NORTH STATE TELECOMMUNICATIONS CORPORATION

2009 Annual Report

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To Our Shareholders

We apologize for the delay in the distribution of the 2009 Annual Report. As you may recall, last year our 2008 Annual Report was distributed late in the year as well. In both instances these delays were the result of our need to obtain third party audited financial statements from Verizon Wireless relating to our nonoperating income from a partnership that materially impacts the company's audited financial statements. By way of background, for many years we have been involved in a partnership with Alltel Wireless. Verizon Wireless merged with Alltel Wireless in 2009 and due to the size and scope of the merger was unable to produce their audited financial statements for the partnership until very late in the year. Going forward we expect to receive the audited financial statements in a more timely manner.

Over the course of the company's 115 year existence, there have been many changes in direction and shifts in strategy in order to meet the demands of new markets, increasing competition and new environments. At our 2009 Annual Meeting held in April of this year and

To Our Shareholders

through other correspondence over the course of the year, we have outlined an exciting new broadband business model for North State.

This new business strategy is a "best network, best products" approach to competing and winning in the ever changing markets in which we provide products. As we have seen over the last several years, the competitive landscape and technology have created a dramatically new environment in the telecom industry. The growth of the internet and developments in wireless services have had a tremendous impact on how people communicate, are entertained, collaborate and socialize. This impact has been fueled by recent and ongoing developments in faster devices, faster computers, amazing new wireless phones, new mobile broadband devices like tablets and net books and developments in high definition displays and televisions. If you had to sum it up, you might say it is a massive movement to a new level of "digital lifestyle" for the consumer.

As consumers and businesses shift towards this evolving digital way of life, we have seen consistent movement away from traditional telecom services. The products that have served as the core of our company for

most of its history have been in decline as we have battled these trends in our financial performance over the last several years.

Our "best network, best products" strategy is to reverse these trends by taking advantage of the growth opportunities that this evolving "digital way of life" present. This requires transitioning North State to a broadband company, building superior wireline and wireless broadband

To Our Shareholders

networks, operating from a competitively superior position, offering new and innovative broadband products, providing the highest levels of customer service and gaining market share within high value, multi-product customers in this growing broadband and digital market place.

As we outlined in early 2009 our "best network" approach is to build a fiber-to-the-home and fiber-to-the-business network that is essential to the delivery of new and "best products" in the market place. In 2009 we invested nearly $21 million putting in place key components of this network and beginning our fiber build out. A portion of our capital spending during the year went towards the expansion of our wireless network which in itself is transforming to an ultra-fast, mobile broadband network.

During the year we launched "Plex," the new brand for our consumer broadband products. With the fiber network construction underway, we introduced a family of "Plex Broadband Internet" products which are ultra-fast and far superior to our nearest competitor. In the fourth quarter of the year we launched "Plex Advanced TV," our all digital, fiber powered television product. Our "best network" approach lets us

deliver "best picture in the market," high definition content, with near unlimited capacity to add high definition channels to meet the growing appetite for "HD."

To Our Shareholders

In mid 2009 we introduced the Apple iPhone into our line-up of wireless "smart phones". Through our joint operating agreement with AT&T we offer the best phones and devices and the fastest wireless broadband network in the country and internationally; the "best wireless network". Wireless has rapidly become the core product of choice in the "digital lifestyle." Our offerings of wireless from AT&T, Plex Broadband Internet and Plex Advanced TV provide consumers a great mix of products to fit their unique lifestyles.

While certain components of our "best network, best products" strategy were put in place in late 2008, the major components were put in place during 2009. The fiber construction and our abilities to market and more widely offer Plex broadband products came together late in the year. Our 2009 financial performance reflects the trends we have seen in previous years with declines in telecom revenues only partially offset by gains in broadband and wireless revenues. Broadband revenues increased 5.8% for the year. Wireless revenues increased 8.3%. 2009 operating expenses reflect a number of start-up costs related to our Plex products.

Our "best network, best products" strategy was carefully crafted in 2008 as we determined a significant new direction for North State was necessary because of the significant changes in the market place. We have been very strategic with our new direction, taking a long term growth and value building approach. As we have

To Our Shareholders

expressed before, North State is uniquely situated to fulfill this strategy and deliver sustained growth and cash flow generation in the coming years. Operating results for 2010 are substantiating our strategy. The business model is gaining traction as we are seeing broadband and wireless revenue growth exceeding declines in our telecom segment. The total number of "customer connections" across all of our products is increasing. Our average revenue per connection is increasing. We are cost effectively expanding our fiber network, have introduced new faster broadband products, are gaining market share with Plex Advanced TV and are seeing strong growth in mobile broadband revenues.

We have completed significant internal changes to align the organization with this new direction. With the start up phase behind us, we are intently focused on expanding our "best network" by passing a substantial number of homes and businesses with fiber over the next 24 to 36 months; gaining market share with our "best products" via an intense sales and marketing plan; remaining competitively

superior with new products; and "wowing" the market with a unique level of customer care.

We greatly appreciate your support and look forward to continuing execution of our plans and reporting ever improving results.

C. Hayden McKenzie
Chairman and Chief Executive Officer

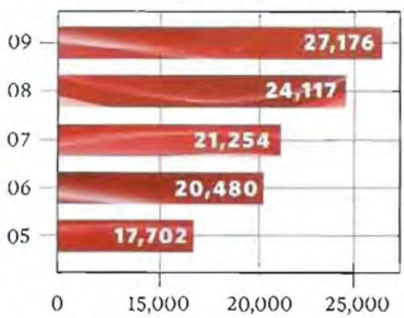
Royster M. Tucker, III
Vice Chairman, President and Chief Operating Officer

