NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

ANNUAL REPORT 2013

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NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2013 and 2012

(With Report of Independent Auditors)

North State Telecommunications Corporation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

Contents

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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 balance sheets as of December 31, 2013, and the related consolidated statements of net income, comprehensive income, 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 2013 and 2012. The investment in Alltel Communications was $8,845,033 and $9,486,478 as of December 31, 2013 and 2012, respectively, and the equity in earnings was $7,318,941 and $5,630,669, 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, 2013 and 2012, 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 30, 2014

NORTH STATE TELECOMMUNICATIONS CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013 and 2012

Assets		2013		2012
Current assets:				
Cash and cash equivalents	$	7,568,644	$	3,912,196
Investment securities		13,498,327		—
Accounts receivable (less allowance for doubtful accounts, $652,000 in 2013 and $690,000 in 2012)		9,058,297		8,325,897
Materials and supplies		1,776,543		5,517,148
Prepayments		1,132,092		1,459,188
Income taxes recoverable		888,647		2,335,098
Deferred income taxes		675,417		2,214,938
Assets held for sale, net of liabilities		—		10,923,871
Total current assets		34,597,967		34,688,336
Property, plant, and equipment		465,235,345		454,390,092
Less, accumulated depreciation		319,710,593		307,392,909
Property, plant, and equipment, net		145,524,752		146,997,183
Other assets:				
Investment securities		4,626,686		3,741,865
Investments in unconsolidated entities		8,845,033		9,684,213
Intangibles, net of amortization		17,404,067		18,700,533
Goodwill		27,232,656		27,232,656
Other noncurrent assets		3,609,819		1,326,582
Total other assets		61,718,261		60,685,849
Total assets	$	241,840,980	$	242,371,368

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	2013	2012
Current liabilities:		
Revolving credit note	$ —	$ 6,000,000
Current maturities of bank note	5,500,000	2,750,000
Accounts payable and payroll withholdings	4,270,272	4,150,226
Advance billings and customer deposits	3,134,432	3,075,441
Income taxes payable	211,046	286,793
Accrued expenses	8,896,054	5,375,264
Accrued taxes	229,520	333,855
Total current liabilities	22,241,324	21,971,579
Other liabilities:		
Bank note, net of current liabilities	46,750,000	52,250,000
Deferred income taxes	31,609,088	20,411,901
Accrued pension benefits	17,540,316	42,102,821
Accrued postretirement benefits	973,751	1,462,453
Other liabilities and deferred credits	755,405	783,115
Total other liabilities	97,628,560	117,010,290
Total liabilities	119,869,884	138,981,869
Stockholders' equity:		
Capital stock:		
Cumulative preferred stock. Authorized 100,000 shares, par value $100 per share:		
4% Series, issued and outstanding 4,946 shares in 2013 and 4,947 shares in 2012	494,600	494,700
5% Series, issued and outstanding 14,517 shares in 2013 and 14,709 shares in 2012	1,451,700	1,470,900
Common stock, stated value $5 per share, no par value:		
Class A (voting). Authorized 3,500,000 shares, issued and outstanding 1,402,887 shares in 2013 and 1,405,306 shares in 2012	7,014,435	7,026,530
Class B (nonvoting). Authorized 2,500,000 shares, issued and outstanding 881,811 shares in 2013 and 887,407 shares in 2012	4,409,055	4,437,035
Paid-in capital	47,324	45,658
Retained earnings	122,047,933	116,084,044
Accumulated other comprehensive loss	(13,493,951)	(26,169,368)
Total stockholders' equity	121,971,096	103,389,499
Total liabilities and stockholders' equity	$ 241,840,980	$ 242,371,368

