

Summary of Statements of Net Income—Unaudited

Amounts in millions except per share amounts

	Third Quarter Ended September 30			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
Net operating revenue (after uncollectibles):						
Internet and communications	\$19.6	\$19.2	2%	59.1	57.6	3%
Information technology services and hardware	10.1	10.3	-1%	28.1	28.4	-1%
Net operating revenue	29.7	29.5	1%	87.2	86.0	1%
Operating expense:						
Cost of sales and service	15.6	14.5	7%	43.6	41.0	7%
Selling, general, and administrative ¹	8.9	8.1	10%	25.8	24.0	8%
Depreciation and amortization	5.2	5.0	4%	15.4	14.9	3%
Total operating expense	29.7	27.6	8%	84.8	79.9	6%
Operating income	-	1.9	-100%	2.4	6.1	-61%
Nonoperating income	1.1	1.8	-43%	3.4	5.2	-35%
Income before taxes	1.1	3.7	-72%	5.8	11.3	-49%
Income taxes	-	1.3	-101%	2.2	4.1	-48%
Net income	<u>\$1.1</u>	<u>\$2.4</u>	-55%	<u>\$3.6</u>	<u>\$7.2</u>	-50%
Earnings per share	\$0.47	\$1.04	-55%	\$1.57	\$3.14	-50%

¹ Includes \$.7 million and \$1.9 million in Q3 2017 and YTD 2017, respectively, for restructuring charges as shown on the detailed income statements.

Summary of Net Operating Revenue—Unaudited

	Third Quarter Ended September 30			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
TOTAL NET OPERATING REVENUE						
Internet and communications:						
Strategic	\$10.5	\$9.8	9%	31.5	28.6	10%
Legacy	9.1	9.4	-5%	27.6	29.0	-5%
Total internet and communications	19.6	19.2	2%	59.1	57.6	3%
IT services and hardware-strategic	10.1	10.3	-1%	28.1	28.4	-1%
Total net operating revenue	<u>\$29.7</u>	<u>\$29.5</u>	1%	<u>\$87.2</u>	<u>\$86.0</u>	1%
TOTAL BUSINESS & WHOLESALE NOR						
Internet and communications:						
Strategic	\$2.8	\$2.6	9%	8.3	7.6	9%
Legacy	6.4	6.7	-5%	19.5	20.2	-3%
Total internet and communications	9.2	9.3	-1%	27.8	27.8	0%
IT services and hardware-strategic	10.1	10.2	-1%	28.1	28.4	-1%
Total net operating revenue	<u>\$19.3</u>	<u>\$19.5</u>	-1%	<u>\$55.9</u>	<u>\$56.2</u>	0%
TOTAL CONSUMER NOR						
Internet and communications:						
Strategic	\$7.8	\$7.2	9%	23.2	21.0	10%
Legacy	2.6	2.8	-5%	8.1	8.8	-8%
Total net operating revenue	<u>\$10.4</u>	<u>\$10.0</u>	5%	<u>\$31.3</u>	<u>\$29.8</u>	5%

Consolidated Balance Sheets—Unaudited

At September 30,	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,169,210	\$ 10,935,888
Accounts receivable, net of allowance for doubtful accounts	9,106,515	9,304,103
Materials and supplies	2,447,549	2,398,997
Prepayments	2,204,554	1,570,760
Income taxes recoverable	864,303	235,759
Total current assets	22,792,131	24,445,507
Property, plant, and equipment	525,078,027	509,182,622
Less accumulated depreciation	375,489,959	359,077,441
Property, plant, and equipment, net	149,588,068	150,105,181
Other assets:		
Investment securities	1,983,801	586,456
Investments in unconsolidated entities	9,284,519	9,930,486
Intangibles, net of amortization	13,581,040	15,551,314
Goodwill	31,844,755	31,794,755
Other noncurrent assets	788,901	921,097
Total other assets	57,483,016	58,784,108
Total assets	\$ 229,863,215	\$ 233,334,796
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of bank note	2,500,000	625,000
Current maturities of capital lease obligations	165,708	154,018
Accounts payable and payroll withholdings	2,460,496	1,934,553
Advance billings and customer deposits	4,013,538	3,632,672
Accrued expenses	8,845,563	6,253,438
Accrued taxes	1,164,829	1,245,865
Total current liabilities	19,150,134	13,845,546
Other liabilities:		
Bank note, net of current maturities	46,567,468	48,986,361
Capital lease obligations, net of current maturities	5,668,588	5,834,297
Deferred income taxes	25,879,937	26,162,161
Accrued pension benefits	43,778,762	40,912,459
Accrued postretirement benefits	757,516	618,412
Other liabilities and deferred credits	1,319,368	1,366,456
Total other liabilities	123,971,639	123,880,146
Total liabilities	143,121,773	137,725,692
Stockholders' equity:		
Preferred stock	1,856,700	1,874,600
Common stock	11,323,415	11,346,775
Paid in capital	72,356	64,588
Retained earnings	108,458,573	115,334,911
Accumulated other comprehensive loss	(34,969,602)	(33,011,770)
Total stockholders' equity	86,741,442	95,609,104
Total liabilities and stockholders' equity	\$ 229,863,215	\$ 233,334,796

