BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In The Matter of the Application of Otelco Telecommunications, LLC for Certificate of Service Authority to Provide Basic Local Exchange and Non-Switched Local Exchange Telecommunications Services Within the State of Missouri and to Classify Said Services and the Company as Competitive.	))))))	Case No.

APPLICATION

Comes now Otelco Telecommunications LLC, (hereinafter "Applicant"), a Delaware limited liability company authorized to do business in Missouri, pursuant to pursuant to Sections392.361, 392.410, 392.420, and 392.430, 392.450 RSMo 2000, the Federal Telecommunications Act of 1996, 4 CSR 240-3.510 and4 CSR 240-2.060, for its application to the Missouri Public Service Commission ("Commission") for Certificate of Service Authority to Provide Basic Local Exchange and Non-Switched Local Exchange Telecommunications Services Within the State of Missouri and to Classify Said Services and the Company as Competitive, and states as follows:

1. Applicant's legal name is Otelco Telecommunications, LLC.

2. Applicant is a Delaware limited liability company.

3. Applicant is an affiliate of Mid-Missouri Telephone Company, an incumbent rural local exchange telecommunications company operating in central Missouri. Both Applicant and Mid-Missouri Telephone Company are subsidiaries of Otelco Inc.

4. Applicant's official permanent address is 505 Third Avenue East, Oneonta, Alabama, 35121, telephone number 205-625-3574, fax number 205-274-8999.

5. Applicant's mailing address for Missouri operations is 215 Roe Street, P.O. Box 38, Pilot Grove, Missouri, 65276, telephone number 660-834-3311, fax number 660-834-6632.

6. Applicant is authorized to do business in Missouri. Applicant is registered to do business in Missouri in good standing with the Missouri Secretary of State. See attachment A hereto. Applicant has interexchange service authority received from this Commission effective November 27, 2006, Case No. XA-2007-0143. Applicant has registered to provide Interconnected Voice over Internet Protocol Service in Missouri, Case No. DA-2011-0017.

7. Applicant provides interexchange or toll telecommunications services, and provides the same in Missouri.

8. All communications, notices, orders and decisions respecting this Application and proceeding should be addressed to:

Craig S. Johnson
MoBar 28179
Johnson & Sporleder, LLP
304 E. High St., Suite 200
P.O. Box 1670
Jefferson City, MO 65102
(573) 659-8734
(573) 761-3587 FAX
cj@cjaslaw.com
Counsel for Applicant

with a copy to:

Todd Wessing
General Manager – Missouri Operations
215 Roe Street
P.O. Box 38
Pilot Grove, MO 65276
(660) 834-3311
(660) 834-6632 fax

9. Applicant has no pending action or final unsatisfied judgments or decisions against it from any state or federal agency or courts which involve customer service or rates, which action, judgment or decision has occurred within three years of the date of this Application.

10. Applicant has no annual report or assessment fees which are overdue.

11. Applicant seeks authority to provide basic local and non-switched local exchange telecommunications service throughout the State of Missouri. Applicant's proposed service areas will follow the respective exchange boundaries of each incumbent local exchange telecommunications company, and shall be no smaller than an exchange as required by Section 392.455(3) RSMo. Applicant will provide basic local telecommunications service as a separate and distinct service. Applicant will give consideration to equitable access for all Missourians, regardless of where they reside or their level of income, to affordable telecommunications services.

12. Applicant acknowledges that a tariff and any applicable interconnection agreements must be filed with the Commission and approved before service can be provided. Applicant hereby seeks a waiver of the requirement that proposed tariffs describing Applicant's service offerings accompany this Application. Applicant will file and have approved any such interconnection agreements and tariffs prior to offering basic or non-switched local telecommunications service.

13. Applicant possesses the technical and managerial expertise and experience necessary to provide the services it proposes. Applicant possesses sufficient financial resources and abilities to provide the services for which authority is requested herein. Description of backgrounds of

Applicant's management, which demonstrate the extensive experience and expertise, is attached hereto as Exhibit B. Applicant is a wholly-owned subsidiary of Otelco Inc., a publicly traded company. Financial information of Otelco Inc. is attached hereto as Exhibit C. Independent income statements or balance sheets are not available for Applicant.

14. Applicant has already received a competitive company classification, and had its services classified as competitive, in Case No. XA-2007-0143. Applicant seeks extension of such competitive classifications to it and its services offered pursuant to the service authorities requested in this application, including, consistent with the Commission's treatment of other certificated competitive local exchange telecommunications companies, waiver of the following statutes and regulations:

<u>Missouri Statutes</u>

392.210.2

392.240.1

392.270

392.280

392.290

392.300

392.310

392.320

392.330

392.340

Missouri Public Service Commission Rules

4 CSR 240-3.550(4)

4 CSR 240-3.550(5)(A)

4 CSR 240-10.020

4 CSR 240-30.040

4 CSR 240-32.050(4)(B)

4 CSR 240-32.060

4 CSR 240-32.070

4 CSR 240-32.080

4 CSR 240-240-33.040(1) through (3) and (5) through (10)

4 CSR 240-33.045

4 CSR 240-33.080(1)

4 CSR 240-33.130(1)

4 CSR 240-33.130(4)

4 CSR 240-33.130(5)

15. Applicant agrees that, unless otherwise ordered by the Commission, its originating and terminating switched exchange access rates will be no greater than the lowest Commission-approved corresponding access rates in effect for each ILEC within those service area(s)in which Applicant seeks authority to provide service. Additionally, pursuant to the Commission's Report and Order in Case No. TO-99-596, Applicant agrees that if the ILEC in whose service area Applicant is operating decreases its originating and/or terminating access service rates, Applicant shall file an appropriate tariff amendment to reduce its originating and/or terminating access rates within thirty (30) days of the ILEC's reduction of its originating and/or terminating access rates in order to maintain the cap on switched exchange access rates.

16. Applicant submits that the public interest will be served by Commission approval of this application because Applicant's proposed services will create and enhance competition and expand customer service options consistent with the legislative goals set forth in the federal Telecommunications Act of 1996 and Chapter 392 RSMo. Prompt approval of this application also will expand the availability of innovative, high quality, and reliable telecommunications services within the State of Missouri.

WHEREFORE, the Applicant requests the Commission to issue an order granting the Applicant certificates of service authority to provide basic local exchange and non-switched local exchange telecommunications services within the State of Missouri, to classify said services and the company as competitive, and to grant the waivers requested above.

Respectfully Submitted,

/s/ Craig S. Johnson
MoBar # 28179
Johnson & Sporleder, LLP
304 E. High St.
Jefferson City, MO 65102
(573) 659-8734 Tel
(573) 761-3587 Fax
cj@cjaslaw.com

Counsel for Applicant

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was delivered by first class mail, electronic mail or hand delivery, on this ___ day of ____, 2011, to the following parties:

General Counsel
Missouri Public Service Commission
PO Box 360
Jefferson City, MO 65102

Office of Public Counsel
PO Box 7800
Jefferson City, MO 65102

VERIFICATION

I, Todd Wessing, do hereby swear and affirm that I am an officer of Otelco Telecommunications, LLC ("Applicant"), and that the statements set forth in this Application are true and correct to the best of my knowledge and belief:

Todd Wessing

Todd Wessing, General Manager

State of Missouri
County of Cooper

Subscribed and sworn before me this 21st day of March, 2011.

