

Summary of Consolidated Statements of Net Income—Unaudited

Amounts in millions except per share amounts

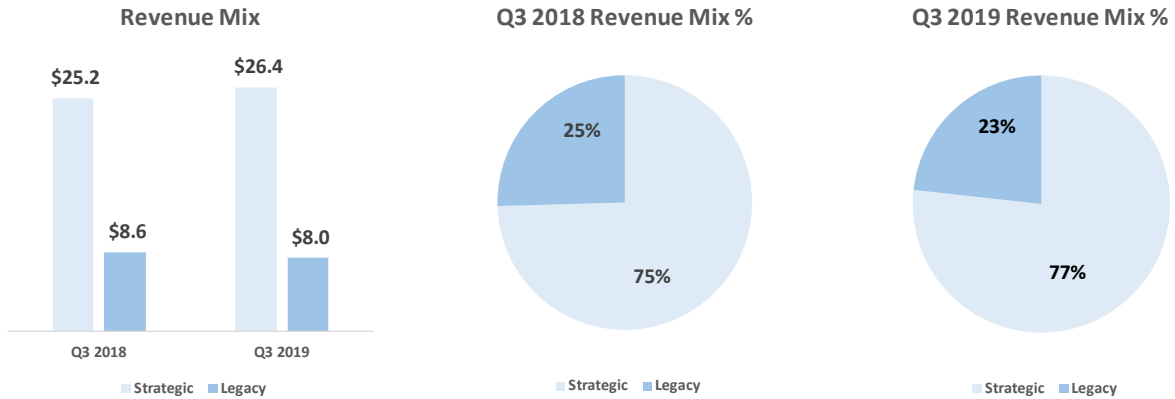
	For the Quarter Ended September 30,				For the Nine Months Ended September 30,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Operating revenue								
Internet & communications	\$ 20.6	\$ 20.5	\$ 0.1	0.4%	\$ 64.6	\$ 60.9	\$ 3.7	6.0%
IT Services & Hardware	14.1	13.5	0.6	4.2%	37.4	33.3	4.0	12.1%
Uncollectible revenue	(0.2)	(0.2)	(0.0)	9.3%	(0.6)	(0.7)	0.1	-13.3%
Net operating revenue	<u>34.4</u>	<u>33.8</u>	<u>0.6</u>	<u>1.9%</u>	<u>101.3</u>	<u>93.5</u>	<u>7.8</u>	<u>8.3%</u>
Operating expenses								
Cost of goods and services	19.3	17.9	1.4	7.6%	52.7	48.6	4.2	8.6%
Selling, general, and administrative	8.8	8.8	(0.0)	-0.1%	26.6	25.8	0.8	3.2%
Depreciation and amortization	4.8	4.9	(0.1)	-2.8%	14.0	14.5	(0.4)	-3.1%
Total Operating Expense	<u>32.8</u>	<u>31.6</u>	<u>1.2</u>	<u>3.9%</u>	<u>93.3</u>	<u>88.8</u>	<u>4.5</u>	<u>5.1%</u>
Operating Income	1.6	2.2	(0.6)	-27.6%	8.0	4.7	3.3	69.5%
Net Nonoperating income (expense)	0.9	0.6	0.3	44.8%	2.9	2.5	0.4	14.5%
Income before income taxes	2.5	2.8	(0.3)	-10.9%	10.9	7.2	3.6	50.2%
Income Taxes	0.6	0.7	(0.1)	-15.1%	2.4	1.7	0.7	39.6%
Preferred stock dividends	-	-	-		0.0	0.0	-	
Net income (loss) available to common shareholders	<u>\$ 1.9</u>	<u>\$ 2.1</u>	<u>\$ (0.2)</u>	<u>-9.6%</u>	<u>\$ 8.4</u>	<u>\$ 5.5</u>	<u>\$ 3.0</u>	<u>53.9%</u>
EPS	\$ 0.86	\$ 0.95			\$ 3.73	\$ 2.42		

See attached footnotes.

