

## Summary of Consolidated Statements of Net Income—Unaudited

Amounts in millions except per share amounts

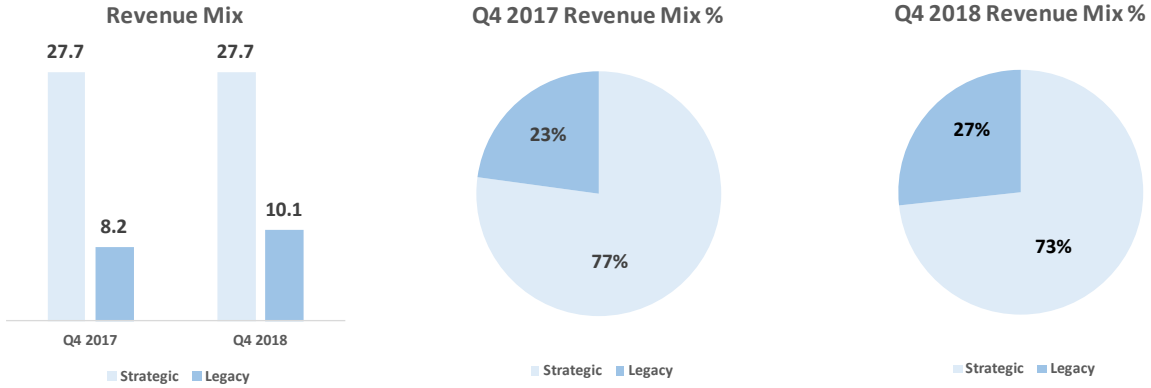
	For the Quarter Ended December 31,				For the Twelve Months Ended December 31,			
	2018	2017	Change	% Change	2018	2017	Change	% Change
<b>Operating revenue</b>								
Internet & communications	\$ 22.4	\$ 19.9	\$ 2.5	12.8%	\$ 83.1	\$ 79.5	\$ 3.6	4.5%
IT Services & Hardware	15.7	16.1	(0.4)	-2.3%	49.3	44.1	5.2	11.9%
Uncollectible revenue	(0.3)	(0.0)	(0.3)	NM	(1.0)	(0.5)	(0.5)	110.0%
<b>Net operating revenue</b>	<u>37.8</u>	<u>35.9</u>	<u>1.9</u>	<u>5.3%</u>	<u>131.3</u>	<u>123.0</u>	<u>8.3</u>	<u>6.7%</u>
<b>Operating expenses</b>								
Cost of goods and services	21.5	19.8	1.6	8.3%	70.5	63.2	7.3	11.5%
Selling, general, and administrative	9.4	9.4	(0.0)	-0.1%	35.2	32.1	3.1	9.7%
Restructuring charges	-	-	-		-	1.9	(1.9)	NM
Depreciation and amortization	4.9	5.7	(0.8)	-13.8%	19.4	21.0	(1.7)	-7.9%
<b>Total Operating Expense</b>	<u>35.8</u>	<u>34.9</u>	<u>0.8</u>	<u>2.4%</u>	<u>125.0</u>	<u>118.2</u>	<u>6.8</u>	<u>5.8%</u>
<b>Operating Income</b>	2.1	1.0	1.0	NM	6.3	4.9	1.4	29.7%
Net Nonoperating income (expense)	0.6	0.7	(0.1)	-12.9%	3.6	2.1	1.5	67.6%
<b>Income before income taxes</b>	2.7	1.7	1.0	55.4%	9.9	7.0	2.9	41.3%
Income Taxes	0.6	(16.7)	17.3	-103.6%	2.3	(14.8)	17.1	-115.7%
Preferred stock dividends	0.0	0.0	(0.0)	-0.2%	0.1	0.1	(0.0)	-0.3%
<b>Net income (loss) available to common shareholders</b>	<u>\$ 2.0</u>	<u>\$ 18.4</u>	<u>\$ (16.3)</u>	<u>-89.0%</u>	<u>\$ 7.5</u>	<u>\$ 21.7</u>	<u>\$ (14.2)</u>	<u>-65.4%</u>
<b>EPS</b>	\$ 0.90	\$ 8.10			\$ 3.32	\$ 9.59		

See attached footnotes.

