

Summary of Consolidated Statements of Net Income—Unaudited

Amounts in millions except per share amounts

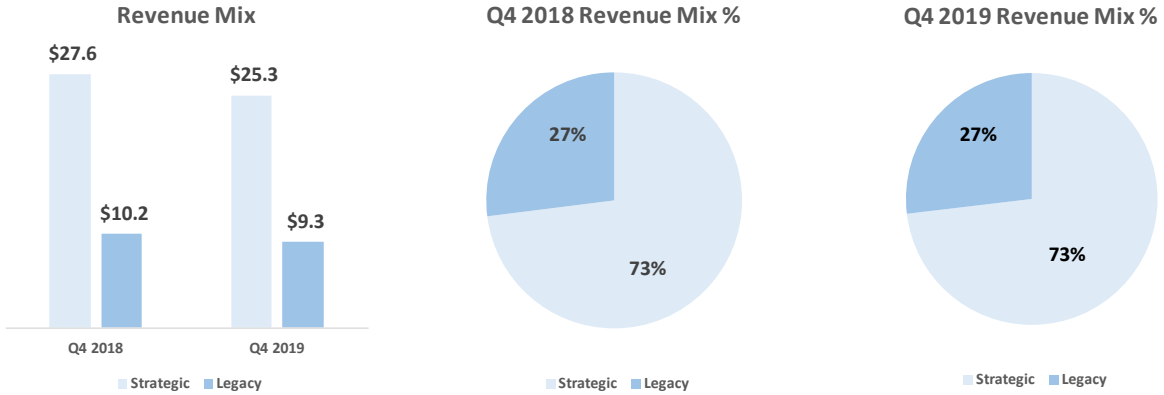
	For the Quarter Ended December 31,				For the Twelve Months Ended December 31,			
	2019	2018	Change	% Change	2019	2018	Change	% Change
Operating revenue								
Internet & communications	\$ 22.3	\$ 22.5	\$ (0.2)	-1.1%	\$ 86.9	\$ 83.4	\$ 3.4	4.1%
IT Services & Hardware	12.8	15.6	(2.8)	-18.2%	50.1	48.9	1.2	2.5%
Uncollectible revenue	(0.4)	(0.3)	(0.1)	45.3%	(1.1)	(1.0)	(0.0)	3.9%
Net operating revenue	<u>34.6</u>	<u>37.8</u>	<u>(3.2)</u>	<u>-8.5%</u>	<u>135.9</u>	<u>131.3</u>	<u>4.6</u>	<u>3.5%</u>
Operating expenses								
Cost of goods and services	18.1	21.9	(3.8)	-17.2%	70.8	70.5	0.4	0.5%
Selling, general, and administrative	8.6	9.4	(0.8)	-8.9%	35.2	35.2	(0.0)	0.0%
Depreciation and amortization	4.9	4.9	(0.0)	-0.6%	18.9	19.4	(0.5)	-2.5%
Total Operating Expense	<u>31.6</u>	<u>36.2</u>	<u>(4.7)</u>	<u>-12.8%</u>	<u>124.9</u>	<u>125.0</u>	<u>(0.1)</u>	<u>-0.1%</u>
Operating Income	3.1	1.6	1.4	88.0%	11.0	6.3	4.7	74.3%
Net Nonoperating income (expense)	(1.9)	1.1	(2.9)	NM	1.1	3.6	(2.5)	-70.6%
Income before income taxes	1.2	2.7	(1.5)	-55.2%	12.1	9.9	2.2	21.7%
Income Taxes	1.1	0.2	0.9	NM	3.5	1.9	1.6	83.6%
Preferred stock dividends	0.0	0.0	-	0.0%	0.1	0.1	-	0.0%
Net income (loss) available to common shareholders	<u>\$ 0.1</u>	<u>\$ 2.5</u>	<u>\$ (2.4)</u>	<u>-96.4%</u>	<u>\$ 8.5</u>	<u>\$ 7.9</u>	<u>\$ 0.6</u>	<u>7.3%</u>
EPS	\$ 0.04	\$ 1.09			\$ 3.77	\$ 3.51		

See attached footnotes.

