

## Summary of Consolidated Statements of Net Income—Unaudited

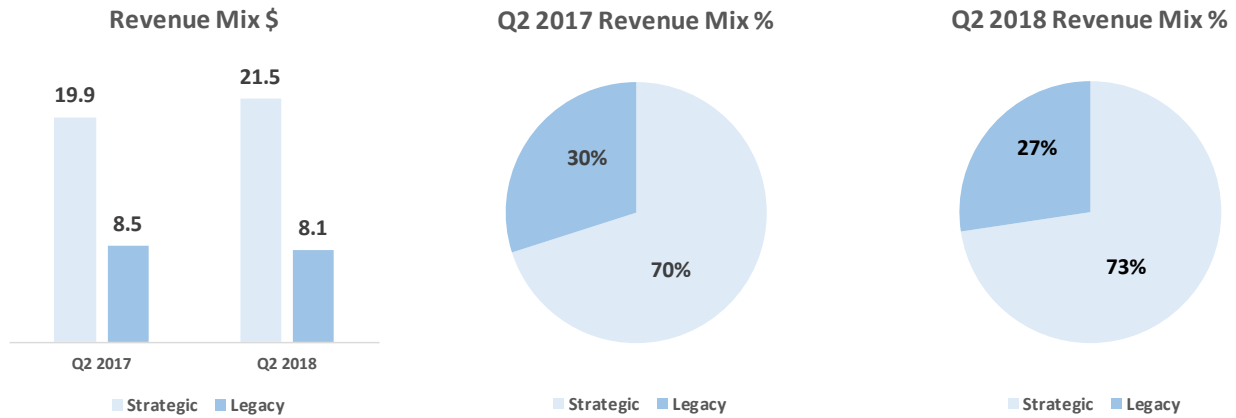
	For the Quarter Ended June 30,				For the Six Months Ended June 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
<b>Operating revenue</b>								
Internet & communications	\$ 20.0	\$ 20.0	\$ 0.0	0.0%	\$ 40.2	\$ 39.7	\$ 0.6	1.4%
IT Services & Hardware	9.8	8.6	1.3	15.1%	20.0	18.0	2.0	11.2%
Uncollectible revenue	(0.2)	(0.2)	(0.1)	33.5%	(0.5)	(0.2)	(0.3)	NM
<b>Net operating revenue</b>	<u>29.6</u>	<u>28.3</u>	<u>1.2</u>	<u>4.4%</u>	<u>59.7</u>	<u>57.4</u>	<u>2.3</u>	<u>4.0%</u>
<b>Operating expenses</b>								
Cost of goods and services	16.2	14.5	1.7	11.7%	31.0	28.2	2.8	10.0%
Selling, general, and administrative	8.6	7.8	0.9	11.2%	17.8	15.7	2.1	13.6%
Restructuring charges	-	1.2	(1.2)	NM	-	1.2	(1.2)	NM
Depreciation and amortization	5.3	5.1	0.2	4.3%	10.6	10.1	0.5	4.5%
<b>Total Operating Expense</b>	<u>30.1</u>	<u>28.6</u>	<u>1.6</u>	<u>5.4%</u>	<u>59.4</u>	<u>55.2</u>	<u>4.2</u>	<u>7.6%</u>
<b>Operating Income</b>	<u>(0.5)</u>	<u>(0.2)</u>	<u>(0.3)</u>	<u>NM</u>	<u>0.3</u>	<u>2.2</u>	<u>(1.9)</u>	<u>NM</u>
Net Nonoperating income (expense)	1.9	1.2	0.7	52.9%	3.1	2.3	0.8	32.9%
<b>Income before income taxes</b>	<u>1.3</u>	<u>1.0</u>	<u>0.3</u>	<u>32.9%</u>	<u>3.4</u>	<u>4.5</u>	<u>(1.1)</u>	<u>-25.1%</u>
Income Taxes	0.3	0.8	(0.5)	-60.1%	0.8	2.1	(1.3)	-61.5%
Preferred stock dividends	0.0	0.0	(0.0)	-0.3%	0.0	0.0	(0.0)	-0.3%
<b>Net income (loss) available to common shareholders</b>	<u>\$ 1.0</u>	<u>\$ 0.2</u>	<u>\$ 0.8</u>	<u>NM</u>	<u>\$ 2.5</u>	<u>\$ 2.4</u>	<u>\$ 0.2</u>	<u>6.5%</u>
<b>EPS</b>	<u>\$ 0.43</u>	<u>\$ 0.07</u>			<u>\$ 1.12</u>	<u>\$ 1.05</u>		

See attached footnotes.