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

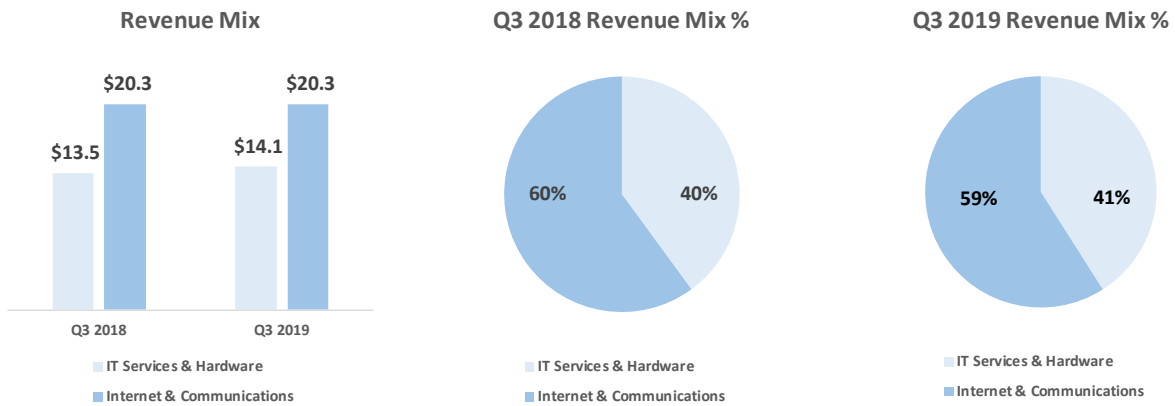
Summary of Net Operating Revenue—Unaudited For the Three Months Ended September 30,