Chrysa L. Lorenz

Notary Public

" NOTARY SEAL "
Chrysa L. Lorenz, Notary Public
Cooper County, State of Missouri
My Commission Expires 8/12/2011
Commission Number 07420523

Notary Seal:

EXHIBIT B

Michael D. Weaver
Chairman of the Board, Chief Executive Officer

Michael D. Weaver has served as President, Chief Executive Officer, and a director of the company since January 1999. He became Chairman of the Board on December 21, 2004 upon the closing of our initial public offering. Prior to this time, he spent 10 years with Oneonta Telephone Co, Inc, the predecessor to Otelco Telephone, serving as Chief Financial Officer from 1990 to 1998 and General Manager from January 1998 to January 1999.

Curtis L. Garner, Jr.
Chief Financial Officer, Board Secretary

Curtis L. Garner has served as Chief Financial Officer since February 2004. Prior to this position, he provided consulting services to a number of businesses and not-for-profit organizations from October 2002. He served Ptek Holding, Inc from November 1997 through September 2002 (including one year as a consultant), first as President of its Premiere Communications division, and later as Chief Administrative Officer of its VoiceCom division. Prior thereto, he spent approximately 26 years at AT&T Corp, retiring in 1997 as the Chief Financial Officer of the Southern and Southwestern Regions of AT&T Corp's consumer long distance business.

E. Todd Wessing
Vice-President and General Manager, Mid-Missouri Division

E. Todd Wessing became General Manager in Missouri in December 2010 after serving as Assistant General Manager for three years. He joined Mid-Missouri Telephone in 1988 and has experience in all faces of the central office switching, construction, and outside plant installation and maintenance operations.

Item 8. Financial Statements and Supplementary Data

OTELCO INC.

CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Otelco Inc.
Oneonta, Alabama

We have audited the accompanying consolidated balance sheets of Otelco Inc. as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Otelco Inc. at December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Otelco Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 4, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Atlanta, Georgia
March 4, 2011

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Otelco Inc.
Oneonta, Alabama

We have audited Otelco Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Otelco Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Otelco Inc. maintained in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Otelco Inc. as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2010 and our report dated March 4, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Atlanta, Georgia
March 4, 2011

OTELCO INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 17,731,044	$ 18,226,374
Accounts receivable:		
Due from subscribers, net of allowance for doubtful accounts of $473,572 and $230,752, respectively	4,650,909	4,406,257
Unbilled receivables	2,444,979	2,161,277
Other	3,200,945	3,257,882
Materials and supplies	1,969,966	1,817,311
Prepaid expenses	1,342,249	1,305,028
Income tax receivable	389,486	–
Deferred income taxes	744,531	626,267
Total current assets	32,474,109	31,800,396
Property and equipment, net	69,028,973	63,887,213
Goodwill	188,190,078	188,190,078
Intangible assets, net	34,218,115	25,934,042
Investments	1,991,158	1,967,095
Deferred financing costs	6,964,015	5,757,825
Deferred income taxes	4,482,430	4,415,097
Other assets	179,325	183,946
Total assets	$337,528,203	$322,135,692
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	$ 3,145,728	$ 1,523,944
Accrued expenses	6,167,023	6,129,859
Advance billings and payments	1,665,422	1,595,133
Deferred income taxes	394,850	353,285
Customer deposits	172,109	172,479
Total current liabilities	11,545,132	9,774,700
Deferred income taxes	42,239,262	42,512,576
Interest rate swaps	1,592,813	2,471,331
Advance billings and payments	698,352	656,968
Other liabilities	165,968	368,349
Long-term notes payable	273,717,301	271,595,855
Total liabilities	329,958,828	327,379,779
Class B common convertible to senior subordinated notes	4,085,033	–
Stockholders' Equity (Deficit)		
Class A Common Stock, $.01 par value-authorized 20,000,000 shares; issued and outstanding 12,676,733 and 13,221,404 shares, respectively	126,767	132,214
Class B Common Stock, $.01 par value-authorized 800,000 shares; issued and outstanding 544,671 and 0 shares, respectively	5,447	–
Additional paid in capital	10,340,862	921,718
Retained deficit	(6,988,734)	(6,298,019)
Total stockholders' equity (deficit)	3,484,342	(5,244,087)
Total liabilities and stockholders' equity (deficit)	$337,528,203	$322,135,692

The accompanying notes are an integral part of these consolidated financial statements.

OTELCO INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2008	2009	2010
Revenues			
Local services	$ 30,013,901	$ 48,441,222	$ 49,014,404
Network access	27,281,727	33,297,241	32,981,919
Cable television	2,388,885	2,489,011	2,798,672
Internet	12,448,776	14,027,365	14,014,819
Transport services	4,981,651	5,500,615	5,590,405
Total revenues	77,114,940	103,755,454	104,400,219
Operating expenses			
Cost of services and products	29,191,987	41,178,502	41,286,418
Selling, general and administrative expenses	11,228,585	14,164,465	13,074,794
Depreciation and amortization	15,607,726	26,485,628	23,670,243
Total operating expenses	56,028,298	81,828,595	78,031,455
Income from operations	21,086,642	21,926,859	26,368,764
Other income (expense)			
Interest expense	(21,807,800)	(25,416,024)	(24,746,542)
Change in fair value of derivatives	324,058	(1,354,759)	(878,518)
Other income	639,784	359,484	556,820
Total other expenses	(20,843,958)	(26,411,299)	(25,068,240)
Income (loss) before income tax	242,684	(4,484,440)	1,300,524
Income tax (expense) benefit	(28,810)	1,366,629	(609,809)
Net income (loss) available to common stockholders	$ 213,874	$ (3,117,811)	$ 690,715
Weighted average common shares outstanding:			
Basic	12,676,733	12,676,733	12,985,629
Diluted	13,221,404	13,221,404	13,221,404
Basic net income (loss) per common share	$ 0.02	$ (0.25)	$ 0.05
Diluted net income (loss) per common share	$ (0.03)	$ (0.25)	$ 0.05
Dividends declared per common share	$ 0.71	$ 0.71	$ 0.71

The accompanying notes are an integral part of these consolidated financial statements.

OTELCO INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Class A Common Stock		Class B Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings (Deficit)	Income (Loss)	Equity (Deficit)
Balance, December 31, 2007	12,676,733	$126,767	544,671	$ 5,447	$ 28,215,056	$ (4,084,797)	$ (938,732)	$ 23,323,741
Comprehensive income								
Net income						213,874		213,874
Change in fair value of interest rate cap							(222,027)	(222,027)
Total comprehensive loss								(8,153)
Dividends declared					(8,937,097)			(8,937,097)
Balance, December 31, 2008	12,676,733	$126,767	544,671	$ 5,447	$ 19,277,959	$ (3,870,923)	$ (1,160,759)	$ 14,378,491
Comprehensive loss								
Net loss						(3,117,811)		(3,117,811)
Change in fair value of interest rate cap							1,160,759	1,160,759
Total comprehensive loss								(1,957,052)
Dividends declared					(8,937,097)			(8,937,097)
Balance, December 31, 2009	12,676,733	$126,767	544,671	$ 5,447	$ 10,340,862	$ (6,988,734)	$ –	$ 3,484,342
Comprehensive income								
Net income						690,715		690,715
Total comprehensive income								690,715
Class B conversion to Class A	544,671	5,447	(544,671)	(5,447)				0
Direct cost of Class B conversion					(194,053)			(194,053)
Dividends declared					(9,225,091)			(9,225,091)
Balance, December 31, 2010	13,221,404	$132,214	–	$ –	$ 921,718	$ (6,298,019)	$ –	$ (5,244,087)

The accompanying notes are an integral part of these consolidated financial statements.