Certain amounts have been reclassified to conform to the current period presentation.

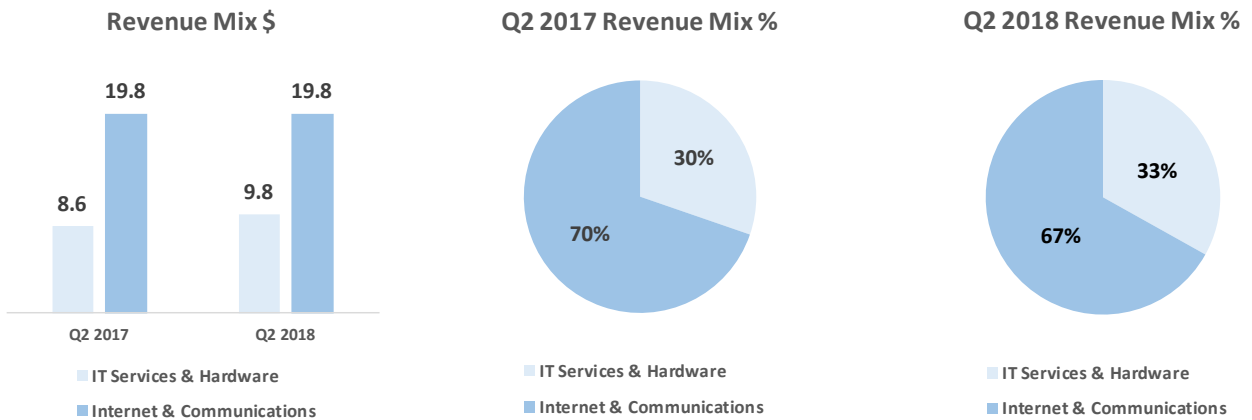
## Summary of Net Operating Revenue—Unaudited For the Three Months Ended June 30,

