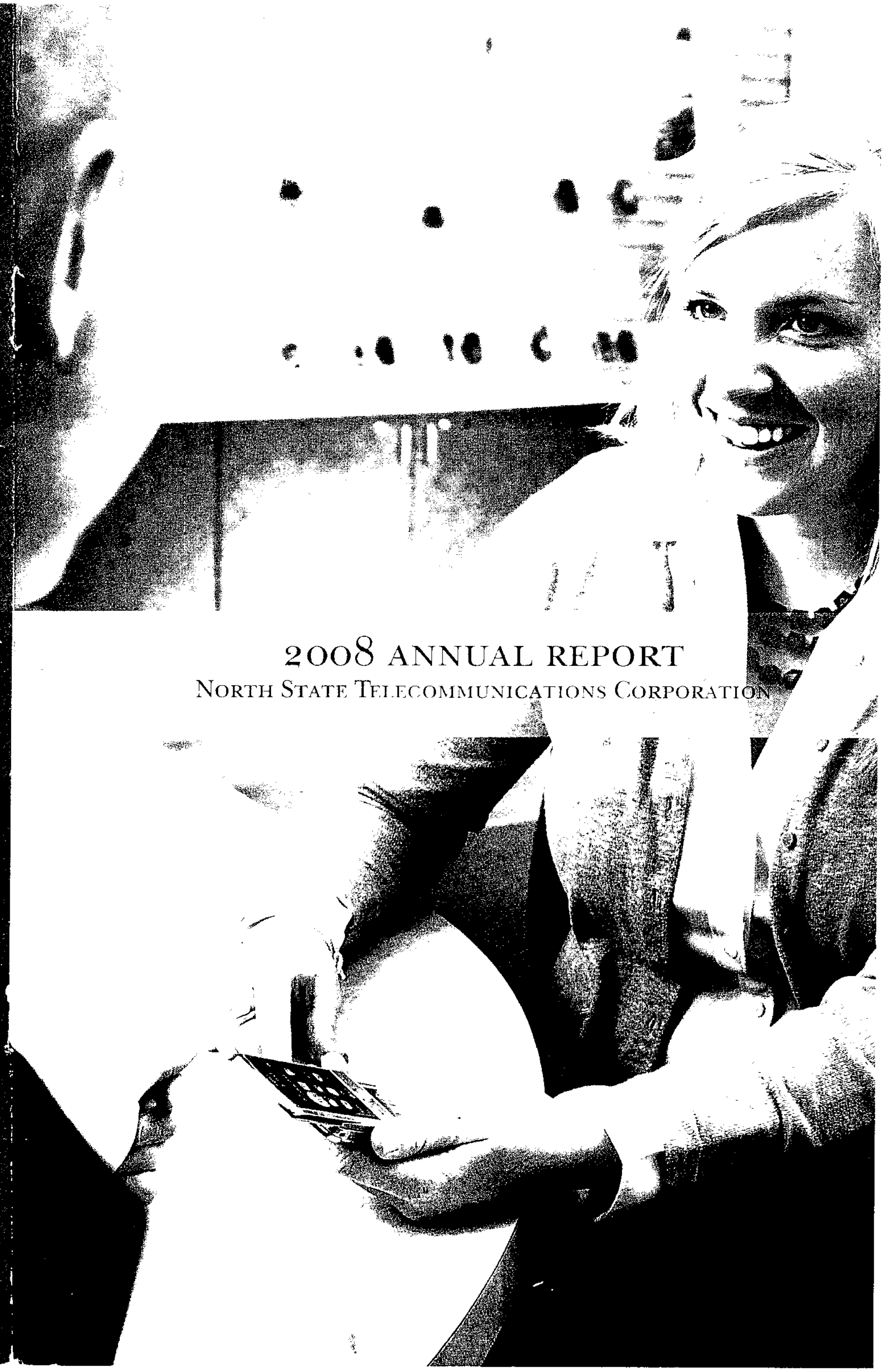
NORTH STATE
TELECOMMUNICATIONS
CORPORATION

North State Telecommunications Corporation
111 North Main Street, High Point NC 27260



2008 ANNUAL REPORT

North State Telecommunications Corporation

To Our Shareholders

Letter to Shareholders from the Chairman & CEO and the Vice Chairman, President & COO

Our 2008 audited financial statements and our 2008 Annual Report are being distributed late this year due to a delay in receiving audited financials from one of our partnering companies, the income from which is a material part of our financial statements. We apologize for this delay and expect to be timelier in issuing our Annual Report and audited financial statements next year.

Relative to the difficult economic environment, we performed satisfactorily in 2008. Operating revenues were $101.7 million, a 3% decrease compared to the previous year. The reduced revenues resulted from declines in our traditional wire line voice services primarily due to economic conditions and the continuing shifts consumers and businesses are making away from traditional wire line products for their voice needs.