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Net Income

Years ended December 31, 2013 and 2012

	2013	2012
Operating revenues:		
Strategic	$ 59,190,636	$ 53,309,190
Residential legacy telecom	15,068,731	16,107,197
Wholesale	14,455,482	16,591,992
Advertising and search	3,169,896	3,206,264
Total operating revenues	91,884,745	89,214,643
Less: uncollectible revenue	2,300,375	1,903,304
Net operating revenues	89,584,370	87,311,339
Cost of sales and service:		
General support	5,425,452	4,954,150
Central office	9,097,963	11,157,232
Communication termination	10,909,342	11,374,718
Cable and wire facilities	3,921,844	5,678,019
Network operations	7,708,926	7,877,307
Total cost of sales and service	37,063,527	41,041,426
Gross margin	52,520,843	46,269,913
Depreciation and amortization expense	19,534,969	18,022,720
Selling, general and administrative expense:		
Customer operations	15,569,000	14,737,974
Corporate operations	6,956,321	6,446,986
Taxes, other than income taxes	1,394,645	1,327,702
Total selling, general and administrative expense	23,919,966	22,512,662
Net operating income	9,065,908	5,734,531
Nonoperating income (expense):		
Interest income	97,387	153,731
Interest expense, net of capitalized interest	(1,043,479)	(1,209,132)
Equity in earnings of unconsolidated entities	7,319,375	5,675,031
Net gain (loss) on sale of investment securities	(29,378)	358,323
Other income, net	323,452	37,580
Net nonoperating income	6,667,357	5,015,533
Income from continuing operations before income taxes	15,733,265	10,750,064
Income taxes from continuing operations	5,237,883	3,991,648
Income from continuing operations	10,495,382	6,758,416
Discontinued operations:		
Income from operations of discontinued business segment	3,817,597	3,704,289
Gain on sale of discontinued business segment	9,208,657	—
Income taxes from discontinued operations	(5,021,800)	(1,433,213)
Income from discontinued operations	8,004,454	2,271,076
Net income	18,499,836	9,029,492
Preferred stock dividends	92,746	93,708
Net income available to common stockholders	$ 18,407,090	$ 8,935,784
Total earnings per average common share	$ 8.04	$ 3.90
Earnings per average common share attributed to discontinued operations	$ 3.48	$ 0.98
Weighted average common shares outstanding	2,289,248	2,293,779
Dividends per common share	$ 5.20	$ 7.80

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2013 and 2012

		2013		2012
Net income	$	18,499,836	$	9,029,492
Other comprehensive income, net of income taxes:				
Unrealized holding gains arising during the period, net of income taxes of $194,963 and $87,538 in 2013 and 2012, respectively		305,990		134,161
Retirement plans adjustment, net of income tax expense in 2013 of $8,373,673 and income tax benefit in 2012 of $1,354,757		12,369,427		(2,338,336)
Other comprehensive income (loss), net of income taxes		12,675,417		(2,204,175)
Comprehensive income	$	31,175,253	$	6,825,317

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

					Accumulated Other Comprehensive Income			Total
Years Ended December 31, 2013 and 2012	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Retirement Plans	Marketable Securities	Total	Stockholders' Equity
Balance, January 1, 2012	$ 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
Acquisition of stock	(19,300)	(40,075)	1,666	—	—	—	—	(57,709)
Net income	—	—	—	18,499,836	—	—	—	18,499,836
Preferred stock dividends	—	—	—	(92,746)	—	—	—	(92,746)
Common stock dividends	—	—	—	(11,907,097)	—	—	—	(11,907,097)
Acquisition of common stock in excess of stated value	—	—	—	(536,104)	—	—	—	(536,104)
Current retirement plans adjustment, net of tax expense	—	—	—	—	12,369,427	—	12,369,427	12,369,427
Unrealized gain on marketable securities, net of tax expense	—	—	—	—	—	305,990	305,990	305,990
Balance, December 31, 2013	$ 1,946,300	$ 11,423,490	$ 47,324	$ 122,047,933	$ (13,791,294)	$ 297,343	$ (13,493,951)	$ 121,971,096