Consolidated Statements of Net Income—Unaudited

Nine Months Ended September 30,	2017	2016
Operating revenues:		
Internet and communications:		
Strategic internet and data	\$ 22,667,725	\$ 21,065,588
Strategic entertainment	9,358,383	8,095,774
Legacy voice	23,751,672	25,196,772
Legacy long distance	1,705,301	1,998,043
Legacy advertising and search	2,048,794	1,919,545
Total internet and communications	59,531,875	58,275,722
Information technology services and hardware:		
Strategic telecom and IT equipment	10,485,248	11,165,416
Strategic colocation	8,887,265	8,653,218
Strategic managed and professional services	7,101,195	7,146,751
Strategic UCAAS	1,622,971	1,424,534
Total IT services and hardware	28,096,679	28,389,919
Total operating revenues	87,628,554	86,665,641
Less uncollectible revenue	471,940	711,976
Net operating revenues	87,156,614	85,953,665
Cost of sales and service:		
General support	6,165,334	5,277,925
Central office	6,669,084	6,214,494
Communication termination	21,351,094	19,784,851
Cable and wire facilities	2,722,474	2,421,443
Network operations	6,703,420	7,202,427
Total cost of sales and service	43,611,406	40,901,140
Gross margin	43,545,208	45,052,525
Depreciation and amortization expense		
	15,355,982	14,948,331
Selling, general, and administrative expense:		
Customer operations	14,011,204	14,229,248
Corporate operations	8,847,952	8,620,610
Restructuring Charges ¹	1,888,857	-
Taxes, other than income taxes	1,034,098	1,127,231
Total selling, general, and administrative expense	25,782,111	23,977,089
Net operating income	2,407,115	6,127,105
Nonoperating income (expense):		
Interest income	51,342	21,625
Interest expense, net of capitalized interest	(1,404,777)	(1,173,948)
Equity in earnings of unconsolidated entities	4,665,262	6,260,737
Other income (expense), net	48,118	42,585
Net nonoperating income	3,359,945	5,150,999
Income before income taxes	5,767,060	11,278,104
Income taxes		
Net income	3,611,099	7,155,607
Preferred stock dividends		
	44,034	44,742
Net income available to common stockholders	\$ 3,567,065	\$ 7,110,865
Earnings per average common share		
	\$ 1.57	\$ 3.14
Dividends per common share		
	\$3.90	\$3.90
Weighted average common shares outstanding		
	2,265,979	2,272,004
Operating income margin		
	2.8%	7.1%
Operating expense, including depreciation/amortization		
	\$ 84,749,499	\$ 79,826,560
Operating expense, excluding depreciation/amortization		
	\$ 69,393,517	\$ 64,878,229
OIBITDA		
	\$ 17,763,097	\$ 21,075,436
OIBITDA margin		
	20.4%	24.5%
EBITDA		
	\$ 22,527,819	\$ 27,400,383
EBITDA margin		
	25.8%	31.9%

¹ Restructuring charges are primarily related to severance, legal expense and writeoff of an intangible (trade name).

