Summary of Statements of Net Income–Unaudited

Amounts in millions except per share amounts

Twelve Months Ended December 31,	Fourth Quarter Ended December 31 2017	2016	% Change	Twelve Months Ended December 31, 2017	2016	% Change
Net operating revenue (after uncollectibles):						
Internet and communications	$20.0	$19.4	3.1%	79.0	77.0	2.7%
Information technology services and hardware	16.3	13.9	17.5%	44.5	42.3	5.1%
Net operating revenue	36.3	33.3	9.1%	123.5	119.3	3.6%
Operating expense:						
Cost of sales and service	19.8	18.6	6.6%	63.5	59.5	6.6%
Selling, general, and administrative[1]	9.6	8.8	9.6%	35.4	32.8	8.1%
Depreciation and amortization	5.7	5.2	9.9%	21.0	20.1	4.6%
Total operating expense	35.1	32.6	7.9%	119.9	112.4	6.7%
Operating income	1.2	0.7	61.3%	3.6	6.9	-47.5%
Nonoperating income	1.3	0.9	62.3%	4.7	6.0	-21.4%
Income before taxes	2.5	1.6	61.9%	8.3	12.9	-35.4%
Income tax expense (benefit)[2]	(16.1)	(0.1)	NM	(13.9)	4.0	NM
Net income	$18.6	$1.7	NM	$22.2	$8.9	NM
Earnings per share	$8.18	$0.72	NM	$9.75	$3.85	NM

[1] Includes $0.0 million and $1.9 million in Q4 2017 and YTD 2017, respectively, for restructuring charges as shown on the detailed income statements.

[2] Includes a $16.7 million deferred tax liability remeasurement adjustment in Q4 2017 and YTD 2017.

Summary of Net Operating Revenue–Unaudited

Twelve Months Ended December 31,	Fourth Quarter Ended December 31 2017	2016	% Change	Twelve Months Ended December 31, 2017	2016	% Change
TOTAL NET OPERATING REVENUE						
Internet and communications:						
Strategic	$10.7	$10.1	8.0%	42.3	38.5	9.5%
Legacy	9.3	9.3	-2.1%	36.7	38.5	-4.1%
Total internet and communications	20.0	19.4	3.1%	79.0	77.0	2.7%
IT services and hardware-strategic	16.3	13.9	17.5%	44.5	42.3	5.1%
Total net operating revenue	$36.3	$33.3	9.1%	$123.5	$119.3	3.6%
TOTAL BUSINESS & WHOLESALE NOR						
Internet and communications:						
Strategic	$2.9	$2.8	2.9%	11.2	10.4	7.5%
Legacy	6.4	6.6	-1.4%	26.0	26.8	-2.7%
Total internet and communications	9.3	9.4	-0.2%	37.2	37.2	0.1%
IT services and hardware-strategic	16.4	13.9	17.5%	44.5	42.3	5.1%
Total net operating revenue	$25.7	$23.3	10.4%	$81.7	$79.5	2.8%
TOTAL CONSUMER NOR						
Internet and communications:						
Strategic	$7.9	$7.2	10.0%	31.1	28.2	10.3%
Legacy	2.7	2.8	-3.6%	10.7	11.6	-7.3%
Total net operating revenue	$10.6	$10.0	6.2%	$41.8	$39.8	5.1%

