NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

ANNUAL REPORT 2012

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North State Telecommunications Corporation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

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Report of Independent Auditors

Board of Directors
North State Telecommunications Corporation and Subsidiaries:

We have audited the accompanying consolidated financial statements of North State Telecommunications Corporation and Subsidiaries, which comprise the consolidated statements of net income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Alltel Communications of North Carolina Limited Partnership ("Alltel Communications"), a 5.81% owned equity method investee in 2012 and 2011. The investment in Alltel Communications was $9,486,478 and $11,409,459 as of December 31, 2012 and 2011, respectively, and the equity in earnings was $5,630,669 and $5,473,383, respectively, for the years then ended. The financial statements of Alltel Communications were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Alltel Communications, is based solely on the reports 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement to the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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Board of Directors
North State Telecommunications and Subsidiaries

Auditors' Responsibility (continued)
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, based on our audits and the report of the other auditors, the consolidated 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Bauknight Pietras & Stormer, P.A.

June 14, 2013

NORTH STATE TELECOMMUNICATIONS CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2012 and 2011

Assets		2012		2011
Current assets:				
Cash and cash equivalents	$	3,912,196	$	3,933,244
Investment securities		—		4,570,333
Accounts receivable (less allowance for doubtful accounts, $690,000 in 2012 and $750,000 in 2011)		8,325,897		9,267,473
Materials and supplies		5,517,148		5,846,459
Prepayments		1,459,188		1,354,747
Income taxes recoverable		2,335,098		3,076,802
Deferred income taxes		2,214,938		3,868,179
Assets held for sale, net of liabilities		10,923,871		11,703,595
Total current assets		34,688,336		43,620,832
Property, plant, and equipment		454,390,092		434,989,426
Less, accumulated depreciation		307,392,909		294,471,806
Property, plant, and equipment, net		146,997,183		140,517,620
Other assets:				
Investment securities		3,741,865		3,526,922
Investments in unconsolidated entities		9,684,213		11,675,134
Intangibles, net of amortization		18,700,533		19,997,000
Goodwill		27,232,656		27,232,656
Other noncurrent assets		1,326,582		1,460,086
Total other assets		60,685,849		63,891,798
Total assets	$	242,371,368	$	248,030,250

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity		2012		2011
Current liabilities:				
Revolving credit note	$	6,000,000	$	2,500,000
Current maturities of bank note		2,750,000		—
Accounts payable and payroll withholdings		4,150,226		7,567,704
Advance billings and customer deposits		3,075,441		2,868,546
Income taxes payable		286,793		—
Accrued expenses		5,375,264		6,140,131
Accrued taxes		333,855		359,138
Total current liabilities		21,971,579		19,435,519
Other liabilities:				
Bank note, net of current liabilities		52,250,000		55,000,000
Deferred income taxes		20,411,901		18,327,403
Accrued pension benefits		42,102,821		37,911,291
Accrued postretirement benefits		1,462,453		1,609,753
Other liabilities and deferred credits		783,115		939,931
Total other liabilities		117,010,290		113,788,378
Total liabilities		138,981,869		133,223,897
Stockholders' equity:				
Capital stock:				
Cumulative preferred stock. Authorized 100,000 shares, par value $100 per share:				
4% Series, issued and outstanding 4,947 shares in 2012 and 4,967 shares in 2011		494,700		496,700
5% Series, issued and outstanding 14,709 shares in 2012 and 14,884 shares in 2011		1,470,900		1,488,400
Common stock, stated value $5 per share, no par value:				
Class A (voting). Authorized 3,500,000 shares, issued and outstanding 1,405,306 shares in 2012 and 1,405,804 shares in 2011		7,026,530		7,029,020
Class B (nonvoting). Authorized 2,500,000 shares, issued and outstanding 887,407 shares in 2012 and 889,886 shares in 2011		4,437,035		4,449,430
Paid-in capital		45,658		43,718
Retained earnings		116,084,044		125,264,278
Accumulated other comprehensive loss		(26,169,368)		(23,965,193)
Total stockholders' equity		103,389,499		114,806,353
Total liabilities and stockholders' equity	$	242,371,368	$	248,030,250