Financial Highlights

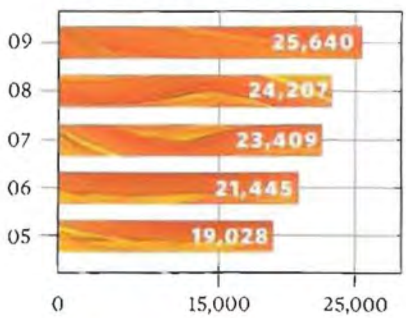
	2009	2008	net increase (decrease)	% increase (decrease)
Operating Revenues & Other Income	$104,806,331	$109,017,638	($4,211,307)	-3.9%
Operating Expenses	$87,623,526	$83,433,066	$4,190,460	5.0%
Income Taxes & Other Expenses	$6,491,322	$9,954,333	($3,463,011)	-34.8%
Net Income	$10,691,483	$15,630,239	($4,938,756)	-31.6%
Earnings per Average Common Share	$4.60	$6.59	($1.99)	-30.2%
Cash Dividends Paid per Share	$5.20	$5.20	$0.00	0.0%
Capital Expenditures	$20,929,466	$24,398,687	($3,469,221)	-14.2%

North State
Earnings Per Share

North State
Broadband Subscribers



North State
Wireless Subscribers



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NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

Assets		2009	2008
Current assets:			
Cash and cash equivalents	$	6,281,354	10,217,927
Investment securities		12,948,580	9,408,036
Accounts receivable (less allowance for doubtful accounts, $600,000 in 2009 and $500,000 in 2008)		9,057,413	9,885,183
Materials and supplies		3,163,551	3,333,899
Prepayments		1,374,141	947,004
Income taxes recoverable		200,289	270,372
Deferred income taxes		858,394	816,735
Total current assets		33,883,722	34,879,156
Property, plant, and equipment		411,262,900	395,231,571
Less accumulated depreciation		272,745,924	257,044,254
Property, plant, and equipment, net		138,516,976	138,187,317
Other assets:			
Investment securities		8,865,625	7,226,235
Investments in unconsolidated entities		10,579,970	9,588,699
Intangibles, net of amortization		6,493,750	6,494,425
Other noncurrent assets		1,865,763	1,913,373
Total other assets		27,805,108	25,222,732
Total assets	$	200,205,806	198,289,205

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2009 & 2008

Liabilities and Stockholders' Equity		2009	2008
Current liabilities:			
Accounts payable and payroll withholdings	$	4,195,346	4,878,043
Advance billings and customer deposits		3,292,483	3,379,510
Income taxes payable		101,406	987,289
Accrued expenses		8,856,940	6,684,596
Accrued taxes		398,824	349,503
Total current liabilities		16,844,999	16,278,941
Other liabilities:			
Deferred income taxes		16,534,443	9,752,914
Accrued pension benefits		23,441,719	31,486,495
Accrued postretirement benefits		1,676,198	1,914,300
Other liabilities and deferred credits		1,456,556	1,612,052
Total other liabilities		43,108,916	44,765,761
Total liabilities		59,953,915	61,044,702
Stockholders' equity:			
Capital stock:			
Cumulative preferred stock. Authorized 100,000 shares, par value $100 per share:			
4% Series, issued and outstanding 5,000 shares in 2009 and 2008		500,000	500,000
5% Series, issued and outstanding 15,784 shares in 2009 and 16,049 shares in 2008		1,578,400	1,604,900
Common stock, stated value $5 per share, no par value:			
Class A (voting). Authorized 3,500,000 shares, issued and outstanding 1,406,669 shares in 2009 and 1,408,767 shares in 2008		7,033,345	7,043,835
Class B (nonvoting). Authorized 2,500,000 shares, issued and outstanding 893,420 shares in 2009 and 894,801 shares in 2008		4,467,100	4,474,005
Paid-in capital		17,102	12,422
Retained earnings		135,735,590	137,339,722
Accumulated other comprehensive loss		(9,079,646)	(13,730,381)
Total stockholders' equity		140,251,891	137,244,503
Total liabilities and stockholders' equity	$	200,205,806	198,289,205

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

DECEMBER 31, 2009 & 2008

		2009	2008
Operating revenues:			
Local service	$	26,589,717	29,191,717
Network access and long distance service		25,619,441	29,002,822
Sales and other services		41,353,648	39,203,159
Directory and other		5,513,743	6,034,084
		99,076,549	103,431,782
Less uncollectible revenue		1,654,868	1,715,794
Net operating revenues		97,421,681	101,715,988
Operating expenses:			
Plant operations		41,593,585	39,662,326
Depreciation and amortization		20,614,221	19,068,283
Customer operations		17,137,685	16,075,883
General and administration		6,751,264	7,058,802
Taxes other than income taxes		1,526,771	1,567,772
Total operating expenses		87,623,526	83,433,066
Net operating income		9,798,155	18,282,922
Nonoperating income (expense):			
Interest income		452,211	866,844
Interest expense		(521)	(29,540)
Equity in earnings of unconsolidated entities		6,887,788	6,320,976
Gain on sale of investment securities		44,651	113,830
Other income (expense), net		(27,649)	(36,330)
Net nonoperating income		7,356,480	7,235,780
Income before income taxes		17,154,635	25,518,702
Income taxes		6,463,152	9,888,463
Net income		10,691,483	15,630,239
Preferred stock dividends		99,295	100,620
Net income available to common stockholders	$	10,592,188	15,529,619
Basic earnings per average common share	$	4.60	6.59
Weighted average common shares outstanding		2,302,190	2,358,036
Cash dividends per average common share	$	5.20	5.20

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

[illegible]

