

Summary of Consolidated Statements of Net Income—Unaudited

Amounts in millions except per share amounts

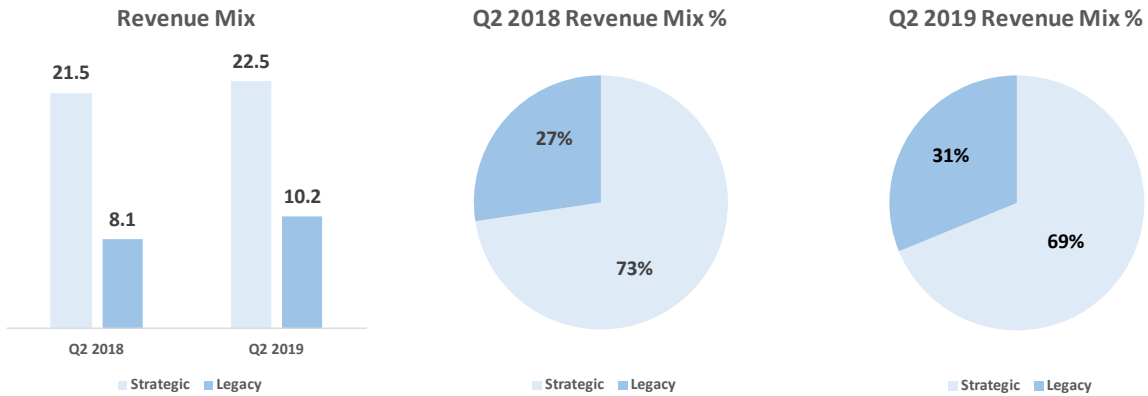
	For the Quarter Ended June 30,				For the Six Months Ended June 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Operating revenue								
Internet & communications	\$ 22.7	\$ 20.1	\$ 2.7	13.4%	\$ 44.0	\$ 40.4	\$ 3.6	8.9%
IT Services & Hardware	10.2	9.8	0.5	4.8%	23.3	19.8	3.5	17.6%
Uncollectible revenue	(0.3)	(0.2)	(0.0)	8.6%	(0.4)	(0.5)	0.1	-23.1%
Net operating revenue	<u>32.7</u>	<u>29.6</u>	<u>3.1</u>	<u>10.6%</u>	<u>66.9</u>	<u>59.7</u>	<u>7.2</u>	<u>12.0%</u>
Operating expenses								
Cost of goods and services	15.7	16.0	(0.3)	-1.8%	33.4	30.6	2.8	9.1%
Selling, general, and administrative	8.7	8.2	0.5	5.6%	17.8	17.0	0.8	4.9%
Depreciation and amortization	4.7	4.8	(0.1)	-2.8%	9.2	9.6	(0.3)	-3.2%
Total Operating Expense	<u>29.1</u>	<u>29.0</u>	<u>0.0</u>	<u>0.2%</u>	<u>60.5</u>	<u>57.2</u>	<u>3.3</u>	<u>5.8%</u>
Operating Income	3.7	0.6	3.1	NM	6.4	2.5	3.9	152.3%
Net Nonoperating income (expense)	1.1	1.3	(0.2)	-18.6%	2.0	1.9	0.1	4.1%
Income before income taxes	4.7	1.9	2.8	152.6%	8.4	4.4	3.9	88.8%
Income Taxes	1.0	0.4	0.6	130.0%	1.8	1.0	0.8	74.3%
Preferred stock dividends	-	-	-		-	-	-	
Net income (loss) available to common shareholders	<u>\$ 3.6</u>	<u>\$ 1.4</u>	<u>\$ 2.3</u>	<u>164.8%</u>	<u>\$ 6.5</u>	<u>\$ 3.3</u>	<u>\$ 3.2</u>	<u>94.6%</u>
EPS	\$ 1.61	\$ 0.61			\$ 2.87	\$ 1.48		

See attached footnotes.