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

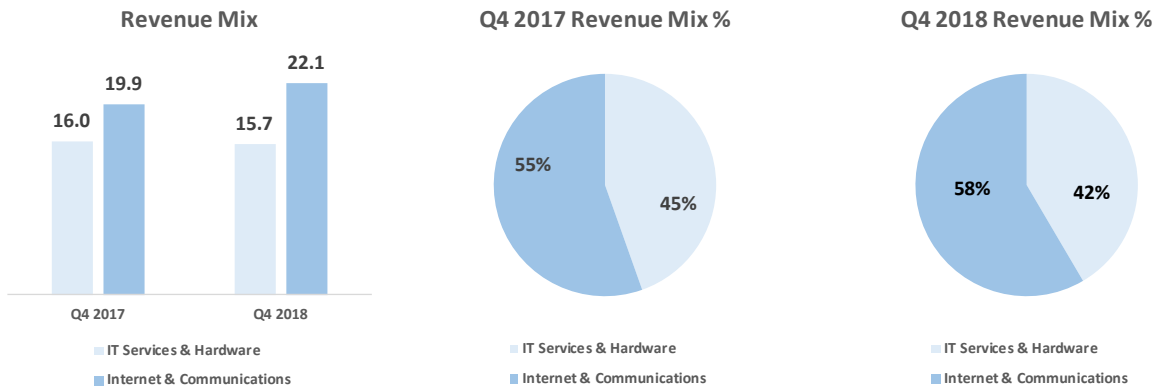
# Summary of Net Operating Revenue—Unaudited For the Three Months Ended December 31,

## Net Operating Revenue by Strategic vs. Legacy

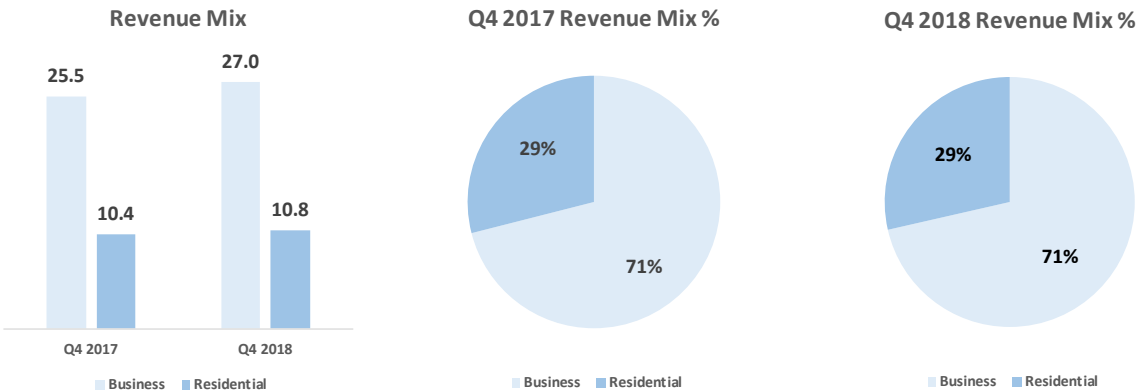


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

## Net Operating Revenue by Product Segment



## Net Operating Revenue by Customer Segment



All dollar amounts in millions

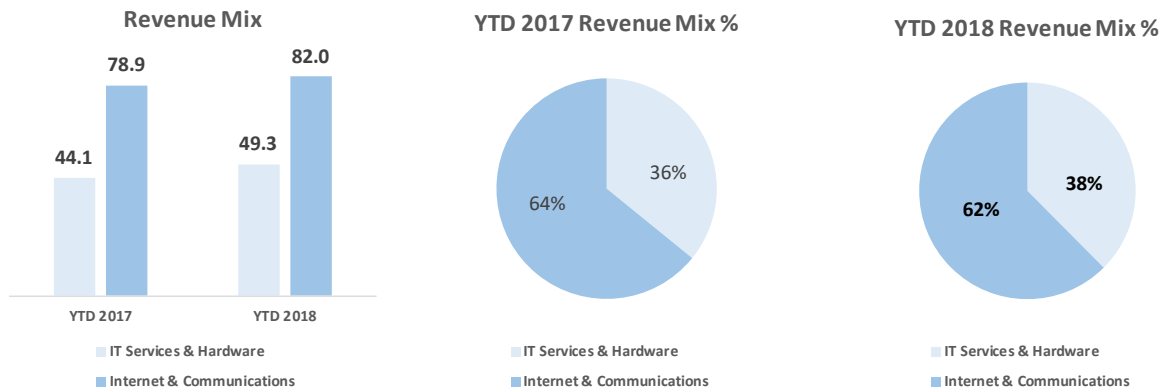
## Summary of Net Operating Revenue—Unaudited For the Twelve Months Ended December 31,