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Net Income

Years ended December 31, 2012 and 2011

		2012		2011
Operating revenues:				
Local service	$	24,952,974	$	25,873,834
Network access		18,998,361		21,991,086
Long distance		3,782,915		3,950,884
Miscellaneous		1,282,744		1,204,859
Legacy telecom		49,016,994		53,020,663
Broadband		26,356,345		21,022,337
Total wireline		75,373,339		74,043,000
Data center		10,634,814		109,590
Advertising and search		3,206,490		3,511,742
Total operating revenues		89,214,643		77,664,332
Less: uncollectible revenue		1,903,304		1,804,287
Net operating revenues		87,311,339		75,860,045
Cost of sales and service:				
General support		4,954,150		3,238,178
Central office		11,157,232		10,614,083
Communication termination		11,374,718		8,891,810
Cable and wire facilities		5,678,019		5,306,977
Network operations		7,877,307		5,650,823
Total cost of sales and service		41,041,426		33,701,871
Gross margin		46,269,913		42,158,174
Depreciation and amortization expense		18,022,720		15,817,926
Selling, general and administrative expense:				
Customer operations		14,737,974		14,457,472
Corporate operations		6,446,986		6,934,832
Taxes, other than income taxes		1,327,702		1,303,195
Total selling, general and administrative expense		22,512,662		22,695,499
Net operating income		5,734,531		3,644,749
Nonoperating income (expense):				
Interest income		153,731		406,729
Interest expense, net of capitalized interest		(1,209,132)		(13,022)
Equity in earnings of unconsolidated entities		5,675,031		5,514,288
Net gain on sale of investment securities		358,323		411,906
Other income, net		37,580		40,339
Net nonoperating income		5,015,533		6,360,240
Income from continuing operations before income taxes		10,750,064		10,004,989
Income taxes from continuing operations		3,991,648		3,672,107
Income from continuing operations		6,758,416		6,332,882
Discontinued operations:				
Income from operations of discontinued business segment		3,704,289		3,711,943
Income taxes from discontinued operations		1,433,213		1,436,176
Income from discontinued operations		2,271,076		2,275,767
Net income		9,029,492		8,608,649
Preferred stock dividends		93,708		94,981
Net income available to common stockholders	$	8,935,784	$	8,513,668
Total earnings per average common share	$	3.90	$	3.71
Earnings per average common attributed to discontinued operations	$	0.98	$	0.98
Weighted average common shares outstanding		2,293,779		2,296,746
Dividends per common share	$	7.80	$	5.20

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2012 and 2011

	2012	2011
Net income	$ 9,029,492	$ 8,608,649
Other comprehensive income (loss), net of income taxes:		
Unrealized holding gains (losses) arising during the period, net of income tax expense in 2012 of $87,538 and income tax benefit in 2011 of $27,377	134,161	(38,578)
Retirement plans adjustment, net of income tax benefit in 2012 of $1,354,757 and income tax benefit in 2011 of $6,069,069	(2,338,336)	(9,672,665)
Other comprehensive loss, net of income taxes	(2,204,175)	(9,711,243)
Comprehensive income (loss)	$ 6,825,317	$ (1,102,594)

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2012 and 2011	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income: Retirement Plans	Accumulated Other Comprehensive Income: Marketable Securities	Accumulated Other Comprehensive Income: Total	Total Stockholders' Equity
Balance, January 1, 2011	$ 2,044,600	$ 11,486,020	$ 25,178	$ 128,806,992	$ (14,149,720)	$ (104,230)	$ (14,253,950)	$ 128,108,840
Acquisition of stock	(59,500)	(7,570)	18,540	—	—	—	—	(48,530)
Net income	—	—	—	8,608,649	—	—	—	8,608,649
Preferred stock dividends	—	—	—	(94,981)	—	—	—	(94,981)
Common stock dividends	—	—	—	(11,943,172)	—	—	—	(11,943,172)
Acquisition of common stock in excess of stated value	—	—	—	(113,210)	—	—	—	(113,210)
Current retirement plans adjustment, net of tax benefit	—	—	—	—	(9,672,665)	—	(9,672,665)	(9,672,665)
Unrealized loss on marketable securities, net of tax benefit	—	—	—	—	—	(38,578)	(38,578)	(38,578)
Balance, December 31, 2011	1,985,100	11,478,450	43,718	125,264,278	(23,822,385)	(142,808)	(23,965,193)	114,806,353
Acquisition of stock	(19,500)	(14,885)	1,940	—	—	—	—	(32,445)
Net income	—	—	—	9,029,492	—	—	—	9,029,492
Preferred stock dividends	—	—	—	(93,708)	—	—	—	(93,708)
Common stock dividends	—	—	—	(17,889,602)	—	—	—	(17,889,602)
Acquisition of common stock in excess of stated value	—	—	—	(226,416)	—	—	—	(226,416)
Current retirement plans adjustment, net of tax benefit	—	—	—	—	(2,338,336)	—	(2,338,336)	(2,338,336)
Unrealized gain on marketable securities, net of tax expense	—	—	—	—	—	134,161	134,161	134,161
Balance, December 31, 2012	$ 1,965,600	$ 11,463,565	$ 45,658	$ 116,084,044	$ (26,160,721)	$ (8,647)	$ (26,169,368)	$ 103,389,499