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

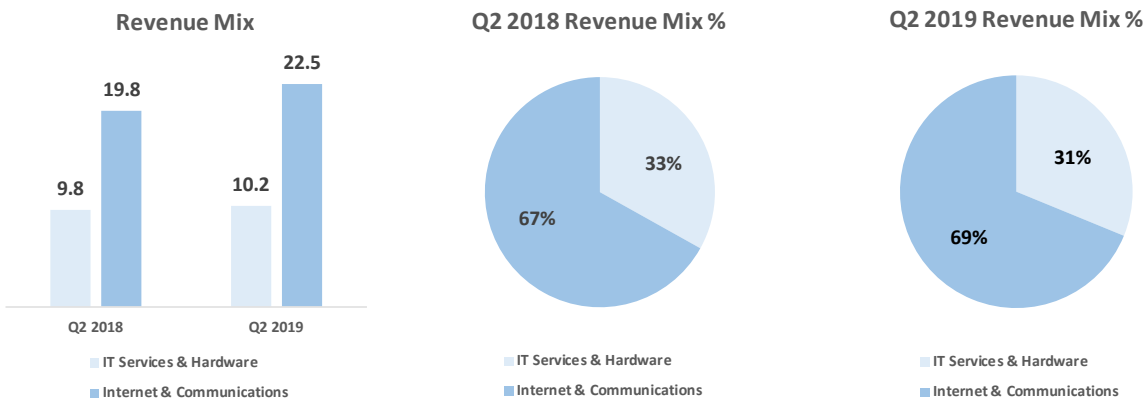
Summary of Net Operating Revenue—Unaudited For the Three Months Ended June 30,

Net Operating Revenue by Strategic vs. Legacy

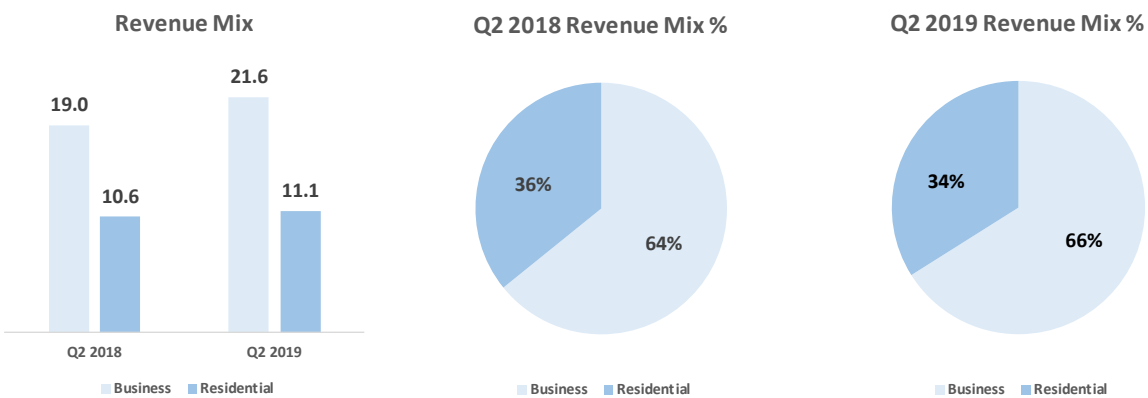


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

Net Operating Revenue by Product Segment



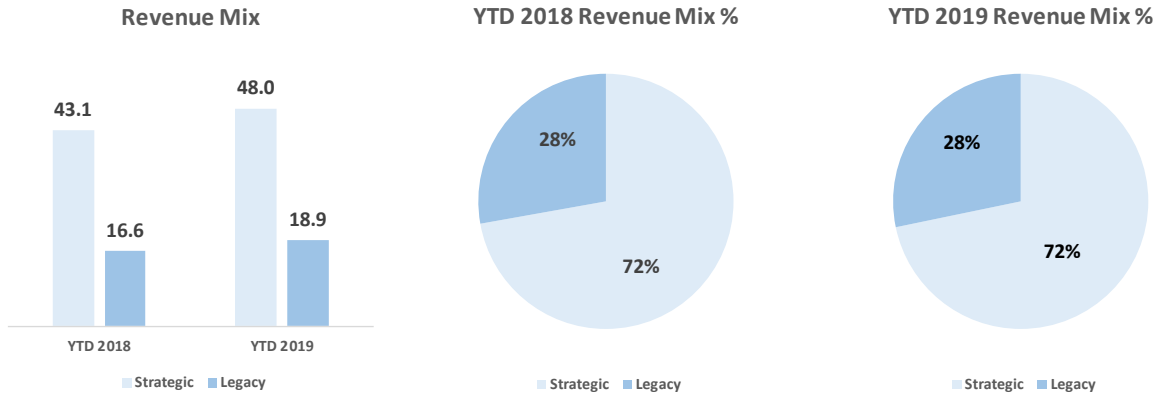
Net Operating Revenue by Customer Segment