Net Operating Revenue by Strategic vs. Legacy

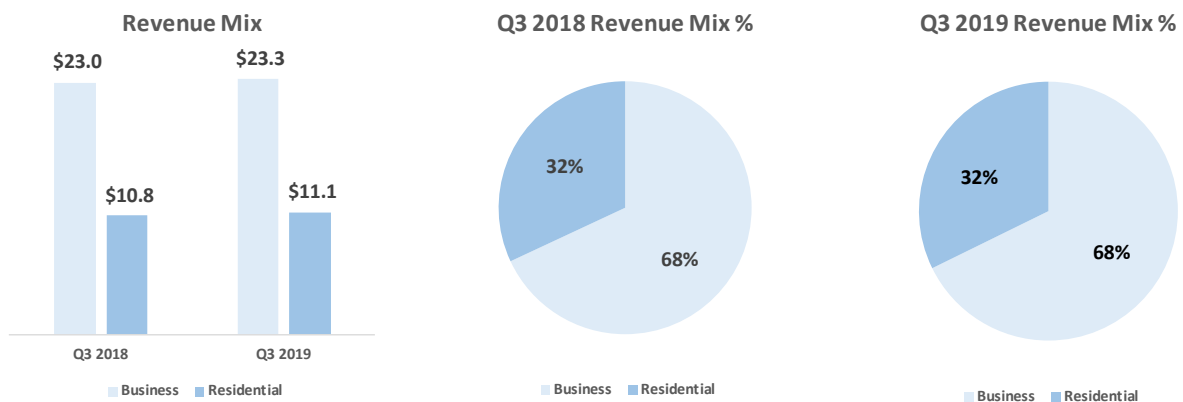


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

Net Operating Revenue by Product Segment



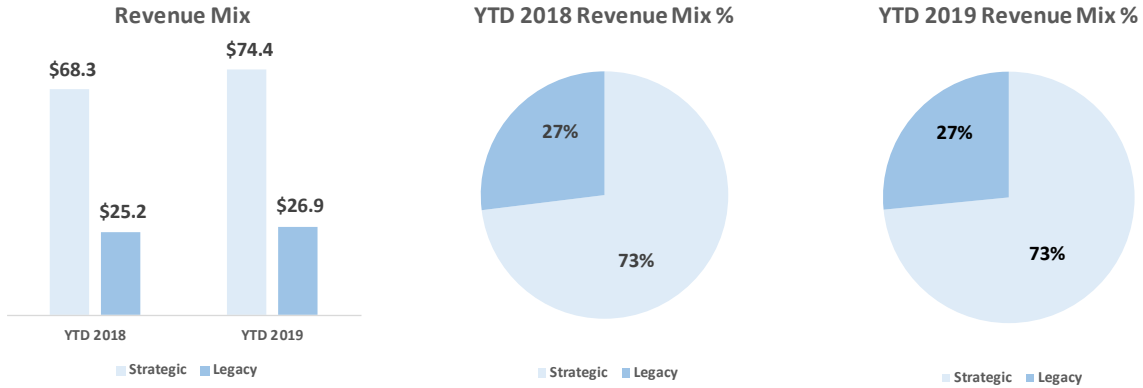
Net Operating Revenue by Customer Segment



All dollar amounts in millions

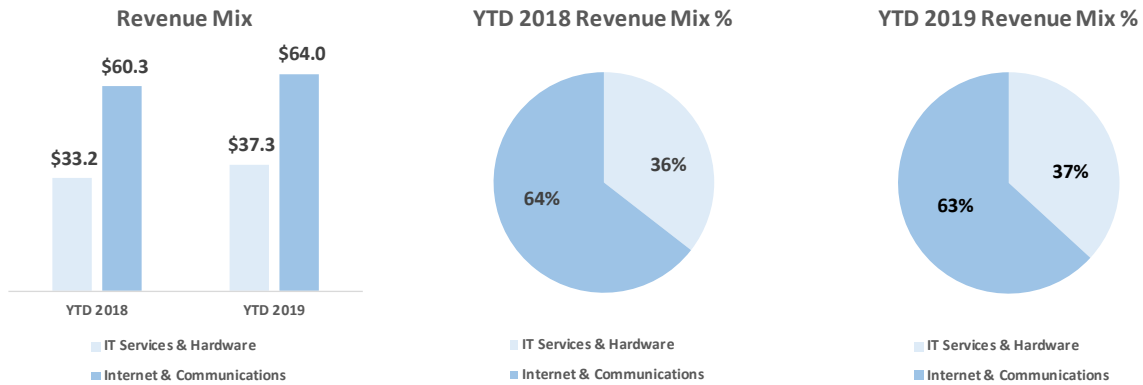
Summary of Net Operating Revenue—Unaudited For the Nine Months Ended September 30,