Net income was $15.6 million for the year compared to $16.5 million in 2007. Earnings per share were $6.59 compared to $6.87 for 2007. We maintained our annual dividend of $5.20 per share during 2008.

Broadband, Wireless and IP Continue to Grow

Wireless revenues increased 8% in 2008. Our wireless customer base grew 3% as we closed out the year with 24,200 wireless customers. While the year opened up with strong new customer additions, the later part of 2008 was weak in wireless sales. Wireless data revenues increased 12% in 2008 driving a good portion of our wireless revenue growth. The anticipated addition in early 2009 of the Apple iPhone to our line of wireless smart handsets will serve to compliment Blackberry devices and other leading handsets that drive data usage across our network.

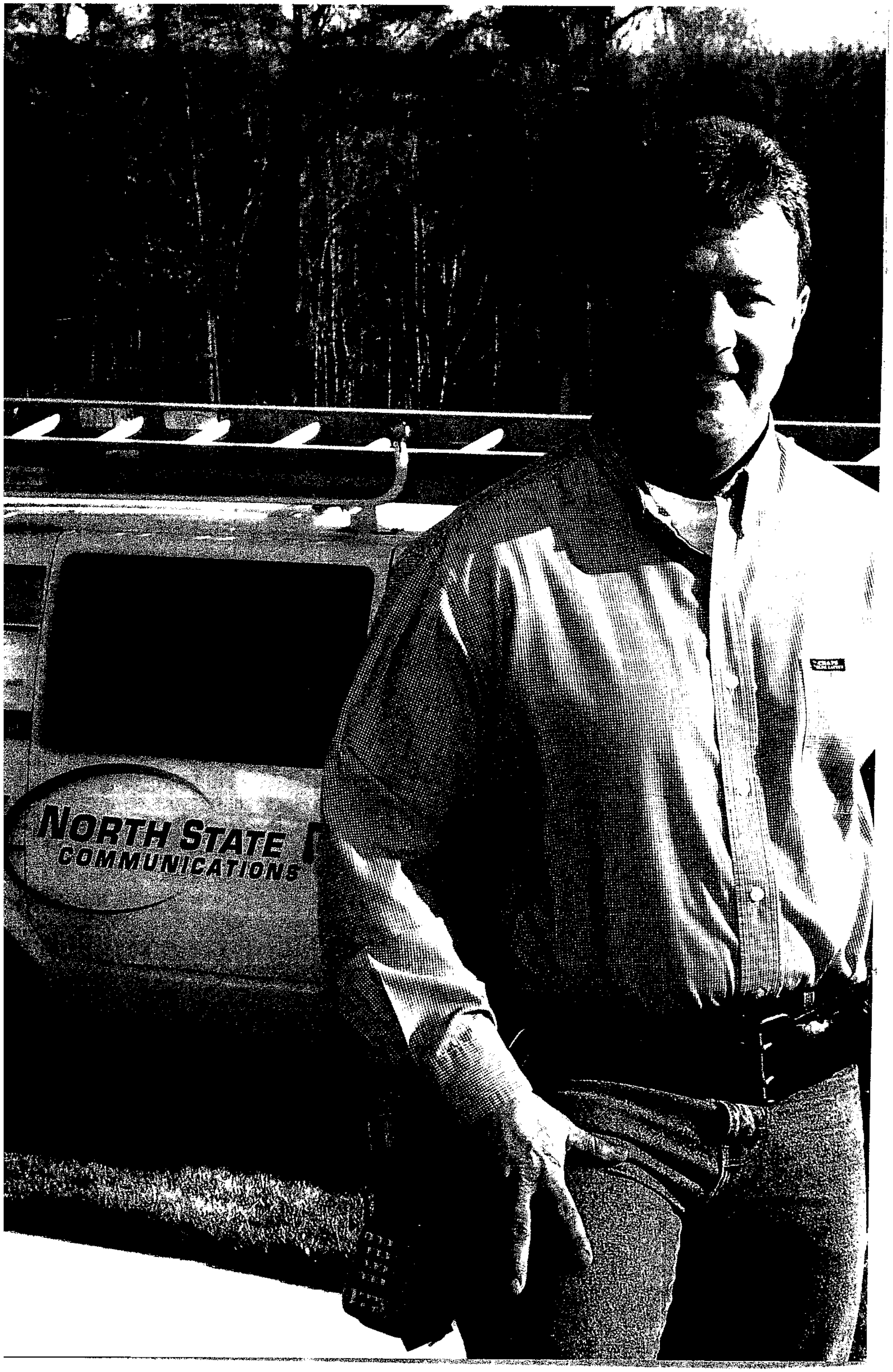
Broadband internet revenues increased 16% in 2008 as we grew broadband customers 13% for the year. The number of households purchasing a broadband connection without having a traditional phone line in place grew well over 100% during the year. We offer a bundled product of broadband and wireless to this growing segment of customers. At the end of the year over 6% of our broadband customers did not have a home phone line. Wireless and broadband now make up over 30% of our revenues.