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

		2013		2012
Cash flows from operating activities:				
Net income	$	18,499,836	$	9,029,492
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		20,184,296		19,180,276
Change in the allowance for doubtful accounts		(38,000)		(60,000)
Loss (gain) on sale of investment securities		29,378		(358,323)
Donated land		372,414		
Loss on sale, disposal and abandonment of other assets		156,106		300,466
Gain on sale of wireless assets		(9,208,657)		
Equity in earnings of unconsolidated entities		(7,319,375)		(5,675,031)
Deferred income taxes		460,882		3,415,973
Deferred pension and postretirement benefits		1,279,150		2,006,618
Changes in operating assets and liabilities:				
Accounts receivable		(67,395)		2,568,807
Materials and supplies		3,704,847		547,342
Other assets		(2,015,108)		4,079,657
Accounts payable and payroll withholdings		(561,494)		(4,640,044)
Accrued expenses		3,340,709		(503,358)
Other liabilities		(5,235,676)		(19,617)
Net cash provided by operating activities		23,581,913		29,872,258
Cash flows from investing activities:				
Additions to property, plant, and equipment		(13,880,479)		(27,602,331)
Cost of removal of telephone plant, net of salvage		(37,702)		(34,462)
Proceeds from sale of wireless assets, net of expense		20,891,389		
Proceeds from sale of unconsolidated entities		156,627		
Proceeds from sale of investment securities		4,260,134		5,387,084
Purchases of investment securities		(17,926,081)		(612,207)
Distributions from equity investments				161,341
Distributions from unconsolidated entities		7,960,385		7,553,650
Net cash provided by (used in) investing activities		1,424,273		(15,146,925)
Cash flows from financing activities:				
Principal payments on term loan		(2,750,000)		
Proceeds from line of credit, net of repayments		(6,000,000)		3,500,000
Loan origination fees		(6,082)		(4,210)
Acquisition of preferred stock		(17,634)		(17,560)
Acquisition of common stock		(576,179)		(241,301)
Cash dividends paid		(11,999,843)		(17,983,310)
Net cash used in financing activities		(21,349,738)		(14,746,381)
Net change in cash and cash equivalents		3,656,448		(21,048)
Cash and cash equivalents at beginning of year		3,912,196		3,933,244
Cash and cash equivalents at end of year		7,568,644		3,912,196
Short term investment securities at end of period		13,498,327		
Total cash, cash equivalents, and short term investment securities	$	21,066,971	$	3,912,196
Supplemental cash flow information:				
Cash paid (received) for income taxes	$	7,982,834	$	(541,867)
Cash paid for interest	$	1,082,179	$	1,196,680

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, and video 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 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 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, 2013 and 2012, 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.

The Company changed its method of accounting for video set top boxes on January 1, 2013. Previously, the cost of set top boxes was recorded, upon purchase, within materials and supplies. When the set top boxes were placed in service, the cost was transferred to property, plant, and equipment and depreciated. In order to more effectively account for the useful life of set top boxes, the Company transferred, as of January 1, 2013, the cost of all set top boxes within materials and supplies to property, plant, and equipment and immediately commenced depreciation of the set top boxes over their estimated useful lives. Subsequent purchases of set top boxes were recorded in the plant accounts and depreciated over their useful lives as well. The effect of the change in accounting method was not material to the financial statements. Therefore, management determined that retroactive application of the policy change was not necessary.

(1) Significant Accounting Policies (continued)

(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.

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 2013 or 2012.

(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 its trade name associated with Data Chambers, LLC. The Company has determined that no legal, regulatory, contractual, competitive, economic or other factors currently exist that limit the useful life of its trade name. Therefore, the Company does not amortize this asset based on the determination that it has an indefinite life. 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 Company's goodwill resulted from the December 2011 acquisition of the net assets and assumption of certain liabilities of DataChambers, LLC. Goodwill is not amortized for financial statement purposes but is amortized for income tax purposes.

Impairment of indefinite-lived assets, including goodwill, is tested by first assessing 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, the Company determines it is more likely than not that the fair value of each asset is greater than its carrying amount, then additional testing is performed. No impairments were recorded during the years ending December 31, 2013 or 2012.