Net Operating Revenue by Strategic vs. Legacy

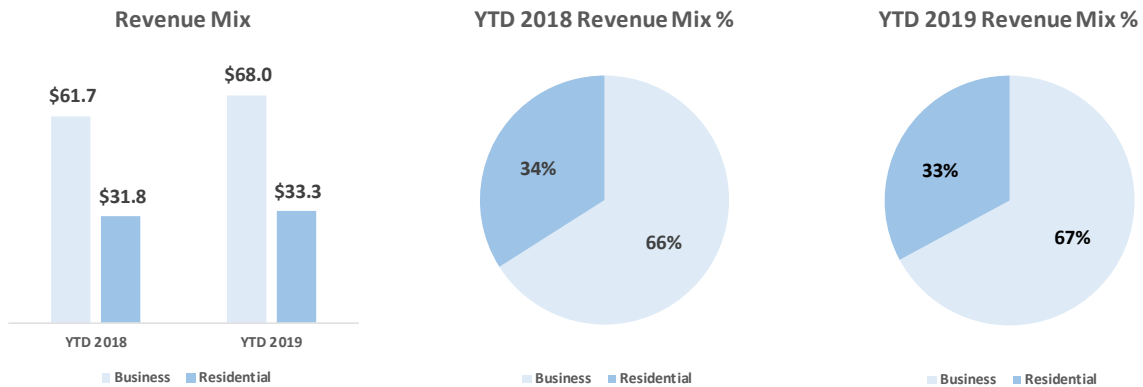


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

Net Operating Revenue by Product Segment



Net Operating Revenue by Customer Segment



All dollar amounts in millions

Consolidated Balance Sheets—Unaudited

At September 30,	2019	2018	Change	% Change
Assets				
Current Assets				
Cash and cash equivalents	\$ 3,384,285	\$ 2,805,960	\$ 578,325	20.6%
Accounts receivable	15,894,869	14,178,838	1,716,031	12.1%
Materials and supplies	2,377,128	1,545,212	831,916	53.8%
Prepayments	2,816,013	2,396,865	419,148	17.5%
Income tax recoverable	1,062,821	2,145,262	(1,082,441)	-50.5%
Other current assets	1,912,061	2,290,748	(378,686)	-16.5%
Total Current Assets	27,447,177	25,362,884	2,084,293	8.2%
Property, plant and equipment				
Under construction	-	2,410,210	(2,410,210)	
In service	555,836,624	542,940,780	12,895,845	2.38%
Total Property, Plant and Equipment	555,836,624	545,350,990	10,485,635	1.92%
Less accumulated depreciation & amortization	(406,016,526)	(391,904,044)	(14,112,483)	3.60%
Property, plant and equipment, net	149,820,098	153,446,946	(3,626,848)	-2.36%
Other assets				
Investment securities	2,137,190	2,110,661	26,530	1.26%
Investment in unconsolidated subsidiaries	9,581,447	10,311,618	(730,171)	-7.08%
Intangibles, net of amortization	10,740,492	12,253,636	(1,513,144)	-12.35%
Goodwill	31,244,755	31,244,755	-	
Other non-current assets	15,347,971	2,912,267	12,435,704	NM
Total other assets	69,051,854	58,832,936	10,218,919	17.37%
Total Assets	\$ 246,319,130	\$ 237,642,766	\$ 8,676,364	3.65%
Liabilities and Equity				
Current liabilities				
Current maturities of long term debt	5,000,000	3,125,000	1,875,000	60.00%
Current maturities of capital lease obligations	192,270	178,582	13,688	7.67%
Accounts payable and payroll withholdings	3,159,758	3,350,403	(190,645)	-5.69%
Advanced billings and customer deposits	4,623,189	3,873,171	750,018	19.36%
Income taxes payable	316,421	-	316,421	
Accrued expenses	9,723,942	10,639,811	(915,869)	-8.61%
Accrued taxes, other than income	1,059,580	1,110,264	(50,685)	-4.57%
Total current liabilities	24,075,159	22,277,232	1,797,928	8.07%
Other liabilities				
Revolving credit note	\$ 8,000,000	\$ 5,500,000	\$ 2,500,000	45.45%
Bank note, net of current maturities	38,604,683	43,523,576	(4,918,893)	-11.30%
Capital Lease Obligations, net of current maturities	5,297,681	5,490,720	(193,040)	-3.52%
Deferred income taxes	23,069,408	22,456,476	612,932	2.73%
Accrued pension benefits	35,479,220	36,667,044	(1,187,824)	-3.24%
Accrued post retirement life insurance benefits	391,514	906,128	(514,614)	-56.79%
Other deferred credits	13,398,667	1,894,731	11,503,936	NM
Total other liabilities	124,241,173	116,438,675	7,802,498	6.70%
Stockholders' equity				
Preferred Stock	1,853,200	1,853,200	-	
Common stock	11,317,660	11,317,660	-	
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	113,467,093	117,332,872	(3,865,779)	-3.29%
Current earnings	8,484,975	5,529,763	2,955,212	53.44%
Total Stockholders' Equity	98,002,797	98,926,859	(924,062)	-0.93%
Total Liabilities and Stockholders' Equity	\$ 246,319,130	\$ 237,642,766	\$ 8,676,364	3.65%

See attached footnotes.

