

Summary of Consolidated Statements of Net Income—Unaudited

Amounts in millions except per share amounts

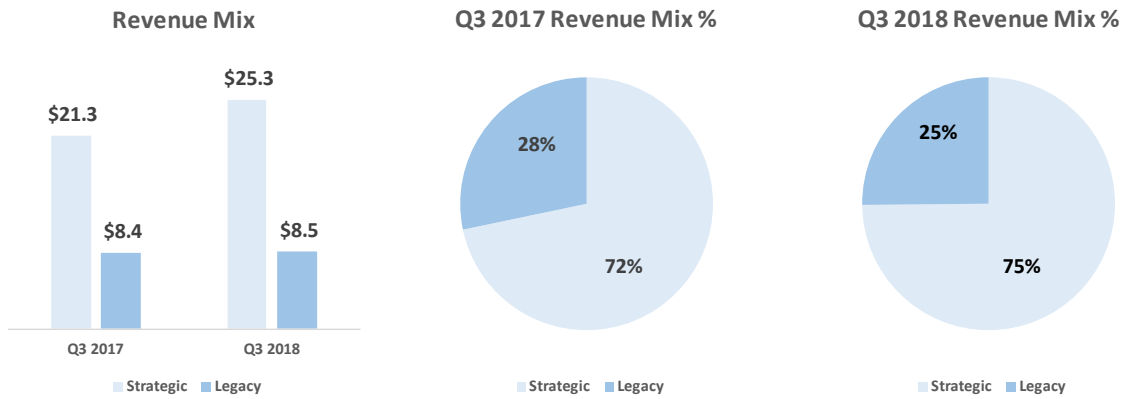
	For the Quarter Ended September 30,				For the Nine Months Ended September 30,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
Operating revenue								
Internet & communications	\$ 20.4	\$ 19.9	\$ 0.5	2.5%	\$ 60.6	\$ 59.6	\$ 1.1	1.8%
IT Services & Hardware	13.6	10.0	3.6	35.7%	33.6	28.0	5.6	20.0%
Uncollectible revenue	(0.2)	(0.2)	0.0	-	(0.7)	(0.5)	(0.3)	55.0%
Net operating revenue	<u>33.8</u>	<u>29.7</u>	<u>4.1</u>	<u>13.8%</u>	<u>93.5</u>	<u>87.1</u>	<u>6.4</u>	<u>7.3%</u>
Operating expenses								
Cost of goods and services	18.6	15.8	2.7	17.3%	49.6	44.0	5.6	12.6%
Selling, general, and administrative	9.2	8.2	0.9	11.3%	27.0	23.9	3.1	12.8%
Restructuring charges	-	0.7	(0.7)		-	1.9	(1.9)	
Depreciation and amortization	5.4	5.2	0.2	4.1%	16.0	15.4	0.7	4.4%
Total Operating Expense	<u>33.2</u>	<u>30.0</u>	<u>3.2</u>	<u>10.7%</u>	<u>92.6</u>	<u>85.2</u>	<u>7.4</u>	<u>8.7%</u>
Operating Income	0.6	(0.3)	0.9	NM	0.9	1.9	(1.0)	-52.4%
Net Nonoperating income (expense)	1.7	1.1	0.6	60.5%	4.8	3.4	1.4	41.5%
Income before income taxes	2.3	0.8	1.5	197.4%	5.7	5.3	0.4	7.3%
Income Taxes	0.5	(0.2)	0.8	NM	1.4	1.9	(0.5)	-27.8%
Preferred stock dividends	-	-	-		0.0	0.0	(0.0)	-0.4%
Net income (loss) available to common shareholders	<u>\$ 1.7</u>	<u>\$ 1.0</u>	<u>\$ 0.8</u>	<u>75.5%</u>	<u>\$ 4.3</u>	<u>\$ 3.4</u>	<u>\$ 0.9</u>	<u>26.8%</u>
EPS	\$ 0.77	\$ 0.44			\$ 1.89	\$ 1.49		

See attached footnotes.