OTELCO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2008	2009	2010
Cash flows from operating activities:			
Net income (loss)	$ 213,874	$ (3,117,811)	$ 690,715
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Depreciation	11,772,191	14,444,714	13,837,560
Amortization	3,835,535	12,040,914	9,832,683
Interest rate caplet	1,029,264	1,168,522	–
Amortization of debt premium	(73,224)	(82,212)	(92,307)
Amortization of loan costs	2,874,164	1,351,906	1,361,351
Change in fair value of derivatives	(324,058)	1,354,759	878,518
Provision for deferred income taxes	(114,845)	(1,507,798)	428,098
Provision for uncollectible revenue	416,892	920,945	141,474
Gain on early lease termination	(121,124)	–	–
Changes in operating assets and liabilities; net of operating assets and liabilities acquired:			
Accounts receivables	(1,394,629)	739,921	427,432
Material and supplies	(124,010)	339,909	152,655
Prepaid expenses and other assets	404,306	(200,341)	(69,464)
Income tax receivable	287,902	(207,842)	389,486
Accounts payable and accrued liabilities	143,552	1,094,474	(1,657,758)
Advance billings and payments	(111,352)	(400,085)	(111,673)
Other liabilities	(25,909)	(30,850)	202,751
Net cash from operating activities	18,688,529	27,909,125	26,411,521
Cash flows from investing activities:			
Acquisition and construction of property and equipment	(9,244,137)	(9,596,049)	(10,225,229)
Purchase of investment	–	–	(1,708)
Proceeds from retirement of investment	(2,453)	(1,085)	1,067
Wholesale customer acquisition	–	(179,554)	–
Payments for the purchase of CR Companies, net of cash acquired	(108,677,338)	–	–
Deferred charges/acquisition	51,222	(6,551)	(1,845)
Net cash used in investing activities	(117,872,706)	(9,783,239)	(10,227,715)
Cash flows from financing activities:			
Cash dividends paid	(8,937,097)	(8,937,097)	(9,225,091)
Proceeds from long-term notes payable	108,853,032	–	–
Direct cost of exchange of Class B shares for Class A common shares	–	–	(194,053)
Loan origination costs	–	–	(155,160)
Repayment of long-term notes payable	–	(5,000,000)	(6,114,172)
Net cash from (used in) financing activities	99,915,935	(13,937,097)	(15,688,476)
Net increase in cash and cash equivalents	731,758	4,188,789	495,330
Cash and cash equivalents, beginning of period	12,810,497	13,542,255	17,731,044
Cash and cash equivalents, end of period	$ 13,542,255	$ 17,731,044	$ 18,226,374
Supplemental disclosures of cash flow information:			
Interest paid	$ 17,267,118	$ 23,378,798	$ 23,484,474
Income taxes paid (received)	$ (220,221)	$ 67,658	$ (265,275)

The accompanying notes are an integral part of these consolidated financial statements.

OTELCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. Summary of Significant Accounting Policies

Nature of Business

Otelco Inc. (the “Company”) provides a broad range of telecommunications services on a retail and wholesale basis. These services include local and long distance calling; network access to and from our customers; data transport; digital high-speed and dial-up internet access; cable, satellite and internet protocol television; wireless; and other telephone related services. The principal markets for these services are residential and business customers residing in and adjacent to the exchanges the Company serves in Alabama, Massachusetts, Maine, Missouri, and West Virginia. In addition, the Company serves business customers throughout Maine and New Hampshire and provides dial-up internet service throughout the states of Maine and Missouri. The Company offers various communications services that are sold to economically similar customers in a comparable manner of distribution. The majority of our customers buy multiple services, often bundled together at a single price. The Company views, manages and evaluates the results of its operations from the various communications services as one company and therefore has identified one reporting segment as it relates to providing segment information.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are either directly or indirectly wholly owned. These include: Otelco Telecommunications LLC (“OTC”); Otelco Telephone LLC (“OTP”); Hopper Telecommunications Company, Inc. (“HTC”); Brindlee Mountain Telephone Company, Inc. (“BMTC”); Blountsville Telephone Company, Inc. (“BTC”); Mid-Missouri Holding Corporation (“MMH”) and its wholly owned subsidiary Mid-Missouri Telephone Company (“MMT”) and its wholly owned subsidiary Imagination, Inc.; Mid-Maine Telecom, Inc. (“MMTI”); Mid-Maine TelPlus (“MMTP”); The Granby Telephone & Telegraph Co. of Massachusetts (“GTT”); War Acquisition Corporation (“WT”); The Pine Tree Telephone and Telegraph Company (“PTT”); Saco River Telegraph and Telephone Company (“SRT”); CRC Communications of Maine, Inc. (“PTN”); and Communications Design Acquisition Corporation (“CDAC”).

The accompanying consolidated financial statements include the accounts of the Company and all of the aforesaid subsidiaries after elimination of all material intercompany balances and transactions.

Use of Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management’s evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying consolidated financial statements.

Significant accounting estimates include the recoverability of goodwill, identified intangibles, long-term assets, and allowance for bad debt.

Regulatory Accounting

The Company follows the accounting for regulated enterprises, which is now part of Accounting Standards Codification (“ASC”) 980, *Regulated Operations* (“ASC 980”). This accounting practice recognizes the economic effects of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. Accordingly, ASC 980 requires the Company to depreciate telecommunications property and equipment over the useful lives approved by regulators, which could be different than the estimated useful lives that would otherwise be determined by management. ASC 980 also requires deferral of certain costs and obligations based upon approvals received from regulators to permit recovery of such amounts in future years. Criteria that would give rise to the discontinuance of accounting in accordance with ASC 980 include (1) increasing competition restricting the ability of the Company to establish prices that allow it to recover specific costs and (2) significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company periodically reviews the criteria to determine whether the continuing application of ASC 980 is appropriate for our rural local exchange carriers.

OTELCO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010

The Company is subject to reviews and audits by regulatory agencies. The effect of these reviews and audits, if any, will be recorded in the period in which they first become known and determinable.

Intangible Assets and Goodwill

Intangible assets consist primarily of the fair value of customer related intangibles, non-compete agreements and long-term customer contracts. Goodwill represents the excess of total acquisition cost over the assigned value of net identifiable tangible and intangible assets acquired through various business combinations. Due to the regulatory accounting required by ASC 980, the Company did not record acquired regulated telecommunications property and equipment at fair value as required by ASC 805, *Business Combinations* ("ASC 805"), through 2004. In accordance with 47 CFR 32.2000, the federal regulation governing acquired telecommunications property and equipment, such property and equipment is accounted for at original cost, and depreciation and amortization of property and equipment acquired is credited to accumulated depreciation.

