

Summary of Consolidated Statements of Net Income—Unaudited

Amounts in millions except per share amounts

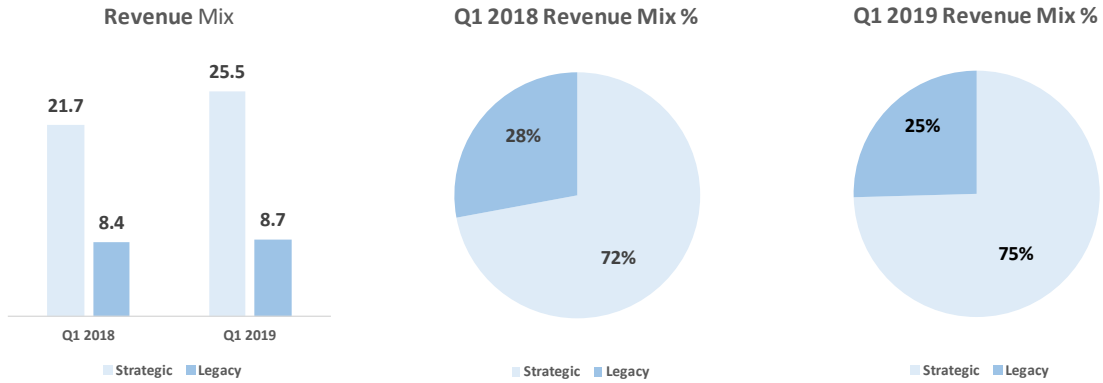
	For the Three Months Ended March 31,			
	2019	2018	Change	% Change
Operating revenue				
Internet & communications	\$ 21.3	\$ 20.4	\$ 0.9	4.4%
IT Services & Hardware	13.1	10.1	3.0	29.9%
Uncollectible revenue	(0.1)	(0.3)	0.1	-51.7%
Net operating revenue	<u>34.2</u>	<u>30.1</u>	<u>4.0</u>	<u>13.4%</u>
Operating expenses				
Cost of goods and services	17.7	14.7	3.1	20.9%
Selling, general, and administrative	9.2	8.8	0.4	4.3%
Depreciation and amortization	4.6	4.7	(0.2)	-3.7%
Total Operating Expense	<u>31.4</u>	<u>28.2</u>	<u>3.3</u>	<u>11.6%</u>
Operating Income	2.7	2.0	0.8	39.1%
Net Nonoperating income (expense)	0.9	0.6	0.3	53.5%
Income before income taxes	3.7	2.6	1.1	42.5%
Income Taxes	0.8	0.6	0.2	33.0%
Net income (loss) available to common shareholders	<u>\$ 2.9</u>	<u>\$ 2.0</u>	<u>\$ 0.9</u>	<u>45.4%</u>
EPS	\$ 1.26	\$ 0.87		

See attached footnotes.

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

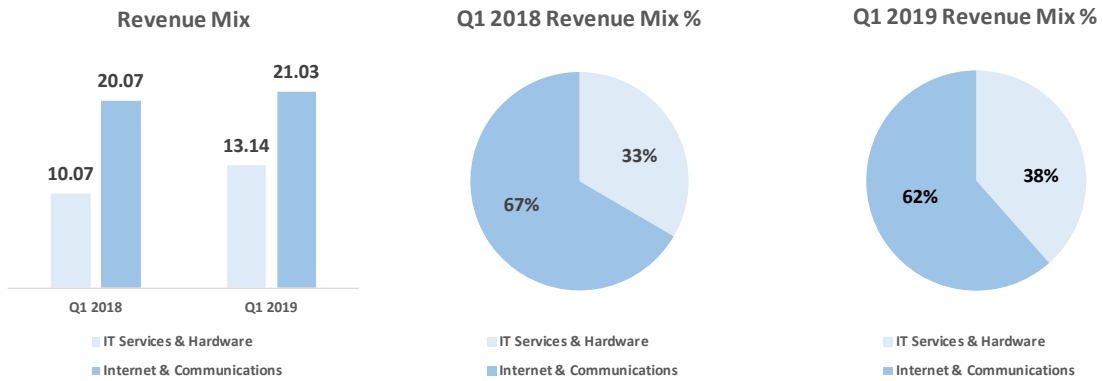
Summary of Net Operating Revenue—Unaudited For the Three Months Ended March 31, 2019