Consolidated Statements of Comprehensive Income—Unaudited

Nine Months Ended September 30,	2017	2016
Net income	<u>\$ 3,611,099</u>	<u>\$ 7,155,607</u>
Other comprehensive income (loss), net of tax:		
Unrealized holding loss arising during the period, net of tax benefit in 2016 of \$13,608.	-	(22,594)
Comprehensive income (loss)	<u>\$ 3,611,099</u>	<u>\$ 7,133,013</u>

Consolidated Statements of Stockholders' Equity—Unaudited

Nine Months Ended September 30,	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Accumulated Retirement Plans	Other Marketable Securities	Comprehensive Income Total	Total Stockholders' Equity
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						-22594	-22594	-22594
Balance, September 30, 2016	1,874,600	11,346,775	64,588	115,334,911	(33,011,770)	-	(33,011,770)	95,609,104
Balance, January 1, 2017	1,873,100	11,341,520	65,218	113950232	-35846131	876529	-34969602	92,260,468
Acquisition of stock	-16400	-18105	7138					(27,367)
Net income				3,611,099				3,611,099
Preferred stock dividends				(44,034)				(44,034)
Common stock dividends				(8,838,703)				(8,838,703)
Acquisition of common stock in excess of stated value				-220021				-220021
Balance, September 30, 2017	\$ 1,856,700	\$ 11,323,415	\$ 72,356	\$108,458,573	\$ (35,846,131)	\$ 876,529	\$ (34,969,602)	\$ 86,741,442

Consolidated Statements of Cash Flows—Unaudited

Nine Months Ended September 30,	2017	2016
Cash flows from operating activities:		
Net income	\$ 3,611,099	\$ 7,155,606
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,355,982	14,948,331
Change in the allowance for doubtful accounts	-	125,000
Loss (gain) on sale, disposal, and abandonment of other assets	-	61,291
Equity in earnings of unconsolidated entities	(4,665,262)	(6,260,737)
Deferred income taxes	1,730,834	2,343,077
Deferred pension and postretirement benefits	1,953,543	1,846,834
Writedown of intangible, included in restructuring charges	550,000	-
Changes in operating assets and liabilities:		
Accounts receivable	5,894,936	1,743,475
Materials and supplies	(276,470)	(564,472)
Other assets	(419,742)	5,525,927
Accounts payable and payroll withholdings	(2,917,128)	(3,135,984)
Accrued expenses	1,222,295	687,081
Other liabilities	(3,003,932)	(3,180,167)
Net cash provided by operating activities	19,036,155	21,295,262
Cash flow from investing activities:		
Additions to property, plant, and equipment	(14,183,052)	(12,241,701)
Cost of removal of telephone plant, net of salvage	(16,444)	5,907
Purchases of investment securities	(13,934)	(1,000)
Distributions from equity investments	-	70,020
Distributions from unconsolidated entities	4,735,558	4,997,030
Net cash provided by (used in) investing activities	(9,477,872)	(7,169,744)
Cash flows from financing activities:		
Proceeds from term loan	-	50,000,000
Principal payments on term loan	(625,000)	(41,250,000)
Repayments of line of credit, net of proceeds	-	(4,500,000)
Principal payments on capital leases	(116,066)	(107,298)
Loan origination fees	-	(405,536)
Acquisition of preferred stock	(9,262)	(8,070)
Acquisition of common stock	(238,126)	(235,729)
Cash dividends paid	(8,882,737)	(8,905,283)
Net cash used in financing activities	(9,871,191)	(5,411,916)
Net change in cash and cash equivalents	(312,908)	8,713,602
Cash and cash equivalents at beginning of period	8,482,117	2,222,286
Cash and cash equivalents at end of period	\$ 8,169,209	\$ 10,935,888
Supplemental disclosure of cash flow information:		
Cash paid for (refunds of) income taxes	\$ 1,939,020	\$ (2,355,000)
Cash paid for interest	\$ 1,356,585	\$ 1,047,067

I, Scott D. Toth, hereby certify that the accompanying unaudited consolidated balance sheets of North State Telecommunications Corporation and Subsidiaries as of [September 30, 2017 and 2016](#) 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 which are subject to internal accounting controls and internal review procedures.

This the [24th day of October 2017](#).



Scott D. Toth
EVP, Chief Financial Officer