All dollar amounts in millions

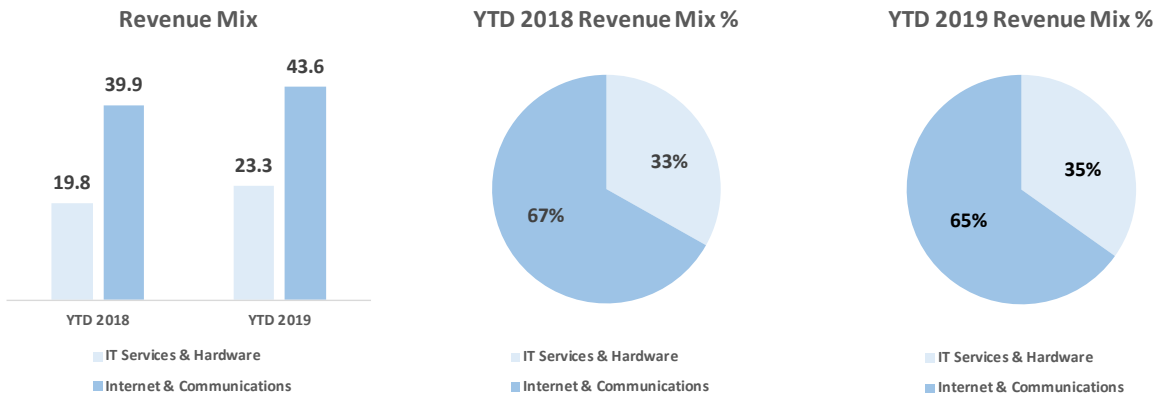
Summary of Net Operating Revenue—Unaudited For the Six Months Ended June 30,