Net Operating Revenue by Strategic vs. Legacy

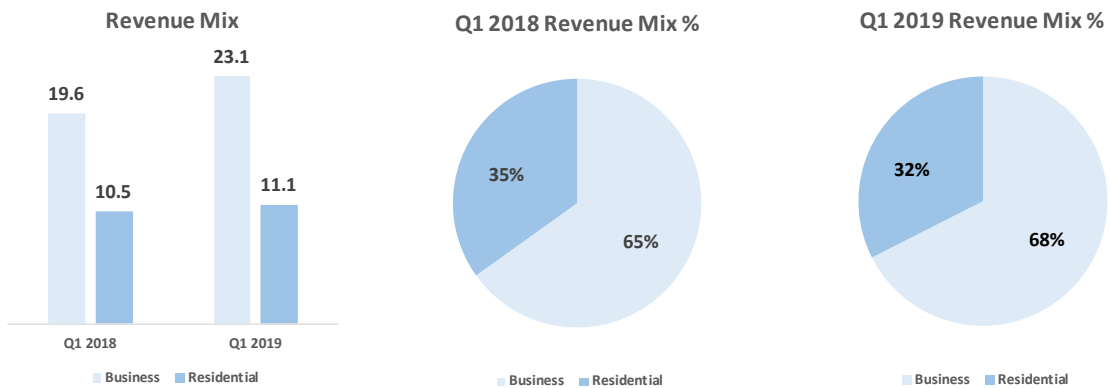


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

Net Operating Revenue by Product Segment



Net Operating Revenue by Customer Segment



All dollar amounts in millions

Consolidated Balance Sheets—Unaudited

At March 31,	2019	2018	Change	% Change
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,371,339	\$ 2,804,603	\$ (433,264)	-15.4%
Accounts receivable	17,192,576	9,761,495	7,431,081	76.1%
Materials and supplies	1,750,558	2,041,251	(290,693)	-14.2%
Prepayments	3,176,677	3,064,207	112,470	3.7%
Income tax recoverable	20,791	3,092,581	(3,071,789)	-99.3%
Other current assets	2,247,855	2,357,132	(109,277)	-4.6%
Total Current Assets	26,759,797	23,121,269	3,638,528	15.7%
Property, plant and equipment				
Under construction	-	2,459,761	(2,459,761)	
In service	548,308,289	534,821,702	13,486,587	2.52%
Total Property, Plant and Equipment	548,308,289	537,281,463	11,026,826	2.05%
Less accumulated depreciation & amortization	(397,536,032)	(383,199,983)	(14,336,049)	3.74%
Property, plant and equipment, net	150,772,257	154,081,480	(3,309,223)	-2.15%
Other assets				
Investment securities	2,105,823	2,110,661	(4,838)	-0.23%
Investment in unconsolidated subsidiaries	10,754,318	10,091,377	662,941	6.57%
Intangibles, net of amortization	11,450,629	12,901,859	(1,451,231)	-11.25%
Goodwill	31,244,755	31,244,755	-	
Other non-current assets	15,680,679	3,101,095	12,579,584	NM
Total other assets	71,236,203	59,449,747	11,786,456	19.83%
Total Assets	\$ 248,768,256	\$ 236,652,496	\$ 12,115,761	5.12%
Liabilities and Equity				
Current liabilities				
Current maturities of long term debt	4,375,000	2,500,000	1,875,000	75.00%
Current maturities of capital lease obligations	184,581	171,999	12,583	7.32%
Accounts payable and payroll withholdings	2,343,298	1,570,110	773,188	49.24%
Advanced billings and customer deposits	4,240,978	3,922,400	318,578	8.12%
Income taxes payable	160,567	-	160,567	
Accrued expenses	7,743,508	7,407,691	335,817	4.53%
Accrued taxes, other than income	429,798	398,456	31,342	7.87%
Total current liabilities	19,477,730	15,970,656	3,507,074	21.96%
Other liabilities				
Revolving credit note	\$ 11,000,000	\$ 7,500,000	\$ 3,500,000	46.67%
Bank note, net of current maturities	41,064,129	45,358,022	(4,293,893)	-9.47%
Capital Lease Obligations, net of current maturities	5,394,669	5,579,250	(184,581)	-3.31%
Deferred income taxes	21,848,437	20,774,942	1,073,495	5.17%
Accrued pension benefits	37,114,710	37,339,926	(225,217)	-0.60%
Accrued post retirement life insurance benefits	654,665	866,777	(212,112)	-24.47%
Other deferred credits	13,909,708	1,941,247	11,968,461	NM
Total other liabilities	130,986,318	119,360,165	11,626,154	9.74%
Stockholders' equity				
Preferred Stock	1,853,200	1,855,200	(2,000)	-0.11%
Common stock	11,317,660	11,320,080	(2,420)	-0.02%
Paid in capital	73,876	73,036	840	1.15%