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

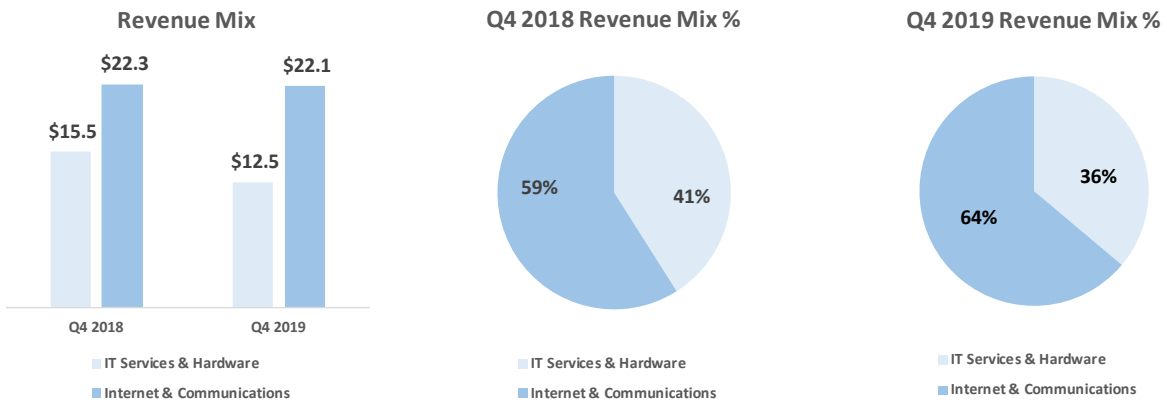
Summary of Net Operating Revenue—Unaudited For the Three Months Ended December 31,

Net Operating Revenue by Strategic vs. Legacy

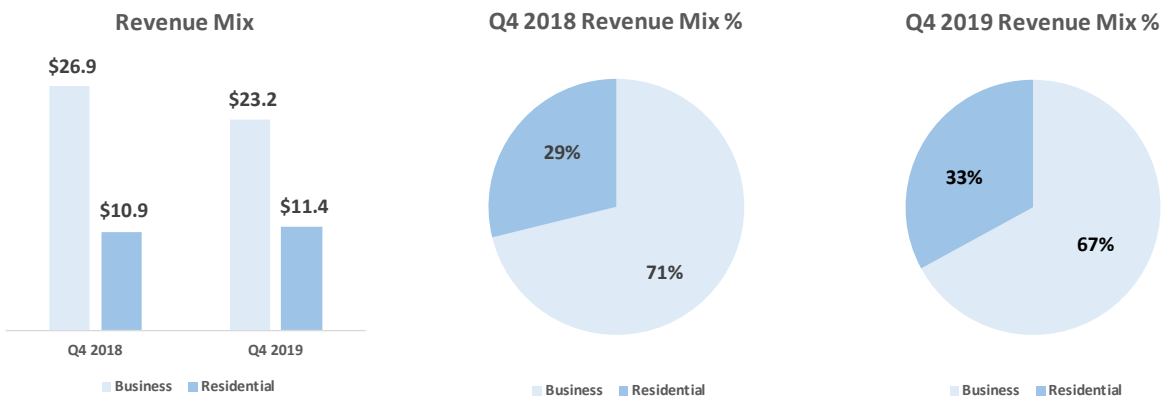


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

Net Operating Revenue by Product Segment



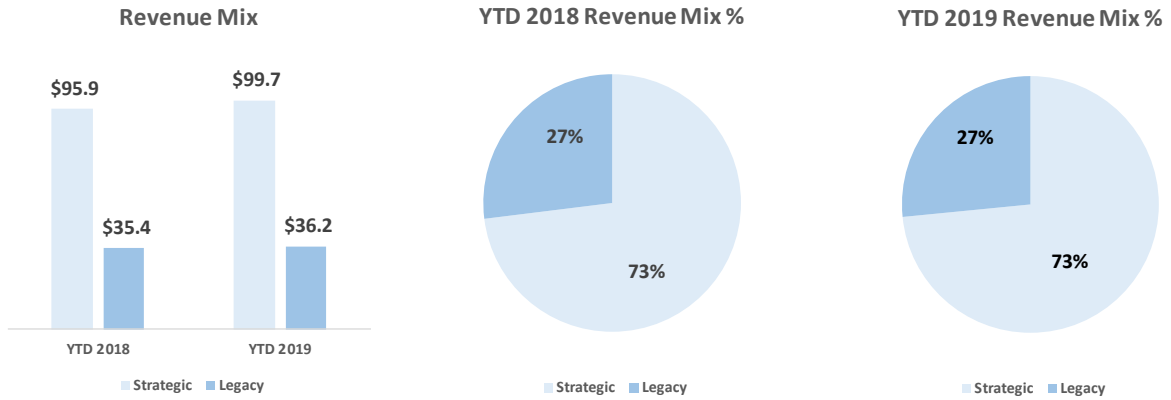
Net Operating Revenue by Customer Segment



