

LEEWARD INVESTMENTS, LLC

May 10, 2010

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

Dear Hayden:

I am writing in response to your March 19th letter to shareholders.

Your letter suggests that Leeward has a “short-term perspective” with respect to our long-term holding in North State stock. This is untrue. As noted in our January letter, although we are liquidating our public investment fund, we have the option of distributing our shares to our partners. We have no desire to sell if holding for the long term is beneficial. We most certainly do not have a short-term perspective.

Your letter also suggests that because Leeward hired Balhoff & Williams, the reader should use “a critical eye when reviewing the B&W report.” As you know, B&W is very active in advising companies in the industry and is very highly regarded by local exchange companies. The modest revenue that B&W earned from its work for Leeward is hardly sufficient to cause B&W to bend its views or risk its reputation. Nevertheless, if you believe that B&W’s assessment is either biased or unduly negative, we urge you to hire any other well-recognized independent firm to analyze North State’s strategic options.

Your letter outlines the Company’s approach to counteract the continuing decline in the land-line business by investing to “grow broadband services through a fiber-to-the-home (“FTTH”) build-out.” You acknowledge this will require significant spending, but claim that this will “pay off handsomely.” With due respect, we note that North State’s recent investments, however promising they seemed when made, have not been rewarding. For the nine-year period from 2002 to 2009, the Company invested \$160 million, yet net income declined by almost half, from more than \$19 million to less than \$11 million.

Though the Company’s finances are strong, that strength does not immunize the Company against the tide of change in the telecommunications industry. No business can maintain its dividend, let alone grow it, if its earnings and free cash flow deteriorate greatly over time. Even worse, declining earnings and free cash flow inevitably mean a decline in the value of a business, even one as strong as North State.

Finally, you indicated that given “the depressed economy and the tight financial markets,” this is not a good time to explore a sale of North State. We note that in the March edition of the ILEC Advisor, JSI Capital Advisors, a well-recognized industry observer, suggests values will continue to decline over time. We submit that the critical question is not whether now is the best of all possible times to explore a sale of North State, but whether the value of North State as an independent company is likely to increase or decrease in the future. Sadly, we no longer have the option of selling North State a decade ago.

If you are confident in your strategic plan, we again encourage you to perform a formal evaluation of North State’s strategic options, including the possibility of a sale.

Sincerely,



Kent Rowett
Manager, Leeward Investments, LLC

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