		2009		2008	
Preferred stock:					
Balance, beginning	$	2,104,900		2,119,900	
Acquisition of preferred stock		(26,500)		(15,000)	
Balance, ending	$	2,078,400		2,104,900	
Common stock:					
Balance, beginning	$	11,517,840		11,891,615	
Acquisition of common stock		(17,395)		(373,775)	
Balance, ending	$	11,500,445		11,517,840	
Paid-in capital:					
Balance, beginning	$	12,422		12,572	
Acquisition of preferred stock		4,680		(150)	
Balance, ending	$	17,102		12,422	
Retirement plans adjustment:					
Balance, beginning	$	(15,001,526)		2,245,804	
Current adjustment		3,529,558		(17,247,330)	
Balance, ending	$	(11,471,968)		(15,001,526)	
Unrealized appreciation (depreciation) of securities:					
Balance, beginning	$	1,271,145		4,570,338	
Other comprehensive income (loss)		1,121,177		(3,299,193)	
Balance, ending	$	2,392,322		1,271,145	
Retained earnings:					
Balance, beginning	$	137,339,722		138,963,955	
Net income		10,691,483	10,691,483	15,630,239	15,630,239
Cash dividends:					
Preferred stock		(99,295)		(100,620)	
Common stock		(11,971,584)		(12,256,616)	
Acquisition of common stock in excess of stated value		(224,736)		(4,897,236)	
Balance, ending	$	135,735,590		137,339,722	
Accumulated other comprehensive income (loss):					
Balance, beginning	$	(13,730,381)		6,816,142	
Unrealized holding gains (losses) arising during the period, net of tax expense in 2009 of $733,734 and net of tax benefit in 2008 of $2,152,671			1,121,177		(3,299,193)
Retirement plans adjustment, net of tax expense in 2009 of $2,302,966 and tax benefit in 2008 of $11,253,538			3,529,558		(17,247,330)
Other comprehensive income (loss)		4,650,735	4,650,735	(20,546,523)	(20,546,523)
Comprehensive income (loss)			15,342,218		(4,916,284)
Balance, ending	$	(9,079,646)		(13,730,381)	

See accompanying notes to consolidated financial statements

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2009	2008
Cash flows from operating activities:		
Net income	$ 10,691,483	15,630,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,614,221	19,068,283
Change in the allowance for doubtful accounts	100,000	39,000
Gain on sale of investment securities	(44,651)	(113,830)
Equity in earnings of unconsolidated entities	(6,887,788)	(6,320,976)
Deferred income taxes	3,703,191	3,022,874
Deferred pension and postretirement benefits	1,578,160	348,585
Changes in operating assets and liabilities:		
Accounts receivable	727,770	2,578,046
Inventory	170,348	(758,915)
Other assets	(2,358,699)	1,088,631
Accounts payable	(769,724)	(620,124)
Accrued expenses	1,335,783	1,962,862
Other liabilities	(4,174,393)	(2,712,787)
Net cash provided by operating activities	24,685,701	33,211,888
Cash flows from investing activities:		
Additions to property, plant, and equipment	(20,929,466)	(24,398,687)
Cost of removal of telephone plant, net of salvage	(365,317)	(309,661)
Proceeds from sale of investment securities	3,270,244	21,142,808
Purchases of investment securities	(7,236,407)	(15,203,370)
Distributions from unconsolidated entities	8,973,502	6,315,785
Net cash used in investing activities	(16,287,444)	(12,453,125)
Cash flows from financing activities:		
Acquisition of preferred stock	(21,820)	(15,150)
Acquisition of common stock	(242,131)	(5,271,011)
Cash dividends paid	(12,070,879)	(12,357,236)
Net cash used in financing activities	(12,334,830)	(17,643,397)
Net change in cash and cash equivalents	(3,936,573)	3,115,366
Cash and cash equivalents at beginning of year	10,217,927	7,102,561
Cash and cash equivalents at end of year	6,281,354	10,217,927
Short term investment securities at end of period	12,948,580	9,408,036
Total cash, cash equivalents, and short term investment securities	$ 19,229,934	19,625,963
Supplemental cash flow information:		
Cash paid for income taxes	$ 3,575,238	4,997,707
Cash paid for interest	$ 521	183,163

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

(1) Significant Accounting Policies

(a) Nature of Operations

North State Telecommunications Corporation and Subsidiaries (the Company), located in High Point, North Carolina, operates entirely in the telecommunications industry. The Company, through its subsidiaries, provides local telephone, long distance, broadband, video, and wireless service in four counties located in north central North Carolina. The Company's local services are subject to regulation by the State of North Carolina Utilities Commission (the Commission) and the Federal Communications Commission.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of North State Telecommunications Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in unconsolidated entities in which the Company has either a partnership interest or the ability to exercise significant influence, but not control, over the affiliates' operating and financial policies are accounted for using the equity method. Income and losses are allocated to the Company in accordance with the Company's respective ownership percentage. Certain other investments are stated at cost.

(c) Cash and Cash Equivalents

The Company considers all cash and money market accounts which are not subject to withdrawal restrictions and all highly liquid debt instruments and certificates of deposit with a maturity date of less than three months to be cash and cash equivalents.

The Company maintains certain of its cash and cash equivalent balances in interest bearing accounts at federally insured commercial banks. Interest bearing accounts at commercial banks are insured by the Federal Deposit Insurance Corporation for up to $250,000. At December 31, 2009, the Company had approximately $4.37 million of cash on deposit in excess of federally insured limits.

(d) Investment Securities

Investment securities consist of state and municipal debt securities, corporate equity securities, and certificates of deposit with maturity dates of greater than three months. The Company classifies its debt and equity securities as available-for-sale. Unrealized holding gains and losses, net of the related income tax effect, are excluded from earnings and reported as a separate component of stockholders' equity until realized. Realized gains and losses from the sale of securities are determined on a specific identification basis.

A decline in the market value of a security below cost, that is deemed to be other than temporary, results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Dividend and interest income are recognized when earned.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies (continued)

(e) Fair Value of Financial Instruments

Generally accepted accounting principles (GAAP) established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements.

At December 31, 2009 and 2008, the fair value of the Company's cash and cash equivalents, accounts receivable, investment securities, advance billings and customer deposits, as well as all other accrued liabilities, approximated amounts recorded in the accompanying consolidated financial statements. The Company maintains investments in certain closely held companies and since there is no open market for trading these securities, it is not practicable to estimate their respective fair market values.

(f) Materials and Supplies

Materials and supplies are recorded at the lower of average cost or market.

(g) Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost and includes certain indirect costs consisting of payroll taxes, pension and other fringe benefits.