### Net Operating Revenue by Strategic vs. Legacy

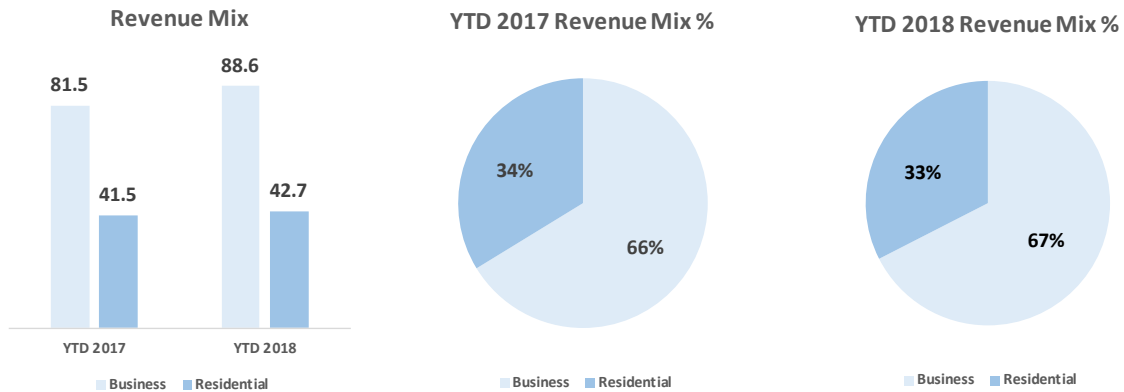


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

### Net Operating Revenue by Product Segment



### Net Operating Revenue by Customer Segment



All dollar amounts in millions

## Consolidated Balance Sheets—Unaudited

At December 31,	2018	2017	Change	% Change
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ 4,543,565	\$ 5,931,910	\$ (1,388,345)	-23.4%
Accounts receivable	18,823,260	16,395,257	2,428,003	14.8%
Materials and supplies	1,548,802	1,786,828	(238,025)	-13.3%
Prepayments	2,521,480	2,642,369	(120,889)	-4.6%
Income tax recoverable	1,162,272	3,216,282	(2,054,010)	-63.9%
Total Current Assets	28,599,378	29,972,644	(1,373,266)	-4.6%
Property, plant and equipment				
Under construction	368,677	1,096,836	(728,159)	-66.39%
In service	544,655,064	533,063,673	11,591,391	2.17%
Total Property, Plant and Equipment	545,023,741	534,160,508	10,863,233	2.03%
Less accumulated depreciation & amortization	(393,495,866)	(379,071,908)	(14,423,957)	3.81%
Property, plant and equipment, net	151,527,875	155,088,600	(3,560,725)	-2.30%
Other assets				
Investment securities	2,105,823	2,110,661	(4,838)	-0.23%
Investment in unconsolidated subsidiaries	10,239,100	9,777,792	461,309	4.72%
Intangibles, net of amortization	11,805,697	13,225,971	(1,420,274)	-10.74%
Goodwill	31,244,755	31,244,755	-	-
Other non-current assets	5,110,024	5,700,617	(590,593)	-10.36%
Total other assets	60,505,399	62,059,796	(1,554,397)	-2.50%
<b>Total Assets</b>	<b>\$ 240,632,652</b>	<b>\$ 247,121,040</b>	<b>\$ (6,488,388)</b>	<b>-2.63%</b>
<b>Liabilities and Equity</b>				
Current liabilities				
Current maturities of long term debt	3,750,000	2,500,000	1,250,000	50.00%
Current maturities of capital lease obligations	182,015	168,842	13,173	7.80%
Accounts payable and payroll withholdings	8,498,749	8,839,620	(340,870)	-3.86%
Advanced billings and customer deposits	4,310,048	3,811,188	498,861	13.09%
Income taxes payable	-	-	-	-
Accrued expenses	8,798,023	7,879,207	918,816	11.66%
Accrued taxes, other than income	257,272	341,224	(83,952)	-24.60%
Total current liabilities	25,796,108	23,540,080	2,256,028	9.58%
Other liabilities				
Revolving credit note	\$ 7,500,000	\$ 9,000,000	\$ (1,500,000)	-16.67%
Bank note, net of current maturities	42,293,852	45,962,745	(3,668,893)	-7.98%
Capital Lease Obligations, net of current maturities	5,442,885	5,624,900	(182,015)	-3.24%
Deferred income taxes	22,026,616	20,300,180	1,726,436	8.50%
Accrued pension benefits	37,261,473	37,543,624	(282,151)	-0.75%
Accrued post retirement life insurance benefits	707,447	852,977	(145,530)	-17.06%
Other deferred credits	1,798,728	1,971,449	(172,721)	-8.76%
Total other liabilities	117,031,002	121,255,875	(4,224,873)	-3.48%
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	1,129,879	1,156,318	(26,439)	-2.29%
Retirement plans adjustments, net of tax	(38,509,807)	(38,336,830)	(172,977)	0.45%
Retained earnings	114,339,866	104,428,056	9,911,810	9.49%
Current earnings	7,600,869	21,825,071	(14,224,202)	-65.17%
Total Stockholders' Equity	97,805,543	102,325,085	(4,519,542)	-4.42%
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 240,632,652</b>	<b>\$ 247,121,040</b>	<b>\$ (6,488,388)</b>	<b>-2.63%</b>

