

THE SHAREHOLDER FORUM

C/O LUTIN & COMPANY
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May 3, 2011

By email

Mr. C. Hayden McKenzie
Chairman, Board of Directors
North State Telecommunications Corporation
111 North Main Street
High Point, North Carolina 27260

Dear Mr. McKenzie:

A few of North State Telecommunication's shareholders have encouraged the Forum's suggesting your consideration of an exchange offer that would allow them to choose a more secure form of investment in their company, as an alternative to the current common stock that exposes their capital and income to the recently undertaken risks of technology competition.

An example of how this might be done would be to authorize a new class of preferred stock that existing shareholders could elect to receive in exchange for common stock, with provisions such as these:

- One-for-one exchange of common-for-preferred
- \$135 per share preferred redemption value (based on the lower range of market values estimated in a 2009 Balhoff & Williams analysis,¹ subject to adjustment for an updated valuation by an independent expert)
- \$1.50 quarterly (\$6.00 annual rate) cumulative dividend
- Restriction of common stock dividends to 25% of net income attributable to common stock (after payment of preferred stock dividends), unless total book value of stockholders equity is at least 200% of the redemption value of outstanding preferred stock
- Limit of exchange to 50% of currently outstanding shares of common stock (both A and B classes), with exchanges to be made *pro rata* if more than 50% of common stock is presented

An exchange structured like this would not only give the investors selecting preferred stock a more predictable investment, but would also give those keeping the common stock an enhanced participation in whatever profits the company generates in

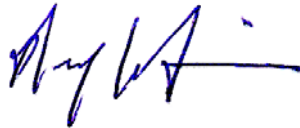
¹ See [October 2009, Balhoff & Williams, LLC: "North State Telecommunications Corporation | A Strategic Evaluation."](#)

excess of the base allocations to preferred stock. Notably, this example's increased \$6.00 annual dividend for the preferred stock combined with a restriction on common stock dividends would actually reduce the company's total burden of dividend payments, compared with the recent \$5.20 annual dividends for all currently outstanding shares of common stock. The shareholders concerned with security therefore get improved capital protection, and the shareholders interested in technology competition get more capital available for innovation.

This example is of course presented only for the purpose of stimulating your thinking about alternatives to address the investor interests defined in the Forum's survey of shareholders,² and particularly their concerns about the sustainability of dividends and risks of technology investments summarized in my April 4 letter.³ I look forward to learning how you wish to proceed with this exploration, and to your advice of how the Forum can most effectively support your response to shareholder interests.

Sincerely,

THE SHAREHOLDER FORUM

A handwritten signature in blue ink, appearing to read 'Gary Lutin', with a horizontal line extending to the right.

Gary Lutin, Chairman

² See [March 28, 2011 Forum Report: Survey of North State Telecommunications Shareholders – Ranking the Importance of Investor Interests](#).

³ See [April 4, 2011 Forum Report: Shareholder Interests for Discussion at Annual Meeting](#).