502,830
Income taxes payable	717,214	-
Accrued expenses	7,776,852	6,544,433
Accrued taxes	<u>294,030</u>	<u>267,790</u>
Total current liabilities	<u>19,585,879</u>	<u>22,910,683</u>
Other liabilities:		
Bank note, net of current maturities	48,381,638	38,500,000
Capital lease obligations, net of current maturities	5,793,741	5,950,363
Deferred income taxes	24,803,698	24,291,609
Accrued pension benefits	44,832,221	42,183,675
Accrued postretirement benefits	716,073	601,753
Other liabilities and deferred credits	<u>1,334,499</u>	<u>1,382,579</u>
Total other liabilities	<u>125,861,870</u>	<u>112,909,979</u>
Total liabilities	<u>145,447,749</u>	<u>135,820,662</u>
Stockholders' equity:		
Preferred stock	1,873,100	1,888,600
Common stock	11,341,520	11,370,200
Paid in capital	65,218	58,658
Retained earnings	113,950,232	117,296,893
Accumulated other comprehensive loss	<u>(34,969,602)</u>	<u>(32,989,176)</u>
Total stockholders' equity	<u>92,260,468</u>	<u>97,625,175</u>
Total liabilities and stockholders' equity	<u>\$ 237,708,217</u>	<u>\$ 233,445,837</u>

Consolidated Statements of Net Income—Unaudited

Year Ended December 31,	2016	2015
Operating revenues:		
Internet and communications:		
Strategic internet and data	\$ 28,358,191	\$ 25,415,999
Strategic entertainment	10,979,600	9,180,673
Legacy voice	33,267,747	34,828,483
Legacy long distance	2,629,475	2,918,079
Legacy advertising and search	2,641,112	2,710,741
Total internet and communications	77,876,125	75,053,975
Information technology services and hardware:		
Strategic telecom and IT equipment	19,150,963	9,677,541
Strategic colocation	11,613,594	11,693,680
Strategic managed and professional services	9,642,147	6,144,881
Strategic UCAAS	1,922,021	1,808,455
Total IT services and hardware	42,328,725	29,324,557
Total operating revenues	120,204,850	104,378,532
Less uncollectible revenue	952,854	879,303
Net operating revenues	119,251,996	103,499,229
Cost of sales and service:		
General support	7,046,907	6,374,409
Central office	8,599,878	8,722,534
Communication termination	30,845,292	20,043,590
Cable and wire facilities	3,382,999	3,522,492
Network operations	9,631,943	8,275,992
Total cost of sales and service	59,507,019	46,939,017
Gross margin	59,744,977	56,560,212
Depreciation and amortization expense	20,099,658	19,539,088
Selling, general, and administrative expense:		
Customer operations	18,940,712	18,252,477
Corporate operations	12,437,322	10,026,720
Taxes, other than income taxes	1,396,662	1,465,508
Total selling, general, and administrative expense	32,774,696	29,744,705
Net operating income	6,870,623	7,276,419
Nonoperating income (expense):		
Interest income	33,508	82,282
Interest expense, net of capitalized interest	(1,649,461)	(1,231,724)
Equity in earnings of unconsolidated entities	7,544,425	7,968,915
Net gain (loss) on sale of investment securities	-	479,224
Other income (expense), net	42,345	79,205
Net nonoperating income	5,970,817	7,377,902
Income before income taxes	12,841,440	14,654,321
Income taxes	4,017,693	4,850,915
Net income	8,823,747	9,803,406
Preferred stock dividends	89,114	90,059
Net income available to common stockholders	\$ 8,734,633	\$ 9,713,347
Earnings per average common share	\$ 3.85	\$ 4.27
Dividends per common share	\$5.20	\$5.20
Weighted average common shares outstanding	2,271,160	2,275,816

Consolidated Statements of Comprehensive Income—Unaudited

Year Ended December 31,	2016	2015
Net income	\$ 8,823,747	\$ 9,803,406
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) arising during the period, net of tax expense in 2016 of \$493,273 and tax benefit in 2015 of \$24,312.	\$853,935	(38,649)
Reclassification adjustment for realized gains included in net income, net of tax expense in 2015 of \$214,268	-	(346,057)
Retirement plans adjustment, net of tax benefit of \$1,088,463 and \$3,869,662 in 2016 and 2015, respectively	(2,834,361)	(7,395,115)
Other comprehensive income (loss), net of tax	(1,980,427)	(7,779,821)
Comprehensive income (loss)	\$ 6,843,320	\$ 2,023,585