In our business markets for 2008 we continued to see growth in our data products for mid-size and large businesses. We saw greater impact from the economy in the small business segment during the year as revenues in this segment were down across all product categories. We continued to gain momentum with our new line up of voice over IP products for businesses. This family of products offers voice, data and a host of features and functionalities to businesses across a single, managed IP connection. With IP we can pull together voice, data and wireless services to create a strong, productivity enhancing package of services for any size business.

Our directory advertising business continues to transform. Revenues in our traditional print products were down slightly for 2008 while our online advertising revenues were up significantly. Businesses now want to be quickly and easily identified in many ways and many locations through the local and national search sites across the internet. Our online search product links them into this global phenomenon of internet search. Gross margin from our advertising products grew 5% for the year despite a tough financial climate for businesses.

Strategies for Growth: Mobility, Broadband, Video and IP

Moving ahead our strategy is to grow the company centered around dramatic growth in broadband, video and IP services. At the core of this strategy is deploying fiber-to-the-home across a significant



portion of our service area to deliver these advanced services. Fiber directly to the home provides a platform for us to immediately establish a leadership position in broadband and offer a high quality, vivid video product that sets us apart from our competition. As we closed out 2008 we were poised to launch Plex Advanced TV, our full featured, full content television product, in mid 2009.

Over the next two to three years, we will greatly expand the area where our television and advanced broadband products are available. Consumers want simple, relevant products that fit their personal and family lifestyles. With our local presence, high level of customer support, fresh set of products and our advanced fiber network, we believe we can increase our market share in broadband and become a significant player in the television and entertainment market. Our 3G wireless network provides consumers a platform to meet the growing demand for mobile broadband services.

In the business segment, as we look for economic conditions to gradually improve, we look for growth in mobile data products, emerging voice and data over IP, and managed data services. Our approach is to work with area businesses and provide combinations of communication services that help them succeed in running a more profitable business. Here again, we are well positioned with a strong set of IP assets and our strong local presence to be the market leader in these emerging business services.

Momentum from Fiber-to-the-Home

Many accomplishments were achieved in 2008 as we find that our Company is changing rapidly. Our fiber-to-the-home and IP strategies are generating exciting momentum and set the stage for us to produce long-term value for our shareholders. We remain committed to serving customers, employees and shareholders in the next year and years to come. We thank you for your continued support.

C. Hayden McKenzie

C. Hayden McKenzie
Chairman and CEO

Royster Tucker III

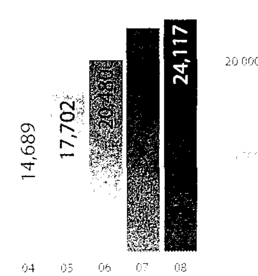
Royster M. Tucker, III
Vice Chairman, President and COO

Financial Highlights

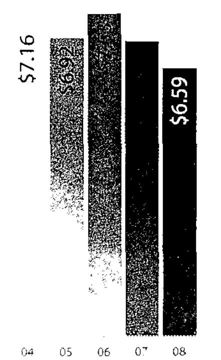
	2008	2007	net increase (decrease)	% increase (decrease)
Operating Revenues & Other Income	$109,017,638	$110,557,090	($1,539,452)	-1.4%
Operating Expenses	$83,433,066	$83,343,914	$89,152	0.1%
Income Taxes & Other Expenses	$9,954,333	$10,638,398	($684,065)	-6.4%
Net Income	$15,630,239	$16,574,778	($944,539)	-5.7%
Earnings per Average Common Share	$6.59	$6.87	($0.28)	-4.1%
Cash Dividends Paid per Share	$5.20	$5.20	$0.00	0.0%
Capital Expenditures	$24,398,687	$25,826,124	($1,427,437)	-5.5%

Operational Highlights

North State Wireless Subscribers



North State Broadband Subscribers



Earnings Per Share

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NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2008 and 2007

Assets		2008	2007
Current assets:			
Cash and cash equivalents	$	10,217,927	7,102,561
Investment securities		9,408,036	15,225,279
Accounts receivable (less allowance for doubtful accounts, $500,000 in 2008 and $461,000 in 2007)		9,885,183	12,502,229
Materials and supplies		3,333,899	2,574,984
Prepayments		947,004	413,096
Income taxes recoverable		270,372	914,026
Deferred income taxes		816,735	955,321
Total current assets		34,879,156	39,687,496
Property, plant, and equipment		395,231,571	375,977,697
Less accumulated depreciation		257,044,254	242,861,488
Property, plant, and equipment, net		138,187,317	133,116,209
Other assets:			
Investment securities		7,226,235	12,817,826
Investments in unconsolidated entities		9,588,699	9,583,508
Intangibles, net of amortization		6,494,425	6,495,776
Other noncurrent assets		1,913,373	2,134,513
Total other assets		25,222,732	31,031,623
Total assets	$	198,289,205	203,835,328