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

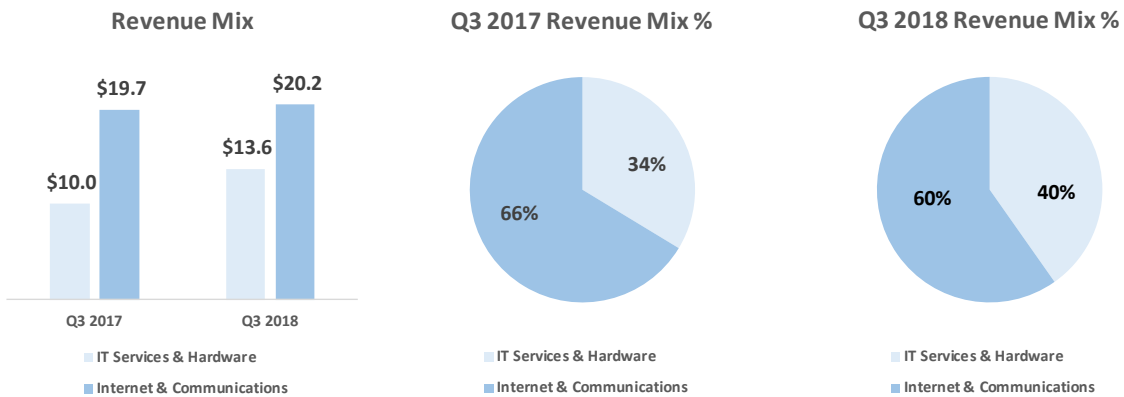
Summary of Net Operating Revenue—Unaudited For the Three Months Ended September 30,

Net Operating Revenue by Strategic vs. Legacy

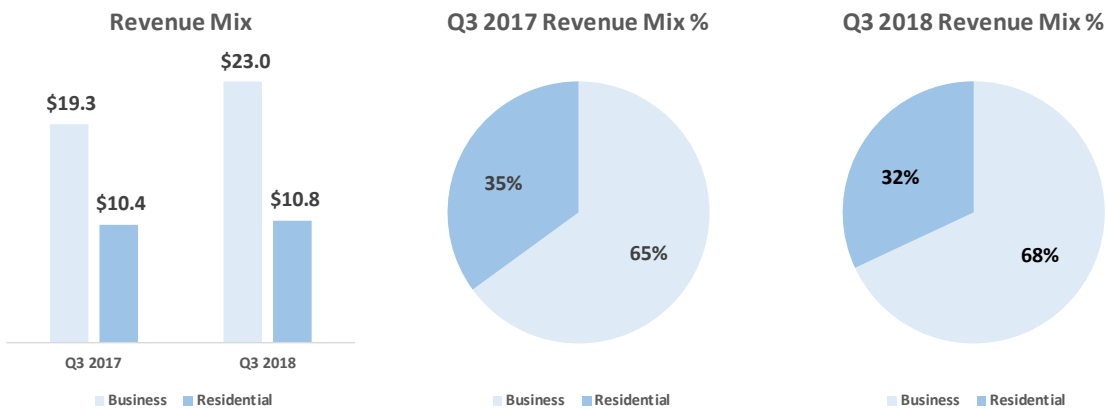


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

Net Operating Revenue by Product Segment



Net Operating Revenue by Customer Segment



All dollar amounts in millions

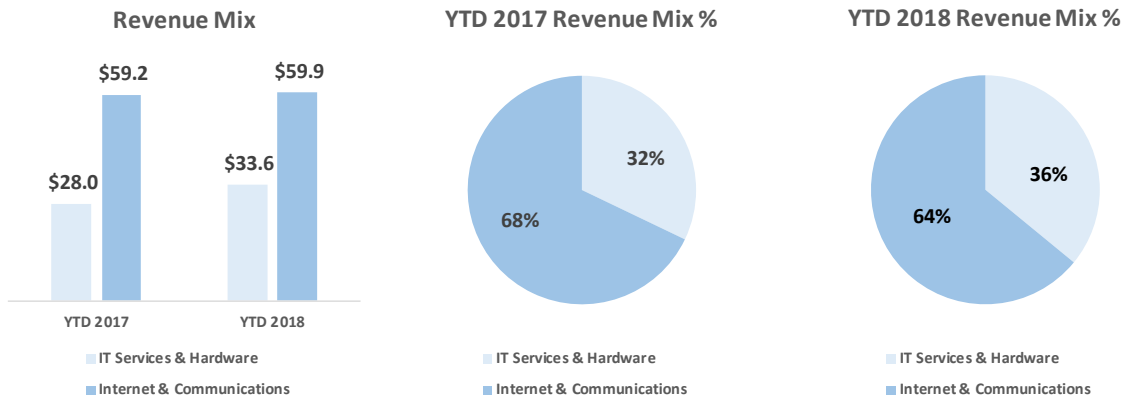
Summary of Net Operating Revenue—Unaudited For the Nine Months Ended September 30,