For the acquisition of three entities (the "CR Companies"), from Country Road Communications LLC ("CRC") property has been recorded at fair value in accordance with ASC 805, resulting in a plant acquisition adjustment for GTT, WT, PTT and SRT in 2008. The Company has acquired identifiable intangible assets associated with the territories it serves through its acquisitions of various companies, including non-compete agreements with the former chief executive officers of two acquired businesses; the customer lists of its various businesses; and a multi-year contract to provide telecommunications services to Time Warner Cable ("TW"), a large multi-services operator, in New England. Any excess of the total purchase price over the amounts assigned to tangible and identifiable assets is recorded as goodwill.

Effective January 1, 2002, the Company adopted guidance which is included in ASC 350, *Intangibles-Goodwill and Other* ("ASC 350"), which establishes accounting and reporting standards for intangible assets and goodwill. ASC 350 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but rather tested for impairment at least annually or if an event occurs that potentially triggers an impairment issue. ASC 350 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with guidance which is included in ASC 360, *Property, Plant, and Equipment* ("ASC 360"). The Company performs an annual assessment of impairment as of December 31, unless events indicate potential impairment should be considered as of another date. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the Company must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC 805. The residual fair value after this allocation is the implied fair value of the reporting unit's goodwill.

The Company performs a quarterly review of its identified intangible assets to determine if facts and circumstances exist which indicate that the useful life is shorter than originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances do exist, the Company assesses the recoverability of identified intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

Revenue Recognition

Local service revenues. Local service revenue for monthly recurring local services is billed in advance to a portion of the Company's customers and in arrears to the balance of the customers. The Company records revenue for charges that have not yet been invoiced to its customers as unbilled revenue when services are rendered. The Company records revenue billed in advance as advance billings and defers recognition until such revenue is earned. Long distance service is billed to customers in arrears based on actual usage except when it is included in service bundles. The Company records unbilled long distance revenue as unbilled revenue when services are rendered. In bundles, unlimited usage is billed in arrears at a flat rate.

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Network access services. Network access revenue is derived from several sources. Revenue for interstate access services is received through tariffed access charges filed by the National Exchange Carrier Association ("NECA") with the Federal Communications Commission ("FCC") on behalf of the NECA member companies for our regulated subsidiaries. These access charges are billed by the Company to interstate interexchange carriers and pooled with like-revenues from all NECA member companies. A portion of the pooled access charge revenue received by the Company is based upon its actual cost of providing interstate access service, plus a return on the investment dedicated to providing that service. The balance of the pooled access charge revenue received by the Company is based upon the nationwide average schedule costs of providing interstate access services. Rates for our competitive subsidiaries are set by FCC rule to be no more than the interconnecting interstate rate of the predominant local carrier. Revenue for intrastate access service is received through tariffed access charges billed by the Company to the originating intrastate carrier using access rates filed with the Alabama Public Service Commission ("APSC"), the Maine Public Utilities Commission ("MPUC"), The Massachusetts Department of Telecommunications and Cable ("MDTC"), the Missouri Public Service Commission ("MPSC"), the New Hampshire Public Utilities Commission ("NHPUC") and the West Virginia Public Service Commission ("WVPSC") and are retained by the Company. Revenue for the intrastate/interLATA access service is received through tariffed access charges as filed with the APSC, MDTC, MPSC, MPUC, NHPUC and WVPSC. These access charges are billed to the intrastate carriers and are retained by the Company. Revenue for terminating and originating long distance service is received through charges for providing usage of the local exchange network. Toll revenues are recognized when services are rendered.

Cable television, internet and transport services. Cable television, internet and transport service revenues are recognized when services are rendered. Operating revenues from the lease of dark fiber covered by indefeasible rights-of-use agreements are recorded as earned. In some cases, the entire lease payment is received at inception of the lease and recognized ratably over the lease term after recognition of expenses associated with lease inception. The Company has deferred revenue in the consolidated balance sheet as of December 31, 2009 and 2010 of $698,352 and $656,968, respectively.

Cash and Cash Equivalents

Cash equivalents are stated at cost plus accrued interest, which approximates fair value. Cash equivalents are high-quality, short-term money market instruments and highly liquid debt instruments with an original maturity of three months or less when purchased. The cash equivalents are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Accounts Receivable

The Company extends credit to its commercial and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling losses. Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate for the amount of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Receivable balances are reviewed on an aged basis and account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Materials and Supplies

Materials and supplies are stated at the lower of cost or market value. Cost is determined using an average cost basis.

Property and Equipment

Regulated property and equipment is stated at original cost. Unregulated property and equipment purchased through acquisitions is stated at its fair value at the date of acquisition. Expenditures for improvements that significantly add to productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are expensed when incurred. Depreciation of regulated property and equipment is computed principally using the straight-line method over useful lives determined by the APSC, MDTC, MPSC, MPUC, NHPUC and WVPSC as discussed above. Depreciation of unregulated property and equipment primarily employs the straight-line method over industry standard useful lives.

Long-Lived Assets

The Company reviews its long-lived assets for impairment at each balance sheet date and whenever events or changes in circumstances indicate that the carrying amount of an asset should be assessed. To determine if an impairment exists, the Company estimates the future undiscounted cash flows expected to result from the use of the asset being reviewed for impairment. If the sum of these expected future cash flows is less than the carrying amount of the asset, the Company recognizes an impairment loss in accordance with guidance included in ASC 360. The amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss for the excess of the carrying value over the fair value.

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Deferred Financing Costs

Deferred financing and loan costs consist of debt issuance costs incurred in obtaining long-term financing, which are amortized over the life of the related debt. Amortization of deferred financing and loan costs is classified as "Interest expense". When amendments to debt agreements are considered to extinguish existing debt per guidance included in ASC 470, *Debt*, the remaining deferred financing costs are amortized at the time of amendment.

Derivative Financial Instruments

Derivative financial instruments are accounted for under guidance included in ASC 815, *Derivatives and Hedging* ("ASC 815"). Under ASC 815, all derivatives are recorded on the balance sheet as assets or liabilities and measured at fair value. The embedded exchange feature of the Class B common stock was accounted for as a derivative liability. This liability was adjusted to estimated fair value on each balance sheet date with the offset to other non-operating income or expense. There is no longer a financial test for conversions as the Class B shares were exchanged for Income Deposit Securities ("IDS") units on a one-for-one basis on June 8, 2010. Each of the IDSs issued in the exchange includes a share of Class A common stock ("common stock").

The Company is exposed to the market risk of adverse changes in interest rates. An interest rate cap was purchased on December 21, 2004, coincident with the closing of our initial public offering and the recapitalization of our senior notes payable. The interest rate cap was purchased to mitigate the risk of rising interest rates to limit or cap the rate at 3% for the three month LIBOR index plus the applicable margin on $80 million in senior debt for five years. On July 5, 2007, the Company repaid $55,353,032 in debt, reducing its senior debt below the level of the rate cap. The cap was considered an effective hedge for the remaining senior debt as all critical terms of the interest rate cap were identical to the underlying debt it hedged. The balance of the cap at that time was considered as an investment and adjustments were made to accumulated other comprehensive income to reflect this change. On October 31, 2008, the Company implemented its second amended and restated credit agreement, increasing senior debt to $173.5 million in conjunction with the acquisition of three entities from CRC. The full $80 million rate cap was accounted for as an effective hedge from that date through the end of the rate cap on December 20, 2009.