See attached footnotes.

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

## Consolidated Statements of Net Income—Unaudited

Twelve Months Ended December 31,	2018	2017	Change	% Change
<b>Operating Revenues</b>				
Internet and communications				
Internet & data	\$ 30,398,260	\$ 30,170,920	\$ 227,340	0.75%
Entertainment	14,627,725	12,783,322	1,844,403	14.43%
Legacy voice	35,211,779	33,646,477	1,565,302	4.65%
Ad search	2,716,463	2,712,558	3,905	0.14%
Other communications revenue	108,170	144,450	(36,280)	(25.12%)
Total internet & communications	83,062,397	79,457,727	3,604,670	4.54%
IT services & hardware				
Managed Services	19,578,372	20,477,645	(899,273)	(4.39%)
Professional Services	5,314,130	3,689,674	1,624,456	44.03%
Telecom & IT Equipment	24,411,177	19,911,280	4,499,897	22.60%
Total IT Services & Hardware	49,303,679	44,078,599	5,225,080	11.85%
Total operating revenues	132,366,076	123,536,326	8,829,750	7.15%
Uncollectible revenue	(1,035,838)	(493,294)	(542,544)	109.98%
<b>Net operating revenue</b>	131,330,238	123,043,032	8,287,206	6.74%
<b>Cost of goods and services</b>				
Internet & Communications	34,954,441	31,815,044	3,139,397	9.87%
IT services & hardware				
Managed Services	9,786,911	9,317,376	469,535	5.04%
Professional Services	3,831,797	3,557,617	274,180	7.71%
Telecom & IT Equipment	21,895,596	18,498,008	3,397,588	18.37%
<b>Total COGS</b>	70,468,745	63,188,045	7,280,700	11.52%
Gross Margin	60,861,493	59,854,987	1,006,506	1.68%
Depreciation and amortization expense	19,357,225	21,020,732	(1,663,507)	(7.91%)
<b>Selling, general, and administrative expense</b>				
Sales and Customer Service	19,654,314	18,510,377	1,143,937	6.18%
General and Administrative	15,529,457	13,561,863	1,967,594	14.51%
Restructuring charges	-	1,888,857	(1,888,857)	NM
<b>Total Selling, General, and Administrative</b>	35,183,771	33,961,097	1,222,674	3.60%
<b>Net Operating Income</b>	6,320,497	4,873,158	1,447,339	29.70%
Nonoperating income (expense):				
Interest Income	4,562	55,678	(51,116)	(91.81%)
Interest expense, net of capitalized interest	(2,051,463)	(1,907,732)	(143,731)	7.53%
Equity in earnings of unconsolidated entities	7,753,486	6,494,950	1,258,536	19.38%
Net periodic pension and post retirement cost	(2,357,319)	(2,549,910)	192,591	(7.55%)
Other income (expense) net	250,376	54,778	195,598	NM
Net Nonoperating income (expense)	3,599,642	2,147,764	1,451,878	67.60%
<b>Income before income taxes</b>	9,920,139	7,020,922	2,899,217	41.29%
Income Taxes	2,319,270	(14,804,149)	17,123,419	(115.67%)
<b>Net income</b>	7,600,869	21,825,071	(14,224,202)	(65.17%)
Preferred stock dividends	87,749	87,994	(245)	(0.28%)
<b>Net income available to common shareholders</b>	\$ 7,513,120	\$ 21,737,077	\$ (14,223,957)	(65.44%)

**See attached footnotes.**

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

Weighted average common shares outstanding	2,263,866	2,265,655		
EPS	\$ 3.32	\$ 9.59		
EBITDA	\$ 30,862,957	\$ 29,470,731	\$ 1,392,226	4.72%
EBITDA Margin	23.50%	23.95%		