All dollar amounts in millions

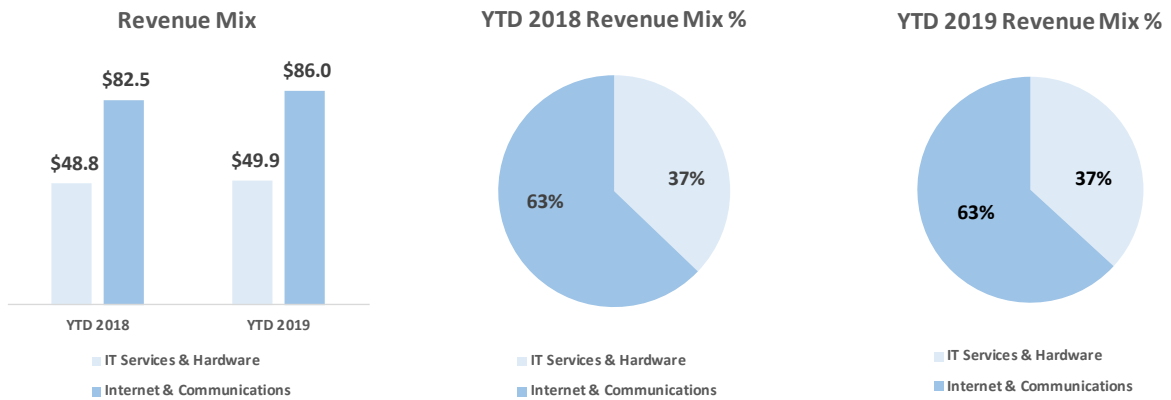
Summary of Net Operating Revenue—Unaudited For the Twelve Months Ended December 31,

Net Operating Revenue by Strategic vs. Legacy

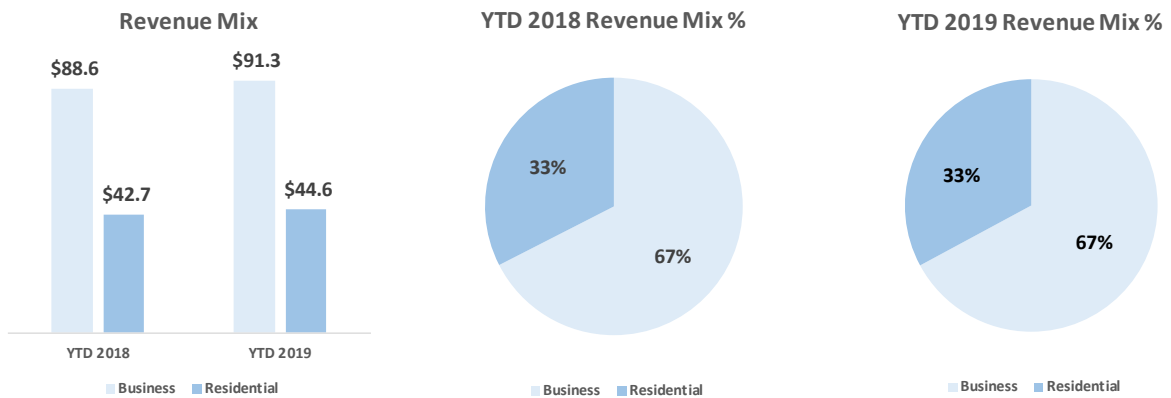


Strategic revenue is all revenue excluding legacy voice revenue. Legacy voice revenue is comprised of non-IP voice, long distance and network access revenue.