The cost of the effective portion of the interest rate cap was expensed as interest over the effective life of the hedge in accordance with the quarterly value of the caplets as determined at the date of inception.

The Company has acquired two interest rate swaps with approved counterparties. The first swap has a notional amount of $90 million with the Company paying a fixed rate of 1.85% and the counterparty paying a variable rate based upon the three month LIBOR interest rate. It is effective from February 9, 2009 through February 8, 2012. The second swap has a notional amount of $60 million with the Company paying a fixed rate of 2.0475% and the counterparty paying a variable rate based upon the three month LIBOR interest rate. It is effective from February 9, 2010 through February 8, 2012. From an accounting perspective, the documentation for both swaps does not meet the technical requirements of ASC 815 to allow the swaps to be considered highly effective hedging instruments and therefore the swaps do not qualify for hedge accounting. The change in fair value of the swaps is charged or credited to income as a change in fair value of derivatives. Over the life of the swaps, the cumulative change in value will be zero.

Income Taxes

The Company accounts for income taxes using the asset and liability approach in accordance with guidance included in ASC 740, *Income Taxes* ("ASC 740"). The asset and liability approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities, based on enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be settled. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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The provision for income taxes consists of an amount for the taxes currently payable and a provision for the tax consequences deferred to future periods.

Interest and penalties related to income tax matters would be recognized in income tax expense. As of December 31, 2010, we did not have an amount recorded for interest and penalties.

The Company conducts business in multiple jurisdictions and, as a result, one or more subsidiaries file income tax returns in the U.S. federal, various state and local jurisdictions. All tax years since 2003 are open for examination by various tax authorities.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, derivative liabilities and long-term notes payable approximate their net book value as of December 31, 2009 and 2010.

Comprehensive Income (Loss)

Comprehensive income (loss) equals net income (loss) plus other comprehensive income. Other comprehensive income refers to revenue, expenses, gains and losses, which are reflected in retained earnings but excluded from net income.

Income (Loss) per Common Share

The Company computes net income (loss) per common share in accordance with the provision included in ASC 260, *Earnings per Share* ("ASC 260"). Under ASC 260, basic and diluted income per share is computed by dividing net income (loss) available to stockholders by the weighted average number of common shares and common share equivalents outstanding during the period. Basic income (loss) per common share excludes the effect of potentially dilutive securities, while diluted income (loss) per common share reflects the potential dilution that would occur if securities or other contracts to issue common shares were exercised for, converted into or otherwise resulted in the issuance of common shares. Net income (loss) is adjusted for the Class B derivative liability in calculating diluted earnings. On June 8, 2010, all of the Company's Class B shares were exchanged for IDSs, which include a common share, on a one-for-one basis.

Recently Adopted Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2009-13, *Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force* ("ASU 2009-13"), an update to ASC 605, *Revenue Recognition*. ASU 2009-13 provides application guidance on whether multiple deliverables exist, how the deliverables should be separated, and how the consideration should be allocated to one or more units of accounting. ASU 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific evidence is not available, or estimated selling price if neither vendor-specific nor third-party evidence is available. The Company is required to apply this guidance prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010; however, earlier application was permitted and the Company began applying the guidance in July 2010. The early adoption of this update did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"), an update to ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASU 2010-06 provides more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this update did not have a material impact on our consolidated financial statements.

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In February 2010, the FASB issued ASU 2010-09, *Amendments to Certain Recognition and Disclosure Requirements* ("ASU 2010-09"), an update to ASC 855, *Subsequent Events*. ASU 2010-09 eliminates the requirement for a Securities and Exchange Commission ("SEC") filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of accounting principles generally accepted in the United States. The FASB believes these amendments remove potential conflicts with the SEC's literature. ASU 2010-09 was effective upon issuance except for the use of the issued date for conduit debt obligors, which is effective for interim or annual periods ending after June 15, 2010. The adoption of this update did not have a material impact on our consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* ("ASU 2010-20"), an update to ASC 310, *Receivables*. ASU 2010-20 provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. ASU 2010-20 applies to all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or the lower of cost or fair value. For public entities, this update is effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of this update did not have a material impact on our consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations* ("ASU 2010-29"), an update to ASC 805. ASU 2010-29 applies to any public entity that enters into business combinations that are material on an individual or aggregate basis. If comparative financial statements are presented, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted and the Company began applying the guidance in December 2010. The adoption of this update did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

During 2010, the FASB issued ASU 2010-01 through ASU 2010-29. In 2011, the FASB issued ASU 2011-01. Except for ASU 2010-06, ASU 2010-09, ASU 2010-20, and ASU 2010-29, which are discussed above, these ASUs provide technical corrections to existing guidance related to specialized industries or entities and therefore, have minimal, if any, impact on the Company.

2. Income Deposit Securities Issued

On June 8, 2010, the Company issued 544,671 IDSs, representing an aggregate of 544,671 shares of our Class A common stock and $4,085,033 aggregate principal amount of our 13% senior subordinated notes due 2019, in exchange for all 544,671 shares of our issued and outstanding Class B common stock. There were no proceeds to the Company from this exchange. The $4.1 million of senior subordinated notes was reclassified from the mezzanine section of the balance sheet to long-term notes payable. Interest on the $4.1 million of senior subordinated notes was reflected in interest expense in the consolidated statement of operations from June 8, 2010 through December 31, 2010.

3. Acquisitions

On October 31, 2008, the Company acquired 100% of the outstanding common stock of the CR Companies from CRC. Granby Holdings, Inc. ("GH") owned 100% of its operating subsidiary GTT. War Holdings, Inc. ("WH") owned 100% of its operating subsidiary WT. Pine Tree Holdings, Inc. ("PTH") owned 100% of its operating subsidiaries, PTT, SRT, PTN, and CDAC. As of January 1, 2010, GH, WH and PTH were merged into Otelco Inc. and no longer exist as separate entities. GTT, WT, PTT, SRT, PTN, and CDAC provide telecommunications solutions, including voice, data and internet services, to residential and business customers in portions of Massachusetts, Maine and West Virginia and extend the Company's presence in the New England market. The acquisition added over 24,000 retail access line equivalents to the Company's presence in Maine; almost 5,000 retail access line equivalents in Massachusetts and West Virginia; and a wholesale business in New England.

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Property and equipment at the time of acquisition had an estimated fair value of $24.0 million and depreciation lives consistent with those shown in the Property and Equipment Note. The intangible assets at time of acquisition included regulated and unregulated customer based assets at fair value of $17 million which had remaining lives of six to nine years and a non-competition agreement fair valued at $1.2 million which had a remaining life of one year. Unregulated contract based assets have a fair value of $19.6 million and remaining lives of seven years.