For regulated plant and equipment, the original cost of depreciable property retired is removed from telephone plant accounts and charged to accumulated depreciation, which is credited with the salvage less removal cost. Under this method, no gain or loss is recorded on ordinary retirements of depreciable property. For nonregulated plant and equipment, the original cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	40 years
Telephone cable and equipment	5 to 43 years
Furniture and office equipment	5 to 20 years
Vehicle and work equipment	5 to 15 years

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies (continued)

(h) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No such impairment losses were recorded in 2009 or 2008.

(i) Intangible Assets

The Company's intangible assets consist primarily of wireless licenses. Wireless licenses have terms of 10 years, but are renewable through a routine process involving a nominal fee. The Company has determined that no legal, regulatory, contractual, competitive, economic or other factors currently exist that limit the useful life of its wireless licenses. Therefore, the Company does not amortize its wireless licenses based on the determination that these assets have indefinite lives. Indefinite lived intangible assets are tested annually for impairment by comparing the fair value of the assets to their carrying amount.

Amortization expense for other intangible assets was \$675 and \$1,351, respectively, for 2009 and 2008.

The components of intangible assets are as follows:

		2009	2008
Wireless licenses	\$	6,493,750	6,493,750
Other, net		—	675
Total	\$	6,493,750	6,494,425

The fair value of wireless licenses is estimated using a direct income based valuation approach. This approach uses a discounted cash flow analysis to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. As a result, management is required to make significant estimates about future cash flows specifically associated with its wireless licenses, an appropriate discount rate based on the risk associated with those estimated cash flows and assumed terminal value and growth rates. The discount rate incorporates management's estimate of the expected return a marketplace participant would require as of the valuation date, including the risk premium associated with the current and expected economic conditions as of the valuation date. The terminal value growth rate represents the marketplace's estimated long-term growth rate.

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NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies (continued)

(j) Self-Insurance Liability

The Company maintains a self-insured health benefits plan which provides medical benefits to employees electing coverage under the plan. The Company estimates a reserve for incurred but not reported medical claims based on historical experience and other assumptions. Stop-loss insurance coverage is maintained for individual medical claims exceeding $80,000 and aggregate claims exceeding $5 million.

(k) Asset Retirement Obligations

GAAP requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Certain of the Company's operating agreements and leases contain provisions requiring it to restore facilities or remove equipment in the event that the operating or lease agreement is not renewed. The Company expects to continually renew its operating and lease agreements. Accordingly, the possibility is remote that the Company would be required to incur significant restoration or removal costs related to these agreements in the foreseeable future. The Company would record an estimated liability in the unlikely event an agreement containing such a provision were no longer expected to be renewed. The obligations related to the removal provisions contained in the agreements or any disposal obligations related to its operating assets are not estimable or are not material to the Company's consolidated financial condition or results of operations.

(l) Income Taxes

Deferred income taxes are accounted for using the liability method. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Transactions for which tax deductibility or the timing of tax deductibility is uncertain are analyzed by management based on their technical merits. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes. At December 31, 2009 and 2008, the Company had no amounts accrued for the payment of interest and penalties. The Company is no longer subject to federal, state and local income tax examinations by tax authorities for years before 2006.

(m) Earnings Per Average Common Share

Basic earnings per common share (EPS) is computed by dividing the net income available to common stockholders by the weighted average shares of outstanding common stock.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies (continued)

(n) Revenue Recognition

Toll access and local service revenues are recognized when earned regardless of the period in whic they are billed. The Company participates in telephone revenue pools with other telephon companies for certain interstate and intrastate revenue. Such pools are funded by toll revenue and access charges within state jurisdictions and by access charges in the interstate market. Revenu earned through the various pooling processes is initially recorded based on estimates. The Compan has settled all toll and access charge revenue pooling agreements through 2007.

The Company periodically makes claims for recovery of certain amounts related to access charge on certain minutes of use terminated by the Company on behalf of other carriers. Managemen believes those claims that have not been accepted by other carriers have merit and there will be resolution in the future regarding these claims. However, management is unable to estimate th recovery and is not reasonably assured of collection. As a result of this uncertainty, the Company ha not recorded revenue for these items. Upon assurance of collectability, the Company will recogniz revenue in the period that assurance or collection occurs.

Installation fees are deferred and the related costs are capitalized and amortized over the estimate life of the customer.

Sales of communications products including wireless handsets and accessories represent a separa earnings process and are recognized when products are delivered to and accepted by customer Fees assessed to communications customers to activate service are allocated to the delivered ite (equipment) and recognized as product sales to the extent that the aggregate proceeds received fro the customer for the equipment and activation fee do not exceed the fair value of the equipmen Any activation fee not allocated to the equipment is deferred upon activation and recognized service revenue on a straight-line basis over the expected life of the customer relationship.

(o) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to mak estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures contingent assets and liabilities at the date of the financial statements and reported amounts revenues and expenses during the reporting period. Actual results could differ from those estimates

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Significant Accounting Policies (continued)

(p) Concentration of Credit Risks

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash equivalents and accounts receivable.

The Company's cash equivalents are primarily certificates of deposit, most of which have been issued under the CDARS program (Certificate of Deposit Account Registry Service) which provides full Federal Deposit Insurance Corporation (FDIC) insurance. This investment policy is intended to limit the Company's exposure to concentrations of credit risk.

Accounts receivable balances are primarily from the Company's telecommunications customers. The Company routinely assesses the financial strength of its customers and, generally, does not obtain collateral. Credit risk is managed by disconnecting services to customers who are delinquent.

The allowance for doubtful accounts reflects the Company's estimate of probable losses related to its trade accounts receivable. In establishing the allowance for doubtful accounts, the Company considers a number of factors, including historical collection experience, aging of the accounts receivable balances, current economic conditions, and a specific customer's ability to meet its financial obligations to the Company.