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2008 and 2007

Liabilities and Stockholders' Equity		2008	2007
Current liabilities:			
Accounts payable and payroll withholdings	$	4,878,043	5,374,679
Advance billings and customer deposits		3,379,510	3,502,998
Income taxes payable		987,289	—
Accrued expenses		6,684,596	5,741,930
Accrued taxes		349,503	316,595
Total current liabilities		16,278,941	14,936,202
Other liabilities:			
Deferred income taxes		9,752,914	20,028,978
Accrued pension benefits		31,486,495	5,328,672
Accrued postretirement benefits		1,914,300	2,175,244
Other liabilities and deferred credits		1,612,052	1,562,048
Total other liabilities		44,765,761	29,094,942
Total liabilities		61,044,702	44,031,144
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 2008 and 2007		500,000	500,000
5% Series, issued and outstanding 16,049 shares in 2008 and 16,199 shares in 2007		1,604,900	1,619,900
Common stock, stated value $5 per share, no par value:			
Class A (voting). Authorized 3,500,000 shares, issued and outstanding 1,408,767 shares in 2008 and 1,410,892 shares in 2007		7,043,835	7,054,460
Class B (nonvoting). Authorized 2,500,000 shares, issued and outstanding 894,801 shares in 2008 and 967,431 shares in 2007		4,474,005	4,837,155
Paid-in capital		12,422	12,572
Retained earnings		137,339,722	138,963,955
Accumulated other comprehensive income (loss)		(13,730,381)	6,816,142
Total stockholders' equity		137,244,503	159,804,184
Total liabilities and stockholders' equity	$	198,289,205	203,835,328

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

DECEMBER 31, 2008 and 2007

		2008	2007
Operating revenues:			
Local service	$	29,191,717	31,712,4
Network access and long distance service		29,002,822	31,147,4
Sales and other services		39,203,159	38,047,3
Directory and other		6,034,084	5,802,7
		103,431,782	106,709,8
Less uncollectible revenue		1,715,794	1,648,5
Net operating revenues		101,715,988	105,061,3
Operating expenses:			
Plant operations		39,662,326	40,131,2
Depreciation and amortization		19,068,283	17,543,5
Customer operations		16,075,883	16,687,9
General and administration		7,058,802	7,449,0
Taxes other than income taxes		1,567,772	1,532,1
Total operating expenses		83,433,066	83,343,9
Net operating income		18,282,922	21,717,4
Nonoperating income (expense):			
Interest income		866,844	1,374,8
Interest expense		(29,540)	(210,0
Equity in earnings of unconsolidated entities		6,320,976	3,577,4
Gain on sale of investment securities		113,830	456,8
Other income (expense), net		(36,330)	86,5
Net nonoperating income		7,235,780	5,285,6
Income before income taxes		25,518,702	27,003,1
Income taxes		9,888,463	10,428,3
Net income		15,630,239	16,574,7
Preferred stock dividends		100,620	101,3
Net income available to common stockholders	$	15,529,619	16,473,4
Basic earnings per average common share	$	6.59	6.
Weighted average common shares outstanding		2,358,036	2,397,2
Cash dividends per average common share	$	5.20	5.

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

DECEMBER 31, 2008 and 2007

	2008		2007	
Preferred stock:				
Balance, beginning	$ 2,119,900		2,134,900	
Acquisition of preferred stock	(15,000)		(15,000)	
Balance, ending	$ 2,104,900		2,119,900	
Common stock:				
Balance, beginning	$ 11,891,615		12,095,700	
Acquisition of common stock	(373,775)		(204,085)	
Balance, ending	$ 11,517,840		11,891,615	
Paid-in capital:				
Balance, beginning	$ 12,572		12,722	
Acquisition of preferred stock	(150)		(150)	
Balance, ending	$ 12,422		12,572	
Retirement plans adjustment:				
Balance, beginning	$ 2,245,804		(533,796)	
Current adjustment	(17,247,330)		2,779,600	
Balance, ending	$ (15,001,526)		2,245,804	
Unrealized appreciation (depreciation) of securities:				
Balance, beginning	$ 4,570,338		2,844,832	
Other comprehensive income (loss)	(3,299,193)		1,725,506	
Balance, ending	$ 1,271,145		4,570,338	
Retained earnings:				
Balance, beginning	$ 138,963,955		138,264,938	
Net income	15,630,239	15,630,239	16,574,778	16,574,778
Cash dividends:				
Preferred stock	(100,620)		(101,370)	
Common stock	(12,256,616)		(12,472,565)	
Acquisition of common stock in excess of stated value	(4,897,236)		(3,301,826)	
Balance, ending	$ 137,339,722		138,963,955	
Accumulated other comprehensive income (loss):				
Balance, beginning	$ 6,816,142		2,314,235	
Unrealized holding gains (losses) arising during the period, net of tax benefit in 2008 of $2,152,670 and net of tax expense in 2007 of $1,361,776		(3,299,193)		2,087,136
Realized gains included in net income, net of tax expense in 2007 of $235,908		—		(361,630)
Retirement plans adjustment, net of tax benefit in 2008 of $11,253,538 and tax expense in 2007 of $1,813,640		(17,247,330)		2,776,401
Other comprehensive income (loss)	(20,546,523)	(20,546,523)	4,501,907	4,501,907
Comprehensive income (loss)		(4,916,284)		21,076,685
Balance, ending	$ (13,730,381)		6,816,142	