Consolidated Statements of Stockholders' Equity—Unaudited

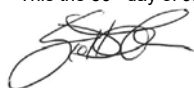
Year Ended December 31,	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income		Total	Total Stockholders' Equity
					Retirement Plans	Marketable Securities		
Balance, January 1, 2015	\$ 1,915,200	\$ 11,395,825	\$ 53,936	\$119,745,974	\$ (25,616,655)	\$ 407,300	\$ (25,209,355)	\$107,901,580
Acquisition of stock	(26,600)	(25,625)	4,722					(47,503)
Net income				9,803,406				9,803,406
Preferred stock dividends				(90,059)				(90,059)
Common stock dividends				(11,835,472)				(11,835,472)
Acquisition of common stock in excess of stated value				(326,956)				(326,956)
Current retirement plans adjustment, net of tax benefit					(7,395,115)		(7,395,115)	(7,395,115)
Reclassification adjustment for realized gains, net of tax expense						(346,057)	(346,057)	(346,057)
Unrealized gain (loss) on marketable securities, net of tax						(38,649)	(38,649)	(38,649)
Balance, December 31, 2015	\$ 1,888,600	\$ 11,370,200	\$ 58,658	\$117,296,893	\$ (33,011,770)	\$ 22,594	\$ (32,989,176)	\$ 97,625,175
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	(15,500)	(28,680)	6,560					(37,620)
Net income				8,823,747				8,823,747
Preferred stock dividends				(89,114)				(89,114)
Common stock dividends				(11,809,337)				(11,809,337)
Acquisition of common stock in excess of stated value				(271,956)				(271,956)
Current retirement plans adjustment, net of tax expense					(2,834,361)		(2,834,361)	(2,834,361)
Unrealized gain (loss) on marketable securities, net of tax						853,935	853,935	853,935
Balance, December 31, 2016	\$ 1,873,100	\$ 11,341,520	\$ 65,218	\$113,950,232	\$ (35,846,131)	\$ 876,529	\$ (34,969,602)	\$ 92,260,468

Consolidated Statements of Cash Flows—Unaudited

Year Ended December 31,	2016	2015
Cash flows from operating activities:		
Net income	\$ 8,823,746	\$ 9,803,405
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,099,657	19,539,088
Change in the allowance for doubtful accounts	(16,350)	-
Loss (gain) on sale of investment securities	-	(479,224)
Loss (gain) on sale, disposal, and abandonment of other assets	(917)	197,576
Equity in earnings of unconsolidated entities	(7,544,425)	(7,968,915)
Deferred income taxes	911,599	2,074,124
Deferred pension and postretirement benefits	2,462,445	1,421,996
Changes in operating assets and liabilities:		
Accounts receivable	(3,812,524)	1,775,019
Materials and supplies	(336,555)	(169,008)
Other assets	4,132,398	(54,377)
Accounts payable and payroll withholdings	687,952	(2,611,478)
Accrued expenses	1,975,874	(465,778)
Other liabilities	(3,712,798)	(2,879,203)
Net cash provided by operating activities	<u>23,670,102</u>	<u>20,183,225</u>
Cash flow from investing activities:		
Additions to property, plant, and equipment	(15,750,390)	(22,244,391)
Cost of removal of telephone plant, net of salvage	(26,478)	(9,905)
Proceeds from sale of wireless assets-escrow, net	-	2,350,000
Proceeds from sale of investment securities	-	7,352,855
Purchases of investment securities	(1,000)	-
Investment in the assets of Stalwart Systems, LLC, net of assumed liabilities	(50,000)	(9,688,634)
Distributions from equity investments	70,020	164,382
Distributions from unconsolidated entities	6,856,390	7,669,860
Net cash provided by (used in) investing activities	<u>(8,901,458)</u>	<u>(14,405,833)</u>
Cash flows from financing activities:		
Proceeds from term loan	50,000,000	-
Principal payments on term loan	(41,250,000)	(5,500,000)
Repayments of line of credit, net of proceeds	(4,500,000)	4,500,000
Principal payments on capital leases	(145,251)	(117,903)
Loan origination fees	(405,536)	(6,272)
Acquisition of preferred stock	(8,940)	(21,878)
Acquisition of common stock	(300,636)	(352,581)
Cash dividends paid	(11,898,450)	(11,925,531)
Net cash used in financing activities	<u>(8,508,813)</u>	<u>(13,424,165)</u>
Net change in cash and cash equivalents	6,259,831	(7,646,773)
Cash and cash equivalents at beginning of period	<u>2,222,286</u>	<u>9,869,059</u>
Cash and cash equivalents at end of period	<u>\$ 8,482,117</u>	<u>\$ 2,222,286</u>
Supplemental disclosure of cash flow information:		
Cash paid for (refunds of) income taxes	<u>\$ (1,945,112)</u>	<u>\$ 4,285,120</u>
Cash paid for interest	<u>\$ 1,533,165</u>	<u>\$ 1,205,099</u>
Supplemental schedule of noncash investing and financing activities:		
Property, plant, and equipment funded by capital lease obligations	<u>\$ -</u>	<u>\$ 6,213,517</u>

I, Scott D. Toth, hereby certify that the accompanying unaudited consolidated balance sheets of North State Telecommunications Corporation and Subsidiaries as of December 31, 2016 and 2015 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' 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 the 30th day of January 2017.



Scott D. Toth
EVP, Chief Financial Officer