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Net income	$ 9,029,492	$ 8,608,649
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,180,276	17,044,800
Change in the allowance for doubtful accounts	(60,000)	250,000
Gain on sale of investment securities	(358,323)	(411,906)
Loss on sale, disposal and abandonment of other assets	300,466	1,052,554
Equity in earnings of unconsolidated entities	(5,675,031)	(5,514,288)
Deferred income taxes	3,415,973	10,348,354
Deferred pension and postretirement benefits	2,006,618	642,022
Changes in operating assets and liabilities:		
Accounts receivable	2,568,807	(114,268)
Materials and supplies	547,342	18,176
Other assets	4,079,657	(569,201)
Accounts payable and payroll withholdings	(4,640,044)	2,537,367
Accrued expenses	(503,358)	(900,872)
Other liabilities	(19,617)	(7,748,578)
Net cash provided by operating activities	29,872,258	25,242,809
Cash flows from investing activities:		
Additions to property, plant, and equipment	(27,602,331)	(30,035,501)
Cost of removal of telephone plant, net of salvage	(34,462)	(240,973)
Proceeds from sale of investment securities	5,387,084	14,076,045
Purchases of investment securities	(612,207)	(2,879,303)
Investment in the assets of DataChambers, LLC, net of assumed liabilities	—	(55,421,047)
Distributions from equity investments	161,341	—
Distributions from unconsolidated entities	7,553,650	1,743,150
Net cash used in investing activities	(15,146,925)	(72,757,629)
Cash flows from financing activities:		
Proceeds from term loan	—	57,500,000
Proceeds from line of credit, net of repayments	3,500,000	—
Loan origination fees	(4,210)	(314,559)
Acquisition of preferred stock	(17,560)	(40,960)
Acquisition of common stock	(241,301)	(120,780)
Cash dividends paid	(17,983,310)	(12,038,153)
Net cash provided by (used in) financing activities	(14,746,381)	44,985,548
Net change in cash and cash equivalents	(21,048)	(2,529,272)
Cash and cash equivalents at beginning of year	3,933,244	6,462,516
Cash and cash equivalents at end of year	3,912,196	3,933,244
Short term investment securities at end of period	—	4,570,333
Total cash, cash equivalents, and short term investment securities	$ 3,912,196	$ 8,503,577
Supplemental cash flow information:		
Cash received for income taxes	$ (541,867)	$ (1,953,546)
Cash paid for interest	$ 1,196,680	$ 2,926

See accompanying notes to consolidated financial statements.

(1) Significant Accounting Policies

(a) Nature of Operations

North State Telecommunications Corporation and Subsidiaries ("the Company"), located in High Point, North Carolina, operates in the telecommunications and data center services industries. The Company, through its subsidiaries, provides local telephone, long distance, broadband, video, 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 ("Commission") and the Federal Communications Commission ("FCC"). The Company, through its subsidiary DataChambers, LLC provides data center services throughout the southeast.

(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 either a partnership interest or 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 that 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 various accounts at federally insured commercial banks. These accounts are insured by the Federal Deposit Insurance Corporation for up to $250,000. At times, such amounts may be 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.

(1) Significant Accounting Policies (continued)

(d) Investment Securities (continued)

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.

(e) Fair Value of Financial Instruments

U.S. generally accepted accounting principles ("GAAP") established 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 hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements.

At December 31, 2012 and 2011, the fair value of the Company's cash and cash equivalents, accounts receivable, investment securities, advance billings and customer deposits, as well as all other accrued liabilities, approximated amounts recorded in the accompanying consolidated financial statements. The Company maintains investments in certain closely held companies and since there is no open market for trading these securities, it is not practicable to estimate their respective fair 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 consisting of payroll taxes, pension and other fringe benefits.

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

(1) Significant Accounting Policies (continued)

(g) Property, Plant, and Equipment (continued)

Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	40 years
Leasehold improvements	Life of lease
Telephone cable and equipment	5 to 43 years
Furniture and office equipment	5 to 20 years
Vehicle and work equipment	5 to 15 years

(h) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, purchased intangibles subject to amortization and goodwill, 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 for the amount by which the carrying amount of the asset exceeds the fair value of the asset. No such impairment losses were recorded in 2012 or 2011.

(i) Intangible Assets and Goodwill

Intangible assets subject to amortization include the Company's acquired customer lists, which are amortized over an estimated useful life of 15 years.

The Company's indefinite-lived intangible assets consist primarily of wireless licenses, which are classified as assets held for sale (see Note 2). Wireless licenses have terms of 10 years but are renewable through a routine process involving a nominal fee. The Company's indefinite-lived intangible assets also include the trade name associated with DataChambers, LLC. 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 or trade name. Therefore, the Company does not amortize these assets based on the determination that they have indefinite lives. Indefinite-lived intangible assets are tested annually for impairment by comparing the fair value of the assets to their carrying amount.

(1) Significant Accounting Policies (continued)

(i) Intangible Assets and Goodwill (continued)

The fair value of wireless licenses is estimated using a direct income-based valuation approach. This approach uses a discounted cash flow analysis to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. As a result, management is required to make significant estimates about future cash flows specifically associated with its wireless licenses, an appropriate discount rate based on the risk associated with those estimated cash flows and assumed terminal value and growth rates. The discount rate incorporates management's estimate of the expected return a marketplace participant would require as of the valuation date, including the risk premium associated with the current and expected economic conditions as of the valuation date. The terminal value growth rate represents the marketplace's estimated long-term growth rate.

The Company's goodwill resulted from the December 2011 acquisition of the net assets and assumption of certain liabilities of DataChambers, LLC as explained in Note 6. Goodwill is not amortized for financial statement purposes but is amortized for income tax purposes.