The Company invests in various types of investment instruments which are discussed in Note 3. Investment securities, in general, are exposed to various risks, including interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values in investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

The Company's pension plans hold debt and equity securities for investment purposes. The value of these plan assets is dependent on the financial condition of those entities issuing the debt and equity securities. A significant decline in the fair value of plan assets could result in additional contributions to the plans by the Company in order to meet funding requirements under the Employee Retirement Income Security Act of 1974, as amended (ERISA).

(q) Advertising

All costs associated with advertising and promoting products are expensed in the year incurred. Advertising and promotion expenses were approximately $3.6 million and $3.0 million for the years ended December 31, 2009 and 2008, respectively.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009 and 2008

(1) Significant Accounting Policies (continued)

(r) Accounting Changes and Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Standard No. 162" (SFAS 168). SFAS 168 replaces the hierarchy of GAAP with two levels of GAAP: authoritative and non-authoritative. On July 1, 2009, the FASB Accounting Standards Codification (FASB ASC) became the single source of authoritative nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission. All other non-grandfathered accounting literature became non-authoritative. The adoption of SFAS 168 did not have a material impact on the Company's financial statements. As a result of the adoption of SFAS 168, all references to GAAP now refer to the FASB ASC.

Effective December 31, 2009, the Company adopted the provisions of FASB ASC 715-20-50, which expands employers' disclosures about postretirement benefit plan assets. This code section replaces the requirement to disclose the percentage of fair value of total plan assets with a requirement to disclose the fair value of each major asset category and clarifies fair value disclosure requirements for certain plan assets.

The Company adopted the provisions of FASB ASC 740-10-05 effective January 1, 2009. This codification section clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and the recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of FASB ASC 740-10-05 did not have any impact on the Company's financial statements.

(s) Reclassification Adjustments

Certain amounts in the 2008 financial statements have been reclassified to conform with the 2009 statements.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[illegible] 31, 2009 & 2008

(2) Property, Plant, and Equipment

Property, plant, and equipment consists of the following:

	Cost		Accumulated Depreciation	
	2009	2008	2009	2008
Land	$ 2,166,949	2,166,948	—	—
Buildings	13,668,478	13,418,862	7,231,151	7,091,248
Central office equipment	173,371,411	170,498,664	138,633,001	129,581,619
Outside plant facilities (poles, lines, cables, and conduit)	163,018,702	159,726,701	102,068,724	98,644,694
Furniture and fixtures	1,289,857	1,270,821	1,031,279	983,702
Data processing equipment	7,623,765	6,025,332	4,927,026	4,611,171
Vehicles	2,971,505	2,948,489	2,470,504	2,446,318
Tools and work equipment	878,834	811,758	614,446	628,941
Total regulated in service	364,989,501	356,867,575	256,976,131	243,987,693
Construction in progress	11,494,981	9,703,094		
Total regulated	376,484,482	366,570,669		
Nonregulated plant and equipment in service	34,558,811	23,634,987	15,769,793	13,056,561
Nonregulated construction in progress	219,607	5,025,915		
Total nonregulated	34,778,418	28,660,902		
Total	$ 411,262,900	395,231,571	272,745,924	257,044,254

Depreciation expense relating to regulated plant and equipment was $17,834,008 and $16,942,875 in 2009 and 2008, respectively. Composite rates applied to the depreciable telephone plant accounts resulted in depreciation expense that was equivalent to 4.9% and 4.8% of the average balance of telephone plant and equipment in service during 2009 and 2008, respectively. Depreciation expense relating to nonregulated plant and equipment was $2,779,538 and $2,124,057 in 2009 and 2008, respectively.

The nonregulated plant and equipment in service consists principally of wireless, broadband and video equipment.

The regulated construction in progress consists principally of a new operations support information system under development at December 31, 2009. Implementation issues caused the Company to abandon the project subsequent to year-end, which resulted in a loss on abandonment of approximately $11 million in 2010.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, [illegible]

(3) Investments

All of the Companies' marketable securities are reported at estimated fair values based on quoted market prices of identical securities in active markets (Level 1). Unrealized gains and losses are reported as a separate component of stockholders' equity. Realized gains and losses on disposal are calculated on the net proceeds of sales less the amortized costs of securities sold on a specific identification basis, and are included in investment income. The amortization of premiums and discounts arising at acquisition, and interest income, are also included in investment income.

(a) Investment Securities

The amortized cost and estimated fair value of marketable securities available–for–sale at December 31 are as follows:

	2009			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Current assets:				
Tax-exempt municipal bonds	$ 12,102,758	345,822	—	12,448,580
Certificates of deposit	500,000	—	—	500,000
	12,602,758	345,822	—	12,948,580
Noncurrent assets:				
Debt and equity securities	5,255,991	4,495,345	885,711	8,865,625
	$ 17,858,749	4,841,167	885,711	21,814,205

	2008			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Current assets:				
Tax-exempt municipal bonds	$ 8,180,587	227,449	—	8,408,036
Certificates of deposit	1,000,000	—	—	1,000,000
	9,180,587	227,449	—	9,408,036
Noncurrent assets:				
Debt and equity securities	5,353,140	3,267,865	1,394,770	7,226,235
	$ 14,533,727	3,495,314	1,394,770	16,634,271

Subsequent to year-end, the Company liquidated marketable equity securities with a total fair value of approximately $5.2 million at December 31, 2009. The Company received proceeds on the sales of approximately $6.1 million and recorded a net gain on the sales of approximately $5.3 million.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Investments (continued)

(a) *Investment Securities (continued)*

The contractual maturities of certificates of deposit and tax-exempt municipal bonds available-for-sale at December 31, 2009 were as follows:

		Cost	Fair value
Due within one year	$	500,000	500,000
Due after one year through five years		5,320,300	5,473,139
Due beyond five years		6,782,458	6,975,441
Total	$	12,602,758	12,948,580

The following tables show gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2009 and 2008, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

		As of December 31, 2009						
		Less than 12 Months		12 Months or Greater		Total		
		Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value		Gross unrealized loss
Debt	$	45,139	(287)	—	—	45,139	$	(287)
Equity		—	—	2,243,221	(885,424)	2,243,221		(885,424)
	$	45,139	(287)	2,243,221	(885,424)	2,288,360	$	(885,711)

