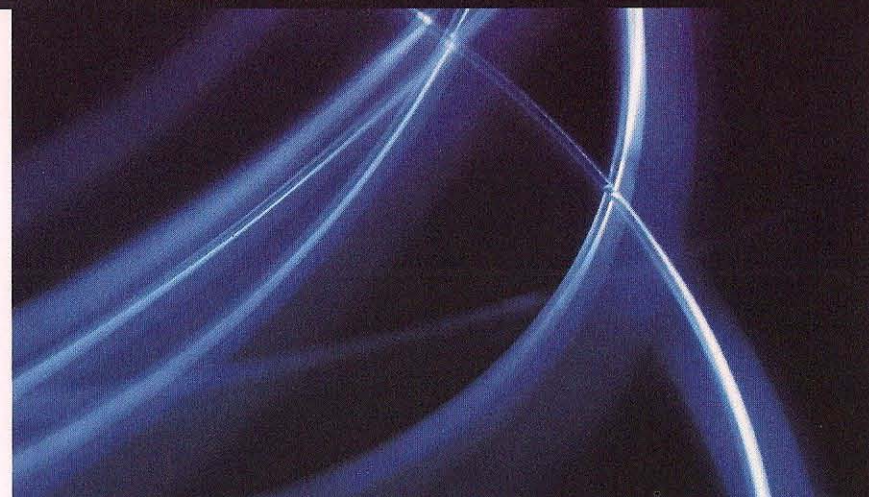


2010 Operations &  
Financial Summary



111 N. Main Street, High Point, NC 27260



## Summary of Unaudited Statements of Income

### North State Telecommunications Corp & Subsidiaries

Amounts in millions except per share amounts

Years Ending December 31	2010	2009	% Change
<b>Operating Revenues</b>			
Telecom	\$53.4	\$57.8	-7.6%
Broadband	15.9	13.2	20.5%
Wireless	25.9	22.6	14.6%
Advertising and Search	4.1	4.6	-10.9%
Miscellaneous	1.2	0.9	33.3%
Total Operating Revenue	100.5	99.1	1.4%
Less: Uncollectible Revenue	1.2	1.7	-29.4%
<b>Net Operating Revenue</b>	<b>99.3</b>	<b>97.4</b>	<b>2.0%</b>
<b>Operating Expense</b>			
Cost of Sales and Services	41.7	41.6	0.2%
Selling, General, and Administrative	26.0	25.4	2.4%
Depreciation and Amortization	20.8	20.6	1.0%
<b>Total Operating Expense</b>	<b>88.5</b>	<b>87.6</b>	<b>1.0%</b>
<b>Operating Income Before Asset Impairment Loss</b>	<b>10.8</b>	<b>9.8</b>	<b>10.2%</b>
Loss on Abandonment of Plant Asset	(11.0)	0.0	
<b>Operating Income (Loss)</b>	<b>(0.2)</b>	<b>9.8</b>	<b>-102.0%</b>
<b>Nonoperating Income (Expense)</b>			
Interest Income	0.5	0.5	0.0%
Interest Expense	0.0	0.0	
Equity in Earnings of Unconsolidated Entities	5.9	6.9	-14.5%
Gain (Loss) on Sale of Investment Securities	5.2	0.0	
Other Income (Expense), Net	0.0	0.0	
<b>Total Nonoperating Income</b>	<b>11.6</b>	<b>7.4</b>	<b>56.8%</b>
<b>Income Before Income Taxes</b>	<b>11.4</b>	<b>17.2</b>	<b>-33.7%</b>
Income Taxes	4.2	6.5	-35.4%
<b>Net Income</b>	<b>\$7.2</b>	<b>\$10.7</b>	<b>-33.0%</b>
<b>Earnings Per Share</b>	<b>\$3.08</b>	<b>\$4.60</b>	<b>-33.0%</b>
Normalized Earnings Per Share [excludes investment gains/losses & loss on abandonment of plant asset]	\$4.63	\$4.60	0.7%

Primary Operations of North State Telecommunications Corporation are through its subsidiary North State Communications.

## 2010 Financial Highlights

	2010	2009	
Operating Revenues	\$99.3	\$97.4	2%
Operating Income (a)	\$10.8	\$9.8	10.2%
Earnings Per Share (b)	\$4.63	\$4.60	0.7%

(a) 2010: Excluding abnormal write-off of \$11M, Operating Income was \$10.8M. Including write-off, Operating Loss was \$200K  
(b) 2010: Excluding abnormal after tax write-off of \$6.7M and abnormal after tax gain of \$3.2M, EPS was \$4.63. Including abnormal write-off and gain, EPS was \$3.08.