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Net income	$ 15,630,239	16,574,77
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,068,283	17,543,53
Provision for uncollectible revenue	1,715,794	1,648,53
Gain on sale of investment securities	(113,830)	(456,85
Equity in earnings of unconsolidated entities	(6,320,976)	(3,577,44
Deferred income taxes	3,022,874	1,077,55
Deferred pension and postretirement benefits	348,585	729,82
Changes in assets and liabilities:		
Other current assets	252,083	(2,893,11
Other current liabilities	1,437,111	12,30
Other accruals and deferrals	(1,840,011)	(1,967,16
Other	11,736	(122,35
Net cash provided by operating activities	33,211,888	28,569,58
Cash flows from investing activities:		
Additions to property, plant, and equipment	(24,398,687)	(25,826,12
Cost of removal of telephone plant, net of salvage	(309,661)	(231,11
Proceeds from sale of investment securities	21,142,808	19,823,20
Purchases of investment securities	(15,203,370)	(12,770,79
Distributions from unconsolidated entities	6,315,785	3,826,13
Net cash used in investing activities	(12,453,125)	(15,178,69
Cash flows from financing activities:		
Acquisition of preferred stock	(15,150)	(15,15
Acquisition of common stock	(5,271,011)	(3,505,91
Cash dividends paid	(12,357,236)	(12,573,93
Net cash used in financing activities	(17,643,397)	(16,094,99
Net change in cash and cash equivalents	3,115,366	(2,704,10
Cash and cash equivalents at beginning of year	7,102,561	9,806,66
Cash and cash equivalents at end of year	10,217,927	7,102,56
Short term investment securities at end of period	9,408,036	15,225,27
Total cash, cash equivalents, and short term investment securities	$ 19,625,963	22,327,84
Supplemental cash flow information:		
Cash paid for income taxes	$ 4,997,707	11,409,48
Cash paid for interest	$ 183,163	347,9

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

(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, 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 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, 2008, the Company had approximately $4.25 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.

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

(1) Significant Accounting Policies (continued)

(e) Fair Value of Financial Instruments

At December 31, 2008 and 2007, the fair value of the Company's cash and cash equivalents accounts receivable, investment securities, advance billings and customer deposits, as well as al other accrued liabilities, approximated amounts recorded in the accompanying consolidated financia statements. The Company maintains investments in certain closely held companies and since there i: no open market for trading these securities, it is not practicable to estimate their respective fai 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 consistin; of payroll taxes, pension and other fringe benefits.

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

Depreciation is calculated using the straight-line method over the estimated useful lives of th 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)

(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 2008 or 2007.

(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 $1,351 annually for 2008 and 2007.

The components of intangible assets are as follows:

		2008	2007
Wireless licenses	$	6,493,750	6,493,750
Other, net		675	2,026
Total	$	6,494,425	6,495,776

(Continued)

(1) Significant Accounting Policies (continued)

(j) Asset Retirement Obligations

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

(k) Income Taxes

Deferred income taxes are accounted for using the liability method whereby deferred tax assets recognized for deductible temporary differences and deferred tax liabilities are recognized taxable temporary differences. Temporary differences are the differences between the repor amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjus 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 analy by management based on their technical merits. The Company recognizes accrued interest a penalties, if any, related to unrecognized tax benefits in income taxes. At December 31, 2008 a 2007, the Company had no amounts accrued for the payment of interest and penalties.

(l) Earnings Per Average Common Share

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

(m) Revenue Recognition

Toll access and local service revenues are recognized when earned regardless of the period in wh they are billed. The Company participates in telephone revenue pools with other teleph 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. Rever earned through the various pooling processes is initially recorded based on estimates. The Comp has settled all toll and access charge revenue pooling agreements through 2006.

(Continued)

(1) Significant Accounting Policies (continued)

(m) Revenue Recognition (continued)

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

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

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

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements.

(o) 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 and highly liquid debt instruments placed with two financial institutions with high credit ratings. 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.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

(1) Significant Accounting Policies (continued)

(o) Concentration of Credit Risks (continued)

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'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").