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

Consolidated Statements of Net Income—Unaudited

For the Nine Months Ended September 30,	2019	2018	Change	% Change
Operating Revenues				
Internet and communications				
Internet & data	\$ 24,166,409	\$ 22,634,710	\$ 1,531,699	6.77%
Entertainment	11,167,808	10,916,138	251,670	2.31%
Legacy voice	27,025,686	25,279,853	1,745,833	6.91%
Ad search	2,143,606	1,994,922	148,684	7.45%
Other communications revenue	68,942	82,657	(13,715)	(16.59%)
Total internet & communications	64,572,451	60,908,280	3,664,171	6.02%
IT services & hardware				
Managed Services	14,315,428	14,863,233	(547,805)	(3.69%)
Professional Services	5,352,734	3,902,017	1,450,717	37.18%
Telecom & IT Equipment	17,699,280	14,559,464	3,139,816	21.57%
Total IT Services & Hardware	37,367,442	33,324,714	4,042,728	12.13%
Total operating revenues	101,939,893	94,232,994	7,706,899	8.18%
Uncollectible revenue	(634,548)	(731,711)	97,163	(13.28%)
Net operating revenue	101,305,345	93,501,283	7,804,062	8.35%
Cost of goods and services				
Internet & Communications	26,476,211	26,793,050	(316,839)	(1.18%)
IT services & hardware				
Managed Services	8,105,289	7,342,930	762,359	10.38%
Professional Services	3,047,881	2,850,432	197,449	6.93%
Telecom & IT Equipment	15,080,641	11,568,068	3,512,573	30.36%
Total COGS	52,710,022	48,554,480	4,155,542	8.56%
Gross Margin	48,595,323	44,946,803	3,648,520	8.12%
Depreciation and amortization expense	14,025,819	14,474,161	(448,342)	(3.10%)
Selling, general, and administrative expense				
Sales and Customer Service	14,989,162	14,155,366	833,796	5.89%
General and Administrative	11,620,340	11,622,451	(2,111)	(0.02%)
Total Selling, General, and Administrative	26,609,502	25,777,817	831,685	3.23%
Net Operating Income	7,960,002	4,694,825	3,265,177	69.55%
Nonoperating income (expense):				
Interest Income	1,146	3,568	(2,422)	(67.88%)
Interest expense, net of capitalized interest	(1,526,745)	(1,565,548)	38,803	(2.48%)
Equity in earnings of unconsolidated entities	6,285,894	5,879,486	406,408	6.91%
Net periodic pension cost	(1,842,000)	(1,767,989)	(74,011)	4.19%
Other income (expense) net	(720)	(720)	-	-
Net Nonoperating income (expense)	2,917,575	2,548,797	368,778	14.47%
Income before income taxes	10,877,577	7,243,622	3,633,955	50.17%
Income Taxes	2,392,602	1,713,859	678,743	39.60%
Net income	8,484,975	5,529,763	2,955,212	53.44%
Preferred stock dividends	43,875	43,875	-	-
Net income available to common shareholder	\$ 8,441,101	\$ 5,485,889	\$ 2,955,212	53.87%

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	\$ 3.73	\$ 2.42		
EBITDA (a non-GAAP measure)	\$ 27,087,795	\$ 22,749,505	\$ 4,338,290	19.07%
EBITDA Margin (a non-GAAP measure)	26.74%	24.33%		

Consolidated Statements of Comprehensive Income—Unaudited

For the Nine Months Ended September 30,	2019	2018	Change	% Change
Net income	\$ 8,484,975	\$ 5,529,763	\$ 2,955,212	53.4%
Other comprehensive income (loss), net of tax:	-	-	-	
Comprehensive income (loss)	<u>\$ 8,484,975</u>	<u>\$ 5,529,763</u>	<u>\$ 2,955,212</u>	53.4%

See attached footnotes.

Consolidated Statements of Stockholders' Equity—Unaudited

	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)	(5,755)	1,520				-	(7,735)
Net income				5,529,763			-	5,529,763
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)
Current retirement plans adjustment, net of tax benefit							-	-
Reclassification adjustment for realized gains, net of tax expense							-	-
Balance, September 30, 2018	1,853,200	11,317,660	73,876	122,862,635	\$ (38,336,830)	\$ 1,156,318	\$ (37,180,512)	\$ 98,926,859
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				8,484,975			-	8,484,975
Preferred stock dividends				(43,875)			-	(43,875)
Common stock dividends				(8,827,775)			-	(8,827,775)
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, September 30, 2019	\$ 1,853,200	\$ 11,317,660	\$ 73,876	\$ 121,952,068	\$ (38,317,890)	\$ 1,123,883	\$ (37,194,007)	\$ 98,002,797

See attached footnotes.