## Consolidated Statements of Comprehensive Income—Unaudited

Twelve Months Ended December 31,	2018	2017	Change	% Change
Net income	\$ 7,600,869	\$ 21,825,071	\$ (14,224,202)	-65.2%
Other comprehensive income (loss), net of tax:				
Unrealized holding gain (loss) arising during the period, net of tax benefit in 2018 of \$8,349 and inclusive of net tax benefit in 2017 of \$143,799	(26,439)	270,659	\$ (297,098)	-109.8%
Retirement plans adjustment, net of tax benefit of \$52,755 in 2018 and net tax expense of \$8,361,529 in 2017	(172,977)	(2,481,569)	\$ 2,308,592	-93.0%
Comprehensive income (loss)	<u>\$ 7,401,453</u>	<u>\$ 19,614,161</u>	<u>\$ (12,212,708)</u>	-62.3%

See attached footnotes.

## Consolidated Statements of Stockholders' Equity—Unaudited

Twelve Months Ended December 31,	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				21,825,071				21,825,071
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 tax benefit					(2,481,569)		(2,481,569)	(2,481,569)
Reclassification adjustment for realized gains, net of tax expense						270,659	270,659	270,659
<b>Balance, December 31, 2017</b>	<b>1,856,700</b>	<b>11,323,415</b>	<b>72,356</b>	<b>126,253,127</b>	<b>\$ (38,336,830)</b>	<b>\$ 1,156,318</b>	<b>\$ (37,180,512)</b>	<b>\$ 102,325,086</b>
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				7,600,869				7,600,869
Preferred stock dividends				(87,749)				(87,749)
Common stock dividends				(11,772,492)				(11,772,492)
Acquisition of common stock in excess of stated value				(60,436)				(60,436)
Current retirement plans adjustment, net of tax benefit					(172,977)		(172,977)	(172,977)
Reclassification adjustment for realized gains, net of tax expense						(26,439)	(26,439)	(26,439)
<b>Balance, December 31, 2018</b>	<b>\$ 1,853,200</b>	<b>\$ 11,317,660</b>	<b>\$ 73,876</b>	<b>\$ 121,940,735</b>	<b>\$ (38,509,807)</b>	<b>\$ 1,129,879</b>	<b>\$ (37,379,928)</b>	<b>\$ 97,805,543</b>

See attached footnotes.