Net Operating Revenue by Product Segment



Net Operating Revenue by Customer Segment



All dollar amounts in millions

Consolidated Balance Sheets—Unaudited

At December 31,	2019	2018	Change	% Change
Assets				
Current Assets				
Cash and cash equivalents	\$ 3,849,299	\$ 4,543,565	\$ (694,266)	-15.3%
Accounts receivable	13,340,596	19,054,716	(5,714,120)	-30.0%
Materials and supplies	2,058,138	1,548,802	509,335	32.9%
Prepayments	1,877,963	2,521,481	(643,518)	-25.5%
Income tax recoverable	58,786	1,119,739	(1,060,953)	-94.8%
Other current assets	1,899,229	2,337,254	(438,025)	-18.7%
Total Current Assets	23,084,010	31,125,556	(8,041,546)	-25.8%
Property, plant and equipment				
In service	558,965,202	544,655,063	14,310,139	2.63%
Total Property, Plant and Equipment	558,965,202	544,655,063	14,310,139	2.63%
Less accumulated depreciation & amortization	(410,139,943)	(393,495,866)	(16,644,077)	4.23%
Property, plant and equipment, net	148,825,260	151,159,197	(2,333,938)	-1.54%
Other assets				
Investment securities	980,996	2,105,823	(1,124,826)	-53.42%
Investment in unconsolidated subsidiaries	10,698,177	10,239,100	459,077	4.48%
Intangibles, net of amortization	10,385,423	11,805,697	(1,420,274)	-12.03%
Goodwill	31,244,755	31,244,755	-	0.00%
Other non-current assets	14,902,196	3,141,450	11,760,746	NM
Total other assets	68,211,547	58,536,825	9,674,722	16.53%
Total Assets	\$ 240,120,817	\$ 240,821,578	\$ (700,762)	-0.29%
Liabilities and Equity				
Current liabilities				
Current maturities of long term debt	5,000,000	3,750,000	1,250,000	33.33%
Current maturities of capital lease obligations	196,178	182,015	14,163	7.78%
Accounts payable and payroll withholdings	5,117,448	8,730,205	(3,612,757)	-41.38%
Advanced billings and customer deposits	4,803,374	4,705,606	97,767	2.08%
Income taxes payable	179,469	-	179,469	
Accrued expenses	11,303,090	8,798,023	2,505,067	28.47%
Accrued taxes, other than income	211,355	257,272	(45,917)	-17.85%
Total current liabilities	26,810,913	26,423,121	387,792	1.47%
Other liabilities				
Revolving credit note	\$ 6,000,000	\$ 7,500,000	\$ (1,500,000)	-20.00%
Bank note, net of current maturities	37,374,960	42,293,852	(4,918,893)	-11.63%
Capital Lease Obligations, net of current maturities	5,246,707	5,442,885	(196,178)	-3.60%
Deferred income taxes	23,113,870	21,363,490	1,750,379	8.19%
Accrued pension benefits	33,142,198	37,261,473	(4,119,275)	-11.06%
Accrued post retirement life insurance benefits	545,362	707,447	(162,085)	-22.91%
Other deferred credits	13,021,104	1,403,170	11,617,934	NM
Total other liabilities	118,444,199	115,972,318	2,471,881	2.13%
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	239,394	1,123,883	(884,488)	-78.70%
Retirement plans adjustments, net of tax	(37,752,350)	(38,317,890)	565,540	-1.48%
Retained earnings	110,517,295	114,339,866	(3,822,571)	-3.34%
Current earnings	8,616,629	8,035,545	581,084	7.23%
Total Stockholders' Equity	94,865,704	98,426,139	(3,560,435)	-3.62%
Total Liabilities and Stockholders' Equity	\$ 240,120,817	\$ 240,821,578	\$ (700,762)	-0.29%

See attached footnotes.