### Net Operating Revenue by Strategic vs. Legacy

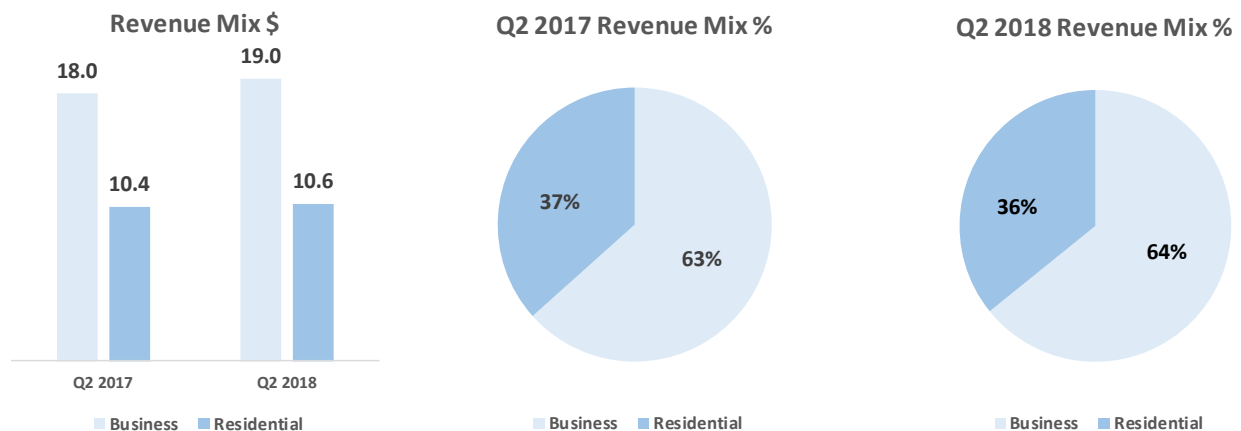


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

### Net Operating Revenue by Product Segment



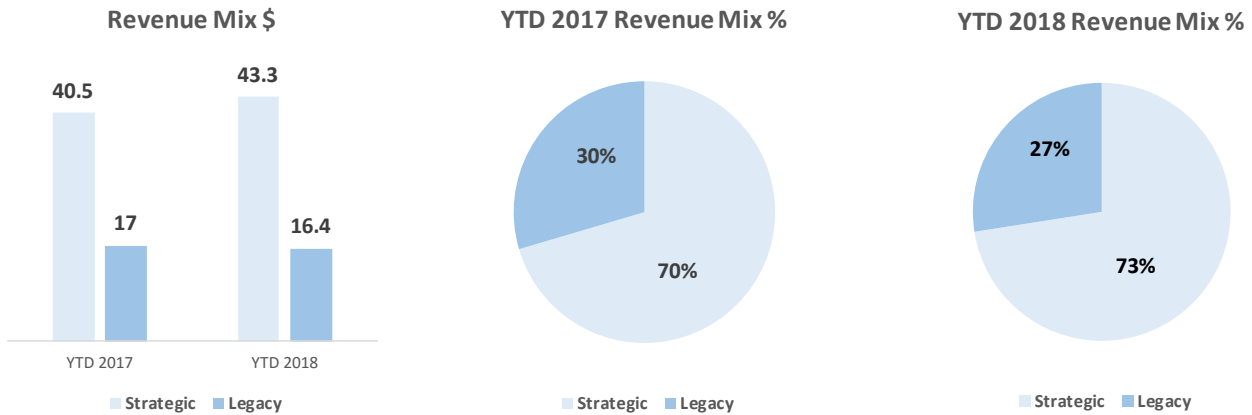
### Net Operating Revenue by Customer Segment



All dollar amounts in millions

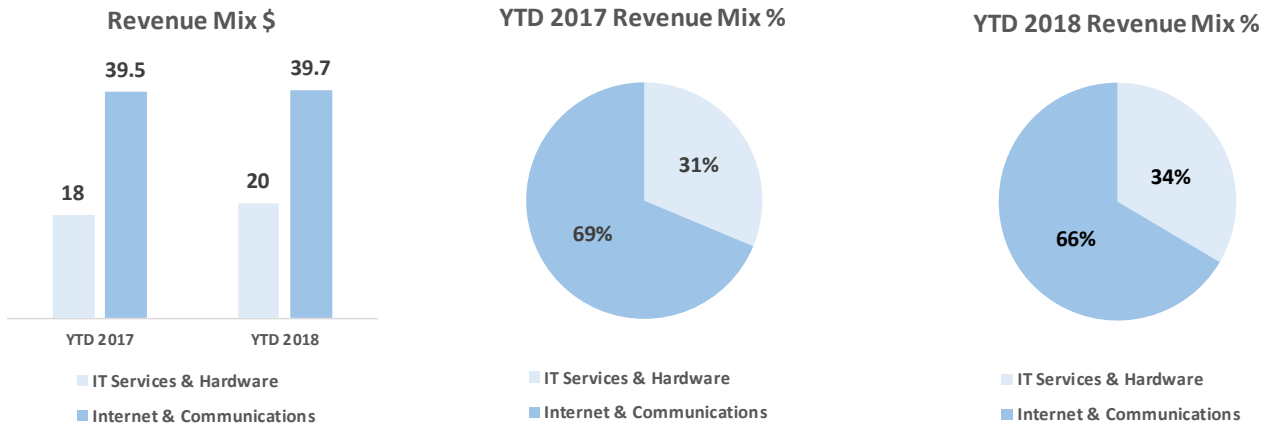
## Summary of Net Operating Revenue—Unaudited For the Six Months Ended June 30,