Prior to the closing of the acquisition, the Company entered into a second and amended restated credit agreement, dated as of October 20, 2008, to amend and restate the amended and restated credit agreement, dated as of July 3, 2006, as amended on July 13, 2007, by and among the Company and the other credit parties to the agreement and General Electric Capital Corporation, as a lender and agent for the lenders, and other lenders from time to time party thereto. The credit facilities under the amended and restated credit agreement are comprised of:

- Term loans of $173.5 million due October 31, 2013, consisting of an original term loan of $64.6 million, and an additional term loan of $108.9 million, used to finance the acquisition and related transaction costs and to provide working capital for the Company and its subsidiaries and for other corporate purposes; and

- A revolving loan commitment of up to $15 million.

The term loan facility was fully drawn concurrent with closing. Interest rates applicable to the term loan and any revolving loans were an index rate plus 3.00% or LIBOR plus 4.00%. In addition, there are fees associated with undrawn revolver balances and certain annual fees.

The acquisition was accounted for using the purchase method of accounting and accordingly, the accompanying financial statements include the financial position and results of operations from the date of acquisition.

4. Goodwill and Intangible Assets

ASC 350 requires that in periods beginning after December 15, 2001, goodwill shall no longer be amortized. Instead, goodwill shall be tested for impairment. The Company adopted this guidance in 2002 and ceased amortizing goodwill, and performs an annual impairment test to determine whether the carrying value of goodwill exceeds its fair value. Based on the results of its impairment test, the Company does not believe that there is an impairment of the goodwill balance at December 31, 2009 or 2010, respectively.

Intangible assets are summarized as follows:

	December 31, 2009			December 31, 2010		
	Carrying Value	Accumulated Amortization	Net Value	Carrying Value	Accumulated Amortization	Net Value
Goodwill			$ 188,190,078			$ 188,190,078
Other intangible assets						
Customer relationships	$ 27,770,417	$ (7,603,627)	$ 20,166,790	$ 27,757,682	$ (11,773,248)	$ 15,984,434
Contract relationships	19,600,000	(5,600,000)	14,000,000	19,600,000	(9,683,333)	9,916,667
Non-competition	53,903	(2,578)	51,325	53,903	(20,962)	32,941
Total	$ 47,424,320	$ (13,206,205)	$ 34,218,115	$ 47,411,585	$ (21,477,543)	$ 25,934,042

These intangible assets have a range of 1 to 15 years of useful lives and utilize both the sum-of-the-years' digits and straight-line methods of amortization, as appropriate. The following table presents current and expected amortization expense of the existing intangible assets as of December 31, 2010 for each of the following periods:

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Aggregate amortization expense:

For the year ended December 31, 2008	$	2,924,128
For the year ended December 31, 2009	$	10,443,409
For the year ended December 31, 2010	$	8,271,338

Expected amortization expense for the years ending December 31,

2011	$	7,035,986
2012		5,718,162
2013		4,471,484
2014		3,236,163
2015		1,897,598
Thereafter		3,574,649
Total	$	25,934,042

5. Property and Equipment

A summary of property and equipment is shown as follows:

	Estimated Life	December 31, 2009	December 31, 2010
Land		$ 1,104,528	$ 1,113,797
Building and improvements	20-40	11,353,840	11,530,062
Telephone equipment	6-20	205,838,648	211,279,443
Cable television equipment	7	9,628,087	10,368,161
Furniture and equipment	8-14	2,889,110	2,766,793
Vehicles	7-9	5,553,616	5,768,620
Computer software and equipment	5-7	13,315,358	13,986,754
Internet equipment	5	3,426,905	3,707,226
Total property and equipment		253,110,092	260,520,856
Accumulated depreciation and amortization		(184,081,119)	(196,633,643)
Net property and equipment		$ 69,028,973	$ 63,887,213

The Company’s composite depreciation rate for property and equipment was 20.2%, 20.9%, and 21.7% in 2008, 2009 and 2010, respectively. Depreciation expense for the years ended December 31, 2008, 2009 and 2010 was $11,772,191, $14,444,714, and $13,837,560, respectively. Amortization expense for telephone plant adjustment was $856,599, $1,554,932 and $1,554,932 for the years ended December 31, 2008, 2009 and 2010, respectively.

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6. Other Accounts Receivable

Other accounts receivable consist of the following:

	December 31, 2009	December 31, 2010
Carrier access bills receivable	$ 1,678,039	$ 1,815,060
Receivables from Alabama Service Fund	443,169	443,169
Wholesale contracts receivable	880,163	809,035
Other miscellaneous	199,574	190,618
	$ 3,200,945	$ 3,257,882

The carrier access bills receivable at December 31, 2009 was net of an allowance for amounts estimated not to be collected from FairPoint Communications ("FRT") which filed for bankruptcy on October 25, 2009. In Maine and New Hampshire, several Company subsidiaries have business relationships with FRT as a customer and/or supplier of telecommunications services. The bankruptcy court approved the Company's settlement agreement with FRT on April 27, 2010. As a result of the settlement, the Company was able to reverse the December 31, 2009 allowance related to FRT at December 31, 2010.

7. Investments

Investments consist of the following:

	December 31, 2009	December 31, 2010
Investment in CoBank stock	$ 1,474,920	$ 1,474,920
Rental property	448,663	423,154
Other miscellaneous	67,575	69,021
	$ 1,991,158	$ 1,967,095

The investment in CoBank stock is carried at historical cost due to no readily determinable fair value for those instruments being available. Management believes there has been no other than temporary impairment in such investment. This investment consists of patronage certificates that represent ownership in the financial institution where the Company has, and in the past, had, debt.

8. Leases

Minimum future rental commitments under non-cancellable operating leases, primarily for real property and office facilities at December 31, 2010, consist of the following:

2011	$ 432,094
2012	335,773
2013	298,206
2014	130,094
2015	85,803
Thereafter	466,831
Total	$ 1,748,801

Rent expense for the years ended December 31, 2009 and 2010 was $481,099 and $499,928, respectively.

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9. Long-Term Debt

The Company's credit agreement with General Electric Capital Corporation, originally dated December 21, 2004, has been amended and restated on several occasions to reflect requirements for funds to complete two acquisitions and the use of proceeds from the Company's successful offering of 3,000,000 IDS units on July 5, 2007. On July 13, 2007, the Company amended that agreement to, among other things, reduce the margin it pays on the loan to vary with the Company's total leverage ratio. At that time, the variable margin based on leverage was 2% over LIBOR. On October 20, 2008, the Company completed its second amendment and restatement, increasing the principal balance from $64.6 million to $173.5 million on October 31, 2008 for the acquisition of the CR Companies, changing the variable margin, and extending the maturity from July 3, 2011 to October 31, 2013. The variable margin based on leverage is 4% over LIBOR. On November 9, 2010 and August 8, 2009, the Company made voluntary prepayments of $6.1 million and $5.0 million, respectively, reducing the credit facility notes payable balance to $162.4 million.