Consolidated Balance Sheets–Unaudited

At December 31,	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 5,931,875	$ 8,482,117
Accounts receivable, net of allowance for doubtful accounts	16,607,693	15,001,452
Materials and supplies	1,786,828	2,171,079
Prepayments	2,598,887	2,429,331
Income taxes recoverable	2,852,014	26,335
Total current assets	29,777,297	28,110,314
Property, plant, and equipment	534,551,083	512,707,582
Less accumulated depreciation	379,073,070	363,024,470
Property, plant, and equipment, net	155,478,013	149,683,112
Other assets:		
Investment securities	2,110,661	1,969,866
Investments in unconsolidated entities	9,777,792	9,354,814
Intangibles, net of amortization	13,225,971	15,196,245
Goodwill	31,544,755	31,844,755
Other noncurrent assets	740,947	894,516
Total other assets	57,400,126	59,260,196
Total assets	$ 242,655,436	$ 237,053,622
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit note	$ 9,000,000	-
Current maturities of bank note	2,500,000	1,250,000
Current maturities of capital lease obligations	168,842	156,622
Accounts payable and payroll withholdings	8,785,035	4,780,388
Advance billings and customer deposits	3,622,738	4,610,773
Income taxes payable	106,329	717,214
Accrued expenses	7,863,996	7,776,852
Accrued taxes	415,218	294,030
Total current liabilities	32,462,158	19,585,879
Other liabilities:		
Bank note, net of current maturities	45,962,745	48,381,638
Capital lease obligations, net of current maturities	5,624,900	5,793,741
Deferred income taxes	19,128,952	24,149,103
Accrued pension benefits	37,548,165	44,832,221
Accrued postretirement benefits	863,647	716,073
Other liabilities and deferred credits	953,517	1,334,499
Total other liabilities	110,081,926	125,207,275
Total liabilities	142,544,084	144,793,154
Stockholders' equity:		
Preferred stock	1,856,700	1,873,100
Common stock	11,323,415	11,341,520
Paid in capital	72,356	65,218
Retained earnings	124,039,393	113,950,232
Accumulated other comprehensive loss	(37,180,512)	(34,969,602)
Total stockholders' equity	100,111,352	92,260,468
Total liabilities and stockholders' equity	$ 242,655,436	$ 237,053,622

Consolidated Statements of Net Income–Unaudited

Twelve Months Ended December 31,	2017	2016
Operating revenues:		
Internet and communications:		
Strategic internet and data	$ 30,201,389	$ 28,358,191
Strategic entertainment	12,783,322	10,979,600
Legacy voice	31,467,613	33,267,747
Legacy long distance	2,248,043	2,629,475
Legacy advertising and search	2,712,558	2,641,112
Total internet and communications	79,412,925	77,876,125
Information technology services and hardware:		
Strategic telecom and IT equipment	20,655,913	19,150,963
Strategic colocation	12,015,437	11,613,594
Strategic managed and professional services	9,680,874	9,642,147
Strategic UCAAS	2,226,343	1,922,021
Total IT services and hardware	44,578,567	42,328,725
Total operating revenues	123,991,492	120,204,850
Less uncollectible revenue	493,294	952,854
Net operating revenues	123,498,198	119,251,996
Cost of sales and service:		
General support	8,425,573	7,046,907
Central office	8,755,666	8,599,878
Communication termination	34,088,014	30,845,292
Cable and wire facilities	3,500,747	3,382,999
Network operations	8,673,943	9,631,943
Total cost of sales and service	63,443,943	59,507,019
Gross margin	60,054,255	59,744,977
Depreciation and amortization expense	21,019,367	20,099,658
Selling, general, and administrative expense:		
Customer operations	19,651,047	18,940,712
Corporate operations	12,246,614	12,437,322
Restructuring Charges[1]	1,888,857	-
Taxes, other than income taxes	1,641,792	1,396,662
Total selling, general, and administrative expense	35,428,310	32,774,696
Net operating income	3,606,578	6,870,623
Nonoperating income (expense):		
Interest income	55,697	33,508
Interest expense, net of capitalized interest	(1,907,732)	(1,649,461)
Equity in earnings of unconsolidated entities	6,494,950	7,544,425
Other income (expense), net	47,878	42,345
Net nonoperating income	4,690,793	5,970,817
Income before income taxes	8,297,371	12,841,440
Income tax expense (benefit)[2]	(13,882,596)	4,017,693
Net income	22,179,967	8,823,747
Preferred stock dividends	87,994	89,114
Net income available to common stockholders	$ 22,091,973	$ 8,734,633
Earnings per average common share	$ 9.75	$ 3.85
Dividends per common share	$ 5.20	$ 5.20
Weighted average common shares outstanding	2,265,655	2,271,160
Operating income margin	2.9%	5.8%
Operating expense, including depreciation/amortization	$ 119,891,620	$ 112,381,373
Operating expense, excluding depreciation/amortization	$ 98,872,253	$ 92,281,715
OIBITDA	$ 24,625,945	$ 26,970,281
OIBITDA margin	19.9%	22.6%
EBITDA	$ 31,224,470	$ 34,590,559
EBITDA margin	25.3%	29.0%

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

[2] Includes a $16.7 million deferred tax liability remeasurement.