Unrealized appreciation of securities, net of tax	1,123,883	1,156,318	(32,435)	-2.81%
Retirement plans adjustments, net of tax	(38,317,890)	(38,336,830)	18,940	-0.05%
Retained earnings	119,396,151	123,288,211	(3,892,060)	-3.16%
Current earnings	2,857,328	1,965,660	891,668	45.36%
Total Stockholders' Equity	98,304,208	101,321,675	(3,017,467)	-2.98%
Total Liabilities and Stockholders' Equity	\$ 248,768,256	\$ 236,652,496	\$ 12,115,761	5.12%

See attached footnotes.

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

Consolidated Statements of Net Income—Unaudited

For the Three Months Ended March 31,	2019	2018	Change	% Change
Operating Revenues				
Internet and communications				
Internet & data	\$ 7,944,313	\$ 7,538,198	\$ 406,115	5.39%
Entertainment	3,790,773	3,597,215	193,558	5.38%
Legacy voice	8,747,755	8,507,359	240,396	2.83%
Ad search	751,069	692,262	58,807	8.49%
Other communications revenue	25,168	29,268	(4,100)	(14.01%)
Total internet & communications	21,259,078	20,364,302	894,776	4.39%
IT services & hardware				
Managed Services	4,726,777	5,154,824	(428,047)	(8.30%)
Professional Services	2,003,750	1,206,324	797,426	66.10%
Telecom & IT Equipment	6,329,290	3,689,584	2,639,706	71.54%
Total IT Services & Hardware	13,059,817	10,050,732	3,009,085	29.94%
Total operating revenues	34,318,895	30,415,034	3,903,861	12.84%
Uncollectible revenue	(129,517)	(267,966)	138,449	(51.67%)
Net operating revenue	34,189,378	30,147,068	4,042,310	13.41%
Cost of goods and services				
Internet & Communications	8,803,046	8,731,046	72,000	0.82%
IT services & hardware				
Managed Services	2,685,425	2,280,661	404,764	17.75%
Professional Services	1,037,716	850,830	186,886	21.97%
Telecom & IT Equipment	5,211,647	2,809,350	2,402,297	85.51%
Total COGS	17,737,834	14,671,887	3,065,947	20.90%
Gross Margin	16,451,544	15,475,181	976,363	6.31%
Depreciation and amortization expense	4,550,498	4,723,800	(173,302)	(3.67%)
Selling, general, and administrative expense				
Sales and Customer Service	5,156,338	4,705,424	450,914	9.58%
General and Administrative	4,003,887	4,075,951	(72,064)	(1.77%)
Total Selling, General, and Administrative	9,160,225	8,781,375	378,850	4.31%
Net Operating Income	2,740,821	1,970,006	770,815	39.13%
Nonoperating income (expense):				
Interest Income	860	1,520	(660)	(43.42%)
Interest expense, net of capitalized interest	(524,369)	(464,290)	(60,079)	12.94%
Equity in earnings of unconsolidated entities	2,055,000	1,650,000	405,000	24.55%
Net periodic pension cost	(614,000)	(589,330)	(24,670)	4.19%
Other income (expense) net	(240)	(240)	-	
Net Nonoperating income (expense)	917,251	597,660	319,591	53.47%
Income before income taxes	3,658,072	2,567,666	1,090,406	42.47%
Income Taxes	800,744	602,006	198,738	33.01%
Net income	2,857,328	1,965,660	891,668	45.36%
Preferred stock dividends	-	-	-	
Net income available to common shareholder	\$ 2,857,328	\$ 1,965,660	\$ 891,668	45.36%

