

LEEWARD INVESTMENTS, LLC

February 28, 2010

North State: Preserving Your Stock's Value

Dear Sir or Madam:

We are writing to you as a fellow shareholder of North State Telecommunications Corporation. Recently, our firm, Leeward Capital, wrote to the Chairman of North State, C. Hayden McKenzie, to encourage North State's Board of Directors to consider a sale of the company. A copy of that letter is attached. We are writing to you because we believe the shareholders should be involved, along with management and the Board, in a thoughtful and considered assessment about the most prudent course for the company.

Last year, Leeward commissioned a study by Balhoff & Williams, LLC (B&W) to review the near-term and long-term prospects for North State's business. B&W is regarded as one of the most knowledgeable and balanced financial advisors in the local exchange industry. Based on our review of the B&W report and other industry sources, we have reached the following conclusions:

- Wireline losses are accelerating, both for North State and for the industry
- North State's earnings and cash flow will continue to decline as the company loses its more profitable wireline voice customers
- North State will not be able to replace the lost earnings and cash flows with additional wireless and broadband customers – this is inherent in the competitive nature of these businesses
- Based on broader industry trends and the experiences of other companies, North State may not achieve a return of capital, much less a return on investment, for the significant investments currently being made in advanced broadband network infrastructure
- Continuing technological innovation and increasing competition will most likely require significant ongoing investments in the wireless and broadband areas
- Potential federal and state regulatory changes, including the pending reform of the North Carolina access regime, could have a further significant negative effect on North State's earnings and cash flows
- While the company remains in a strong financial position today, decreased cash flows over time would impact North State's enterprise value and its ability to maintain the current level of dividend payments to shareholders
- Ongoing industry consolidation will likely result in fewer potential buyers for North State in future years; **a less competitive auction process coupled with reduced future cash flows may well lead to a disappointing sale process for the company if action is delayed even for just a few years.**

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For these reasons, we think shareholders should proactively urge the Board of Directors to consider a sale.

We want to be clear that Leeward is not calling into question the prior judgment of management or the Board in running the company. Managing a company, especially in the face of remarkable competitive, technological and regulatory changes, is not an easy or enviable task. North State has been more successful and is in a better financial position than many of its peers: the company's attractive network assets and strong balance sheet are credits to the leadership of the Board and the management team.

We also recognize most of our fellow North State shareholders have owned their shares far longer than has Leeward. Many current shareholders have received their shares as a part of successive generational transfers, which ties those shareholders to a long and proud record of achievement and service by North State over the years. This naturally implies the possibility that certain North State shareholder groups will have a different perspective—one that we respect—regarding what is the best course of action for the future success of the company.

Delaying a formal evaluation of North State's strategic options, including the possibility of a sale, however, is not in the best interests of the company, its customers, employees, or shareholders. The competitive and technological forces driving consolidation within the industry are larger than North State's capacity to adapt and respond. The company is now in an industry where scale is becoming one of the most important factors for sustainability and prosperity.

We include with this letter a copy of the Executive Summary, excerpted from the B&W report for your review. You can download the full report by using the following web address: mediafire.com/northstate (note: type this into the address line, not the search box – the address is not searchable). Thank you for your consideration regarding this important step in securing a bright future for North State and its key constituencies.

Sincerely,



Kent Rowett
Manager, Leeward Investments, LLC,
General Partner of Leeward Capital