### Net Operating Revenue by Strategic vs. Legacy

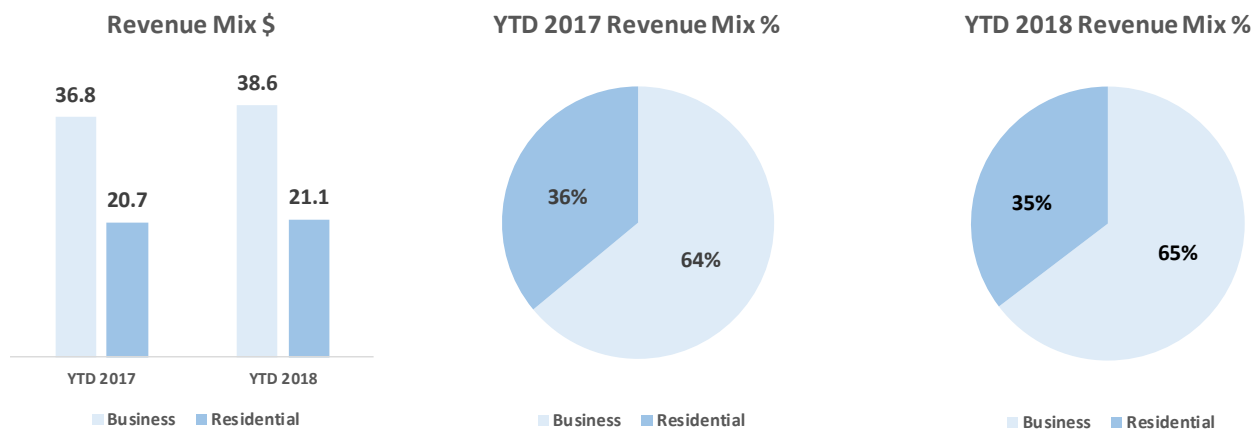


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

### Net Operating Revenue by Product Segment



### Net Operating Revenue by Customer Segment



All dollar amounts in millions

## Consolidated Balance Sheets—Unaudited

At June 30,	2018	2017	Change	% Change
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ 1,209,617	\$ 7,814,448	\$ (6,604,830)	-84.5%
Accounts receivable	12,477,541	9,544,825	2,932,716	30.7%
Materials and supplies	1,599,785	2,514,574	(914,789)	-36.4%
Prepayments	2,800,499	2,809,755	(9,256)	-0.3%
Income tax recoverable	1,634,727	364,757	1,269,970	NM
Total Current Assets	19,722,169	23,048,359	(3,326,190)	-14.4%
Property, plant and equipment				
Under construction	3,794,814	398,383	3,396,431	NM
In service	538,416,804	520,642,201	17,774,603	3.41%
Total Property, Plant and Equipment	542,211,617	521,040,584	21,171,034	4.06%
Less accumulated depreciation & amortization	(388,466,848)	(371,157,942)	(17,308,906)	4.66%
Property, plant and equipment, net	153,744,769	149,882,641	3,862,128	2.58%
Other assets				
Investment securities	2,110,661	1,983,801	126,860	6.39%
Investment in unconsolidated subsidiaries	9,790,795	9,711,848	78,947	0.81%
Intangibles, net of amortization	12,577,748	14,486,108	(1,908,361)	-13.17%
Goodwill	31,244,755	31,844,755	(600,000)	-1.88%
Other non-current assets	5,319,226	5,919,337	(600,111)	-10.14%
Total other assets	61,043,184	63,945,849	(2,902,665)	-4.54%
<b>Total Assets</b>	<b>\$ 234,510,123</b>	<b>\$ 236,876,850</b>	<b>\$ (2,366,727)</b>	<b>-1.00%</b>
<b>Liabilities and Equity</b>				
Current liabilities				
Revolving credit note	\$ 6,500,000	-	\$ 6,500,000	
Current maturities of long term debt	2,500,000	2,500,000	-	-
Current maturities of capital lease obligations	175,287	162,600	12,686	7.80%
Accounts payable and payroll withholdings	1,521,366	2,181,248	(659,882)	-30.25%
Advanced billings and customer deposits	4,600,910	4,382,948	217,962	4.97%
Income taxes payable	(16,000)	-	(16,000)	
Accrued expenses	8,309,829	7,041,594	1,268,235	18.01%
Accrued taxes, other than income	790,746	851,072	(60,327)	-7.09%
Total current liabilities	24,382,137	17,119,462	7,262,675	42.42%
Other liabilities				
Bank note, net of current maturities	44,753,299	47,172,192	(2,418,893)	-5.13%
Capital Lease Obligations, net of current maturities	5,535,028	5,710,315	(175,287)	-3.07%
Deferred income taxes	20,960,686	26,898,415	(5,937,728)	-22.07%
Accrued pension benefits	37,136,760	45,542,548	(8,405,789)	-18.46%
Accrued post retirement life insurance benefits	888,428	743,716	144,712	19.46%
Other deferred credits	1,920,450	2,609,385	(688,936)	-26.40%
Total other liabilities	111,194,651	128,676,571	(17,481,920)	-13.59%
Stockholders' equity				
Preferred Stock	1,853,200	1,860,200	(7,000)	-0.38%
Common stock	11,318,955	11,323,865	(4,910)	-0.04%
Paid in capital	73,876	70,636	3,240	4.59%
Unrealized appreciation of securities, net of tax	1,156,318	885,659	270,659	30.56%
Retirement plans adjustments, net of tax	(38,336,830)	(35,855,261)	(2,481,569)	6.92%
Retained earnings	120,282,651	110,365,681	9,916,969	8.99%
Current earnings	2,585,166	2,430,036	155,129	6.38%
Total Stockholders' Equity	98,933,335	91,080,817	7,852,518	8.62%
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 234,510,123</b>	<b>\$ 236,876,850</b>	<b>\$ (2,366,727)</b>	<b>-1.00%</b>