### To our Shareholders:

As we close out 2010 and move into a new year, we take this opportunity to communicate with you regarding our performance for the year. This letter is part of a new **Operations & Financial Summary** that we will produce at the end of each year. The financial statements included in this report are unaudited statements. As we have previously communicated to you, our audited financial statements have been late in the past due to delays in obtaining audited financial statements from a partnership that materially impacts our non-operating income. We have developed this Operations & Financial Summary as a means to provide current information to you. At such time as our audited financial statements are available, we will promptly send you a copy.

Beginning with 2010, we have made changes in how we organize our revenue and count our products and services. We separated **Operating Revenue** into five segments: **Telecom**, which

includes revenue from our traditional local and long distance voice services as well as access services; **Broadband**, which includes revenues from internet, video, Voice over IP and various data networking products; **Wireless**, which includes revenue from wireless products offered through our joint operating agreement with AT&T; **Advertising & Search**, which includes revenue from our print and online advertising offerings; and **Miscellaneous Revenue** which includes all other revenues.

Expenses have been segmented into **Cost of Sales and Services**; **Selling, General and Administrative Expense**; and **Depreciation and Amortization**. We believe this segmentation provides a clearer picture of our operations and aligns reporting and tracking in a manner that is more representative of the markets we are in today. For comparison purposes, 2009 revenue and expenses have been restated in this format throughout this report.



We now use "Connections" as the primary method of counting our products and services. The concept of Connections is a better measure of our products given the nature of the markets in which we operate. Voice Connections include voice lines and voice paths. Broadband Connections include video, internet, and data connections. Wireless Connections include wireless voice and data connections. Again for comparison purposes, we have provided 2009 product counts in this manner within this report.

Last year we made reference to the fact consumers and businesses are now carrying out their daily lives and tasks within a new, evolving "digital way of life". We are excited to say that North State is a growing enabler of this digital phenomenon. Our strategy to build out a fiber-to-the-premise network has uniquely

strong partner in the communities in which we live and operate. We remain focused on the basic core values that have served us well for many years and generated long-term, lasting value for all stakeholders in the company.

During 2010 we made progress executing our broadband strategy. Across all products we grew Total Connections 1.2%. This growth demonstrates that we are operating and succeeding in the appropriate markets and that our broadband focus is working. Broadband Connections grew 19.3%. Wireless Connections increased 7.6% while Voice Connections decreased 6.6%. At the end of 2010, 43% of our Connections were Broadband and Wireless, compared to 38% in 2009. This trend demonstrates we are addressing changing consumer needs and are in step with the developing market changes while gaining market share in these growing segments.

## Connections

	2010	2009	% change
Broadband	33,191	27,828	19.3%
Wireless	27,666	25,711	7.6%
Voice	80,505	86,165	-6.6%
<b>Total Connections</b>	<b>141,373</b>	<b>139,704</b>	<b>1.2%</b>

positioned us with a significant role in this exciting new environment. While customer markets have shifted and technology has rapidly evolved, our focus and efforts remain on growing and building the company, providing excellent products, a first-class customer experience, a great work-place, and to remain a

reductions in print Yellow Page advertising revenues. At the end of 2010, the combination of Broadband and Wireless made up 41% of our revenues.

Operating Expenses increased 1.0% in 2010. Cost of Sales and Services was up slightly for the year as a result of increases related to our video offering. Sales, General and Administrative Expense were up 2.4% for the year due to increased sales efforts in broadband and business services. Capital spending was \$18.5 million in 2010 compared to \$20.9 million in 2009.

Plex Advanced TV began to ramp up in 2010, ending the year with nearly 10% penetration of the product in video-marketable homes. Plex customers not only experience the fastest Internet connections in the region, they have access to more than 100 High Definition TV channels delivered to them in a brilliance and quality that only a fiber optic network can deliver.

In the business markets, we began offering IP based business products and services in neighboring Greensboro and Winston-Salem, North Carolina, expanding our product offerings to two of the state's largest cities. This "edge out" technique opens up new growth opportunities as we blanket the Piedmont Triad Region of the state with service offerings. A portion of this geographic expansion is focused on new opportunities in providing fiber based transport services to wireless towers in the region as wireless providers expand their networks to meet the demands of increasing data usage.