Long-term notes payable consists of the following:

	December 31, 2009	December 31, 2010
Term credit facility, General Electric Capital Corporation; variable interest rate of 4.27% and 4.29% at December 31, 2009 and 2010, respectively. There are no scheduled principal payments. Interest payments are due on the last day of each LIBOR period or at three month intervals, whichever date comes first. Interest rate is the index rate plus the applicable term loan index margin or the applicable LIBOR rate plus the applicable term loan LIBOR margin. On July 5, 2007, the Company repaid $55,353,032 in senior debt with the proceeds from its offering of 3,000,000 IDS units. The Company also made voluntary prepayments of $5.0 million and $6.1 million on August 8, 2009 and November 9, 2010, respectively. The unpaid balance will be due October 31, 2013.	$168,500,000	$162,385,828
13% Senior subordinated notes, due 2019; interest payments are due quarterly. On July 5, 2007, the Company sold 3,000,000 IDS units that included $22,500,000 in senior subordinated debt and $1,830,791 in premium paid for debt. On June 8, 2010, 544,671 IDS units that included $4,085,033 in senior subordinated debt were issued in the conversion of Class B shares. Premium amortization for the years ended December 31, 2009 and 2010 was $82,212 and $92,307, respectively.	96,717,301	100,710,027
13% Senior subordinated notes, held separately, due 2019; interest payments are due quarterly.	8,500,000	8,500,000
Total long-term notes payable	273,717,301	271,595,855
Less: current portion	–	–
Long-term notes payable	$273,717,301	$271,595,855

Associated with these long-term notes payable, the Company capitalized $8.1 million in deferred financing costs associated with the credit facility and the 13% senior subordinated notes put in place on December 21, 2004. On July 3, 2006, an additional $1,545,743 in deferred financing costs was capitalized. On July 5, 2007, $1,064,526 in deferred finance costs were written off associated with the reduction in long-term notes payable from the proceeds of the Company's offering of 3,000,000 IDS units. On October 31, 2008, an additional $5,311,138 in deferred financing costs was capitalized associated with the acquisition of the CR Companies. Deferred financing costs in the amount of $1,406,088 were written-off associated with the effective extinguishment of the existing indebtedness at time of closing. The credit facility is secured by the total assets of the subsidiary guarantors.

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As part of the Company's credit agreement, the Company has a revolving credit facility of $15,000,000. There was no balance outstanding as of December 31, 2009 and 2010. The interest rate is the index rate plus a variable margin or LIBOR rate plus a variable margin, whichever is applicable. The margin at December 31, 2009 and 2010 was 4.0%. The range of margins can vary from 3.5% to 4.25%, depending on our total debt leverage. The Company pays a commitment fee of 0.50% per annum, payable quarterly in arrears, on the unused portion of the revolver loan. The commitment fee expense was $76,042 for the years ended December 31, 2009 and 2010, respectively.

The deferred financing costs related to the issuance of debt is capitalized and amortized over the life of the debt obligation. Amortization of deferred financing costs is reflected in interest expense. The amortization of deferred financing costs also includes unamortized loan cost that is expensed due to the related debt being extinguished. The unamortized loan cost that was expensed and included in amortization expense for the years ended December 31, 2009 and 2010 was $1,351,906 and $1,361,351, respectively.

Maturities of long-term debt for the next five years are as follows:

2011	$	–
2012		–
2013		162,385,828
2014		–
2015		–
Thereafter		107,660,531
Total principal		270,046,359
Unamortized premium		1,549,496
Total	$	271,595,855

The above schedule of maturities of long-term debt includes the premium paid for the debt associated with the 3,000,000 IDS units issued July 5, 2007.

The Company's long-term notes payable agreement is subject to certain financial covenants and restrictions on indebtedness, financial guarantees, business combinations and other related items. As of December 31, 2010, the Company is in compliance with all covenants.

10. Derivative and Hedge Activities

An interest rate cap was purchased on December 21, 2004, coincident with the closing of our initial public offering. The interest rate cap was purchased to mitigate the risk of rising interest rates by capping the rate at 3% for the three month LIBOR index plus the applicable margin on $80 million in senior debt for five years. On July 5, 2007, the Company repaid $55,353,032 in debt, reducing its senior debt below the level of the rate cap. The balance of the cap at that time was considered as an investment and adjustments were made to accumulated other comprehensive income to reflect this change. On October 31, 2008, the Company implemented its second amended and restated credit agreement, increasing senior debt to $173.5 million in conjunction with the acquisition of the CR Companies. The full $80 million rate cap again became effective as a hedge from that date through the end of the rate cap on December 20, 2009.

The Company has two interest rate swaps with approved counterparties. The first swap has a notional amount of $90 million with the Company paying a fixed rate of 1.85% and the counterparty paying a variable rate based upon the three month LIBOR interest rate. It was effective from February 9, 2009 through February 8, 2012. The second swap has a notional amount of $60 million with the Company paying a fixed rate of 2.0475% and the counterparty paying a variable rate based upon the three month LIBOR interest rate. It was effective from February 9, 2010 through February 8, 2012. From an accounting perspective, the documentation for both swaps does not meet the technical requirements of ASC 815 to allow the swaps to be considered highly effective as hedging instruments and therefore the swaps do not qualify for hedge accounting. The change in fair value of the swaps is charged or credited to income as a change in fair value of derivatives. Over the life of the swaps, the cumulative change in value will be zero.

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Changes in the fair value of the effective portion of the interest rate hedges are not included in earnings but are reported as a component of accumulated other comprehensive income. Changes in the fair value of interest rate hedges which do not technically qualify for hedge accounting are reported in the change in fair value of derivatives.

The cost of the effective portion of the interest rate cap was expensed as interest over the effective life of the hedge in accordance with the quarterly value of the caplets as determined at the date of inception. The expense related to the ineffective portion of the interest rate cap in 2008 is reflected in the change in fair value of derivatives. For the year ended December 31, 2009, the cost of the effective portion of the interest rate cap was $1,168,522. The rate cap ended December 20, 2009.

11. Income Taxes

Income tax expense (benefit) for the years ended December 31, 2008, 2009 and 2010 is summarized below:

	For the Years Ended December 31,		
	2008	**2009**	**2010**
Federal income taxes			
Current	$ –	$ 114,947	$ (3,015)
Deferred	(230,915)	(1,474,119)	278,383
Total federal tax expense (benefit)	(230,915)	(1,359,172)	275,368
State income taxes			
Current	85,470	26,222	184,726
Deferred	174,255	(33,679)	149,715
Total state tax expense (benefit)	259,725	(7,457)	334,441
Total income tax expense (benefit)	$ 28,810	$ (1,366,629)	$ 609,809

Total income tax expense (benefit) from continuing operations was different than that computed by applying U.S. federal income tax rates to income from continuing operations before income taxes for the years ended December 31, 2008, 2009 and 2010. The reasons for the differences are presented below:

	For the Years Ended December 31,		
	2008	**2009**	**2010**
Federal income tax at statutory rate	35%	35%	35%
Federal income tax provision (benefit) at statutory rate	$ 84,939	$ (1,569,554)	$ 455,183
Change in fair value of derivative	(113,421)	474,166	307,482
State income tax (provision), net of federal income tax effects	168,821	(4,847)	217,387
True-up 2008 acquisition tax accounts	–	–	(335,925)
Other	(111,529)	(266,394)	(34,318)
Provision (benefit) on income taxes	$ 28,810	$ (1,366,629)	$ 609,809
Effective income tax rate	11.9%	30.5%	46.9%

As of December 31, 2010, the Company has U.S. federal and state net operating loss carryforwards of $9.0 million and $14.9 million, respectively. These net operating loss carryforwards expire at various times beginning in 2021 through 2030. Included in these losses are $6.3 million of federal and $2.3 million of state losses related to the acquisition of the CR companies referenced in Note 3. These acquired losses are subject to annual limitations imposed by rules under the Internal Revenue Code.