See attached footnotes.

Certain amounts have been reclassified to conform to the current period presentation.

## Consolidated Statements of Net Income—Unaudited

Six Months Ended June 30,	2018	2017	Change	% Change
<b>Operating Revenues</b>				
Internet and communications				
Internet & data	\$ 15,092,756	\$ 15,077,238	\$ 15,518	0.10%
Entertainment	7,243,592	6,122,418	1,121,174	18.31%
Legacy voice	16,522,859	16,987,494	(464,635)	(2.74%)
Ad search	1,320,827	1,401,904	(81,077)	(5.78%)
Other communications revenue	56,727	82,126	(25,399)	(30.93%)
Total internet & communications	40,236,761	39,671,180	565,581	1.43%
IT services & hardware				
Managed Services	9,970,909	9,891,311	79,598	0.80%
Professional Services	2,356,388	1,912,734	443,654	23.19%
Telecom & IT Equipment	7,673,178	6,179,139	1,494,039	24.18%
Total IT Services & Hardware	20,000,475	17,983,184	2,017,291	11.22%
Total operating revenues	60,237,236	57,654,364	2,582,872	4.48%
Uncollectible revenue	(510,017)	(223,024)	(286,993)	NM
<b>Net operating revenue</b>	59,727,219	57,431,340	2,295,879	4.00%
<b>Cost of goods and services</b>				
Internet & Communications	17,866,623	16,037,214	1,829,409	11.41%
IT services & hardware				
Managed Services	4,814,347	4,668,012	146,335	3.13%
Professional Services	1,832,531	1,573,556	258,975	16.46%
Telecom & IT Equipment	6,510,394	5,919,909	590,485	9.97%
<b>Total COGS</b>	31,023,895	28,198,691	2,825,204	10.02%
Gross Margin	28,703,324	29,232,649	(529,325)	(1.81%)
Depreciation and amortization expense	10,591,145	10,131,883	459,262	4.53%
<b>Selling, general, and administrative expense</b>				
Sales and Customer Service	9,629,349	9,096,676	532,673	5.86%
General and Administrative	8,167,297	6,572,807	1,594,490	24.26%
Restructuring charges	-	1,219,047	(1,219,047)	(100.00%)
<b>Total Selling, General, and Administrative</b>	17,796,646	16,888,530	908,116	5.38%
<b>Net Operating Income</b>	315,533	2,212,236	(1,896,703)	(85.74%)
Nonoperating income (expense):				
Interest Income	2,650	43,128	(40,478)	(93.86%)
Interest expense, net of capitalized interest	(1,004,585)	(928,350)	(76,235)	8.21%
Equity in earnings of unconsolidated entities	4,080,353	3,146,074	934,279	29.70%
Other income (expense) net	(480)	55,258	(55,738)	(100.87%)
Net Nonoperating income (expense)	3,077,938	2,316,110	761,828	32.89%
<b>Income before income taxes</b>	3,393,471	4,528,346	(1,134,875)	(25.06%)
Income Taxes	808,304	2,098,310	(1,290,006)	(61.48%)
<b>Net income</b>	2,585,167	2,430,036	155,131	6.38%
Preferred stock dividends	43,876	44,035	(159)	(0.36%)
<b>Net income available to common shareholders</b>	\$ 2,541,292	\$ 2,386,002	\$ 155,290	6.51%