(p) Advertising

All costs associated with advertising and promoting products are expensed in the year incurred. Advertising and promotion expenses were approximately $3.0 million and $3.7 million for the years ended December 31, 2008 and 2007, respectively.

(q) Accounting Changes and Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") has issued Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements"* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS 157 establishes 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 Company adopted the provisions of SFAS 157 effective January 1, 2008. The adoption of SFAS 157 did not have any impact on the Company's financial statements.

(1) Significant Accounting Policies (continued)

(q) Accounting Changes and Recent Accounting Pronouncements (continued)

The FASB issued Statement of Financial Accounting Standards No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities"* ("SFAS 159"), which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur. SFAS 159 further establishes certain additional disclosure requirements. The Company adopted the provisions of SFAS 159 effective January 1, 2008. The Company did not elect the fair value option on any of its assets or liabilities during 2008.

In December 2008, the FASB issued FASB Staff Position FAS 132(R)-1, *"Employers' Disclosures about Postretirement Benefit Plan Assets"* ("FSP FAS 132(R)-1"). FSP FAS 132(R)-1 amends FASB Statement No. 132(R), *"Employers' Disclosures about Pensions and Other Postretirement Benefits"* (FAS 132(R)). This FASB Staff Position 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. It also amends FASB Statement No. 157 to clarify that defined benefit pension or other postretirement plan assets are not subject to FAS 157's disclosure requirements. FSP FAS 132(R)-1 is effective for fiscal years ending after December 2009. This FSP will significantly increase the disclosures for plan assets in subsequent years.

The Company adopted the provisions of FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"* ("FIN 48"), effective January 1, 2008. FIN 48 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 FIN 48 did not have any impact on the Company's financial statements.

(r) Reclassification Adjustments

Certain amounts in the 2007 financial statements have been reclassified to conform with the 2008 statements.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

(2) Property, Plant, and Equipment

Property, plant, and equipment consists of the following:

	Cost		Accumulated Depreciation	
	2008	2007	2008	2007
Land	$ 2,166,948	2,166,948	—	—
Buildings	13,418,862	13,211,802	7,091,248	6,770,758
Central office equipment	161,914,886	157,354,169	129,581,619	120,279,238
Outside plant facilities (poles, lines, cables, and conduit)	168,310,479	165,905,576	98,644,694	96,623,533
Furniture and fixtures	1,270,821	1,254,017	876,572	831,238
Data processing equipment	6,025,332	5,058,241	4,718,301	4,307,706
Vehicles	2,948,489	2,814,556	2,446,318	2,501,043
Tools and work equipment	811,758	744,773	628,941	615,138
Total regulated in service	356,867,575	348,510,082	243,987,693	231,928,654
Construction in progress	9,703,094	5,618,816		
Total regulated	366,570,669	354,128,898		
Nonregulated plant and equipment in service	23,634,987	20,484,004	13,056,561	10,932,834
Nonregulated construction in progress	5,025,915	1,364,795		
Total nonregulated	28,660,902	21,848,799		
Total	$ 395,231,571	375,977,697	257,044,254	242,861,488

Depreciation expense relating to regulated plant and equipment was $16,942,875 and $15,625,043 in 2008 and 2007, respectively. Composite rates applied to the depreciable telephone plant accounts resulted in depreciation expense that was equivalent to 4.8% and 4.6% of the average balance of telephone plant and equipment in service during 2008 and 2007, respectively. Depreciation expense relating to nonregulated plant and equipment was $2,124,057 and $1,917,144 in 2008 and 2007, respectively.

The nonregulated plant and equipment in service consists principally of wireless and internet equipment. The regulated construction in progress consists principally of a new billing system not yet put in service. And the nonregulated construction in progress consists principally of video equipment for the Company's IPTV product which will be operational in 2009.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

(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:

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

2007	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Current assets:				
Tax-exempt municipal bonds	$ 10,325,865	168,541	—	10,494,406
Certificates of deposit	4,730,873	—	—	4,730,873
	15,056,738	168,541	--	15,225,279
Noncurrent assets:				
Debt and equity securities	5,433,959	7,482,061	98,194	12,817,826
	$ 20,490,697	7,650,602	98,194	28,043,105

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

(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, 2008 were as follows:

	Cost	Fair value
Due within one year	$ 1,000,000	1,000,000
Due after one year through five years	3,249,623	3,331,442
Due beyond five years	4,930,964	5,076,594
Total	$ 9,180,587	9,408,036

The following tables show gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2008 and 2007, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

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)

As of December 31, 2007	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	$ 594,108	$ (1,932)	$ --	$ --	$ 594,108	$ (1,932)
Equity	1,840,798	(96,262)	--	--	1,840,798	(96,262)
	$ 2,434,906	$ (98,194)	$ --	$ --	$ 2,434,906	$ (98,194)

(Continued)

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, 2008 and 2007, were $2,823,162 and $3,877,670, respectively.