Net Operating Revenue by Strategic vs. Legacy

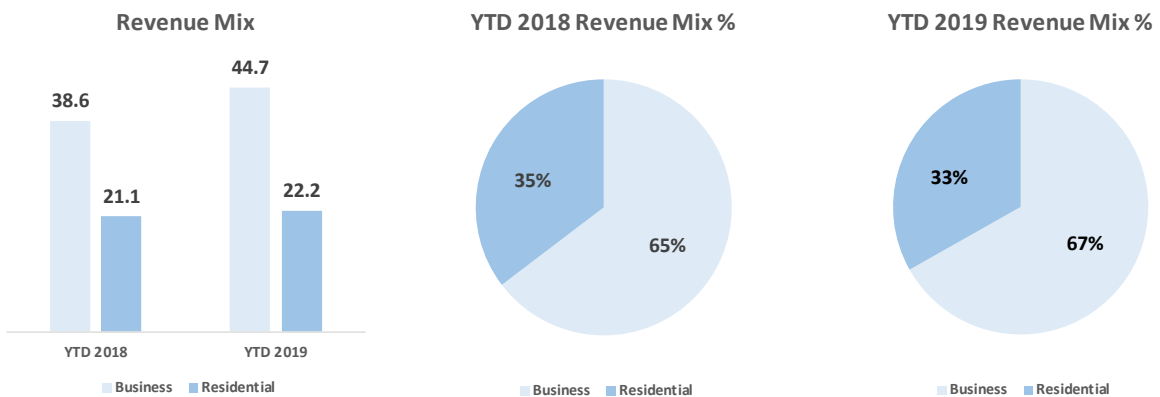


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

Net Operating Revenue by Product Segment



Net Operating Revenue by Customer Segment



All dollar amounts in millions

Consolidated Balance Sheets—Unaudited

At June 30,	2019	2018	Change	% Change
Assets				
Current Assets				
Cash and cash equivalents	\$ 4,916,210	\$ 1,209,617	\$ 3,706,593	306.4%
Accounts receivable	14,253,056	12,477,541	1,775,515	14.2%
Materials and supplies	2,221,308	1,599,785	621,523	38.9%
Prepayments	3,342,492	2,863,073	479,420	16.7%
Income tax recoverable	212,979	1,634,727	(1,421,748)	-87.0%
Other current assets	1,840,566	2,163,868	(323,302)	-14.9%
Total Current Assets	26,786,611	21,948,611	4,838,000	22.0%
Property, plant and equipment				
Under construction	-	3,794,814	(3,794,814)	
In service	552,312,987	538,354,230	13,958,757	2.59%
Total Property, Plant and Equipment	552,312,987	542,149,043	10,163,943	1.87%
Less accumulated depreciation & amortization	(401,743,330)	(387,426,848)	(14,316,482)	3.70%
Property, plant and equipment, net	150,569,657	154,722,195	(4,152,539)	-2.68%
Other assets				
Investment securities	2,137,190	2,110,661	26,530	1.26%
Investment in unconsolidated subsidiaries	10,154,277	9,790,795	363,482	3.71%
Intangibles, net of amortization	11,095,560	12,577,748	(1,482,188)	-11.78%
Goodwill	31,244,755	31,244,755	-	
Other non-current assets	15,508,835	3,155,359	12,353,476	NM
Total other assets	70,140,617	58,879,317	11,261,300	19.13%
Total Assets	\$ 247,496,885	\$ 235,550,123	\$ 11,946,762	5.07%
Liabilities and Equity				
Current liabilities				
Current maturities of long term debt	5,000,000	2,500,000	2,500,000	100.00%
Current maturities of capital lease obligations	188,391	175,287	13,104	7.48%
Accounts payable and payroll withholdings	2,692,484	1,514,822	1,177,662	77.74%
Advanced billings and customer deposits	4,847,890	4,600,910	246,980	5.37%
Income taxes payable	-	(16,000)	16,000	
Accrued expenses	8,526,817	8,308,930	217,886	2.62%
Accrued taxes, other than income	817,418	790,746	26,672	3.37%
Total current liabilities	22,072,999	17,874,694	4,198,305	23.49%
Other liabilities				
Revolving credit note	\$ 8,000,000	\$ 6,500,000	\$ 1,500,000	23.08%
Bank note, net of current maturities	39,834,406	44,753,299	(4,918,893)	-10.99%
Capital Lease Obligations, net of current maturities	5,346,638	5,535,028	(188,391)	-3.40%
Deferred income taxes	22,521,297	21,200,686	1,320,611	6.23%
Accrued pension benefits	36,475,398	37,136,760	(661,362)	-1.78%
Accrued post retirement life insurance benefits	672,915	888,428	(215,513)	-24.26%
Other deferred credits	13,566,660	1,920,450	11,646,211	NM
Total other liabilities	126,417,315	117,934,651	8,482,664	7.19%
Stockholders' equity				
Preferred Stock	1,853,200	1,853,200	-	
Common stock	11,317,660	11,318,955	(1,295)	-0.01%
Paid in capital	73,876	73,876	-	
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	116,409,685	120,289,191	(3,879,506)	-3.23%
Current earnings	6,546,158	3,386,068	3,160,089	93.33%
Total Stockholders' Equity	99,006,571	99,740,778	(734,206)	-0.74%
Total Liabilities and Stockholders' Equity	\$ 247,496,885	\$ 235,550,123	\$ 11,946,762	5.07%

See attached footnotes.