Net Operating Revenue by Strategic vs. Legacy

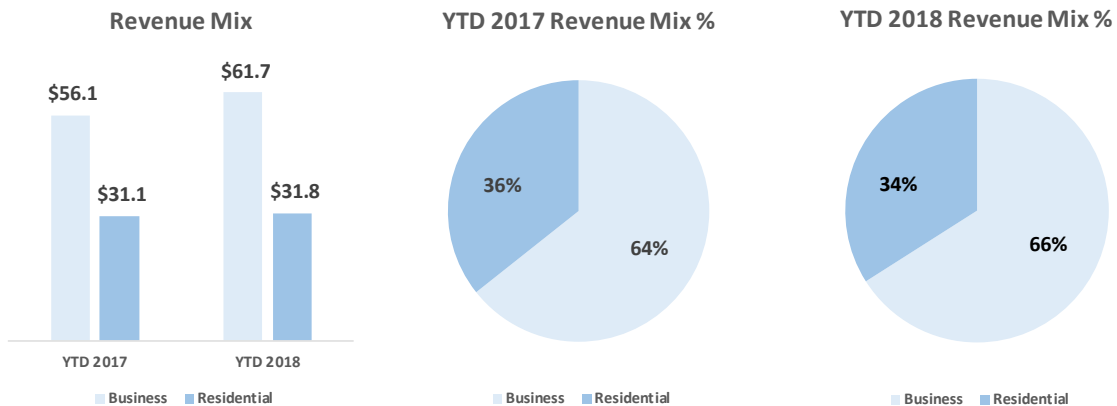


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

Net Operating Revenue by Product Segment



Net Operating Revenue by Customer Segment



All dollar amounts in millions

Consolidated Balance Sheets—Unaudited

At September 30,	2018	2017	Change	% Change
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,805,962	\$ 8,169,636	\$ (5,363,674)	-65.7%
Accounts receivable	14,178,838	9,106,515	5,072,323	55.7%
Materials and supplies	1,545,212	2,447,549	(902,337)	-36.9%
Prepayments	2,303,004	2,248,036	54,968	2.4%
Income tax recoverable	2,145,262	864,303	1,280,959	148.2%
Total Current Assets	22,978,277	22,836,039	142,238	0.6%
Property, plant and equipment				
Under construction	2,410,210	567,828	1,842,382	NM
In service	543,034,641	524,510,199	18,524,442	3.53%
Total Property, Plant and Equipment	545,444,851	525,078,027	20,366,824	3.88%
Less accumulated depreciation & amortization	(393,464,044)	(375,489,959)	(17,974,085)	4.79%
Property, plant and equipment, net	151,980,807	149,588,068	2,392,739	1.60%
Other assets				
Investment securities	2,110,661	1,983,801	126,860	6.39%
Investment in unconsolidated subsidiaries	10,311,618	9,284,519	1,027,099	11.06%
Intangibles, net of amortization	12,253,636	13,581,040	(1,327,404)	-9.77%
Goodwill	31,244,755	31,844,755	(600,000)	-1.88%
Other non-current assets	5,203,017	5,829,669	(626,653)	-10.75%
Total other assets	61,123,686	62,523,783	(1,400,097)	-2.24%
Total Assets	\$ 236,082,770	\$ 234,947,891	\$ 1,134,879	0.48%
Liabilities and Equity				
Current liabilities				
Current maturities of long term debt	3,125,000	2,500,000	625,000	25.00%
Current maturities of capital lease obligations	178,582	165,708	12,873	7.77%
Accounts payable and payroll withholdings	3,356,947	2,462,366	894,581	36.33%
Advanced billings and customer deposits	3,873,171	4,013,538	(140,367)	-3.50%
Income taxes payable	-	-	-	-
Accrued expenses	10,639,811	8,845,563	1,794,248	20.28%
Accrued taxes, other than income	1,110,264	1,164,829	(54,565)	-4.68%
Total current liabilities	22,283,775	19,152,004	3,131,771	16.35%
Other liabilities				
Revolving credit note	\$ 5,500,000	-	\$ 5,500,000	-
Bank note, net of current maturities	43,523,576	46,567,468	(3,043,893)	-6.54%
Capital Lease Obligations, net of current maturities	5,490,720	5,668,588	(177,868)	-3.14%
Deferred income taxes	22,096,476	27,280,300	(5,183,823)	-19.00%
Accrued pension benefits	36,667,044	43,778,762	(7,111,718)	-16.24%
Accrued post retirement life insurance benefits	906,128	757,516	148,612	19.62%
Other deferred credits	1,894,731	2,620,256	(725,525)	-27.69%
Total other liabilities	116,078,675	126,672,890	(10,594,215)	-8.36%
Stockholders' equity				
Preferred Stock	1,853,200	1,856,700	(3,500)	-0.19%
Common stock	11,317,660	11,323,415	(5,755)	-0.05%
Paid in capital	73,876	72,356	1,520	2.10%
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	117,326,332	107,416,103	9,910,229	9.23%
Current earnings	4,329,764	3,424,024	905,740	26.45%
Total Stockholders' Equity	97,720,320	89,122,996	8,597,323	9.65%
Total Liabilities and Stockholders' Equity	\$ 236,082,770	\$ 234,947,891	\$ 1,134,879	0.48%

