Summary of Statements of Net Income–Unaudited

Amounts in millions except per share amounts

	Quarter Ended June 30,			Six Months Ended June 30,		
Six Months Ended June 30,	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
Net operating revenue (after uncollectibles):						
Internet and communications	$19.8	$19.3	3%	39.4	38.4	3%
Information technology services and hardware	8.6	8.6	-1%	18.1	18.1	-1%
Net operating revenue	28.4	27.9	2%	57.5	56.5	2%
Operating expense:						
Cost of sales and service	14.4	12.9	12%	28.1	26.4	6%
Selling, general, and administrative [1]	8.9	8.1	11%	16.8	15.9	6%
Depreciation and amortization	5.1	5.1	1%	10.1	9.9	2%
Total operating expense	28.4	26.1	9%	55.0	52.2	5%
Operating income	-	1.8	-107%	2.5	4.3	-43%
Nonoperating income	1.2	2.0	-40%	2.2	3.3	-30%
Income before taxes	1.2	3.8	-71%	4.7	7.6	-38%
Income taxes	0.9	1.4	-39%	2.2	2.8	-22%
Net income	$0.3	$2.4	-89%	$2.5	$4.8	-47%
Earnings per share	$0.09	$1.05	-91%	$1.11	$2.10	-47%

[1] Includes $1.2 million in restructuring charges as shown on detailed income statements.

Summary of Net Operating Revenue–Unaudited

Six Months Ended June 30,	Quarter Ended June 30, 2017	2016	% Change	Six Months Ended June 30, 2017	2016	% Change
TOTAL NET OPERATING REVENUE						
Internet and communications:						
Strategic	$10.5	$9.5	11%	20.9	18.9	11%
Legacy	9.3	9.8	-4%	18.5	19.5	-5%
Total internet and communications	19.8	19.3	3%	39.4	38.4	3%
IT services and hardware-strategic	8.6	8.6	-1%	18.1	18.1	-1%
Total net operating revenue	$28.4	$27.9	2%	$57.5	$56.5	2%
TOTAL BUSINESS & WHOLESALE NOR						
Internet and communications:						
Strategic	$2.7	$2.6	6%	5.5	5.0	9%
Legacy	6.6	6.8	-2%	13.1	13.5	-2%
Total internet and communications	9.3	9.4	0%	18.6	18.5	1%
IT services and hardware-strategic	8.6	8.6	-1%	18.1	18.1	-1%
Total net operating revenue	$17.9	$18.0	0%	$36.7	$36.6	0%
TOTAL CONSUMER NOR						
Internet and communications:						
Strategic	$7.8	$6.9	12%	15.4	13.9	11%
Legacy	2.7	3.0	-8%	5.4	6.0	-10%
Total net operating revenue	$10.5	$9.9	6%	$20.8	$19.9	5%

Consolidated Balance Sheets–Unaudited

At June 30,	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 7,815,739	$ 2,091,216
Accounts receivable, net of allowance for doubtful accounts	9,544,825	9,949,415
Materials and supplies	2,514,574	2,141,261
Prepayments	2,766,273	2,025,336
Income taxes recoverable	364,757	211,706
Total current assets	23,006,168	16,418,934
Property, plant, and equipment	521,040,584	507,587,025
Less accumulated depreciation	371,157,942	355,653,688
Property, plant, and equipment, net	149,882,642	151,933,337
Other assets:		
Investment securities	1,983,801	642,292
Investments in unconsolidated entities	9,711,848	9,161,981
Intangibles, net of amortization	14,486,108	15,906,382
Goodwill	31,844,755	31,794,755
Other noncurrent assets	797,052	921,104
Total other assets	58,823,564	58,426,514
Total assets	$ 231,712,374	$ 226,778,785
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit note	-	$ 4,000,000
Current maturities of bank note	2,500,000	-
Current maturities of capital lease obligations	162,600	151,437
Accounts payable and payroll withholdings	2,181,248	2,096,673
Advance billings and customer deposits	4,382,948	3,873,683
Accrued expenses	7,041,594	6,626,659
Accrued taxes	851,072	896,307
Total current liabilities	17,119,462	17,644,759
Other liabilities:		
Bank note, net of current maturities	47,172,192	38,500,000
Capital lease obligations, net of current maturities	5,710,315	5,872,915
Deferred income taxes	25,461,793	25,098,574
Accrued pension benefits	45,542,548	41,336,197
Accrued postretirement benefits	743,716	600,073
Other liabilities and deferred credits	1,325,542	1,371,830
Total other liabilities	125,956,106	112,779,589
Total liabilities	143,075,568	130,424,348
Stockholders' equity:		
Preferred stock	1,860,200	1,887,600
Common stock	11,323,865	11,357,205
Paid in capital	70,636	59,128
Retained earnings	110,351,707	116,039,680
Accumulated other comprehensive loss	(34,969,602)	(32,989,176)
Total stockholders' equity	88,636,806	96,354,437
Total liabilities and stockholders' equity	$ 231,712,374	$ 226,778,785