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

Consolidated Statements of Net Income—Unaudited

For the Six Months Ended June 30,	2019	2018	Change	% Change
Operating Revenues				
Internet and communications				
Internet & data	\$ 16,019,761	\$ 15,106,006	\$ 913,755	6.05%
Entertainment	7,520,604	7,243,592	277,012	3.82%
Legacy voice	18,969,656	16,696,725	2,272,931	13.61%
Ad search	1,449,116	1,320,827	128,289	9.71%
Other communications revenue	48,129	56,727	(8,598)	(15.16%)
Total internet & communications	44,007,266	40,423,877	3,583,389	8.86%
IT services & hardware				
Managed Services	9,557,591	9,970,909	(413,318)	(4.15%)
Professional Services	3,845,975	2,356,388	1,489,587	63.21%
Telecom & IT Equipment	9,887,433	7,486,062	2,401,371	32.08%
Total IT Services & Hardware	23,290,999	19,813,359	3,477,640	17.55%
Total operating revenues	67,298,265	60,237,236	7,061,029	11.72%
Uncollectible revenue	(392,336)	(510,017)	117,681	(23.07%)
Net operating revenue	66,905,929	59,727,219	7,178,710	12.02%
Cost of goods and services				
Internet & Communications	17,497,283	18,059,927	(562,644)	(3.12%)
IT services & hardware				
Managed Services	5,473,390	4,814,334	659,056	13.69%
Professional Services	2,150,028	1,832,037	317,991	17.36%
Telecom & IT Equipment	8,301,988	5,930,271	2,371,717	39.99%
Total COGS	33,422,689	30,636,569	2,786,120	9.09%
Gross Margin	33,483,240	29,090,650	4,392,590	15.10%
Depreciation and amortization expense	9,242,311	9,551,145	(308,834)	(3.23%)
Selling, general, and administrative expense				
Sales and Customer Service	9,941,569	9,275,407	666,162	7.18%
General and Administrative	7,902,359	7,728,738	173,621	2.25%
Total Selling, General, and Administrative	17,843,928	17,004,145	839,783	4.94%
Net Operating Income	6,397,001	2,535,360	3,861,641	152.31%
Nonoperating income (expense):				
Interest Income	1,146	2,650	(1,504)	(56.75%)
Interest expense, net of capitalized interest	(981,490)	(1,004,585)	23,095	(2.30%)
Equity in earnings of unconsolidated entities	4,185,894	4,080,353	105,541	2.59%
Net periodic pension cost	(1,228,000)	(1,178,659)	(49,341)	4.19%
Other income (expense) net	(480)	(480)	-	
Net Nonoperating income (expense)	1,977,070	1,899,279	77,791	4.10%
Income before income taxes	8,374,071	4,434,639	3,939,432	88.83%
Income Taxes	1,827,912	1,048,572	779,340	74.32%
Net income	6,546,159	3,386,067	3,160,092	93.33%
Preferred stock dividends	43,875	43,875	-	
Net income available to common shareholder	\$ 6,502,285	\$ 3,342,193	\$ 3,160,092	94.55%

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	\$ 2.87	\$ 1.48		
EBITDA (a non-GAAP measure)	\$ 18,682,696	\$ 14,977,366	\$ 3,705,330	24.74%
EBITDA Margin (a non-GAAP measure)	27.92%	25.08%		

Consolidated Statements of Comprehensive Income—Unaudited

For the Six Months Ended June 30,	2019	2018	Change	% Change
Net income	\$ 6,546,159	\$ 3,386,067	\$ 3,160,092	93.3%
Other comprehensive income (loss), net of tax:	-	-	-	
Comprehensive income (loss)	<u>\$ 6,546,159</u>	<u>\$ 3,386,067</u>	<u>\$ 3,160,092</u>	93.3%

See attached footnotes.

Consolidated Statements of Stockholders' Equity—Unaudited

For the 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, 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	(3,500)	(4,460)	1,520				-	(6,440)
Net income				3,386,067			-	3,386,067
Preferred stock dividends				(43,875)			-	(43,875)
Common stock dividends				(5,887,309)			-	(5,887,309)
Acquisition of common stock in excess of stated value				(46,709)			-	(46,709)
Current retirement plans adjustment, net of tax benefit							-	-
Reclassification adjustment for realized gains, net of tax expense							-	-
Balance, June 30, 2018	1,853,200	11,318,955	73,876	123,675,258	\$ (38,336,830)	\$ 1,156,318	\$ (37,180,512)	\$ 99,740,777
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				6,546,159			-	6,546,159
Preferred stock dividends				(43,875)			-	(43,875)
Common stock dividends				(5,885,183)			-	(5,885,183)
Acquisition of common stock in excess of stated value				-			-	-
Current retirement plans adjustment, net of tax benefit							-	-
Reclassification adjustment for realized gains, net of tax expense							-	-
Balance, June 30, 2019	\$ 1,853,200	\$ 11,317,660	\$ 73,876	\$ 122,955,844	\$ (38,317,890)	\$ 1,123,883	\$ (37,194,007)	\$ 99,006,573

See attached footnotes.