In September 2011, the Financial Accounting Standards Board issued guidance amending the way companies test for impairment of indefinite-lived assets, including goodwill. Effective for annual periods beginning after December 15, 2011, companies have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of each asset is less than its carrying amount. A qualitative analysis is performed by assessing certain trends and factors, including projected market outlook and growth rates, forecasted and actual sales and operating profit margins, discount rates, industry data, and other relevant factors. If, after assessing the totality of events or circumstances, companies determine it is more likely than not that the fair value of each asset is greater than its carrying amount, then performing the normal two-step impairment test is unnecessary. No impairments were recorded during the years ending December 31, 2012 or 2011.

(j) Self-Insurance Liability

The Company maintains a self-insured health benefits plan, which provides medical benefits to employees electing coverage under the plan. The Company estimates a reserve for incurred-but-not-reported medical claims based on historical experience and other assumptions. Stop-loss insurance coverage is maintained for individual medical claims exceeding $80,000 with no limit on aggregate claims.

(1) Significant Accounting Policies (continued)

(k) Asset Retirement Obligations

GAAP requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The Federal Communications Commission has notified regulated carriers that they should not adopt these particular provisions of GAAP unless specifically required by the FCC in the future. As a result of the FCC ruling, the Company records a regulatory liability for cost of removal for its regulated operations when necessary.

Certain of the Company's nonregulated operating agreements and leases contain provisions requiring it to restore facilities or remove equipment in the event that the operating or lease agreement is not renewed. The Company expects to continually renew its operating and lease agreements. Accordingly, the possibility is remote that the Company would be required to incur significant restoration or removal costs related to these agreements in the foreseeable future. The Company would record an estimated liability in the unlikely event an agreement containing such a provision were no longer expected to be renewed. The obligations related to the removal provisions contained in the agreements or any disposal obligations related to its operating assets are not estimable or are not material to the Company's consolidated financial condition or results of operations.

(l) Income Taxes

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are adjusted 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 analyzed by management based on their technical merits. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes. At December 31, 2012 and 2011, the Company had no amounts accrued for the payment of interest and penalties. The Company is no longer subject to federal, state and local income tax examinations by tax authorities for years before 2009.

(m) Revenue Recognition

Toll access and local service revenues are recognized when earned regardless of the period in which they are billed. The Company participates in telephone revenue pools with other telephone companies for certain interstate and intrastate revenue. Such pools are funded by toll revenue and/or access charges within state jurisdictions and by access charges in the interstate market. Revenue earned through the various pooling processes is initially recorded based on estimates and trued up each following month.

(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.

Certain of the Company's interstate access revenues are based on tariffed access charges prescribed by the FCC, including switched access, special access and other interstate services. The FCC undertook comprehensive reform of intercarrier compensation in 2012. As a result, beginning in July 2012, the company derives revenue from a combination of charges to inter-exchange carriers and end user customers along with Universal Service Fund ("USF") support from a newly established access recovery mechanism. The total amount of this revenue is fixed by an FCC formula and is expected to decline by 5 percent annually.

(n) Earnings Per Average Common Share

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

(o) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(1) Significant Accounting Policies (continued)

(p) Concentration of Credit Risks

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of investment securities and accounts receivable.

The Company invests in various types of investment instruments, which are discussed in Note 4. Investment securities, in general, are exposed to various risks, including interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values in investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

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").

Accounts receivable balances are primarily from the Company's telecommunications and data center 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.

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.

(q) Advertising

All costs associated with advertising and promoting products and services are expensed in the year incurred. Advertising and promotion expenses were approximately $2.2 million and $3.1 million for the years ended December 31, 2012 and 2011, respectively.

(r) Reclassification Adjustments

Certain amounts in the 2011 financial statements have been reclassified to conform with the 2012 statements.

(2) Discontinued Operations

Nonregulated plant and equipment in service consists principally of wireless, broadband, video, and data center plant and equipment. In December 2012, the Company entered into an Asset Purchase Agreement with AT&T Inc. for the sale of the Company's wireless business for approximately $23.5 million. The sale is expected to close in the third quarter of 2013. This segment of the Company's operations is recorded as Assets Held for Sale, Net of Liabilities on the accompanying consolidated balance sheets and the financial results of this segment during 2012 and 2011 are shown as Discontinued Operations in the accompanying consolidated financial statements of net income. No gain or loss on the discontinued operations was recognized during the years ended December 31, 2012 and 2011.

Summarized financial information for discontinued operations is as follows at December 31:

		2012	2011
Current assets	$	2,864,266	2,861,739
Noncurrent assets		12,349,154	12,900,428
Current liabilities		(924,896)	(894,285)
Noncurrent liabilities		(3,364,653)	(3,164,287)
Assets held for sale, net of liabilities	$	10,923,871	11,703,595

For the years ended December 31:

		2012	2011
Total revenues and sales	$	26,812,566	27,546,116
Net income		2,271,076	2,275,767

(3) Property, Plant, and Equipment

Property, plant, and equipment consists of the following:

	Cost		Accumulated Depreciation	
	2012	2011	2012	2011
Land	$ 2,166,949	2,166,949	—	—
Buildings	14,929,093	14,748,059	8,281,971	7,890,146
Central office equipment	184,695,658	181,268,191	154,504,576	151,272,659
Outside plant facilities (poles, lines, cables, and conduit)	192,532,191	183,550,887	118,260,916	112,233,595
Furniture and fixtures	1,507,960	1,443,472	1,194,695	1,136,693
Data processing equipment	8,990,196	8,395,789	7,053,996	6,283,147
Vehicles	2,927,021	3,151,834	1,758,240	2,157,038
Tools and work equipment	1,083,466	1,064,014	740,440	687,711
Total regulated in service	408,832,534	395,789,195	291,794,834	281,660,989
Construction in progress	2,152,539	1,337,948	—	—
Total regulated	410,985,073	397,127,143	291,794,834	281,660,989
Nonregulated plant and equipment in service	34,101,558	36,780,528	14,953,741	12,412,310
Nonregulated leasehold improvements	4,569,301	621,741	644,334	398,507
Nonregulated construction in progress	4,734,160	460,014	—	—
Total nonregulated	43,405,019	37,862,283	15,598,075	12,810,817
Total	$ 454,390,092	434,989,426	307,392,909	294,471,806

Depreciation expense relating to regulated plant and equipment was $12,923,971 and $13,248,310 in 2012 and 2011, respectively. Composite rates applied to the depreciable telephone plant accounts resulted in depreciation expense that was equivalent to 3.2% and 3.4% of the average balance of telephone plant and equipment in service during 2012 and 2011, respectively. Depreciation expense relating to nonregulated plant and equipment was $4,959,838 and $3,796,490 in 2012 and 2011, respectively, of which $1,157,556 and $1,226,874 are included in net income from discontinued operations in the accompanying consolidated statements of net income.

(4) Investments

(a) Investment Securities

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 net of income taxes 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.

(4) Investments (continued)

(a) Investment Securities (continued)

The amortized cost and estimated fair value of marketable securities available-for-sale at December 31 are as follows:

		2012			
		Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Noncurrent assets:					
Debt and equity securities	$	3,756,150	80,829	95,114	3,741,865
	$	3,756,150	80,829	95,114	3,741,865

		2011			
		Amortized Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Current assets:					
Tax-exempt municipal bonds	$	4,315,376	254,957	—	4,570,333
Noncurrent assets:					
Debt and equity securities		4,017,865	81,112	572,055	3,526,922
	$	8,333,241	336,069	572,055	8,097,255

The following tables show gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2012 and 2011, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

		As of December 31, 2012					
		Less than 12 Months		12 Months or Greater		Total	
		Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Equity	$	—	—	2,161,484	(177,379)	2,161,484	(177,379)
	$	—	—	2,161,484	(177,379)	2,161,484	(177,379)

		As of December 31, 2011					
		Less than 12 Months		12 Months or Greater		Total	
		Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Equity	$	—	—	2,214,741	(572,055)	2,214,741	(572,055)
	$	—	—	2,214,741	(572,055)	2,214,741	(572,055)

(4) 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, 2012 and 2011, were $3,396,939 and $3,199,641, respectively.

(b) Investments in Unconsolidated Entities

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

	Ownership percentage	2012	2011
Equity method:			
Alltel Communications of North Carolina Limited Partnership	5.81%	$ 9,486,478	11,409,459
Access/ON Multimedia, Inc.	19.90%	197,735	153,373
Cost method:			
InComm Holdings, Inc.	<1%	—	112,302
		$ 9,684,213	11,675,134

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

	2012	2011
Alltel Communications of North Carolina Limited Partnership	$ 5,630,669	5,473,383
Access/ON Multimedia, Inc.	44,362	40,905
Total	$ 5,675,031	5,514,288

(4) Investments (continued)

(b) Investments in Unconsolidated Entities (continued)

Summarized financial information for Alltel Communications of North Carolina Limited Partnership (Alltel Communications) is as follows at December 31 (in thousands):

		2012	2011
Current assets	$	66,090	71,766
Noncurrent assets		272,464	298,807
Current liabilities		30,730	27,125
Noncurrent liabilities		6,918	7,863
Partners' equity		300,906	335,585

For the years ended December 31:

		2012	2011
Total revenues and sales	$	480,791	475,633
Net income		95,321	93,787

In 2012 and 2011, the Company received $7,553,650 and $1,743,150, respectively, as distributions from Alltel Communications.

(5) Intangible Assets

The Company's intangible assets, excluding the wireless licenses included in assets held for sale discussed in Note 2, consisted of the following:

		2012	2011
Intangible asset not subject to amortization			
Trade name	$	550,000	550,000
Intangible asset subject to amortization			
Customer lists		19,447,000	19,447,000
Less accumulated amortization		(1,296,467)	—
Intangible asset subject to amortization, net		18,150,533	19,447,000
Intangible assets, net	$	18,700,533	19,997,000

(6) Business Combination

On December 28, 2011, the Company acquired substantially all of the net assets and assumed certain liabilities of DataChambers, LLC (DataChambers), a Winston-Salem, North Carolina company. DataChambers is a data center services company which provides a wide range of information technology (IT) services, including business continuity, data backup, data storage, monitoring, managing, and co-location to large- and medium-sized businesses throughout the Southeast. By expanding into the data center services market the Company is able to broaden its telecommunication and networking solutions to its customers, thereby diversifying its revenue streams. The results of operations for DataChambers from the acquisition date to the end of the year are included in the Company's consolidated statements of income.