See attached footnotes.

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

Consolidated Statements of Net Income—Unaudited

Nine Months Ended September 30,	2018	2017	Change	% Change
Operating Revenues				
Internet and communications				
Internet & data	\$ 22,634,710	\$ 22,644,873	\$ (10,163)	(0.04%)
Entertainment	10,916,138	9,358,383	1,557,755	16.65%
Legacy voice	24,994,910	25,398,212	(403,302)	(1.59%)
Ad search	1,994,922	2,048,794	(53,872)	(2.63%)
Other communications revenue	82,657	117,399	(34,742)	(29.59%)
Total internet & communications	<u>60,623,337</u>	<u>59,567,661</u>	1,055,676	1.77%
IT services & hardware				
Managed Services	14,863,233	15,115,610	(252,377)	(1.67%)
Professional Services	3,902,017	2,655,736	1,246,281	46.93%
Telecom & IT Equipment	14,844,407	10,238,414	4,605,993	44.99%
Total IT Services & Hardware	<u>33,609,657</u>	<u>28,009,760</u>	5,599,897	19.99%
Total operating revenues	94,232,994	87,577,421	6,655,573	7.60%
Uncollectible revenue	<u>(731,711)</u>	<u>(471,940)</u>	<u>(259,771)</u>	55.04%
Net operating revenue	93,501,283	87,105,481	6,395,802	7.34%
Cost of goods and services				
Internet & Communications	26,455,919	24,375,929	2,079,990	8.53%
IT services & hardware				
Managed Services	7,342,930	7,052,609	290,321	4.12%
Professional Services	2,850,432	2,441,773	408,659	16.74%
Telecom & IT Equipment	<u>12,932,672</u>	<u>10,147,180</u>	<u>2,785,492</u>	27.45%
Total COGS	<u>49,581,953</u>	<u>44,017,491</u>	<u>5,564,462</u>	12.64%
Gross Margin	43,919,330	43,087,990	831,340	1.93%
Depreciation and amortization expense	16,034,161	15,358,509	675,652	4.40%
Selling, general, and administrative expense				
Sales and Customer Service	14,684,398	13,752,717	931,681	6.77%
General and Administrative	12,281,179	10,156,284	2,124,895	20.92%
Restructuring charges	-	1,888,857	(1,888,857)	(100.00%)
Total Selling, General, and Administrative	<u>26,965,577</u>	<u>25,797,858</u>	<u>1,167,719</u>	4.53%
Net Operating Income	919,592	1,931,623	(1,012,031)	(52.39%)
Nonoperating income (expense):				
Interest Income	3,568	51,322	(47,754)	(93.05%)
Interest expense, net of capitalized interest	(1,565,548)	(1,404,777)	(160,771)	11.44%
Equity in earnings of unconsolidated entities	5,879,486	4,665,262	1,214,224	26.03%
Other income (expense) net	<u>446,525</u>	<u>55,018</u>	<u>391,507</u>	NM
Net Nonoperating income (expense)	<u>4,764,031</u>	<u>3,366,825</u>	<u>1,397,206</u>	41.50%
Income before income taxes	5,683,623	5,298,448	385,175	7.27%
Income Taxes	<u>1,353,859</u>	<u>1,874,424</u>	<u>(520,565)</u>	(27.77%)
Net income	4,329,764	3,424,024	905,740	26.45%
Preferred stock dividends	43,875	44,035	(160)	(0.36%)
Net income available to common shareholders	<u>\$ 4,285,890</u>	<u>\$ 3,379,990</u>	<u>\$ 905,900</u>	26.80%

See attached footnotes.