Consolidated Statements of Cash Flows—Unaudited

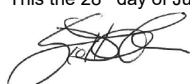
For the Six Months Ended June 30,	2019	2018	Change	% Change
Cash flows from operating activities				
Net income	\$ 6,546,159	\$ 3,386,067	\$ 3,160,092	93.3%
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	9,242,310	9,551,145	(308,835)	-3.2%
Change in the allowance for doubtful accounts	(78,370)	(11,751)	(66,619)	NM
Loss (gain) on sale, disposal, and abandonment of other assets	-	139,479	(139,479)	
Cash distributions from unconsolidated entities less than current earnings	53,456	(13,003)	66,459	NM
Deferred income taxes	1,157,807	664,046	493,761	74.4%
Deferred pension and postretirement benefits	1,156,968	1,083,189	73,779	6.8%
Changes in operating assets and liabilities:				
Accounts receivable	4,648,574	3,860,363	788,211	20.4%
Materials and supplies	(672,506)	187,042	(859,548)	NM
Other assets	(11,524,761)	2,693,017	(14,217,778)	NM
Accounts payable and payroll withholdings	(5,663,982)	(6,590,186)	926,204	-14.1%
Accrued expenses	288,939	1,241,444	(952,505)	-76.7%
Other liabilities	10,190,821	(1,529,964)	11,720,785	NM
Net cash provided (used) by operating activities	15,345,415	14,660,887	684,528	4.7%
Cash flow from investing activities				
Additions to property, plant, and equipment	(8,135,959)	(9,578,499)	1,442,540	-15.1%
Cost of removal of telephone plant, net of salvage	(67,882)	13,108	(80,990)	NM
Net cash provided by (used in) investing activities	(8,203,841)	(9,565,391)	1,361,550	-14.2%
Cash flows from financing activities				
Principal payments on term loan	(1,250,000)	(1,250,000)	-	0.0%
Repayments of line of credit, net of proceeds	500,000	(2,500,000)	3,000,000	-120.0%
Principal payments on capital leases	(89,871)	(83,426)	(6,445)	7.7%
Acquisition of preferred stock	-	(1,980)	1,980	
Acquisition of common stock	-	(51,169)	51,169	
Cash dividends paid	(5,929,058)	(5,931,183)	2,125	0.0%
Net cash used in financing activities	(6,768,929)	(9,817,758)	3,048,829	-31.1%
Net change in cash and cash equivalents	372,645	(4,722,262)	5,094,907	-107.9%
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	\$ 4,916,210	\$ 1,209,617	\$ 3,706,593	306.4%
Supplemental disclosure of cash flow information:				
Cash paid for (refunds of) income taxes	\$ (943,719)	\$ (1,550,000)	\$ 606,281	-39.1%
Cash paid for interest	\$ 940,937	\$ 974,206	\$ (33,269)	-3.4%
Distributions from unconsolidated entities	\$ 4,270,718	\$ 4,067,350	203,368	5.0%
Operating Free Cash Flow (a non-GAAP measure)				
Adjusted Net cash provided (used) by operating activities	\$ 11,074,697	\$ 10,593,537	\$ 481,160	4.5%
Less: Additions to PP&E, net cost of removal	(8,203,841)	(9,565,391)	1,361,550	-14.2%
Operating Free Cash Flow	\$ 2,870,856	\$ 1,028,146	\$ 1,842,710	179.2%

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, 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 28th day of July 2019.



Scott D. Toth
EVP, Chief Financial Officer

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

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.

Footnote 2 In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases" (Topic 842) ("ASU 2016-02"), which addresses enhanced accounting for and reporting of leases for lessees and lessors. The main provisions include lessees recognizing the assets and liabilities arising from leases on the balance sheet. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for periods beginning after December 15, 2018 for public business entities, with early adoption allowed under certain circumstances. The Company has determined that in 2019 the assets and liabilities relating to the adoption of this standard will increase by approximately \$12.9 million.