During 2012, the Company finalized all closing adjustments with the sellers. Therefore, the allocation of the purchase price and the valuation of the assets and liabilities have been adjusted, and a reclassification between goodwill and identified intangible assets has been recorded based on fair values estimated by professionals hired by the Company to assist with its purchase price allocation process. All of the recorded goodwill is expected to be deductible for income tax purposes.

The acquisition cost was approximately $55.4 million in cash, after finalization of certain post-closing adjustments. The acquisition was funded with the proceeds of a new $70 million unsecured term note agreement and revolving line of credit facility. The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values in accordance with GAAP. Goodwill and other intangible assets recorded in connection with the acquisition totaled $47.3 million. Intangible assets acquired primarily consist of DataChambers' trade name and customer lists. Goodwill recognized in the acquisition results primarily from the acquisition of the assembled workforce, including a management team with a proven track record of success in the data center services business.

The adjusted fair values of assets acquired and liabilities assumed as of the December 28, 2011 acquisition date are as follows:

Current assets	$	1,001,230
Property, plant, and equipment		7,100,000
Unamortized debt issuance costs		314,559
Goodwill		27,232,656
Trade name		550,000
Customer lists		19,447,000
Total assets acquired		55,645,445
Total liabilities assumed		(198,346)
Net assets acquired	$	55,447,099

(7) Long-Term Debt

On December 28, 2011, the Company entered into a $70 million unsecured loan agreement with a group of lenders. At December 31, 2012, the Company's long-term debt obligations consisted of two notes totaling $55 million payable in quarterly principal installments of $1,375,000 from September 2013 through September 2016, with the then-outstanding balance due December 2016. Interest on the term loan ranges from LIBOR (0.209% at December 31, 2012) plus 1.375% to LIBOR plus 1.65% depending on the Company's consolidated leverage ratio as defined in the loan agreement.

The scheduled maturities of long-term debt for years subsequent to December 31, 2012 are as follows:

2013	$	2,750,000
2014		5,500,000
2015		5,500,000
2016		41,250,000
Total	$	55,000,000

The loan agreement also provides for a $15 million unsecured revolving credit facility that matures in December, 2016. At December 31, 2012 and 2011, $6.0 million and $2.5 million, respectively, were outstanding under this agreement. Interest is payable at the same rate as defined in the term loan agreement. The Company is required to pay an annual commitment fee on the unused portion of the revolving credit facility which ranges from 0.175% to 0.25% depending on the Company's consolidated leverage ratio as defined in the loan agreement.

The loan agreement contains certain debt covenants and restrictions on cash payments, including the payment of dividends. The Company was in compliance with its debt covenants as of December 31, 2012.

The reported value of the loans approximates fair value.

(8) Income Taxes

Income tax expense consisted of the following:

		2012	2011
Current income tax expense	$	368,610	182,289
Deferred income tax expense		5,056,251	4,925,994
Total	$	5,424,861	5,108,283

(8) Income Taxes (continued)

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:

		2012	2011
Statutory federal income tax rate		34%	34%
Federal income tax at statutory rate	$	4,914,480	4,663,758
Increase (decrease) resulting from:			
State income tax, net of federal income tax benefit		560,910	525,936
Nontaxable interest income		(41,629)	(175,843)
Other, net		(8,900)	94,432
Income tax expense	$	5,424,861	5,108,283

Net deferred income tax liabilities consist of the following components:

		2012	2011
Net deferred income tax assets:			
Accrued pension costs	$	17,078,582	15,834,626
Net tax operating loss carryforward		1,425,820	2,926,785
Postretirement benefits other than pension		718,050	736,286
Accrued vacation pay		479,690	502,424
Other		585,725	593,046
Subtotal		20,287,867	20,593,167
Net deferred income tax liabilities:			
Investments		(3,478,667)	(1,644,989)
Property and equipment (principally accelerated depreciation)		(38,370,815)	(36,571,689)
Subtotal		(41,849,482)	(38,216,678)
Total	$	(21,561,615)	(17,623,511)

(8) Income Taxes (continued)

At December 31, 2012, the Company has available net operating loss carryforwards totaling approximately $4.2 million. The carryforwards expire in 2031. 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, 2012.

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

		2012	2011
Current assets	$	2,214,938	3,868,179
Assets held for sale, net of liabilities		(3,364,652)	(3,164,287)
Noncurrent liabilities		(20,411,901)	(18,327,403)
Total	$	(21,561,615)	(17,623,511)

(9) 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 ERISA. 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.