See attached footnotes.

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

Weighted average common shares outstanding	2,263,532	2,264,461		
EPS	\$ 1.26	\$ 0.87		
EBITDA	\$ 8,217,722	\$ 7,442,171	\$ 775,551	10.42%
EBITDA Margin	24.04%	24.69%		

Consolidated Statements of Comprehensive Income—Unaudited

For the Three Months Ended March 31,	2019	2018	Change	% Change
Net income	\$ 2,857,328	\$ 1,965,660	\$ 891,668	45.4%
Other comprehensive income (loss), net of tax	-	-	-	
Comprehensive income (loss)	<u>\$ 2,857,328</u>	<u>\$ 1,965,660</u>	<u>\$ 891,668</u>	45.4%

See attached footnotes.

Consolidated Statements of Stockholders' Equity—Unaudited

For the Three Months Ended March 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, 2018	1,856,700	11,323,415	72,356	126,267,083	\$ (38,336,830)	\$ 1,156,318	\$ (37,180,512)	\$ 102,339,042
Acquisition of stock	(1,500)	(3,335)	680				-	(4,155)
Net income				1,965,660			-	1,965,660
Preferred stock dividends							-	-
Common stock dividends				(2,944,088)			-	(2,944,088)
Acquisition of common stock in excess of stated value				(34,784)			-	(34,784)
Balance, March 31, 2018	<u>1,855,200</u>	<u>11,320,080</u>	<u>73,036</u>	<u>125,253,871</u>	<u>\$ (38,336,830)</u>	<u>\$ 1,156,318</u>	<u>\$ (37,180,512)</u>	<u>\$ 101,321,675</u>
Balance, January 1, 2019	1,853,200	11,317,660	73,876	122,338,743	\$ (38,317,890)	\$ 1,123,883	\$ (37,194,007)	\$ 98,389,471
Acquisition of stock	-	-	-				-	-
Net income				2,857,328			-	2,857,328
Preferred stock dividends							-	-
Common stock dividends				(2,942,592)			-	(2,942,592)
Acquisition of common stock in excess of stated value							-	-
Balance, March 31, 2019	<u>\$ 1,853,200</u>	<u>\$ 11,317,660</u>	<u>\$ 73,876</u>	<u>\$ 122,253,479</u>	<u>\$ (38,317,890)</u>	<u>\$ 1,123,883</u>	<u>\$ (37,194,007)</u>	<u>\$ 98,304,208</u>

See attached footnotes.