		As of December 31, 2008					
		Less than 12 Months		12 Months or Greater		Total	
		Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Debt	$	137,787	(13,113)	352,034	(6,846)	489,821	(19,959)
Equity		504,458	(675,156)	1,252,923	(699,655)	1,757,381	(1,374,811)
	$	642,245	(688,269)	1,604,957	(706,501)	2,247,202	(1,394,770)

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Investments (continued)

(a) Investment Securities (continued)

The Company maintains a nonqualified trust, referred to as a Rabbi Trust, to fund benefit payments under its Supplemental Executive Retirement Plan (SERP). Rabbi Trust assets are subject to creditor claims under certain conditions and are not the property of employees. Therefore, they are accounted for as corporate assets and are included in other assets as investment securities. Assets held in trust at December 31, 2009 and 2008, were $3,199,814 and $2,823,162, respectively.

(b) Investments in Unconsolidated Entities

Long-term investments in unconsolidated companies consist of the following:

	Ownership percentage		2009	2008
Equity method:				
Alltel Communications of North Carolina Limited Partnership	5.81%	$	10,353,942	9,384,269
Access/ON Multimedia, Inc.	19.60%		113,726	92,128
Cost method:				
InComm Holdings, Inc.	<1%		112,302	112,302
		$	10,579,970	9,588,699

Earnings (losses) from investments accounted for under the equity method were as follows:

		2009	2008
Alltel Communications of North Carolina Limited Partnership	$	6,866,190	6,328,334
Access/ON Multimedia, Inc.		21,598	(7,358)
Total	$	6,887,788	6,320,976

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) **Investments (continued)**

(b) Investments in Unconsolidated Entities (continued)

Summarized financial information for Alltel Communications of North Carolina Limited Partnership ("Alltel Communications" or the "Partnership") is as follows at December 31 (in thousands):

		2009	2008
Current assets	$	87,350	19,316
Noncurrent assets		256,045	47,694
Current liabilities		19,683	7,597
Noncurrent liabilities		9,751	9,787
Partners' equity		313,961	49,626

For the years ended December 31:

		2009	2008
Total revenues and sales	$	343,814	144,848
Net income		83,188	36,847

On January 9, 2009, Alltel Corporation was acquired by Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless"). Upon completion of the merger, Alltel Corporation became a wholly-owned subsidiary of Verizon Wireless. The Company entered into an agreement with Verizon Wireless whereby Alltel Communications was merged with Verizon Wireless's wholly-owned wireless operation that overlaps the Partnership. The Partnership's 2009 summary financial information is presented at historical book value as the effects of Verizon Wireless's purchase of Alltel Corporation have not been pushed down to Alltel Communications.

The resulting Partnership ownership percentages were adjusted based on the relative values of the two merged entities. The Company's 18.05% pre-merger ownership percentage in the Partnership became 5.81% effective April 1, 2009.

In 2009 and 2008, the Company received $8,973,502 and $6,315,785, respectively, as distributions from Alltel Communications. As a result of the reduction in ownership interest in the Partnership, the Company accrued approximately $3 million due to Verizon Wireless at December 31, 2009 to reflect excess distributions received during 2009 using the 18.05% pre-merger ownership percentage. This amount due to Verizon Wireless was subtracted from the Company's first quarter 2010 distribution.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009 & 2008

(4) Capital Stock

Under the terms of a stock purchase agreement dated June 30, 1963, the Company reacquired and canceled 150 shares of 5% preferred stock at $101 per share during 2009 and 2008. Preferred stock was reduced by the par value of $15,000 and paid-in capital was reduced by the $150 excess of par value. This agreement provides for the acquisition of 7,500 shares of 5% preferred stock at the annual rate of 150 shares until fully redeemed. There are 900 shares remaining to be redeemed at December 31, 2009.

The Company acquired and retired an additional 115 shares of preferred stock at a cost of $6,670 in 2009.

The holders of cumulative preferred stock are entitled to the stated value of cumulative dividends before payment of any dividends on common stock. In addition, in preference to the common stock, cumulative preferred shareholders are entitled to the $100 redemption price per share, plus any cumulative and unpaid dividends, should there be a distribution of assets upon the sale, dissolution, or liquidation of the Company.

The Company acquired and retired 3,479 shares of common stock at a cost of $242,131 in 2009 and 74,755 shares of common stock at a cost of $5,271,011 in 2008.

(5) Income Taxes

Income tax expense consisted of the following:

		2009	2008
Current income tax expense	$	2,759,961	6,865,589
Deferred income tax expense		3,703,191	3,022,874
Total	$	6,463,152	9,888,463

Components of the difference between income tax expense computed at the applicable federal income tax statutory rate and the total income tax expense included in the statements of income are as follows:

		2009	2008
Statutory federal income tax rate		35%	35%
Federal income tax at statutory rate	$	6,004,123	8,931,549
Increase (decrease) resulting from:			
State income tax, net of federal income tax benefit		689,041	1,045,075
Nontaxable interest income		(156,733)	(189,055)
Other, net		(73,279)	100,894
Income tax expense	$	6,463,152	9,888,463

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Income Taxes (continued)

Net deferred income tax liabilities consist of the following components:

		2009	2008
Net deferred income tax assets:			
Accrued pension costs	$	9,902,628	12,693,043
Postretirement benefits other than pension		787,500	882,213
Accrued vacation pay		494,502	481,530
Other		256,150	255,208
		11,440,780	14,311,994
Net deferred income tax liabilities:			
Investments		2,414,401	1,559,158
Property and equipment (principally accelerated depreciation)		24,702,428	21,689,015
		27,116,829	23,248,173
Total	$	15,676,049	8,936,179

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deferred income tax assets at December 31, 2009.