(9) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

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:

	2012	2011
Actuarial present value of benefit obligation-accumulated benefit obligation	$ 128,955,069	121,036,641
Projected benefit obligation for services rendered to date	$ (134,931,867)	(126,062,623)
Plan assets at fair value	92,985,806	87,382,174
Funded status (underfunded)	(41,946,061)	(38,680,449)
Unrecognized net gain from past experience different from that assumed	44,356,191	41,201,064
Unrecognized prior service cost	(1,763,127)	(1,969,015)
Unrecognized loss included in other comprehensive income (loss)	(42,593,064)	(39,232,049)
Total accrued pension benefits	(41,946,061)	(38,680,449)
Current portion included in accrued expenses	2,000,000	3,000,000
Accrued pension benefits	$ (39,946,061)	(35,680,449)
Company contributions	$ 2,000,000	3,000,000
Benefits paid	$ 6,907,603	6,567,520

Effective January 1, 2011, the pension plan was amended to reduce the percentage of future annual pension benefits used to calculate the benefit payable. Certain plan participants were grandfathered into the existing formula and were not affected by the amendment. In addition, overtime earnings were excluded from the definition of compensation used to determine benefit payments. The actuarial present value of the accumulated benefit obligation at December 31, 2011 was reduced by approximately $863,000 as a result of the amendments.

Effective April 4, 2012, the pension plan was amended to exclude employees hired or rehired after April 4, 2012 from participation in the plan. This eliminates the addition of new plan participants after May 1, 2013 and will slow the future growth of plan liabilities as the number of participating employees declines.

(9) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

Net periodic pension cost for the Company's pension plan included the following expense (income) components:

		2012	2011
Service cost, benefits earned during the period	$	1,930,164	1,608,855
Interest cost on projected benefit obligation		5,859,262	6,208,275
Expected gain on plan assets		(7,314,656)	(7,461,635)
Net amortization and deferral		1,429,827	228,934
Net periodic pension cost	$	1,904,597	584,429

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 4.25% in 2012 and 4.75% in 2011, respectively. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation ranges from 2.0% to 4.0% in both 2012 and 2011. The assumed long-term rate of return on pension plan assets was 8.0% in both 2012 and 2011.

The expected rate of return on employee pension plan assets is determined by those assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

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.

(9) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

The following tables present fair value measurement information for the Company's employee pension plan assets:

		December 31, 2012	Quoted Markets Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and cash equivalents	$	269,561	269,561	—	—
Pooled separate accounts		76,509,156	76,509,156	—	—
Index Track Grand Central Bond Master Fund		2,500,693	—	—	2,500,693
Corporate and exchange traded bonds and notes		7,144,318	7,144,318	—	—
Company stock		6,562,078	—	6,562,078	—
Total investments	$	92,985,806	83,923,035	6,562,078	2,500,693

		December 31, 2011	Quoted Markets Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and cash equivalents	$	3,736,822	3,736,822	—	—
Pooled separate accounts		66,155,458	66,155,458	—	—
Index Track Grand Central Bond Master Fund		2,629,051	—	—	2,629,051
U.S. Government securities		6,058,327	6,058,327	—	—
Corporate and exchange traded bonds and notes		1,486,480	1,486,480	—	—
Company stock		7,316,036	—	7,316,036	—
Total investments	$	87,382,174	77,437,087	7,316,036	2,629,051

The plan's pooled separate accounts, U.S. government securities, and corporate debt interests are presented at fair value based on quoted market prices of identical securities in active markets. The fair value of Company stock is determined using the weighted average stock prices for transactions in the last 30 days of the year. The fair value of the Grand Central Bond Master Fund is determined by discounting the expected cash flows based on current yields of similar instruments with comparable durations.

(9) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

The following table provides further detail of Level 3 fair value measurements.

		Index Track Grand Central Bond Master Fund	
		2012	**2011**
Beginning balance	$	2,629,051	23,497,796
Total gains (realized and unrealized)		92,373	886,911
Deposits		6,975,000	2,500,000
Withdrawals		(7,195,731)	(24,255,656)
Ending balance	$	2,500,693	2,629,051

No plan assets are expected to be returned to the Company during 2013.

The Company expects to contribute approximately $2,000,000 to its pension plan in 2013. Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2013	$	7,305,900
2014		7,521,100
2015		7,745,500
2016		7,968,800
2017		8,149,700
2018-2022		42,924,500

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 $2,167,000 and $(205,888), respectively.

(9) Employee Benefits (continued)

(b) Supplemental Executive Retirement Plan (SERP)

The Company's SERP is a nonqualified defined benefit plan that covers those employees of the Company whose compensation has been limited by government regulations.

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:

		2012	2011
Actuarial present value of benefit obligations-accumulated benefit obligation	$	2,351,760	2,366,642
Projected benefit obligation for services rendered to date	$	(2,351,760)	(2,390,842)
Plan assets at fair value		—	—
Funded status (underfunded)		(2,351,760)	(2,390,842)
Unrecognized net gain from past experience different from that assumed		(36,145)	(29,376)
Unrecognized prior service cost		—	—
Unrecognized gain included in other comprehensive income		36,145	29,376
Total accrued SERP pension benefits		(2,351,760)	(2,390,842)
Current portion included in accrued expenses		195,000	160,000
Accrued SERP pension benefits	$	(2,156,760)	(2,230,842)
Company contributions	$	164,532	160,242
Benefits paid	$	164,532	160,242

Net periodic pension cost for the Company's SERP included the following expense components:

		2012	2011
Service cost, benefits earned during the period	$	18,192	19,161
Interest cost on projected benefit obligation		105,687	122,935
Net amortization and deferral		—	—
Net periodic pension cost	$	123,879	142,096

(9) 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 4.25% in 2012 and 4.75% in 2011, respectively. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation ranges from 2.0% to 4.0% in both 2012 and 2011.