In late 2010, we began offering a new line of managed data services for businesses through

an alliance with Dynamic Quest, a leading technology and managed services provider. This relationship adds a full line of data center

## Segment Revenue

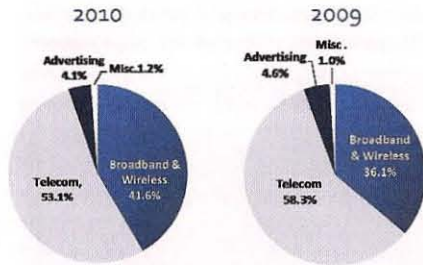
	2010	2009	% change
Broadband	\$15.9	\$13.2	20.5%
Wireless	\$25.9	\$22.6	14.6%
Telecom	\$53.4	\$57.8	-7.6%
Advertising & Search	\$4.1	\$4.6	-10.9%
Miscellaneous	\$1.2	\$0.9	33.3%

service offerings, where data storage, business applications, and portions of businesses' IT infrastructure can reside in data centers, or "the cloud". Managed services permit businesses to focus on their core business plans as opposed to internally providing their information technology needs.

In June of 2010, we announced a one-time charge of \$11 million due to the write-down of an unsuccessful IT project. Additionally, we sold stock and investments providing a gain of \$5.2 million. The sale of stock investments was triggered by predetermined, target sale prices for the securities. The net effect of these transactions was a \$5.8 million write-off. Earnings per Share for 2010 prior to the write-off were \$4.63, a 0.7% increase over Earnings per Share of \$4.60 for 2009. 2010 Earnings per Share after the write-off were \$3.06.



## Revenue Mix



**Net Operating Income**, excluding the write-off, increased 10.2% in 2010. We incurred an Operating Income loss of \$200,000 when including the write-off. Net Income for 2010 was \$7.2 million, compared to \$10.7 million in 2009. During the year we returned \$14.1 million in cash to shareholders through our regular dividend, a special one-time dividend, and share repurchases.

A great customer experience is a powerful part of our uniqueness in the market. We continue to work hard on improving every aspect of the customer experience within the company. It is important to point out that one of the keys to our continuing success is the team of North State employees. Our employees have all taken the digital lifestyle by storm and performed at new heights as our business model shifts. We are in highly competitive markets and taking customers from other providers. We owe a great deal of gratitude to our employees as they embrace change and come to work ready to compete for each customer as well as deliver the best customer experience possible.

We are participating in many of the fastest growing segments of the digital way of life with a strong, vibrant organization. We are managing our cash carefully, addressing our operating

expenses to deliver higher margins and improved cash flows. We continue to move through a period of heavy capital spending as we will invest just over \$25 million in 2011 to further our broadband strategy and continue our growth initiatives. Our networks position us to compete with all industry players.

As we move into 2011 the word "fast" becomes a significant recurring theme. We are expanding our super-fast fiber network to more neighborhoods and businesses. We are upgrading our wireless broadband network to faster 4G speeds and offering faster and smarter 4G wireless devices. We are selling faster and meeting the competition head-on in broadband. We are offering fast business products across the Triad Region. Our focus is on selling more digital lifestyle products with the fastest networks in the area.

## Wireless Data Usage On Our Network

	2010	2009	% change
Wireless Data Usage On Our Network	36.3	14.9	144%
(In billion kilobytes)			

In closing, we want to express our gratitude to you, our shareholders, for your unwavering support. We hope you are pleased with how your company is performing and evolving, and trust you share our excitement about the role we are playing in the Triad's digital lifestyles.