The deferred income tax amounts described above have been classified on the accompanying balance sheets as follows:

		2009	2008
Noncurrent liabilities	$	16,534,443	9,752,914
Current assets		858,394	816,735
Total	$	15,676,049	8,936,179

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Employee Benefits

(a) Employee Pension Plan

The Company has a noncontributory defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's final average monthly compensation during the five highest compensated years employed. Contributions to the plan are based upon the Projected Unit Credit actuarial funding method and comply with the funding requirements of the Employee Retirement Income Security Act. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The measurement date used to determine pension benefits for the pension plan is December 31. The following table sets forth the funded status of the Company's pension plan and amounts recognized in the Company's financial statements:

		2009	2008
Actuarial present value of benefit obligation-accumulated benefit obligation	$	101,759,228	95,377,267
Projected benefit obligation for services rendered to date	$	(106,992,493)	(103,161,983)
Plan assets at fair value		82,522,068	71,334,093
Funded status (underfunded)		(24,470,425)	(31,827,890)
Unrecognized net gain from past experience different from that assumed		21,592,943	27,076,388
Unrecognized prior service cost		(1,456,760)	(1,602,015)
Unrecognized loss included in other comprehensive income (loss)		(20,136,185)	(25,474,373)
Total accrued pension benefits		(24,470,427)	(31,827,890)
Current portion included in accrued expenses		3,000,000	2,500,000
Accrued pension benefits	$	(21,470,427)	(29,327,890)
Company contributions	$	1,311,078	2,688,918
Benefits paid	$	5,207,953	4,852,916

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

Net periodic pension cost for the Company's pension plan included the following expense (income) components:

		2009	2008
Service cost, benefits earned during the period	$	1,863,142	1,825,095
Interest cost on projected benefit obligation		6,305,077	6,171,322
Expected gain on plan assets		(6,759,194)	(7,602,620)
Net amortization and deferral		71,698	(145,254)
Net periodic pension cost	$	1,480,723	248,543

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 6.0% in 2009 and 6.25% in 2008. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation ranges from 2.0% to 5.5% in 2009 and 3.0% to 6.5% in 2008. The assumed long-term rate of return on pension plan assets was 8.0% in both 2009 and 2008.

The expected rate of return on employee pension plan assets is determined by those assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

The Company's pension plan asset target guidelines include fixed income and equity securities, both of which may vary between 40% and 60% of the total asset base, and a maximum of 30% for cash and cash equivalents. The mutual funds contain both fixed income and equity securities and thus the overall mix of fixed income and equity securities fall within the target guidelines. Overall returns should closely approximate the return of a weighted average index comprised of 25% S&P Stock Index, 25% Russell Stock Index, and 50% Barclay's U.S. Aggregate Bond Index.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, [illegible]

(6) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

The following tables present fair value measurement information for the Company's employee pension plan assets:

		December 31, 2009	Quoted Markets Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and cash equivalents	$	1,984,436	1,984,436	—	—
Mutual funds, stocks		34,337,682	34,337,682	—	—
Mutual funds, bonds and notes		5,651,804	5,651,804		
Index Track Grand Central Bond Master Fund		23,277,721			23,277,721
U.S. Government securities		6,016,679	6,016,679	—	—
Corporate bonds and notes		4,223,336	4,223,336		
Company stock		7,030,410		7,030,410	—
Total investments	$	82,522,068	52,213,937	7,030,410	23,277,721

		December 31, 2008	Quoted Markets Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and cash equivalents	$	1,864,806	1,864,806	—	—
Mutual funds		34,419,632	34,419,632	—	—
Index Track Grand Central Bond Master Fund		21,500,368	—	—	21,500,368
U.S. Government securities		4,046,137	4,046,137	—	—
Corporate bonds and notes		3,529,083	3,529,083		
Company stock		5,974,067		5,974,067	—
Total investments	$	71,334,093	43,859,658	5,974,067	21,500,368

The plan's mutual funds, US government securities, and corporate bonds and notes are presented at fair value based on quoted market prices of identical securities in active markets. The fair value of Company stock is determined using the weighted average stock prices for transactions in the last 30 days of the year. The fair value of the Grand Central Bond Master Fund is determined by discounting the expected cash flows based on current yields of similar instruments with comparable durations. The following table provides further details of the Level 3 fair value measurements.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) **Employee Benefits (continued)**

(a) Employee Pension Plan (continued)

The following table provides further detail of Level 3 fair value measurements.

		Index Track Grand Central Bond Master Fund	
		2009	**2008**
Beginning balance	$	21,500,368	20,303,899
Total gains (realized and unrealized)		1,300,353	1,077,710
Deposits		477,000	118,759
Ending balance	$	23,277,721	21,500,368

No plan assets are expected to be returned to the Company during 2010.

The Company expects to contribute approximately $3,000,000 to its pension plan in 2010. Expected benefit payments to be paid by the plan for each of the next ten years ended December 31 are as follows:

2010	$	6,338,100
2011		6,652,700
2012		6,959,200
2013		7,244,300
2014		7,506,500
2015-2019		41,066,400

The estimated net (gain)/loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year are $0 and $(145,255), respectively.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Employee Benefits (continued)

(b) Supplemental Executive Retirement Plan (SERP)

The Company's SERP is a nonqualified defined benefit plan which covers those employees of the Company whose compensation has been limited by the Omnibus Budget Reconciliation Act (OBRA), which became effective January 1, 1995.

The measurement date used to determine pension benefits for the SERP is December 31. The following table sets forth the status of the Company's SERP and amounts recognized in the Company's financial statements:

		2009	2008
Actuarial present value of benefit obligations-accumulated benefit obligation	$	2,108,548	1,832,324
Projected benefit obligation for services rendered to date	$	(2,131,287)	(2,318,604)
Plan assets at fair value		—	—
Funded status (underfunded)		(2,131,287)	(2,318,604)
Unrecognized net gain from past experience different from that assumed		(364,460)	(150,161)
Unrecognized prior service cost		—	(21,749)
Unrecognized gain included in other comprehensive income		364,455	171,909
Total accrued SERP pension benefits	$	(2,131,292)	(2,318,605)
Current portion included in accrued expenses		160,000	160,000
Accrued SERP pension benefits		(1,971,292)	(2,158,605)
Company contributions	$	160,242	160,242
Benefits paid	$	160,242	160,242

Net periodic pension cost for the Company's SERP included the following expense components:

		2009	2008
Service cost, benefits earned during the period	$	34,682	32,112
Interest cost on projected benefit obligation		152,538	140,922
Net amortization and deferral		(21,749)	(53,044)
Net periodic pension cost	$	165,471	119,990

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) **Employee Benefits (continued)**

(b) Supplemental Executive Retirement Plan (SERP) (continued)

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 6.0% and 6.25% in 2009 and 2008, respectively. The rate of future compensation levels used in determining the actuarial present value of the projected benefit obligation was 2.0% to 5.5% in 2009 and 5.0% in 2008.