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

Weighted average common shares outstanding	2,263,978	2,265,979		
EPS	\$ 1.89	\$ 1.49		
EBITDA	\$ 22,745,938	\$ 22,080,708	\$ 665,230	3.01%
EBITDA Margin	24.33%	25.35%		

Consolidated Statements of Comprehensive Income—Unaudited

Nine Monts Ended September 30,	2018	2017	Change	% Change
Net income	\$ 4,329,764	\$ 3,424,024	\$ 905,740	26.5%
Other comprehensive income (loss), net of tax	-	-	-	
Comprehensive income (loss)	<u>\$ 4,329,764</u>	<u>\$ 3,424,024</u>	<u>\$ 905,740</u>	26.5%

See attached footnotes.

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, 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	(16,400)	(18,105)	7,138				-	(27,367)
Net income				3,424,024			-	3,424,024
Preferred stock dividends				(44,035)			-	(44,035)
Common stock dividends				(8,838,703)			-	(8,838,703)
Acquisition of common stock in excess of stated value				(220,021)			-	(220,021)
Balance, September 30, 2017	<u>\$ 1,856,700</u>	<u>\$ 11,323,415</u>	<u>\$ 72,356</u>	<u>\$ 110,840,127</u>	<u>\$ (35,855,261)</u>	<u>\$ 885,659</u>	<u>\$ (34,969,602)</u>	<u>\$ 89,122,996</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)	(5,755)	1,520				-	(7,735)
Net income				4,329,764			-	4,329,764
Preferred stock dividends				(43,875)			-	(43,875)
Common stock dividends				(8,829,900)			-	(8,829,900)
Acquisition of common stock in excess of stated value				(60,436)			-	(60,436)
Balance, September 30, 2018	<u>\$ 1,853,200</u>	<u>\$ 11,317,660</u>	<u>\$ 73,876</u>	<u>\$ 121,656,096</u>	<u>\$ (38,336,830)</u>	<u>\$ 1,156,318</u>	<u>\$ (37,180,512)</u>	<u>\$ 97,720,320</u>

See attached footnotes.