(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 $90,000, with no limit on aggregate claims.

(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 ("FCC") 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.

(1) Significant Accounting Policies (continued)

(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, 2013 and 2012, 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 2010.

(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.

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.

(1) Significant Accounting Policies (continued)

(m) Revenue Recognition (continued)

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.

(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.

(1) Significant Accounting Policies (continued)

(p) Concentration of Credit Risks (continued)

The allowance for doubtful accounts reflects the Company's estimate of probable losses related to its 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 annually for the years ended December 31, 2013 and 2012.

(r) Reclassification Adjustments

Certain amounts in the 2012 financial statements have been reclassified to conform with the 2013 statements.

(s) New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09 *"Revenue from Contracts with Customers"* (ASU 2014-09). The standard will require entities to utilize a 5-step process when recognizing revenues on customer contracts. ASU 2014-09 will become effective for periods beginning after December 15, 2017, with early adoption allowed under certain circumstances. The Company has not yet determined whether this standard will materially affect its consolidated financial 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. The $23.2 million sale closed on July 30, 2013 with $20.9 million received in cash and $2.3 million held in escrow for a maximum of 18 months after the date of the sale. 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 2013 and 2012 are shown as Discontinued Operations in the accompanying consolidated statements of net income. A gain on the sale of discontinued operations of $9.2 million was recognized during the year ended December 31, 2013 and is shown separately in Discontinued Operations in the accompanying consolidated statements of net income.

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

		2013	2012
Current assets	$	—	2,864,266
Noncurrent assets		—	12,349,154
Current liabilities		—	(924,896)
Noncurrent liabilities		—	(3,364,653)
Assets held for sale, net of liabilities	$	—	10,923,871

For the years ended December 31:

		2013	2012
Total revenues and sales	$	15,332,657	26,812,566
Income from discontinued operations		8,004,454	2,271,076

(3) Property, Plant, and Equipment

Property, plant, and equipment consists of the following:

	Cost		Accumulated Depreciation	
	2013	**2012**	**2013**	**2012**
Land	$ 1,806,434	2,166,949	—	—
Buildings	14,923,766	14,929,093	8,340,553	8,281,971
Central office equipment	184,650,975	184,695,658	157,819,000	154,504,576
Outside plant facilities (poles, lines, cables, and conduit)	195,030,502	192,532,191	124,214,768	118,260,916
Furniture and fixtures	1,471,174	1,507,960	1,204,727	1,194,695
Data processing equipment	9,226,795	8,990,196	7,754,755	7,053,996
Vehicles	2,680,134	2,927,021	1,597,603	1,758,240
Tools and work equipment	1,070,504	1,083,466	773,310	740,440
Total regulated in service	410,860,284	408,832,534	301,704,716	291,794,834
Construction in progress	3,943,095	2,152,539	—	—
Total regulated	414,803,379	410,985,073	301,704,716	291,794,834
Nonregulated plant and equipment in service	43,048,117	34,101,558	17,532,454	14,953,741
Nonregulated leasehold improvements	7,260,223	4,569,301	473,423	644,334
Nonregulated construction in progress	123,626	4,734,160	—	—
Total nonregulated	50,431,966	43,405,019	18,005,877	15,598,075
Total	$ 465,235,345	454,390,092	319,710,593	307,392,909

Depreciation expense relating to regulated plant and equipment was $13,410,172 and $12,923,971 in 2013 and 2012, respectively. Composite rates applied to the depreciable telephone plant accounts resulted in depreciation expense that was equivalent to 3.2% of the average balance of telephone plant and equipment in service during both 2013 and 2012. Depreciation expense relating to nonregulated plant and equipment was $5,477,658 and $4,959,838 in 2013 and 2012, respectively, of which $649,328 and $1,157,556 are included in 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:

		2013			
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Noncurrent assets:					
Debt and equity securities	$	17,638,346	565,833	(79,166)	18,125,013
	$	17,638,346	565,833	(79,166)	18,125,013