(b) Investments in Unconsolidated Entities

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

	Ownership percentage	2008	2007
Equity method:			
Alltel Communications of North Carolina Limited Partnership	18.05%	$ 9,384,269	9,371,720
Access/ON Multimedia, Inc.	19.40%	92,128	99,486
Cost method:			
InComm Holdings, Inc.	<1%	112,302	112,302
		$ 9,588,699	9,583,508

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

	2008	2007
Alltel Communications of North Carolina Limited Partnership	$ 6,328,334	3,572,899
Access/ON Multimedia, Inc.	(7,358)	4,549
Total	$ 6,320,976	3,577,448

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

(3) Investments (continued)

(b) Investments in Unconsolidated Entities (continued)

In 2008 and 2007, the Company received $6,315,785 and $3,789,471, respectively, as distributions from Alltel Communications of North Carolina Limited Partnership ("Alltel Communications" or the "Partnership").

Summarized financial information for Alltel Communications is as follows at December 31:

	2008	2007
Current assets	$ 19,663,949	17,242,666
Noncurrent assets	47,695,075	48,967,008
Current liabilities	7,946,398	7,230,110
Noncurrent liabilities	9,786,636	11,200,243
Partners' equity	49,625,990	47,779,321

For the years ended December 31:

	2008	2007
Total revenues and sales	$ 144,848,437	123,757,572
Net income	36,846,669	19,350,698

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. Pursuant to the order by the Antitrust Department of the United States Department of Justice ("DOJ"), and as a condition of the merger between Alltel Corporation and Verizon Wireless, the companies agreed to divest certain wireless markets. Alltel Communications is not subject to the DOJ's divesture requirements. However, subsequent to year end, the Company entered into an agreement with Verizon whereby Alltel Communications will be merged with Verizon's wholly-owned wireless operation that overlaps the Partnership and the resulting Partnership ownership percentages will be adjusted based on the relative values of the two merged entities. The effects of the merger, if any, on future operations of the Partnership cannot be determined at this time.

(Continued)

(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 2008 and 2007. 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 1,050 shares remaining to be redeemed at December 31, 2008.

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 74,755 shares of common stock at a cost of $5,271,011 in 2008 and 40,817 shares of common stock at a cost of $3,505,911 in 2007.

(5) Income Taxes

Income tax expense consisted of the following:

		2008	2007
Current income tax expense	$	6,865,589	9,350,773
Deferred income tax expense		3,022,874	1,077,550
Total	$	9,888,463	10,428,323

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:

		2008	2007
Statutory federal income tax rate		35%	35%
Federal income tax at statutory rate	$	8,931,549	9,451,086
Increase (decrease) resulting from:			
State income tax, net of federal income tax benefit		1,045,075	1,087,314
Nontaxable interest income		(189,055)	(233,938)
Other, net		100,894	123,861
Income tax expense	$	9,888,463	10,428,323

(Continued)

(5) Income Taxes (continued)

Net deferred income tax liabilities consist of the following components:

		2008	2007
Net deferred income tax assets:			
Accrued pension costs	$	12,693,043	2,167,202
Postretirement benefits other than pension		882,213	987,221
Accrued vacation pay		481,530	469,107
Other		255,208	387,675
		14,311,994	4,011,205
Net deferred income tax liabilities:			
Investments		1,559,158	4,735,930
Property and equipment (principally accelerated depreciation)		21,689,015	18,348,932
		23,248,173	23,084,862
Total	$	8,936,179	19,073,657

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, 2008.

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

		2008	2007
Noncurrent liabilities	$	9,752,914	20,028,978
Current assets		816,735	955,321
Total	$	8,936,179	19,073,657

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

(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:

	2008	2007
Actuarial present value of benefit obligation-accumulated benefit obligation	$ 95,377,267	94,515,035
Projected benefit obligation for services rendered to date	$ (103,161,983)	(100,702,804)
Plan assets at fair value	71,334,093	96,073,716
Funded status (underfunded)	(31,827,890)	(4,629,088)
Unrecognized net (gain)/loss from past experience different from that assumed	27,076,388	(1,039,695)
Unrecognized prior service cost	(1,602,015)	(1,747,269)
Unrecognized gain (loss) included in other comprehensive income (loss)	(25,474,373)	2,786,964
Total accrued pension benefits	(31,827,890)	(4,629,088)
Current portion included in accrued expenses	2,500,000	1,311,078
Accrued pension benefits	$ (29,327,890)	(3,318,010)

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

(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:

	2008	2007
Service cost, benefits earned during the period	$ 1,825,095	1,882,064
Interest cost on projected benefit obligation	6,171,322	6,101,007
Expected gain on plan assets	(7,602,620)	(7,246,975)
Net amortization and deferral	(145,254)	(145,254)
Net periodic pension cost	$ 248,543	590,842

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 6.25% in 2008 and 6.5% in 2007. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation ranges from 3.0% to 6.5% in both 2008 and 2007. The assumed long-term rate of return on pension plan assets was 8.0% in both 2008 and 2007.