C. Hayden McKenzie

C. Hayden McKenzie,  
Chairman and Chief Executive Officer

Royster Tucker III

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

## North State Telecommunications Corporation and Subsidiaries Consolidated Balance Sheets (unaudited)

At December 31,	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,462,516	\$ 6,281,354
Investment securities	15,511,841	12,948,580
Accounts receivable, net of allowance for doubtful accounts	10,633,721	9,057,413
Materials and supplies	6,389,392	3,163,551
Prepayments	1,182,977	1,374,141
Income taxes recoverable	3,006,149	200,289
Deferred income taxes	815,858	858,394
Total current assets	44,002,454	33,883,722
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Total property, plant and equipment	418,380,805	411,262,900
Less: accumulated depreciation	291,460,184	272,745,924
Property, plant and equipment, net	126,920,621	138,516,976
<b>OTHER ASSETS</b>		
Investment securities	3,632,084	8,865,625
Investment in unconsolidated entities	7,903,996	10,579,970
Intangibles, net of amortization	6,493,750	6,493,750
Other noncurrent assets	1,398,627	1,865,763
Total other assets	19,428,457	27,805,108
<b>TOTAL ASSETS</b>	<b>\$ 190,351,532</b>	<b>\$ 200,205,806</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and payroll withholdings	\$ 5,444,050	\$ 4,195,346
Advance billings and customer deposits	3,239,154	3,292,483
Income taxes payable	80	101,406
Accrued expenses	7,072,413	8,856,940
Accrued taxes	305,707	398,824
Total current liabilities	16,061,404	16,844,999
<b>OTHER LIABILITIES</b>		
Deferred income taxes	17,419,954	16,534,443
Accrued pension benefits	25,976,903	23,441,719
Accrued postretirement benefits	1,622,700	1,676,198
Other liabilities and deferred credits	1,161,731	1,456,556
Total other liabilities	46,181,288	43,108,916
<b>TOTAL LIABILITIES</b>	<b>62,242,692</b>	<b>59,953,915</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock	2,044,600	2,078,400
Common stock	11,486,020	11,500,445
Paid in capital	25,178	17,102
Retained earnings	128,806,992	135,735,590
Accumulated other comprehensive income	(14,253,950)	(9,079,646)
Total stockholders' equity	128,108,840	140,251,891
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 190,351,532</b>	<b>\$ 200,205,806</b>



North State Telecommunications Corporation and Subsidiaries  
**Consolidated Statements of Income**  
(unaudited)

Years Ending December 31	2010	2009
<b>OPERATING REVENUES</b>		
Local service	\$ 26,343,239	\$ 29,347,636
Network access	23,307,029	24,808,765
Long distance	<u>3,805,871</u>	<u>3,620,992</u>
Legacy telecom	53,456,139	57,777,393
Broadband	<u>15,861,090</u>	<u>13,164,109</u>
Total wireline	69,317,229	70,941,502
Wireless	25,962,696	22,568,594
Advertising and search	4,097,972	4,631,532
Miscellaneous	<u>1,167,952</u>	<u>934,921</u>
Total operating revenues	100,545,849	99,076,549
Less: uncollectible revenue	<u>1,247,810</u>	<u>1,654,868</u>
Net operating revenues	<u>99,298,039</u>	<u>97,421,681</u>
<b>COST OF SALES AND SERVICE</b>		
General support	3,481,162	3,636,818
Central office	12,684,172	12,371,840
Communication termination	14,012,678	13,451,305
Cable and wire facilities	5,133,270	5,629,246
Network operations	<u>6,342,061</u>	<u>6,504,376</u>
Total cost of sales and service	<u>41,653,343</u>	<u>41,593,585</u>
GROSS MARGIN	57,644,696	55,828,096
DEPRECIATION AND AMORTIZATION EXPENSE	20,750,876	20,614,221
<b>SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE</b>		
Customer operations	17,792,800	17,137,685
Corporate operations	6,878,820	6,751,264
Taxes, other than income taxes	<u>1,406,699</u>	<u>1,526,771</u>
Total selling, general, and administrative expense	26,078,319	25,415,720
NET OPERATING INCOME BEFORE ASSET IMPAIRMENT LOSS	10,815,501	9,798,155
Loss on abandonment of plant asset	<u>(10,987,648)</u>	<u>-</u>
NET OPERATING INCOME (LOSS)	(172,147)	9,798,155
<b>NONOPERATING INCOME (EXPENSE)</b>		
Interest income	475,998	452,211
Interest expense	-	(521)
Equity in earnings of unconsolidated entities	5,923,566	6,887,788
Gain on sale of investment securities	5,175,101	44,651
Other income (expense), net	<u>(26,045)</u>	<u>(27,649)</u>
Net nonoperating income	<u>11,548,620</u>	<u>7,356,480</u>
INCOME BEFORE INCOME TAXES	11,376,473	17,154,635
INCOME TAXES	<u>4,208,057</u>	<u>6,463,152</u>
NET INCOME	7,168,416	10,691,483
PREFERRED STOCK DIVIDENDS	<u>97,967</u>	<u>99,295</u>
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	<u>\$ 7,070,449</u>	<u>\$ 10,592,188</u>
EARNINGS PER AVERAGE COMMON SHARE	<u>\$ 3.08</u>	<u>\$ 4.60</u>