		2012			
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Noncurrent assets:					
Debt and equity securities	$	3,756,150	163,094	(177,379)	3,741,865
	$	3,756,150	163,094	(177,379)	3,741,865

The following tables show gross unrealized losses and fair value for those investments that were in an unrealized loss position as of December 31, 2013 and 2012, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

		As of December 31, 2013					
		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 and equity	$	5,045,937	(3,092)	743,758	(76,074)	5,789,695	(79,166)
	$	5,045,937	(3,092)	743,758	(76,074)	5,789,695	(79,166)

		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
Debt and equity	$	—	—	2,161,484	(177,379)	2,161,484	(177,379)
	$	—	—	2,161,484	(177,379)	2,161,484	(177,379)

(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, 2013 and 2012, were $3,798,926 and $3,396,939, respectively.

(b) Investments in Unconsolidated Entities

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

	Ownership percentage	2013	2012
Equity method:			
Alltel Communications of North Carolina Limited Partnership	5.81%	$ 8,845,033	9,486,478
Access/ON Multimedia, Inc.	19.90%	—	197,735
		$ 8,845,033	9,684,213

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

	2013	2012
Alltel Communications of North Carolina Limited Partnership	$ 7,318,941	5,630,669
Access/ON Multimedia, Inc.	434	44,362
Total	$ 7,319,375	5,675,031

(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):

		2013	2012
Current assets	$	75,831	66,090
Noncurrent assets		251,395	272,464
Current liabilities		29,513	30,730
Noncurrent liabilities		6,327	6,918
Partners' equity		291,386	300,906

For the years ended December 31:

		2013	2012
Total revenues and sales	$	526,378	480,791
Net income		127,480	95,321

In 2013 and 2012, the Company received $7,960,385 and $7,553,650, 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:

		2013	2012
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		(2,592,933)	(1,296,467)
Intangible asset subject to amortization, net		16,854,067	18,150,533
Intangible assets, net	$	17,404,067	18,700,533

(6) Long-Term Debt

The Company has a $70 million unsecured loan agreement with a group of lenders. At December 31, 2013 and 2012, $52.25 million and $55.00 million, respectively, were outstanding under the loan agreement. Amounts are payable in quarterly principal installments of $1,375,000 through September 2016, with the then outstanding balance due December 2016. Interest on the term loan is calculated based on LIBOR (0.250% at December 31, 2013) plus either 1.375% or 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, 2013 are as follows:

2014	$	5,500,000
2015		5,500,000
2016		41,250,000
Total	$	52,250,000

The loan agreement also provides for a $15 million unsecured revolving credit facility that matures in December, 2016. At December 31, 2013 and 2012, $0 million and $6.0 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, 2013.

The reported value of the loans approximates fair value.

(7) Income Taxes

Income tax expense consisted of the following:

		2013	2012
Current income tax expense	$	9,798,800	368,610
Deferred income tax expense		460,883	5,056,251
Total	$	10,259,683	5,424,861

(7) 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:

		2013	2012
Statutory federal income tax rate		35%	34%
Federal income tax at statutory rate	$	10,065,832	4,914,480
Increase (decrease) resulting from:			
State income tax, net of federal income tax benefit		580,867	560,910
Nontaxable interest income		(73,243)	(41,629)
Other, net		(313,773)	(8,900)
Income tax expense	$	10,259,683	5,424,861

Net deferred income tax liabilities consist of the following components:

		2013	2012
Net deferred income tax assets:			
Accrued pension costs	$	6,500,343	17,078,582
Net tax operating loss carryforward		—	1,425,820
Postretirement benefits other than pension		1,361,589	718,050
Accrued vacation pay		460,798	479,690
Other		552,544	585,725
Subtotal		8,875,274	20,287,867
Net deferred income tax liabilities:			
Investments		(3,664,711)	(3,478,667)
Property and equipment (principally accelerated depreciation)		(36,144,234)	(38,370,815)
Subtotal		(39,808,945)	(41,849,482)
Total	$	(30,933,671)	(21,561,615)

(7) Income Taxes (continued)

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, 2013.