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

Consolidated Statements of Net Income—Unaudited

For the Twelve Months Ended December 31,	2019	2018	Change	% Change
Operating Revenues				
Internet and communications				
Internet & data	\$ 32,552,385	\$ 30,398,260	\$ 2,154,125	7.09%
Entertainment	14,978,433	14,627,725	350,708	2.40%
Legacy voice	36,389,828	35,583,782	806,046	2.27%
Ad search	2,846,747	2,716,463	130,284	4.80%
Other communications revenue	88,355	108,170	(19,815)	(18.32%)
Total internet & communications	86,855,748	83,434,400	3,421,348	4.10%
IT services & hardware				
Managed Services	19,012,836	19,578,372	(565,536)	(2.89%)
Professional Services	6,626,217	5,314,130	1,312,087	24.69%
Telecom & IT Equipment	24,497,323	24,039,174	458,149	1.91%
Total IT Services & Hardware	50,136,376	48,931,676	1,204,700	2.46%
Total operating revenues	136,992,124	132,366,076	4,626,048	3.49%
Uncollectible revenue	(1,076,493)	(1,035,838)	(40,655)	3.92%
Net operating revenue	135,915,631	131,330,238	4,585,393	3.49%
Cost of goods and services				
Internet & Communications	35,131,479	36,343,092	(1,211,613)	(3.33%)
IT services & hardware				
Managed Services	10,969,868	9,786,911	1,182,957	12.09%
Professional Services	3,931,267	3,831,797	99,470	2.60%
Telecom & IT Equipment	20,813,522	20,506,945	306,577	1.49%
Total COGS	70,846,136	70,468,745	377,391	0.54%
Gross Margin	65,069,495	60,861,493	4,208,002	6.91%
Depreciation and amortization expense	18,877,900	19,357,225	(479,325)	(2.48%)
Selling, general, and administrative expense				
Sales and Customer Service	19,787,681	19,654,314	133,367	0.68%
General and Administrative	15,386,850	15,529,457	(142,607)	(0.92%)
Total Selling, General, and Administrative	35,174,531	35,183,771	(9,240)	(0.03%)
Net Operating Income	11,017,064	6,320,497	4,696,567	74.31%
Nonoperating income (expense):				
Interest Income	1,146	4,562	(3,416)	(74.88%)
Interest expense, net of capitalized interest	(2,011,800)	(2,051,463)	39,663	(1.93%)
Equity in earnings of unconsolidated entities	8,216,094	7,753,486	462,608	5.97%
Net periodic pension cost	(2,472,592)	(2,357,319)	(115,273)	4.89%
Other income (expense) net	(5,493)	250,376	(255,869)	(102.19%)
Transaction costs	(2,668,200)	-	(2,668,200)	
Net Nonoperating income (expense)	1,059,155	3,599,642	(2,540,487)	(70.58%)
Income before income taxes	12,076,219	9,920,139	2,156,080	21.73%
Income Taxes	3,459,590	1,884,594	1,574,996	83.57%
Net income	8,616,629	8,035,545	581,084	7.23%
Preferred stock dividends	87,749	87,749	-	
Net income available to common shareholders	\$ 8,528,880	\$ 7,947,796	\$ 581,084	7.31%

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	\$ 3.77	\$ 3.51		
EBITDA (a non-GAAP measure)	\$ 32,506,843	\$ 30,837,569	\$ 1,669,274	5.41%
EBITDA Margin (a non-GAAP measure)	23.92%	23.48%		
EBITDA w/o transaction costs (a non-GAAP measure)	\$ 35,175,043	\$ 30,837,569	\$ 4,337,474	14.07%
EBITDA Margin w/o transaction costs (a non-GAAP measure)	25.88%	23.48%		

Consolidated Statements of Comprehensive Income—Unaudited

For the Twelve Months Ended December 31,	2019	2018	Change	% Change
Net income	\$ 8,616,629	\$ 8,035,545	\$ 581,084	7.2%
Other comprehensive income (loss), net of tax:				
Unrealized holding gain (loss) arising during the period, net of tax benefit of \$271,706 and \$2,353 in 2019 and 2018, respectively	(884,488)	(32,435)	\$ (852,053)	NM
Retirement plans adjustment, net of tax expense of \$168,689 in 2019 and net of tax benefit of \$244,672 in 2018	565,540	18,940	\$ 546,600	NM
Other comprehensive loss	<u>(318,948)</u>	<u>(13,495)</u>	<u>(305,453)</u>	
Comprehensive income	<u>\$ 8,297,681</u>	<u>\$ 8,022,050</u>	<u>\$ 275,631</u>	3.4%

See attached footnotes.

Consolidated Statements of Stockholders' Equity—Unaudited

For the 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, 2018	1,856,700	11,323,415	72,356	126,253,127	\$ (38,336,830)	\$ 1,156,318	\$ (37,180,512)	\$ 102,325,085
Acquisition of stock	(3,500)	(5,755)	1,520	-	-	-	-	(7,735)
Net income	-	-	-	8,035,545	-	-	-	8,035,545
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	-	-	-	(53,020)	-	-	-	(53,020)
Current retirement plans adjustment, net of tax benefit	-	-	-	-	18,940	-	18,940	18,940
Reclassification adjustment for realized gains, net of tax expense	-	-	-	-	-	(32,435)	(32,435)	(32,435)
Balance, December 31, 2018	1,853,200	11,317,660	73,876	122,375,411	\$ (38,317,890)	\$ 1,123,883	\$ (37,194,007)	\$ 98,426,139
Balance, January 1, 2019	1,853,200	11,317,660	73,876	122,375,411	\$ (38,317,890)	\$ 1,123,883	\$ (37,194,007)	\$ 98,426,139
Acquisition of stock	-	-	-	-	-	-	-	-
Net income	-	-	-	8,616,629	-	-	-	8,616,629
Preferred stock dividends	-	-	-	(87,749)	-	-	-	(87,749)
Common stock dividends	-	-	-	(11,770,366)	-	-	-	(11,770,366)
Acquisition of common stock in excess of stated value	-	-	-	-	-	-	-	-
Current retirement plans adjustment, net of tax benefit	-	-	-	-	565,540	-	565,540	565,540
Reclassification adjustment for realized gains, net of tax expense	-	-	-	-	-	(884,488)	(884,488)	(884,488)
Balance, December 31, 2019	\$ 1,853,200	\$ 11,317,660	\$ 73,876	\$ 119,133,924	\$ (37,752,350)	\$ 239,394	\$ (37,512,955)	\$ 94,865,705

See attached footnotes.