Consolidated Statements of Net Income–Unaudited

Six Months Ended June 30,	2017	2016
Operating revenues:		
Internet and communications:		
Strategic internet and data	$ 15,092,473	$ 13,884,403
Strategic entertainment	6,122,418	5,300,890
Legacy voice	15,881,238	16,911,457
Legacy long distance	1,147,504	1,355,649
Legacy advertising and search	1,401,904	1,277,827
Total internet and communications	39,645,537	38,730,226
Information technology services and hardware:		
Strategic telecom and IT equipment	6,299,952	6,965,338
Strategic colocation	5,911,644	5,690,864
Strategic managed and professional services	4,778,591	4,584,479
Strategic UCAAS	1,052,728	956,943
Total IT services and hardware	18,042,915	18,197,624
Total operating revenues	57,688,452	56,927,850
Less uncollectible revenue	222,954	436,416
Net operating revenues	57,465,498	56,491,434
Cost of sales and service:		
General support	3,976,092	3,515,330
Central office	4,452,541	4,173,942
Communication termination	13,204,101	12,407,982
Cable and wire facilities	1,819,126	1,506,008
Network operations	4,633,185	4,841,827
Total cost of sales and service	28,085,045	26,445,089
Gross margin	29,380,453	30,046,345
Depreciation and amortization expense	10,129,356	9,908,450
Selling, general, and administrative expense:		
Customer operations	9,348,852	9,425,736
Corporate operations	5,578,818	5,689,770
Restructuring Charges	1,219,047	-
Taxes, other than income taxes	689,381	753,954
Total selling, general, and administrative expense	16,836,098	15,869,460
Net operating income	2,414,999	4,268,435
Nonoperating income (expense):		
Interest income	43,148	11,276
Interest expense, net of capitalized interest	(928,350)	(783,655)
Equity in earnings of unconsolidated entities	3,146,074	4,097,712
Other income (expense), net	48,358	(5,821)
Net nonoperating income	2,309,230	3,319,512
Income before income taxes	4,724,229	7,587,947
Income taxes	2,169,574	2,785,762
Net income	2,554,655	4,802,185
Preferred stock dividends	44,034	44,742
Net income available to common stockholders	$ 2,510,621	$ 4,757,443
Earnings per average common share	$ 1.11	$ 2.10
Dividends per common share	$2.60	$2.60
Weighted average common shares outstanding	2,266,627	2,272,736
Operating income margin	4.2%	7.6%
Operating expense, including depreciation/amortization	$ 55,050,499	$ 52,222,999
Operating expense, excluding depreciation/amortization	$ 44,921,143	$ 42,314,549
OIBITDA	$ 12,544,355	$ 14,176,885
OIBITDA margin	21.8%	25.1%
EBITDA	$ 15,781,935	$ 18,280,052
EBITDA margin	27.5%	32.4%