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

		2013	2012
Current assets	$	675,417	2,214,938
Assets held for sale, net of liabilities		—	(3,364,652)
Noncurrent liabilities		(31,609,088)	(20,411,901)
Total	$	(30,933,671)	(21,561,615)

(8) 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.

(8) 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:

		2013	2012
Actuarial present value of benefit obligation-accumulated benefit obligation	$	115,838,872	128,955,069
Projected benefit obligation for services rendered to date	$	(115,838,872)	(134,931,867)
Plan assets at fair value		95,808,657	92,985,806
Funded status (underfunded)		(20,030,215)	(41,946,061)
Unrecognized net gain from past experience different from that assumed		22,080,946	44,356,191
Unrecognized prior service cost		—	(1,763,127)
Unrecognized loss included in other comprehensive income (loss)		(22,080,946)	(42,593,064)
Total accrued pension benefits		(20,030,215)	(41,946,061)
Current portion included in accrued expenses		4,540,000	2,000,000
Accrued pension benefits	$	(15,490,215)	(39,946,061)
Company contributions	$	2,500,000	2,000,000
Benefits paid	$	7,493,116	6,907,603

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.

Effective December 31, 2013, the pension plan was amended to cease benefit accruals under the plan. A participant's Normal Retirement benefit cannot exceed his frozen Accrued Benefit on this date.

(8) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

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

		2013	2012
Service cost, benefits earned during the period	$	2,078,700	1,930,164
Interest cost on projected benefit obligation		5,609,407	5,859,262
Expected gain on plan assets		(7,081,274)	(7,314,656)
Net amortization and deferral		2,046,678	1,429,827
Curtailment income		(1,557,239)	—
Net periodic pension cost	$	1,096,272	1,904,597

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 5.0% in 2013 and 4.25% in 2012, 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 2013 and 2012. The assumed long-term rate of return on pension plan assets was 8.0% in both 2013 and 2012.

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.

(8) 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, 2013	Quoted Markets Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and cash equivalents	$	596,831	596,831	—	—
Pooled separate accounts		80,458,005	80,458,005	—	—
Index Track Grand Central Bond Master Fund		1,811,100	—	—	1,811,100
Corporate and exchange traded bonds and notes		6,603,242	6,603,242	—	—
Company stock		6,339,479	—	6,339,479	—
Total investments	$	95,808,657	87,658,078	6,339,479	1,811,100

		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

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.

(8) 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	
		2013	**2012**
Beginning balance	$	2,500,693	2,629,051
Total gains (losses) (realized and unrealized)		(52,074)	92,373
Deposits		7,213,003	6,975,000
Withdrawals		(7,850,522)	(7,195,731)
Ending balance	$	1,811,100	2,500,693

No plan assets are expected to be returned to the Company during 2014.

The Company expects to contribute approximately $4,540,000 to its pension plan in 2014. Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2014	$	7,737,560
2015		7,907,987
2016		8,086,366
2017		8,225,987
2018		8,354,661
2019-2023		43,497,000

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 $717,000 and $(205,888), respectively.

(8) Employee Benefits (continued)

(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 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:

		2013	2012
Actuarial present value of benefit obligations-accumulated benefit obligation	$	2,246,101	2,351,760
Projected benefit obligation for services rendered to date	$	(2,246,101)	(2,351,760)
Plan assets at fair value		—	—
Funded status (underfunded)		(2,246,101)	(2,351,760)
Unrecognized net gain from past experience different from that assumed		(60,684)	(36,145)
Unrecognized prior service cost		—	—
Unrecognized gain included in other comprehensive income		60,684	36,145
Total accrued SERP pension benefits		(2,246,101)	(2,351,760)
Current portion included in accrued expenses		196,000	195,000
Accrued SERP pension benefits	$	(2,050,101)	(2,156,760)
Company contributions	$	195,934	164,532
Benefits paid	$	195,934	164,532

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

		2013	2012
Service cost, benefits earned during the period	$	13,508	18,192
Interest cost on projected benefit obligation		100,789	105,687
Net amortization and deferral		(33,589)	—
Net periodic pension cost	$	80,708	123,879

(8) 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 5.0% in 2013 and 4.25% in 2012, 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 2013 and 2012.