Consolidated Statements of Cash Flows—Unaudited

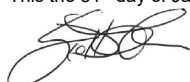
For the Twelve Months Ended December 31,	2019	2018	Change	% Change
Cash flows from operating activities				
Net income	\$ 8,616,629	\$ 8,035,545	\$ 581,084	7.2%
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	18,877,899	19,357,225	(479,326)	-2.5%
Amortization of debt issuance costs	81,107	81,107	-	
Change in the allowance for doubtful accounts	(133,370)	48,370	(181,740)	NM
Loss (gain) on sale, disposal, and abandonment of other assets	-	(335,077)	335,077	-100.0%
Cash distributions from unconsolidated entities less than current earnings	(490,444)	(491,258)	814	-0.2%
Deferred income taxes	1,847,030	1,313,875	533,155	40.6%
Deferred pension and postretirement benefits	2,259,484	2,219,136	40,348	1.8%
Changes in operating assets and liabilities:				
Accounts receivable	5,847,490	(2,707,832)	8,555,322	NM
Materials and supplies	(509,335)	238,025	(747,360)	NM
Other assets	(9,256,529)	2,904,554	(12,161,083)	NM
Accounts payable and payroll withholdings	(3,514,990)	792,453	(4,307,443)	NM
Accrued expenses	2,638,618	834,864	1,803,754	216.1%
Other liabilities	5,818,707	(3,561,048)	9,379,755	-263.4%
Net cash provided (used) by operating activities	32,082,296	28,729,939	3,352,357	11.7%
Cash flow from investing activities				
Additions to property, plant, and equipment	(15,337,589)	(16,309,236)	971,647	-6.0%
Cost of removal of telephone plant, net of salvage	(148,843)	(81,494)	(67,349)	82.6%
Proceeds from sale of building	-	2,369,700	(2,369,700)	
Net cash provided by (used in) investing activities	(15,486,432)	(14,021,030)	(1,465,402)	10.5%
Cash flows from financing activities				
Principal payments on term loan	(3,750,000)	(2,500,000)	(1,250,000)	50.0%
Repayments of line of credit, net of proceeds	(1,500,000)	(1,500,000)	-	
Principal payments on capital leases	(182,015)	(168,842)	(13,173)	7.8%
Acquisition of preferred stock	-	(1,980)	1,980	
Acquisition of common stock	-	(66,191)	66,191	
Cash dividends paid	(11,858,115)	(11,860,241)	2,126	0.0%
Net cash used in financing activities	(17,290,130)	(16,097,254)	(1,192,876)	7.4%
Net change in cash and cash equivalents	(694,266)	(1,388,345)	694,079	-50.0%
Cash and cash equivalents at beginning of period	4,543,565	5,931,910	(1,388,345)	-23.4%
Cash and cash equivalents at end of period	\$ 3,849,299	\$ 4,543,565	\$ (694,266)	-15.3%
Supplemental disclosure of cash flow information:				
Cash paid for (refunds of) income taxes	\$ (943,719)	\$ (1,517,000)	\$ 573,281	-37.8%
Cash paid for interest	\$ 1,930,693	\$ 1,980,530	\$ (49,837)	-2.5%
Distributions from unconsolidated entities	\$ 7,757,018	\$ 7,262,228	494,790	6.8%
Operating Free Cash Flow (a non-GAAP measure)				
Adjusted Net cash provided (used) by operating activities	\$ 24,325,278	\$ 21,467,711	\$ 2,857,567	13.3%
Less: Additions to PP&E, net cost of removal	(15,486,432)	(16,390,730)	904,298	-5.5%
Operating Free Cash Flow	\$ 8,838,846	\$ 5,076,981	\$ 3,761,865	74.1%

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, 2019 and 2018 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 2020.



Scott D. Toth
EVP, Chief Financial Officer

Footnotes to the Consolidated Financial Statements—Unaudited For the Twelve Months Ended December 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.

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.