

LEEWARD INVESTMENTS, LLC

January 5, 2010

C. Hayden McKenzie
Chairman & Chief Executive Officer
North State Telecommunications Corporation
111 North Main Street
High Point, NC 27260

Dear Hayden:

Thank you for the time taken by North State's senior management to meet with the principals from Balhoff & Williams ("B&W"). You were under no obligation to meet with them, and yet were very gracious with your time and open with your responses. I believe that the management team's insights and feedback helped to make the B&W report more informed and more valuable.

I regret that I have not had a chance to meet with you in person. My partner, Eric Von der Porten, spoke very highly of you and the other managers, after attending North State's annual shareholders' meeting in 2008.

As you perhaps know, Eric passed away a year ago, and our fund, Leeward Capital, is in the process of winding down. Our liquidation process is expected to take another couple of years. In connection with our liquidation, we are evaluating all of our fund's investments.

In this regard, we asked B&W to analyze North State's near-term and long-term prospects, and to provide input to us, so that we could decide upon an appropriate course of action, such as whether to: (i) continue holding North State stock for another year or two in anticipation of potential appreciation; (ii) make a current distribution of the North State shares to our partners, allowing our partners to control the timing and negotiation of share sales (we have generally been long-term shareholders and our partners have been similarly disposed); (iii) approach North State about a possible share repurchase (I know that North State has been an active purchaser of its own shares in the past); or (iv) request your consideration of a company sale.

Based on my review of the B&W report, it is clear to me that the pressures facing the wireline communications industry are accelerating and nothing on the near-term or long-term horizon suggests there is a meaningful possibility of reversing current trends. We had previously hoped that North State's significant investments in fiber-based high-speed connections and wireless services would eventually enable North State to restore its margins or at least return the company to a more defensible position. From the experience of other companies in the industry, however, it appears very unlikely that high-speed lines or wireless services will stop the decline in North State's earnings and cash flow. In fact, it now appears likely that North State will have difficulty in generating even a return of capital for its current investments.

We are not critical of management or prior decisions. It is understandable that substantial cash generated from the legacy landline business was invested in advanced network infrastructure in the hopes of preserving and growing North State's business. And, if that strategy proved

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unsuccessful or market conditions changed, management could reasonably expect to regain a good measure of shareholder value from selling the company to a larger carrier.

We have now come to the conclusion, however, that there are at least two factors that make such an approach problematic. First, it is difficult to restore margins that were historically derived largely from a monopoly market position. Once technology introduced competition to the marketplace, no amount of investments could alter that simple fact.

Second, the option that North State might be sold four or five years in the future for a premium over the current value also has newly appreciated risks. At the beginning of 2009, there were four larger wireline-focused telecoms, pursuing transactional growth strategies. Each of those carriers could be viewed as potential acquirers of North State. Since then, Embarq and CenturyTel have merged, and there were rumors of a possible combination of Windstream and Frontier prior to the announcement of Frontier's major transaction with Verizon. If several years from now there were only one or two larger wireline consolidators left (not an unlikely outcome), the reduced competition for North State coupled with the company's lower future earnings could result in a disappointing price at the sale. It is feasible, and possibly predictable, that such a sale of North State would result in a meaningful discount, not a premium to North State's current value.

We appreciate that you and other senior managers approach the company with possibly a different perspective – one that reflects various assessments. Your family pioneered North State generations ago. North State as an independent enterprise also has an important presence in the community. You have a deep responsibility to your families and employees. We recognize and acknowledge that there may be other important considerations beyond financial performance and the resulting implications for shareholder value.

We respectfully submit, though, that the forces driving change and consolidation within the telecommunications industry will not relent. We believe that the best way to serve all of North State's constituents over a long horizon would be to proactively and thoughtfully consider a sale of the company.

We would welcome the opportunity to discuss these issues further.

Sincerely,



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