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, 2013:

Cash and cash equivalents	$	60,276
Mutual funds		3,308,922
State and municipal bonds		429,728
Total Rabbi Trust investments	$	3,798,926

The Company expects to contribute approximately $195,200 to its SERP in 2014. Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2014	$	195,200
2015		194,500
2016		193,700
2017		192,700
2018		191,500
2019-2023		746,400

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.

Effective December 31, 2013, the SERP plan was amended to cease benefit accruals for participants under this plan.

(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.

(8) 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:

		2013	2012
Accumulated postretirement benefit obligation	$	(1,373,751)	(1,862,453)
Fair value of plan assets		—	—
Funded status (underfunded)		(1,373,751)	(1,862,453)
Unrecognized net actuarial (gain) loss		(188,221)	10,422
Unrecognized prior service cost		—	7,800
Unrecognized gain (loss) included in other comprehensive income		188,221	(18,222)
Total accrued postretirement benefits		(1,373,751)	(1,862,453)
Current portion included in accrued expenses		400,000	400,000
Accrued postretirement benefits	$	(973,751)	(1,462,453)

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 5.0% in 2013 and 4.25% in 2012.

Net periodic postretirement benefit cost included the following expense components:

		2013	2012
Service cost, benefits attributed to service during the period	$	32,200	36,100
Interest cost		77,400	87,200
Net amortizations and deferrals		7,800	9,300
Net periodic postretirement cost	$	117,400	132,600
Gain (loss) due to settlement and curtailment	$	(600)	24,600

The Company expects to contribute approximately $400,000 to its postretirement plan in 2014.

(8) 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:

2014	$	19,600
2015		25,100
2016		30,500
2017		35,900
2018		41,400
2019-2023		295,700

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 $(15,170) and $7,800, 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 $241,000 and $256,000 in 2013 and 2012, respectively.

(9) 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 2013 and 2012. 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 300 shares remaining to be redeemed at December 31, 2013.

The Company acquired and retired an additional 43 shares of preferred stock at a cost of $2,484 in 2013 and 45 shares of preferred stock at a cost of $2,410 in 2012.

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 8,015 shares of common stock at a cost of $576,179 in 2013 and 2,977 shares of common stock at a cost of $241,301 in 2012.

(10) 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.

(11) Lease Commitments

The Company has operating leases for its data centers and certain office space. Future minimum lease payments under these operating leases as of December 31, 2013 are:

Year ending December 31:		Operating Leases
2014	$	447,865
2015		444,601
2016		436,070
2017		416,093
2018		420,618
After 5 years		2,165,247
Total minimum lease payments	$	4,330,494

The Company's gross rental expense related to these operating leases totaled $635,016 and $571,227 in 2013 and 2012, respectively.

In 2013, DataChambers, LLC entered into a build-to-suit arrangement for approximately 50,000 square feet of building space in Kannapolis, North Carolina, which will be used for a new data center. Upon completion of the project, monthly lease payments are expected to be approximately $50,000 and will be paid over a 20 year period. Management anticipates that the new data center will be complete during the first quarter of 2015, at which time the Company anticipates that the contract will be accounted for as a capital lease.

(12) 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, 2013 are as follows:

Year ending December 31:	
2014	$ 11,832,896
2015	7,541,687
2016	2,964,787
2017	1,302,749
2018	509,659
Total	$ 24,151,778

(13) 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 and 2013 added an additional $0.4 million to the original contract price. As of December 31, 2013, the vendor has been paid $2.0 million. In May 2014, the software was successfully installed.

(14) Subsequent Events

The Company evaluated events and transactions after December 31, 2013 through June 30, 2014, 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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