Consolidated Statements of Comprehensive Income–Unaudited

Twelve Months Ended December 31,	2017	2016
Net income	$ 22,179,967	$ 8,823,747
Other comprehensive income (loss), net of tax:		
Unrealized holding gain arising during the period, inclusive of net tax benefit in 2017 of $143,799 and net of tax expense of $493,273 in 2016	$270,659	853,935
Retirement plans adjustment, net of net tax expense of $8,361,529 in 2017 and net of tax benefit of $1,088,463 in 2016	(2,481,569)	(2,834,361)
Other comprehensive income (loss), net of tax	(2,210,911)	(1,980,427)
Comprehensive income (loss)	$ 19,969,057	$ 6,843,320

Consolidated Statements of Stockholders' Equity–Unaudited

Twelve Months Ended December 31,	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income: Retirement Plans	Accumulated Other Comprehensive Income: Marketable Securities	Accumulated Other 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	(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 benefit					(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
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	(16,400)	(18,105)	7,138					(27,367)
Net income				22,179,967				22,179,967
Preferred stock dividends				(87,994)				(87,994)
Common stock dividends				(11,782,791)				(11,782,791)
Acquisition of common stock in excess of stated value				(220,021)				(220,021)
Current retirement plans adjustment, net of net tax expense					(2,481,569)		(2,481,569)	(2,481,569)
Unrealized gain (loss) on marketable securities, inclusive of net of tax benefit						$270,659	270,659	270,659
Balance, December 31, 2017	$ 1,856,700	$ 11,323,415	$ 72,356	$124,039,393	$ (38,327,700)	$ 1,147,188	$ (37,180,512)	$100,111,352

Consolidated Statements of Cash Flows–Unaudited

Twelve Months Ended December 31,	2017	2016
Cash flows from operating activities:		
Net income	$ 22,179,967	$ 8,823,746
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,019,367	20,099,657
Change in the allowance for doubtful accounts	(52,000)	(16,350)
Loss (gain) on sale, disposal, and abandonment of other assets	-	(917)
Equity in earnings of unconsolidated entities	(6,494,950)	(7,544,425)
Deferred income taxes	(13,240,188)	911,599
Deferred pension and postretirement benefits	2,417,033	2,462,445
Writedown of intangible, included in restructuring charges	550,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,554,241)	(3,812,524)
Materials and supplies	384,252	(336,555)
Other assets	(2,913,895)	4,132,398
Accounts payable and payroll withholdings	3,016,612	687,952
Accrued expenses	(402,553)	1,975,874
Other liabilities	(3,714,969)	(3,712,802)
Net cash provided by operating activities	21,194,435	23,670,098
Cash flow from investing activities:		
Additions to property, plant, and equipment	(25,054,663)	(15,750,390)
Cost of removal of telephone plant, net of salvage	(223,258)	(26,478)
Purchases of investment securities	(13,934)	(1,000)
Investment in the assets of Stalwart Systems, LLC, net of assumed liabilitie	-	(50,000)
Distributions from equity investments	-	70,020
Distributions from unconsolidated entities	6,071,973	6,856,390
Net cash provided by (used in) investing activities	(19,219,882)	(8,901,458)
Cash flows from financing activities:		
Proceeds from term loan	-	50,000,000
Principal payments on term loan	(1,250,000)	(41,250,000)
Repayments of line of credit, net of proceeds	9,000,000	(4,500,000)
Principal payments on capital leases	(156,622)	(145,251)
Loan origination fees	-	(405,536)
Acquisition of preferred stock	(9,262)	(8,940)
Acquisition of common stock	(238,126)	(300,636)
Cash dividends paid	(11,870,785)	(11,898,450)
Net cash used in financing activities	(4,524,795)	(8,508,813)
Net change in cash and cash equivalents	(2,550,242)	6,259,827
Cash and cash equivalents at beginning of period	8,482,117	2,222,290
Cash and cash equivalents at end of period	$ 5,931,875	$ 8,482,117
Supplemental disclosure of cash flow information:		
Cash paid for (refunds of) income taxes	$ 2,791,849	$ (1,945,112)
Cash paid for interest	$ 1,821,586	$ 1,533,165

I, Scott D. Toth, hereby certify that the accompanying unaudited consolidated balance sheets of North State Telecommunications Corporation and Subsidiaries as of December 31, 2017 and 2016 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' equity, and cash flows for the twelve 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 28th day of January 2018.

Scott D. Toth
EVP, Chief Financial Officer