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 assets, investment securities. All of the trust's assets are reported at estimated fair values based on quoted market prices of identical securities in active markets (Level 1). The investments, by asset category, are as follows at December 31, 2012:

Cash and cash equivalents	$	89,065
Mutual funds		2,818,039
State and municipal bonds		489,835
Total Rabbi Trust investments	$	3,396,939

The Company expects to contribute approximately $196,000 to its SERP in 2013. Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2013	$	196,000
2014		153,400
2015		152,900
2016		152,400
2017		151,600
2018–2022		648,600

The estimated net gain and prior service cost that will be amortized from accumulated other comprehensive income into net periodic SERP cost over the next fiscal year are both $0.

(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.

(9) Employee Benefits (continued)

(c) Postretirement Benefits (continued)

The postretirement life insurance plan was amended in 2006 to eliminate the postretirement life insurance benefits for the class of employees whose age and years of service do not total 65 or that have less than 20 years of service, effective January 1, 2007. This same class of employees will receive, while an active employee, life insurance coverage equal to twice their annual base pay.

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:

		2012	2011
Accumulated postretirement benefit obligation	$	(1,862,453)	(1,909,753)
Fair value of plan assets		—	—
Funded status (underfunded)		(1,862,453)	(1,909,753)
Unrecognized net actuarial (gain) loss		10,422	(157,700)
Unrecognized prior service cost		7,800	21,600
Unrecognized gain (loss) included in other comprehensive income		(18,222)	136,100
Total accrued postretirement benefits		(1,862,453)	(1,909,753)
Current portion included in accrued expenses		400,000	300,000
Accrued postretirement benefits	$	(1,462,453)	(1,609,753)

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 4.25% in 2012 and 4.75% in 2011.

Net periodic postretirement benefit cost included the following expense components:

		2012	2011
Service cost, benefits attributed to service during the period	$	36,100	36,800
Interest cost		87,200	103,600
Net amortizations and deferrals		9,300	(69,000)
Net periodic postretirement cost	$	132,600	71,400
Gain due to settlement and curtailment	$	24,600	103,100

The Company expects to contribute approximately $400,000 to its postretirement plan in 2013.

(9) Employee Benefits (continued)

(c) Postretirement Benefits (continued)

Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2013	$	35,700
2014		42,900
2015		50,400
2016		57,700
2017		65,100
2018–2022		438,500

The estimated net gain and prior service cost that will be amortized from accumulated other comprehensive income into net periodic postretirement cost over the next fiscal year are $0 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 $256,000 and $246,000 in 2012 and 2011, respectively.

(10) Capital Stock

Under the terms of a stock purchase agreement dated June 30, 1963, the Company reacquired and canceled 150 shares annually of 5% preferred stock at $101 per share during 2012 and 2011. 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 450 shares remaining to be redeemed at December 31, 2012.

The Company acquired and retired an additional 45 shares of preferred stock at a cost of $2,410 in 2012 and 445 shares of preferred stock at a cost of $25,810 in 2011.

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 2,977 shares of common stock at a cost of $241,301 in 2012 and 1,514 shares of common stock at a cost of $120,780 in 2011.

(11) Contingencies

The Company, in the normal course of business, is party to a number of claims and/or lawsuits. The Company's management does not expect the results of these outstanding claims or lawsuits to have a material adverse effect on the financial position or results of operations of the Company.

(12) Lease Commitments

The Company has operating leases for its data centers, certain office space and wireless cell tower sites. Future minimum lease payments under these operating leases as of December 31, 2012 are:

Year ending December 31:		**Operating Leases**
2013	$	1,133,504
2014		1,079,426
2015		1,037,762
2016		897,254
2017		780,561
After 5 years		2,692,697
Total minimum lease payments	$	7,621,204

The Company's gross rental expense related to these operating leases totaled $1,575,622 and $964,361 in 2012 and 2011, respectively.

The operating lease commitments include the Company's optional renewal periods related to certain cell tower sites that would be reasonably assured absent a sale of the discontinued operations. 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.

Total future minimum lease payments are expected to decrease to approximately $6 million upon closing of the sale of the Company's assets held for sale.

(13) Service Agreements

The Company leases data center facilities to customers, under cancelable and non-cancelable service agreements. The terms of the service agreements generally range from 12 to 60 months.

Future payments receivable under non-cancelable service agreements as of December 31, 2012 are as follows:

Year ending December 31:		
2013	$	9,747,414
2014		7,786,552
2015		5,061,890
2016		1,525,734
2017		463,433
Total	$	24,585,023

(14) Other Commitments

In 2011, the Company contracted with a software vendor to install a customer care, billing, provisioning and facilities management system for a purchase price of $2.4 million. Additional software services contracted in 2012 added an additional $0.3 million to the original contract price. As of December 31, 2012, the vendor has been paid $1.4 million.

(15) Subsequent Events

The Company evaluated events and transactions after December 31, 2012 through June 14, 2013, the date the financial statements were available to be issued, for subsequent events, and determined that there were no events to report during that period.

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