## Consolidated Statements of Cash Flows—Unaudited

Twelve Months Ended December 31,	2018	2017	Change	% Change
<b>Cash flows from operating activities</b>				
Net income	\$ 7,600,869	\$ 21,825,071	\$ (14,224,202)	-65.2%
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	19,357,225	21,018,206	(1,660,981)	-7.9%
Change in the allowance for doubtful accounts	48,370	(52,000)	100,370	-193.0%
Loss (gain) on sale, disposal, and abandonment of other assets	(335,077)	390,575	(725,652)	-185.8%
Equity in earnings of unconsolidated entities	(7,783,436)	(6,494,950)	(1,288,486)	19.8%
Deferred income taxes	1,791,080	(13,599,798)	15,390,878	-113.2%
Deferred pension and postretirement benefits	2,219,136	2,417,033	(197,897)	-8.2%
Writedown of intangible, included in restructuring charges	-	550,000	(550,000)	-100.0%
Changes in operating assets and liabilities:				
Accounts receivable	(2,476,373)	(1,334,372)	(1,142,001)	85.6%
Materials and supplies	238,025	384,252	(146,227)	-38.1%
Other assets	3,355,846	(2,953,808)	6,309,654	-213.6%
Accounts payable and payroll withholdings	165,439	3,252,197	(3,086,758)	-94.9%
Accrued expenses	834,864	(582,876)	1,417,740	-243.2%
Other liabilities	(3,084,348)	(3,625,064)	540,716	-14.9%
<b>Net cash provided (used) by operating activities</b>	<b>21,931,620</b>	<b>21,194,466</b>	<b>737,154</b>	<b>3.5%</b>
<b>Cash flow from investing activities</b>				
Additions to property, plant, and equipment	(16,803,060)	(25,054,663)	8,251,603	-32.9%
Cost of removal of telephone plant, net of salvage	(81,494)	(223,258)	141,764	-63.5%
Proceeds from sale of building	2,369,700	-	2,369,700	
Purchases of investment securities	-	(13,934)	13,934	-100.0%
Distributions from unconsolidated entities	7,292,178	6,071,973	1,220,205	20.1%
<b>Net cash provided by (used in) investing activities</b>	<b>(7,222,676)</b>	<b>(19,219,882)</b>	<b>11,997,206</b>	<b>-62.4%</b>
<b>Cash flows from financing activities</b>				
Principal payments on term loan	(2,500,000)	(1,250,000)	(1,250,000)	100.0%
Repayments of line of credit, net of proceeds	(1,500,000)	9,000,000	(10,500,000)	-116.7%
Principal payments on capital leases	(168,842)	(156,622)	(12,220)	7.8%
Acquisition of preferred stock	(1,980)	(9,262)	7,282	-78.6%
Acquisition of common stock	(66,191)	(238,126)	171,935	-72.2%
Cash dividends paid	(11,860,241)	(11,870,785)	10,544	-0.1%
<b>Net cash used in financing activities</b>	<b>(16,097,254)</b>	<b>(4,524,795)</b>	<b>(11,572,459)</b>	<b>255.8%</b>
<b>Net change in cash and cash equivalents</b>	<b>(1,388,310)</b>	<b>(2,550,211)</b>	<b>1,161,901</b>	<b>-45.6%</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>\$ 4,543,565</b>	<b>\$ 5,931,910</b>	<b>\$ (1,388,345)</b>	<b>-23.4%</b>
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid for (refunds of ) income taxes	\$ (1,517,000)	\$ 2,791,849	\$ (4,308,849)	-154.3%
Cash paid for interest	\$ 1,980,530	\$ 1,821,586	\$ 158,944	8.7%
<b>Operating Free Cash Flow (a non-GAAP measure)</b>				
Net cash provided (used) by operating activities	\$ 21,931,620	\$ 21,194,466	\$ 737,154	3.5%
Less: Additions to PP&E, net cost of removal	(16,884,554)	(25,277,921)	8,393,367	-33.2%
<b>Operating Free Cash Flow</b>	<b>\$ 5,047,066</b>	<b>\$ (4,083,455)</b>	<b>\$ 9,130,521</b>	<b>-223.6%</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 December 31, 2018 and 2017 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' equity, and cash flows for the twelve 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 31st day of January 2019.



Scott D. Toth  
EVP, Chief Financial Officer



## Footnotes to the Consolidated Financial Statements—Unaudited For the Twelve Months Ended December 31,

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
<b>At January 1, 2017</b>			
Retained Earnings	\$ 113,943,721	\$ 2,575,140	\$ 116,518,861
Total Stockholders' Equity	92,253,958	2,575,140	94,829,098
<b>At December 31, 2017</b>			
Internet & Data Revenue	30,201,389	(30,469)	30,170,920
Total Internet & Communications Revenue	79,488,196	(30,469)	79,457,727
Managed Services Revenue	20,515,353	(37,708)	20,477,645
Total IT Services & Hardware	44,116,307	(37,708)	44,078,599
Total Operating Revenues	123,604,503	(68,177)	123,536,326
Net Operating Revenue	123,111,209	(68,177)	123,043,032
Internet & Communications COGS	32,448,580	244,517	32,693,097
Managed Services COGS	9,288,986	28,390	9,317,376
Total COGS	63,793,191	272,907	64,066,098
Gross Margin	59,318,018	(341,084)	58,976,934
Sales and Customer Service	19,261,163	51,447	19,312,610
Total SG&A	35,581,507	51,447	35,632,954
Net Operating Income	2,715,779	(392,531)	2,323,248
Income before Income Taxes	7,413,453	(392,531)	7,020,922
Income Taxes	(14,157,769)	(646,380)	(14,804,149)
Net Income	21,571,222	253,849	21,825,071
EPS	\$ 9.50	0.11	\$ 9.62
Other non-current assets	690,934	5,009,683	5,700,617
Total other assets	57,050,113	5,009,683	62,059,796
Total Assets	242,111,357	5,009,683	247,121,040
Deferred income taxes	19,437,418	862,762	20,300,180
Other deferred credits	653,517	1,317,932	1,971,449
Total Other Liabilities	119,075,181	2,180,694	121,255,875
Retained Earnings	101,852,916	2,575,140	104,428,056
Current Earnings	21,571,222	253,849	21,825,071
Total Stockholders' Equity	99,496,096	2,828,989	102,325,085
Total Liabilities and Stockholders' Equity	242,111,357	5,009,683	247,121,040

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.