Consolidated Statements of Comprehensive Income–Unaudited

Six Months Ended June 30,	2017	2016
Net income	$ 2,554,655	$ 4,802,185
Other comprehensive income (loss), net of tax	-	-
Comprehensive income (loss)	$ 2,554,655	$ 4,802,185

Consolidated Statements of Stockholders' Equity–Unaudited

Six Months Ended June 30,	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	$117,296,902	$ (33,011,770)	$ 22,594	$ (32,989,176)	$ 97,625,184
Acquisition of stock	(1,000)	(12,995)	470					(13,525)
Net income				4,802,187				4,802,187
Preferred stock dividends				(44,742)				(44,742)
Common stock dividends				(5,908,425)				(5,908,425)
Acquisition of common stock in excess of stated value				(106,242)				(106,242)
Balance, June 30, 2016	$ 1,887,600	$ 11,357,205	$ 59,128	$116,039,680	$ (33,011,770)	$ 22,594	$ (32,989,176)	$ 96,354,437
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	(12,900)	(17,655)	5,418					(25,137)
Net income				2,554,655				2,554,655
Preferred stock dividends				(44,034)				(44,034)
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	$ 1,860,200	$ 11,323,865	$ 70,636	$110,351,707	$ (35,846,131)	$ 876,529	$ (34,969,602)	$ 88,636,806

Consolidated Statements of Cash Flows–Unaudited

Six Months Ended June 30,	2017	2016
Cash flows from operating activities:		
Net income	$ 2,554,655	$ 4,802,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,129,356	9,908,450
Change in the allowance for doubtful accounts	-	125,000
Loss (gain) on sale, disposal, and abandonment of other assets	(98,707)	61,291
Equity in earnings of unconsolidated entities	(3,146,074)	(4,097,712)
Deferred income taxes	1,312,690	1,265,883
Deferred pension and postretirement benefits	1,302,361	1,231,223
Changes in operating assets and liabilities:		
Accounts receivable	5,456,626	1,098,163
Materials and supplies	(343,495)	(306,736)
Other assets	(1,693,059)	5,013,897
Accounts payable and payroll withholdings	(2,826,965)	(2,732,852)
Accrued expenses	(895,430)	710,744
Other liabilities	(588,848)	(2,144,151)
Net cash provided by operating activities	11,163,110	14,935,387
Cash flow from investing activities:		
Additions to property, plant, and equipment	(8,361,158)	(9,308,681)
Cost of removal of telephone plant, net of salvage	12,329	33,910
Purchases of investment securities	(13,934)	-
Distributions from unconsolidated entities	2,789,040	3,602,510
Net cash provided by (used in) investing activities	(5,573,723)	(5,672,261)
Cash flows from financing activities:		
Principal payments on term loan	-	(2,750,000)
Repayments of line of credit, net of proceeds	-	(500,000)
Principal payments on capital leases	(77,448)	(71,262)
Acquisition of preferred stock	(7,482)	(530)
Acquisition of common stock	(232,186)	(119,237)
Cash dividends paid	(5,938,649)	(5,953,167)
Net cash used in financing activities	(6,255,765)	(9,394,196)
Net change in cash and cash equivalents	(666,378)	(131,070)
Cash and cash equivalents at beginning of period	8,482,117	2,222,286
Cash and cash equivalents at end of period	$ 7,815,739	$ 2,091,216
Supplemental disclosure of cash flow information:		
Cash paid for (refunds of) income taxes	$ 1,912,520	$ (2,630,000)
Cash paid for interest	$ 900,436	$ 714,451

I, Scott D. Toth, hereby certify that the accompanying unaudited consolidated balance sheets of North State Telecommunications Corporation and Subsidiaries as of June 30, 2017 and 2016 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' equity, and cash flows for the six months then ended have been prepared from the Corporation's and Subsidaries' accounting records. Internal accounting controls and review procedures provide assurance that these statements are materially accurate.

This the 26th day of July 2017.

Scott D. Toth
EVP, Chief Financial Officer