Consolidated Statements of Cash Flows—Unaudited

Nine Months Ended September 30,	2018	2017	Change	% Change
Cash flows from operating activities				
Net income	\$ 4,329,764	\$ 3,424,024	\$ 905,740	26.5%
Adjustments to reconcile net income to net cash provided by operating activities:			-	-
Depreciation and amortization	16,034,161	15,355,982	678,179	4.4%
Change in the allowance for doubtful accounts	(21,630)	-	(21,630)	
Loss (gain) on sale, disposal, and abandonment of other assets	(447,245)	-	(447,245)	
Equity in earnings of unconsolidated entities	(5,879,486)	(4,665,262)	(1,214,224)	26.0%
Deferred income taxes	1,799,836	1,622,054	177,782	11.0%
Deferred pension and postretirement benefits	1,620,713	1,953,543	(332,830)	-17.0%
Writedown of intangible, included in restructuring charges	-	550,000	(550,000)	-100.0%
Changes in operating assets and liabilities:			-	-
Accounts receivable	2,238,048	5,894,936	(3,656,888)	-62.0%
Materials and supplies	241,616	(276,470)	518,086	-187.4%
Other assets	2,785,690	(176,549)	2,962,239	NM
Accounts payable and payroll withholdings	(5,413,240)	(2,917,128)	(2,496,112)	85.6%
Accrued expenses	3,529,644	1,222,295	2,307,349	188.8%
Other liabilities	(3,544,195)	(2,950,848)	(593,348)	20.1%
Net cash provided (used) by operating activities	17,273,676	19,036,578	(1,762,902)	-9.3%
Cash flow from investing activities				
Additions to property, plant, and equipment	(13,566,115)	(14,183,052)	616,937	-4.3%
Cost of removal of telephone plant, net of salvage	(82,449)	(16,444)	(66,005)	401.4%
Proceeds from sale of building	2,344,700	-	2,344,700	
Purchases of investment securities	-	(13,934)	13,934	-100.0%
Distributions from unconsolidated entities	5,345,660	4,735,558	610,102	12.9%
Net cash provided by (used in) investing activities	(5,958,204)	(9,477,872)	3,519,668	-37.1%
Cash flows from financing activities				
Principal payments on term loan	(1,875,000)	(625,000)	(1,250,000)	
Repayments of line of credit, net of proceeds	(3,500,000)	-	(3,500,000)	
Principal payments on capital leases	(124,439)	(116,066)	(8,373)	7.2%
Acquisition of preferred stock	(1,980)	(9,262)	7,282	
Acquisition of common stock	(66,191)	(238,126)	171,935	-72.2%
Cash dividends paid	(8,873,775)	(8,882,737)	8,962	-0.1%
Net cash used in financing activities	(14,441,385)	(9,871,191)	(4,570,194)	46.3%
Net change in cash and cash equivalents	(3,125,913)	(312,485)	(2,813,428)	NM
Cash and cash equivalents at beginning of period	5,931,875	8,482,121	(2,550,246)	-30.1%
Cash and cash equivalents at end of period	\$ 2,805,962	\$ 8,169,636	\$ (5,363,674)	-65.7%
Supplemental disclosure of cash flow information:				
Cash paid for (refunds of) income taxes	\$ (1,534,000)	\$ 1,939,020	\$ (3,473,020)	-179.1%
Cash paid for interest	\$ 1,514,893	\$ 1,356,585	\$ 158,308	11.7%
Operating Free Cash Flow (a non-GAAP measure)				
Net cash provided (used) by operating activities	\$ 17,273,676	\$ 19,036,578	\$ (1,762,902)	-9.3%
Less: Additions to PP&E, net cost of removal	(13,648,564)	(14,199,496)	550,932	-3.9%
Operating Free Cash Flow	\$ 3,625,112	\$ 4,837,082	\$ (1,211,970)	-25.1%

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 September 30, 2018 and 2017 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' equity, and cash flows for the nine 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 23rd day of October 2018.



Scott D. Toth
EVP, Chief Financial Officer

Footnotes to the Consolidated Financial Statements—Unaudited For the Nine Months Ended September 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 September 30, 2017			
Internet & Data Revenue	22,667,725	(22,852)	22,644,873
Total Internet & Communications Revenue	59,590,513	(22,852)	59,567,661
Managed Services Revenue	15,143,891	(28,281)	15,115,610
Total IT Services & Hardware	28,038,041	(28,281)	28,009,760
Total Operating Revenues	87,628,554	(51,133)	87,577,421
Net Operating Revenue	87,156,614	(51,133)	87,105,481
Internet & Communications COGS	24,192,542	183,387	24,375,929
Managed Services COGS	7,031,316	21,293	7,052,609
Total COGS	43,812,811	204,680	44,017,491
Gross Margin	43,343,803	(255,813)	43,087,990
Sales and Customer Service	13,714,132	38,585	13,752,717
Total SG&A	25,759,273	38,585	25,797,858
Net Operating Income	2,226,021	(294,398)	1,931,623
Income before Income Taxes	5,592,846	(294,398)	5,298,448
Income Taxes	1,981,320	(106,896)	1,874,424
Net Income	3,611,526	(187,502)	3,424,024
EPS	\$ 1.57	\$ (0.08)	\$ 1.49
Other non-current assets	738,897	5,090,772	5,829,669
Total other assets	57,433,011	5,090,772	62,523,783
Total Assets	229,857,119	5,090,772	234,947,891
Deferred income taxes	25,879,937	1,400,363	27,280,300
Other deferred credits	1,319,368	1,300,888	2,620,256
Total Other Liabilities	123,971,639	2,701,251	126,672,890
Retained Earnings	104,840,963	2,575,140	107,416,103
Current Earnings	3,611,526	(187,502)	3,424,024
Total Stockholders' Equity	86,735,358	2,387,638	89,122,996
Total Liabilities and Stockholders' Equity	229,857,119	5,090,772	234,947,891

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.