Consolidated Statements of Cash Flows—Unaudited

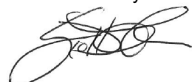
For the Nine Months Ended September 30,	2019	2018	Change	% Change
Cash flows from operating activities				
Net income	\$ 8,484,975	\$ 5,529,763	\$ 2,955,212	53.4%
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	14,025,818	14,474,161	(448,343)	-3.1%
Change in the allowance for doubtful accounts	(79,370)	(21,630)	(57,740)	266.9%
Loss (gain) on sale, disposal, and abandonment of other assets	-	398,528	(398,528)	-100.0%
Cash distributions from unconsolidated entities less than current earnings	626,286	(533,826)	1,160,112	-217.3%
Deferred income taxes	1,705,918	1,799,836	(93,918)	-5.2%
Deferred pension and postretirement benefits	1,471,317	1,620,713	(149,396)	-9.2%
Changes in operating assets and liabilities:				
Accounts receivable	3,007,761	2,418,044	589,717	24.4%
Materials and supplies	(828,326)	241,616	(1,069,942)	NM
Other assets	(11,347,846)	2,785,690	(14,133,536)	NM
Accounts payable and payroll withholdings	(5,421,409)	(5,233,244)	(188,165)	3.6%
Accrued expenses	2,044,648	3,529,644	(1,484,996)	-42.1%
Other liabilities	8,451,179	(2,552,372)	11,003,551	NM
Net cash provided (used) by operating activities	22,140,951	24,456,923	(2,315,972)	-9.5%
Cash flow from investing activities				
Additions to property, plant, and equipment	(12,175,541)	(13,104,249)	928,708	-7.1%
Cost of removal of telephone plant, net of salvage	(118,092)	(37,208)	(80,884)	217.4%
Net cash provided by (used in) investing activities	(12,293,633)	(13,141,457)	847,824	-6.5%
Cash flows from financing activities				
Principal payments on term loan	(2,500,000)	(1,875,000)	(625,000)	33.3%
Repayments of line of credit, net of proceeds	500,000	(3,500,000)	4,000,000	-114.3%
Principal payments on capital leases	(134,949)	(124,439)	(10,510)	8.4%
Acquisition of preferred stock	-	(1,980)	1,980	
Acquisition of common stock	-	(66,191)	66,191	
Cash dividends paid	(8,871,649)	(8,873,775)	2,126	0.0%
Net cash used in financing activities	(11,006,598)	(14,441,385)	3,434,787	-23.8%
Net change in cash and cash equivalents	(1,159,280)	(3,125,919)	1,966,639	-62.9%
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	\$ 3,384,285	\$ 2,805,960	\$ 578,325	20.6%
Supplemental disclosure of cash flow information:				
Cash paid for (refunds of) income taxes	\$ (943,719)	\$ (1,534,000)	\$ 590,281	-38.5%
Cash paid for interest	\$ 1,465,915	\$ 1,514,893	\$ (48,978)	-3.2%
Distributions from unconsolidated entities	\$ 6,943,548	\$ 5,345,660	1,597,888	29.9%
Operating Free Cash Flow (a non-GAAP measure)				
Adjusted Net cash provided (used) by operating activities	\$ 15,197,403	\$ 19,111,263	\$ (3,913,860)	-20.5%
Less: Additions to PP&E, net cost of removal	(12,293,633)	(13,141,457)	847,824	-6.5%
Operating Free Cash Flow	\$ 2,903,770	\$ 5,969,806	\$ (3,066,036)	-51.4%

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, 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 2nd day of November 2019.



Scott D. Toth
EVP, Chief Financial Officer

Footnotes to the Consolidated Financial Statements—Unaudited For the Nine Months Ended September 30, 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.
- 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.