Although the SERP has no plan assets, the Company has established a Rabbi Trust to fund this benefit, the investments for which are included in the balance sheet under other investment securities. All of the trust's assets are reported at estimated fair values based on quoted market prices of identical securities in active markets (Level 1). The investments, by asset category, are as follows at December 31, 2009:

Cash and cash equivalents	$	61,596
Mutual funds		2,613,415
State and municipal bonds		524,803
Total Rabbi Trust investments	$	3,199,814

The Company expects to contribute approximately $160,000 to its SERP in 2010. Expected benefit payments to be paid by the plan for each of the next ten years ended December 31 are as follows:

2010	$	160,000
2011		153,000
2012		153,000
2013		153,000
2014		152,000
2015-2019		750,000

The estimated net gain and prior service cost that will be amortized from accumulated other comprehensive income into net periodic SERP cost over the next fiscal year are $19,700 and $0, respectively.

(c) Postretirement Benefits

The Company provides life insurance benefits to eligible retired employees. The postretirement plan, which is noncontributory, provides life insurance coverage of 50% or 100%, depending on hire date, of the last full year's salary prior to retirement. The cost of providing postretirement benefits is accrued during the employees' active service period. The Company funds these benefits as they become payable by the Company.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Employee Benefits (continued)

(c) Postretirement Benefits (continued)

The measurement date used to determine postretirement benefits for the postretirement plan is December 31. The following table sets forth the components of the accrued postretirement life insurance obligation:

		2009	2008
Accumulated postretirement benefit obligation	$	(1,996,198)	(2,234,300)
Fair value of plan assets		—	—
Funded status (underfunded)		(1,996,198)	(2,234,300)
Unrecognized net actuarial (gain) loss		(863,700)	(575,700)
Unrecognized prior service cost		49,200	63,000
Unrecognized gain (loss) included in other comprehensive income		814,500	512,700
Total accrued postretirement benefits		(1,996,198)	(2,234,300)
Current portion included in accrued expenses		320,000	320,000
Accrued postretirement benefits	$	(1,676,198)	(1,914,300)

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 6.0% in 2009 and 6.25% in 2008.

Net periodic postretirement benefit cost included the following expense components:

		2009	2008
Service cost, benefits attributed to service during the period	$	51,500	55,600
Interest cost		114,800	144,100
Net amortizations and deferrals		(102,600)	(82,000)
Net periodic postretirement cost	$	63,700	117,700
Gain due to settlement and curtailment	$	—	(111,800)

The Company expects to contribute approximately $320,000 to its postretirement plan in 2010.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) Employee Benefits (continued)

(c) Postretirement Benefits (continued)

Expected benefit payments to be paid by the plan for each of the next ten years ended December 31 are as follows:

2010	$	31,100
2011		40,300
2012		50,300
2013		60,100
2014		70,300
2015-2019		511,800

The estimated net gain and prior service cost that will be amortized from accumulated other comprehensive income into net periodic postretirement cost over the next fiscal year are $116,400 and $13,800, respectively.

(d) 401(k) Plan

The Company has a 401(k) salary savings plan under which employees may contribute a portion of their salary on a tax-deferred basis. The Company matches a portion of the employee's contribution. Matching contributions were approximately $264,000 and $1,063,000 in 2009 and 2008, respectively.

(7) Contingencies

The Company, in the normal course of business, is party to a number of claims and/or lawsuits. The Company's management does not expect the results of these outstanding claims or lawsuits to have a material adverse effect on the financial position or results of operations of the Company.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009 [illegible]

(8) Lease Commitments

The Company has several operating leases, primarily for wireless cell tower sites. Future minimum lease payments under these operating leases as of December 31, 2009 are:

Year ending December 31:		Operating Leases
2010	$	740,735
2011		688,768
2012		621,026
2013		559,944
2014		523,224
After 5 years		1,230,657
Total minimum lease payments	$	4,364,354

The operating lease commitments include the Company's expected optional renewal periods that are reasonably assured related primarily to certain cell tower sites. The cell tower leases, which are subject to rent escalation clauses, generally have initial five-year terms with renewal options for additional five-year terms totaling 15 to 25 years. The Company's gross rental expense related to these operating leases totaled $969,057 and $912,851 in 2009 and 2008, respectively.

(9) Subsequent Events

The Company evaluated events and transactions after December 31, 2009 through October 14, 2010, the date the financial statements were available to be issued, for subsequent events, and determined that there were no events to report during that period other than those described in Note 2 and Note 3.

REPORT OF INDEPENDENT AUDITORS

Board of Directors
North State Telecommunications Corporation and Subsidiaries:

We have audited the accompanying consolidated balance sheets of North State Telecommunications Corporation and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Alltel Communications of North Carolina Limited Partnership ("Alltel Communications"), a 5.81% and 18.05% owned equity method investee in 2009 and 2008, respectively. The Company's investment in Alltel Communications at December 31, 2009 and 2008 was $10,353,942 and $9,384,269, respectively, and its equity in earnings of Alltel Communications was $6,866,190 and $6,328,334 for the years then ended. The financial statements of Alltel Communications were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Alltel Communications, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of North State Telecommunications Corporation and Subsidiaries as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Bauknight Pietras & Stoermer, P.A.

October 14, 2010

Certified Public Accountants
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