**See attached footnotes.**

Certain amounts have been reclassified to conform to the current period presentation.

<b>EPS</b>	\$ 1.12	\$ 1.05		
<b>EBITDA</b>	\$ 14,974,028	\$ 15,133,159	\$ (159,131)	(1.05%)
EBITDA Margin	25.07%	26.35%		

## Consolidated Statements of Comprehensive Income—Unaudited

<b>Six Months Ended June 30,</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>% Change</b>
Net income	\$ 2,585,167	\$ 2,430,036	\$ 155,131	6.4%
Other comprehensive income (loss), net of tax	-	-	-	
Comprehensive income (loss)	<u>\$ 2,585,167</u>	<u>\$ 2,430,036</u>	<u>\$ 155,131</u>	6.4%

**See attached footnotes.**

## Consolidated Statements of Stockholders' Equity—Unaudited

Six Months Ended June 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, 2017	\$ 1,873,100	\$ 11,341,520	\$ 65,218	\$ 116,518,861	\$ (35,855,261)	\$ 885,659	\$ (34,969,602)	\$ 94,829,098
Acquisition of stock	(12,900)	(17,655)	5,418				-	(25,137)
Net income				2,430,036			-	2,430,036
Preferred stock dividends				(44,035)			-	(44,035)
Common stock dividends				(5,894,615)			-	(5,894,615)
Acquisition of common stock in excess of stated value				(214,531)			-	(214,531)
Balance, June 30, 2017	<u>\$ 1,860,200</u>	<u>\$ 11,323,865</u>	<u>\$ 70,636</u>	<u>\$ 112,795,717</u>	<u>\$ (35,855,261)</u>	<u>\$ 885,659</u>	<u>\$ (34,969,602)</u>	<u>\$ 91,080,816</u>
Balance, January 1, 2018	\$ 1,856,700	\$ 11,323,415	\$ 72,356	\$ 126,260,543	\$ (38,336,830)	\$ 1,156,318	\$ (37,180,512)	\$ 102,332,501
Acquisition of stock	(3,500)	(4,460)	1,520				-	(6,440)
Net income				2,585,167			-	2,585,167
Preferred stock dividends				(43,876)			-	(43,876)
Common stock dividends				(5,887,309)			-	(5,887,309)
Acquisition of common stock in excess of stated value				(46,709)			-	(46,709)
Balance, June 30, 2018	<u>\$ 1,853,200</u>	<u>\$ 11,318,955</u>	<u>\$ 73,876</u>	<u>\$ 122,867,817</u>	<u>\$ (38,336,830)</u>	<u>\$ 1,156,318</u>	<u>\$ (37,180,512)</u>	<u>\$ 98,933,335</u>

See attached footnotes.