North State Telecommunications Corporation and Subsidiaries  
**Consolidated Statements of Cash Flow**  
(unaudited)

Years Ending December 31	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 7,168,416	\$ 10,691,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,750,876	20,614,221
Change in the allowance for doubtful accounts	(100,000)	100,000
Gain on sale of investment securities, net	(5,175,101)	(44,651)
Loss on sale, disposal, and abandonment of other assets	11,194,587	-
Equity in earnings of unconsolidated entities	(5,923,566)	(6,887,788)
Deferred income taxes	4,246,841	3,703,191
Deferred pension and postretirement benefits	532,299	1,578,160
Changes in assets and liabilities:		
Accounts receivable	(1,476,308)	727,770
Inventory	(3,225,841)	170,348
Other assets	(567,431)	(2,358,699)
Accounts payable	1,195,375	(769,724)
Accrued expenses	(1,978,970)	1,335,783
Other liabilities	<u>(2,464,329)</u>	<u>(4,174,393)</u>
Net cash provided by operating activities	<u>24,176,848</u>	<u>24,685,701</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property, plant, and equipment	(18,532,339)	(20,929,466)
Cost of removal of telephone plant, net of salvage	(292,673)	(365,317)
Proceeds from sale of investment securities	8,066,444	3,270,244
Purchases of investment securities	(4,640,845)	(7,236,407)
Distributions from unconsolidated entities	<u>5,540,890</u>	<u>8,973,502</u>
Net cash used in investing activities	<u>(9,858,523)</u>	<u>(16,287,444)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Acquisition of preferred stock	(25,724)	(21,820)
Acquisition of common stock	(222,369)	(242,131)
Cash dividends paid	<u>(13,889,070)</u>	<u>(12,070,879)</u>
Net cash used in financing activities	<u>(14,137,163)</u>	<u>(12,334,830)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	181,162	(3,936,573)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>6,281,354</u>	<u>10,217,927</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6,462,516	6,281,354
SHORT TERM INVESTMENT SECURITIES AT END OF PERIOD	<u>15,511,841</u>	<u>12,948,580</u>
TOTAL CASH, CASH EQUIVALENTS, AND SHORT TERM INVESTMENT SECURITIES	<u>\$ 21,974,357</u>	<u>\$ 19,229,934</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash payments for:		
Income taxes	\$ 2,949,945	\$ 3,575,238
Interest	<u>\$ -</u>	<u>\$ 521</u>



North State Telecommunications Corporation and Subsidiaries  
**Consolidated Statements of Stockholders' Equity**  
(unaudited)