The plan's weighted-average asset allocation at December 31, 2008 and 2007, by asset category was as follows:

	Percentage of total assets	
	2008	2007
Summary of Plan Assets		
Cash and cash equivalents	2.5%	1.1%
Fixed income securities	41.8%	30.2%
Mutual funds	47.3%	61.3%
Company stock	8.4%	7.4%
Total	100.0%	100.0%

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, 2008 and 2007

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

(a) ***Employee Pension Plan (continued)***

The Company expects to contribute approximately $2,500,000 to its pension plan in 2009. Expected benefit payments to be paid by the plan for each of the next ten years ended December 31 are as follows:

2009	$	5,728,300
2010		6,082,500
2011		6,425,100
2012		6,709,500
2013		6,967,900
2014-2018		37,911,100

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 $1,205,769 and ($145,254), respectively.

(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. 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.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

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

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

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:

		2008	2007
Actuarial present value of benefit obligations-accumulated benefit obligation	$	1,832,324	1,776,961
Projected benefit obligation for services rendered to date	$	(2,318,604)	(2,170,676)
Plan assets at fair value		—	—
Funded status (underfunded)		(2,318,604)	(2,170,676)
Unrecognized net gain from past experience different from that assumed		(150,161)	(285,296)
Unrecognized prior service cost		(21,749)	(74,793)
Unrecognized gain included in other comprehensive income		171,909	360,089
Total accrued SERP pension benefits	$	(2,318,605)	(2,170,676)
Current portion included in accrued expenses		160,000	160,014
Accrued SERP pension benefits		(2,158,605)	(2,010,662)
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:

		2008	2007
Service cost, benefits earned during the period	$	32,112	31,352
Interest cost on projected benefit obligation		140,922	133,763
Net amortization and deferral		(53,044)	(54,482)
Net periodic pension cost	$	119,990	110,633

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 and 2007

(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 6.25% and 6.5% in 2008 and 2007, respectively. The rate of future compensation levels used in determining the actuarial present value of the projected benefit obligation was 5.0% in both 2008 and 2007.

The Company expects to contribute approximately $160,000 to its SERP in 2009. Expected benefit payments to be paid by the plan for each of the next ten years ended December 31 are as follows:

2009	$	160,000
2010		151,000
2011		140,000
2012		135,000
2013		130,000
2014-2018		565,000

The estimated net (gain)/loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic SERP cost over the next fiscal year are $0 and ($53,044), 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

DECEMBER 31, 2008 and 2007

(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:

		2008	2007
Accumulated postretirement benefit obligation	$	(2,234,300)	(2,500,244)
Fair value of plan assets		—	—
Funded status (underfunded)		(2,234,300)	(2,500,244)
Unrecognized net actuarial (gain) loss		(575,700)	(640,900)
Unrecognized prior service cost		63,000	76,800
Unrecognized gain (loss) included in other comprehensive income		512,700	564,100
Total accrued postretirement benefits		(2,234,300)	(2,500,244)
Current portion included in accrued expenses		320,000	325,000
Accrued postretirement benefits	$	(1,914,300)	(2,175,244)

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 6.25% in 2008 and 6.5% in 2007.

Net periodic postretirement benefit cost included the following expense components:

		2008	2007
Service cost, benefits attributed to service during the period	$	55,600	60,400
Interest cost		144,100	161,400
Net amortizations and deferrals		(82,000)	(53,000)
Net periodic postretirement cost	$	117,700	168,800
Gain due to settlement and curtailment	$	(111,800)	(64,700)

The Company expects to contribute approximately $320,000 to its postretirement plan in 2009.

(Continued)

(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:

2009	$	48,000
2010		58,100
2011		68,000
2012		79,200
2013		90,200
2014-2018		619,000

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic postretirement cost over the next fiscal year are ($50,000) 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 $1,063,000 and $1,075,000 in 2008 and 2007, respectively.

(Continued)

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

(7) 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, 2008 are:

Year ending December 31:		Operating Leases
2009	$	765,395
2010		632,966
2011		577,773
2012		506,694
2013		442,176
After 5 years		1,149,218
Total minimum lease payments	$	4,074,222

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 $912,851 and $842,679 in 2008 and 2007, respectively.

REPORT OF INDEPENDENT AUDITORS

DECEMBER 31, 2008 and 2007

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, 2008 and 2007, 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"), an 18.05% owned equity method investee. The Company's investment in Alltel Communications at December 31, 2008 and 2007 was $9,384,269 and $9,371,720, respectively, and its equity in earnings of Alltel Communications was $6,328,334 and $3,572,899 for the years then ended. The financial statements of Alltel Communications were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Alltel Communications, is based solely on the report 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, 2008 and 2007, 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

September 30, 2009

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