## Consolidated Statements of Cash Flows—Unaudited

Six Months Ended June 30,	2018	2017	Change	% Change
<b>Cash flows from operating activities</b>				
Net income	\$ 2,585,167	\$ 2,430,036	\$ 155,131	6.4%
Adjustments to reconcile net income to net cash provided by operating activities:			-	-
Depreciation and amortization	10,591,145	10,129,356	461,789	4.6%
Change in the allowance for doubtful accounts	(11,751)	-	(11,751)	
Loss (gain) on sale, disposal, and abandonment of other assets	139,479	(98,707)	238,186	NM
Equity in earnings of unconsolidated entities	(4,080,353)	(3,146,074)	(934,279)	29.7%
Deferred income taxes	664,046	1,240,170	(576,124)	-46.5%
Deferred pension and postretirement benefits	1,083,189	1,302,361	(219,172)	-16.8%
Changes in operating assets and liabilities:			-	-
Accounts receivable	3,929,466	5,456,626	(1,527,160)	-28.0%
Materials and supplies	187,042	(343,495)	530,537	NM
Other assets	2,693,015	(1,531,303)	4,224,319	NM
Accounts payable and payroll withholdings	(6,521,083)	(2,826,965)	(3,694,118)	130.7%
Accrued expenses	864,144	(895,430)	1,759,574	NM
Other liabilities	(1,529,965)	(554,760)	(975,205)	175.8%
<b>Net cash provided (used) by operating activities</b>	<b>10,593,541</b>	<b>11,161,815</b>	<b>(568,273)</b>	<b>-5.1%</b>
<b>Cash flow from investing activities</b>				
Additions to property, plant, and equipment	(9,578,499)	(8,361,158)	(1,217,341)	14.6%
Cost of removal of telephone plant, net of salvage	13,108	12,329	779	6.3%
Purchases of investment securities	-	(13,934)	13,934	-100.0%
Distributions from unconsolidated entities	4,067,350	2,789,040	1,278,310	45.8%
<b>Net cash provided by (used in) investing activities</b>	<b>(5,498,041)</b>	<b>(5,573,723)</b>	<b>75,682</b>	<b>-1.4%</b>
<b>Cash flows from financing activities</b>				
Principal payments on term loan	(1,250,000)	-	(1,250,000)	
Repayments of line of credit, net of proceeds	(2,500,000)	-	(2,500,000)	
Principal payments on capital leases	(83,426)	(77,448)	(5,978)	7.7%
Acquisition of preferred stock	(1,980)	(7,482)	5,502	
Acquisition of common stock	(51,169)	(232,186)	181,017	-78.0%
Cash dividends paid	(5,931,183)	(5,938,649)	7,466	-0.1%
<b>Net cash used in financing activities</b>	<b>(9,817,758)</b>	<b>(6,255,765)</b>	<b>(3,561,993)</b>	<b>56.9%</b>
<b>Net change in cash and cash equivalents</b>	<b>(4,722,258)</b>	<b>(667,673)</b>	<b>(4,054,584)</b>	<b>NM</b>
Cash and cash equivalents at beginning of period	5,931,875	8,482,121	(2,550,246)	-30.1%
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,209,617</b>	<b>\$ 7,814,448</b>	<b>\$ (6,604,830)</b>	<b>-84.5%</b>
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid for (refunds of ) income taxes	\$ (1,550,000)	\$ 1,912,520	\$ (3,462,520)	NM
Cash paid for interest	\$ 974,206	\$ 900,436	\$ 73,770	8.2%
<b>Operating Free Cash Flow (a non-GAAP measure)</b>				
Net cash provided (used) by operating activities	\$ 10,593,541	\$ 11,161,815	\$ (568,273)	-5.1%
Less: Additions to PP&E, net cost of removal	(9,565,391)	(8,348,829)	(1,216,562)	14.6%
Operating Free Cash Flow	<b>\$ 1,028,150</b>	<b>\$ 2,812,986</b>	<b>\$ (1,784,835)</b>	<b>-63.4%</b>

**See attached footnotes.**

Certain amounts have been reclassified to conform to the current period presentation.

I, Scott D. Toth, hereby certify to my reasonable belief that the accompanying unaudited consolidated balance sheets of North State Telecommunications Corporation and Subsidiaries as of June 30, 2018 and 2017 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' equity, and cash flows for the six months then ended were prepared on the basis of generally accepted accounting principles and from the Corporation's and Subsidiaries' accounting records which are subject to internal accounting controls and internal review procedures.

This the 21st day of July 2018.