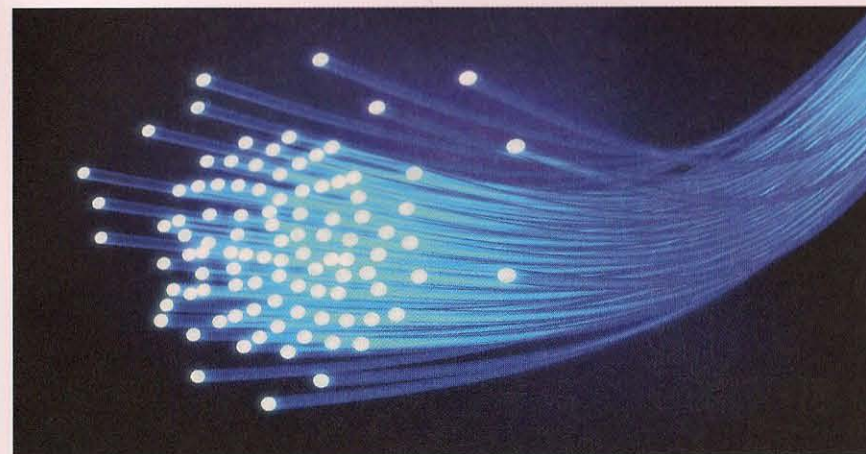
At December 31,	2010		2009	
<b>PREFERRED STOCK</b>				
Balance, beginning	\$	2,078,400	\$	2,104,900
Acquisition of preferred stock		(33,800)		(26,500)
Balance, ending	\$	2,044,600	\$	2,078,400
<b>COMMON STOCK</b>				
Balance, beginning	\$	11,500,445	\$	11,517,840
Acquisition of common stock		(14,425)		(17,395)
Balance, ending	\$	11,486,020	\$	11,500,445
<b>PAID-IN CAPITAL</b>				
Balance, beginning	\$	17,102	\$	12,422
Acquisition of preferred stock		8,076		4,680
Balance, ending	\$	25,178	\$	17,102
<b>RETIREMENT PLANS ADJUSTMENTS</b>				
Balance, beginning	\$	(11,471,968)	\$	(15,001,526)
Current adjustment		(2,677,752)		3,529,558
Balance, ending	\$	(14,149,720)	\$	(11,471,968)
<b>UNREALIZED APPRECIATION (DEPRECIATION) OF SECURITIES</b>				
Balance, beginning	\$	2,392,322	\$	1,271,145
Other comprehensive income (loss)		(2,496,552)		1,121,177
Balance, ending	\$	(104,230)	\$	2,392,322
<b>RETAINED EARNINGS</b>				
Balance, beginning	\$	135,735,590	\$	137,339,722
Net income		7,168,416		10,691,483
Cash dividends:				
Preferred stock		(97,967)		(99,295)
Common stock		(13,791,103)		(11,971,584)
Acquisition of common stock in excess of stated value		(207,944)		(224,736)
Balance, ending	\$	128,806,992	\$	135,735,590
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Balance, beginning	\$	(9,079,646)	\$	(13,730,381)
Unrealized holding gains arising during the period, net of tax expense in 2010 of \$41,104 and tax expense in 2009 of \$733,734		65,058		1,121,177
Reclassification adjustment for realized gains included in net income, net of tax expense of \$1,758,535		(2,697,349)		-
Reclassification adjustment for realized losses included in net income, net of tax benefit of \$88,495		135,739		-
Retirement plans adjustment, net of tax benefit in 2010 of \$1,689,857 and tax expense in 2009 of \$2,302,966		(2,677,752)		3,529,558
Other comprehensive income (loss)		(5,174,304)		4,650,735
Comprehensive income (loss)	\$	1,994,112	\$	15,342,218
Balance, ending	\$	(14,253,950)	\$	(9,079,646)

I, Jonathan M. Cage, VP-Chief Financial Officer, Secretary and Treasurer of North State Telecommunications Corporation and Subsidiaries, High Point, North Carolina, hereby certify that the unaudited consolidated financial statements contained herein of the Balance Sheets, Statements of Income, Statements of Cash Flows, and Statements of Stockholders' Equity for the years 2010 and 2009 have been prepared from the Corporation's and Subsidiaries' accounting records. Internal accounting controls and review procedures provide assurance that these statements are accurate in all material respects.

This is the 3rd day of February 2011.

*Jonathan M. Cage*

Jonathan M. Cage  
Vice President, Chief Financial Officer,  
Secretary and Treasurer



## Corporate Offices:

111 North Main Street, High Point,  
North Carolina 27260

Telephone: 336.886.3600

## Board of Directors:

C. Hayden McKenzie, Chairman  
Royster Tucker, III, Vice Chairman  
Jonathan M. Cage  
William H. Dula  
David L. Harman  
J. Patrick Harman, Ph.D.  
Coulson S. Mucher  
Sarah M. Olson  
Lizbeth W. Privette

## Annual Meeting:

The annual meeting of Shareholders of North State Telecommunications Corporation will be held at 2 p.m., April 6, 2011 at 111 N. Main Street, High Point, North Carolina.

## Officers:

C. Hayden McKenzie,  
Chairman and Chief Executive Officer  
Royster Tucker, III  
Vice Chairman, President  
and Chief Operating Officer  
J. Patrick Harman  
Executive Vice President, Assistant  
Secretary and Assistant Treasurer  
Jonathan M. Cage  
Vice President, Chief Financial Officer,  
Secretary and Treasurer  
James D. McCarson  
Vice President and Chief Technology  
Officer  
W. Mark Dula  
Vice President, Business Markets  
Rex H. Walser  
Vice President, Human Resources  
Charles B. Williford  
Vice President, Strategic Accounts  
Richard P. Worden  
Vice President, Consumer Markets