Consolidated Statements of Cash Flows—Unaudited

For the Three Months Ended March 31,	2019	2018	Change	% Change
Cash flows from operating activities				
Net income	\$ 2,857,328	\$ 1,965,660	\$ 891,668	45.4%
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	4,550,498	4,723,800	(173,302)	-3.7%
Change in the allowance for doubtful accounts	(78,370)	(13,767)	(64,603)	NM
Loss (gain) on sale, disposal, and abandonment of other assets	-	28,253	(28,253)	
Cash distributions from unconsolidated entities less than current earnings	(515,217)	(313,585)	(201,632)	64.3%
Deferred income taxes	484,947	358,302	126,645	35.3%
Deferred pension and postretirement benefits	542,968	536,882	6,086	1.1%
Changes in operating assets and liabilities:				
Accounts receivable	1,709,054	6,707,772	(4,998,718)	-74.5%
Materials and supplies	(201,756)	(254,424)	52,668	-20.7%
Other assets	(11,772,865)	531,365	(12,304,230)	NM
Accounts payable and payroll withholdings	(6,620,080)	(6,311,669)	(308,411)	4.9%
Accrued expenses	(721,422)	(414,284)	(307,138)	74.1%
Other liabilities	11,747,636	(774,892)	12,522,528	NM
Net cash provided (used) by operating activities	1,982,721	6,769,413	(4,786,692)	-70.7%
Cash flow from investing activities				
Additions to property, plant, and equipment	(3,986,714)	(4,688,331)	701,617	-15.0%
Cost of removal of telephone plant, net of salvage	(54,991)	(57,838)	2,847	-4.9%
Net cash provided by (used in) investing activities	(4,041,705)	(4,746,169)	704,464	-14.8%
Cash flows from financing activities				
Principal payments on term loan	(625,000)	(625,000)	-	0.0%
Repayments of line of credit, net of proceeds	3,500,000	(1,500,000)	5,000,000	NM
Principal payments on capital leases	(45,650)	(42,493)	(3,157)	7.4%
Acquisition of preferred stock	-	(820)	820	
Acquisition of common stock	-	(38,119)	38,119	
Cash dividends paid	(2,942,592)	(2,944,088)	1,496	-0.1%
Net cash used in financing activities	(113,242)	(5,150,520)	5,037,278	-97.8%
Net change in cash and cash equivalents	(2,172,226)	(3,127,276)	955,050	-30.5%
Cash and cash equivalents at beginning of period	4,543,565	5,931,879	(1,388,314)	-23.4%
Cash and cash equivalents at end of period	\$ 2,371,339	\$ 2,804,603	\$ (433,264)	-15.4%
Supplemental disclosure of cash flow information:				
Cash paid for (refunds of) income taxes	\$ (943,719)	\$ -	\$ (943,719)	
Cash paid for interest	\$ 604,873	\$ 444,014	\$ 160,859	36.2%
Distributions from unconsolidated entities	\$ 1,539,783	\$ 1,336,415	203,368	15.2%
Operating Free Cash Flow (a non-GAAP measure)				
Adjusted Net cash provided (used) by operating activities	\$ 442,938	\$ 5,432,998	\$ (4,990,060)	-91.8%
Less: Additions to PP&E, net cost of removal	(4,041,705)	(4,746,169)	704,464	-14.8%
Operating Free Cash Flow	\$ (3,598,767)	\$ 686,829	\$ (4,285,596)	NM

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 March 31, 2019 and 2018 and the related unaudited consolidated statements of net income, comprehensive income, stockholders' equity, and cash flows for the three 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 25th day of April 2019.



Scott D. Toth
EVP, Chief Financial Officer

Footnotes to the Consolidated Financial Statements—Unaudited For the Three Months Ended March 31, 2019

Footnote 1 EBITDA, EBITDA Margin and Operating Free Cash Flow are non-GAAP financial measures. Non-GAAP EBITDA is calculated using GAAP net income plus adding the following GAAP items: interest expense, income taxes, depreciation and amortization and distributions from unconsolidated entities, while subtracting equity in earnings of 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: distributions from unconsolidated entities and 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.