Scott D. Toth  
EVP, Chief Financial Officer



## Footnotes to the Consolidated Financial Statements—Unaudited For the Six Months Ended June 30,

Footnote 1 For the fiscal year starting January 1, 2018, the company changed certain accounting methods to be in conformance with ASC 606 Revenue from Contracts with Customers and ASC 340 Other Assets and Deferred Costs. To aid in year over year comparison, the company used the fully retrospective approach in adopting these accounting standards.

The following table presents our results under our historical method and as adjusted to reflect the accounting change:

Consolidated financial statement line items	Historical Accounting Method	Effect of New Accounting Method	As Adjusted
At January 1, 2017			
Retained Earnings	\$ 113,943,721	\$ 2,575,140	\$ 116,518,861
Total Stockholders' Equity	92,253,958	2,575,140	94,829,098
At June 30, 2017			
Internet & Data Revenue	15,092,473	(15,235)	15,077,238
Total Internet & Communications Revenue	39,686,415	(15,235)	39,671,180
Managed Services Revenue	9,910,165	(18,854)	9,891,311
Total IT Services & Hardware	18,002,038	(18,854)	17,983,184
Total Operating Revenues	57,688,453	(34,089)	57,654,364
Net Operating Revenue	57,465,429	(34,089)	57,431,340
Internet & Communications COGS	15,914,956	122,258	16,037,214
Managed Services COGS	4,653,817	14,195	4,668,012
Total COGS	28,062,238	136,453	28,198,691
Gross Margin	29,403,191	(170,542)	29,232,649
Sales and Customer Service	9,070,952	25,724	9,096,676
Total SG&A	16,862,806	25,724	16,888,530
Net Operating Income	2,408,502	(196,266)	2,212,236
Income before Income Taxes	4,724,612	(196,266)	4,528,346
Income Taxes	2,169,574	(71,264)	2,098,310
Net Income	2,555,038	(125,002)	2,430,036
EPS	\$ 1.13	\$ (0.06)	\$ 1.07
Other non-current assets	747,478	5,171,859	5,919,337
Total other assets	58,773,990	5,171,859	63,945,849
Total Assets	231,706,247	5,170,603	236,876,850
Deferred income taxes	25,461,793	1,436,622	26,898,415
Other deferred credits	1,325,542	1,283,843	2,609,385
Total Other Liabilities	125,956,106	2,720,465	128,676,571
Retained Earnings	107,790,541	2,575,140	110,365,681
Current Earnings	2,555,038	(125,002)	2,430,037
Total Stockholders' Equity	88,630,679	2,450,138	91,080,817
Total Liabilities and Stockholders' Equity	231,706,247	5,170,603	236,876,850

Footnote 2 EBITDA, EBITDA Margin and Operating Free Cash Flow are non-GAAP financial measures. EBITDA is calculated by adding to GAAP Net Operating Income: Depreciation, Amortization and Distributions from Unconsolidated Entities. EBITDA Margin is calculated by dividing non-GAAP EBITDA by GAAP Net Operating Revenue. Operating Free Cash Flow is calculated by subtracting from GAAP Net cash provided (used) by operating activities: additions to Property, Plant and Equipment and net cost of removals. Management uses non-GAAP EBITDA, EBITDA Margin and Operating Free Cash Flow in its internal analysis as a consistent measure for comparing NorthState's financial performance to previous financial results. Management believes non-GAAP EBITDA, EBITDA Margin and Operating Free Cash Flow are useful to investors and other users of our financial statements in evaluating operating performance because it provides them with an additional tool to compare business performance across periods. The presentation of non-GAAP EBITDA, EBITDA Margin and Operating Free Cash Flow are intended to complement, and should not be considered an alternative to, the presentation of GAAP financial metrics. In addition, non-GAAP EBITDA, EBITDA Margin and Operating Free Cash Flow as presented may not be comparable to similarly titled measures used by other companies.

Footnote 3 The restructuring charges in FY 2017 were primarily related to severance and legal expense related to the creation of a new IT services business unit, North State Technology Solutions, LLC ("NSTS") from the integration of two previous subsidiaries DataChambers, LLC and Stalwart Systems, LLC.