During 2009, the Company took advantage of the 5-year net operating loss carryback provisions of the Worker, Homeownership, and Business Act of 2009. Approximately $1.7 million of the 2008 net operating loss was carried back to 2004 for a refund of $0.4 million.

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2009 and 2010 are presented below:

	December 31,	
	2009	**2010**
Deferred tax liabilities:		
Amortization	$(23,066,247)	$(25,604,600)
Depreciation	(9,166,193)	(9,448,329)
Amortized intangibles	(9,990,208)	(7,443,579)
Prepaid expense	(394,850)	(353,285)
Other	(16,614)	(16,068)
Total deferred tax liabilities	$(42,634,112)	$(42,865,861)
Deferred tax assets:		
Deferred compensation	$ 345,781	$ 308,479
Federal net operating loss carryforwards	3,216,433	3,163,018
Alternative minimum credits carryforwards	507,560	504,130
State net operating loss carryforwards	272,811	278,462
Advance payments	288,497	272,357
Bad debt	292,434	226,305
Other	303,445	288,613
Total deferred tax assets	$ 5,226,961	$ 5,041,364

Effective January 1, 2007, the Company adopted the provision included in ASC 740. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This pronouncement also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of ASC 740 did not result in the identification of material uncertain tax positions through December 31, 2010.

12. Employee Benefit Program

Employees of all subsidiaries except BTC participate in a defined contribution savings plan under Section 401(k) of the Internal Revenue Code, which is sponsored by the Company. The terms of the plan provide for an elective contribution from employees not to exceed $15,500, $16,500, and $16,500 for 2008, 2009 and 2010, respectively. The Company matches the employee's contribution up to 6% of the employee's annual compensation. For the years ended December 31, 2008, 2009 and 2010, the total expense associated with this plan was $486,737, $713,364, and $742,288, respectively.

The employees of BTC participate in a multiemployer Retirement and Security Program ("RSP") as a defined benefit plan and a Savings Plan ("SP") provided through the National Telecommunications Cooperative Association ("NTCA"). Participation in the RSP requires a minimum employee contribution of 1% of their annual compensation. The Company contributes 10.5%, 9.4%, and 6.0% for 2008, 2009 and 2010, respectively of their annual compensation for every participating employee. On October 1, 2009, the Company reduced its contribution from 10.5% to 6%. SP is a defined contribution savings plan under Section 401(k) of the Internal Revenue Code to which the Company made no contribution for 2008, 2009 or 2010. The employee can make voluntary contributions to the SP as desired. For the years ended December 31, 2008, 2009 and 2010, the total expense associated with these plans was $85,003, $70,271, and $60,030, respectively. The reduced contribution in 2008 was partially the result of the NTCA suspension of a contribution surcharge imposed in 2007.

Employees of the CR Companies participated in a defined contribution savings plan under Section 401(k) of the Internal Revenue Code from October 31, 2008 to December 31, 2008, which was sponsored by the Company. The terms of the plan provided for elective contributions from employees not to exceed $15,500 for 2008. The Company matched 50% of the employee's contribution up to 6% of the employee's annual pay excluding any bonus. From the date of acquisition through December 31, 2008, the total expense associated with this plan was $22,271.

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13. Income (Loss) per Common Share and Potential Common Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of shares outstanding for the period. Diluted income (loss) per common share reflects the potential dilution that would occur had all of the issued and outstanding shares of Class B common stock been exchanged for IDSs at the beginning of the period. On June 8, 2010, all of the Company's issued and outstanding shares of Class B common stock were exchanged for IDSs on a one-for-one basis. Each of the IDSs issued in the exchange includes a common share. Diluted amounts are not included in the computation of diluted loss per common share when the inclusion of such amounts would be anti-dilutive.

A reconciliation of the common shares for the Company's basic and diluted income (loss) per common share calculation is as follows:

	For the Years Ended December 31, 2008	2009	2010
Weighted average of common shares-basic	12,676,733	12,676,733	12,985,629
Effect of dilutive securities	544,671	544,671	235,775
Weighted average common shares and potential common shares-diluted	13,221,404	13,221,404	13,221,404
Net income (loss) available to common shareholders	$ 213,874	$ (3,117,811)	$ 690,715
Net income (loss) per basic share	$ 0.02	$ (0.25)	$ 0.05
Net income (loss) available to common stockholders	$ 213,874	$ (3,117,811)	$ 690,715
Change in fair value of Class B derivative	(575,951)	(238,054)	–
Net income (loss) available for diluted shares	$ (362,077)	$ (3,355,865)	$ 690,715
Net income (loss) per diluted share	$ (0.03)	$ (0.25)	$ 0.05

14. Selected Quarterly Financial Data (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2009:				
Revenue	$ 25,500,176	$ 25,796,671	$ 26,403,134	$ 26,055,473
Operating income	4,465,207	5,715,812	6,209,071	5,536,769
Net income (loss)	(1,834,036)	510,700	(1,594,614)	(199,861)
Net income (loss) per share, basic	$ (0.14)	$ 0.04	$ (0.13)	$ (0.02)
Net income (loss) per share, diluted	$ (0.14)	$ 0.03	$ (0.13)	$ (0.02)
Fiscal 2010:				
Revenue	$ 25,794,209	$ 26,510,944	$ 26,145,227	$ 25,949,839
Operating income	5,868,729	7,011,337	6,727,966	6,760,732
Net income (loss)	(385,656)	417,276	63,075	596,020
Net income (loss) per share, basic	$ (0.03)	$ 0.03	$ –	$ 0.04
Net income (loss) per share, diluted	$ (0.03)	$ 0.03	$ –	$ 0.04

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15. Fair Value Measurement

The Company adopted ASC 820, which defines fair value, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements. The framework that is set forth in this standard is applicable to the fair value measurements where it is permitted or required under other accounting pronouncements.

ASC 820 defines fair value as the exit price, which is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date. ASC 820 establishes a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 consists of observable market data in an active market for identical assets or liabilities.
- Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.
- Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company, not a market participant, if there is little available market data and the Company's own assumptions are considered by management to be the best available information.

In accordance with ASC 820, the following tables represent the Company's fair value hierarchy for its financial assets and liabilities as of December 31, 2009 and 2010:

	December 31, 2009			
	Fair Value	**Level 1 (1)**	**Level 2 (2)**	**Level 3 (3)**
Liabilities				
Interest rate swaps	$ 1,592,813	$ –	$ 1,592,813	$ –
Total liabilities	$ 1,592,813	$ –	$ 1,592,813	$ –

	December 31, 2010			
	Fair Value	**Level 1 (1)**	**Level 2 (2)**	**Level 3 (3)**
Liabilities				
Interest rate swaps	$ 2,471,331	$ –	$ 2,471,331	$ –
Total liabilities	$ 2,471,331	$ –	$ 2,471,331	$ –

(1) Quoted prices in active markets for identical assets.
(2) Significant other observable inputs.
(3) Significant unobservable inputs.

The interest rate swaps are valued at the end of each quarter based on available market information.

16. Subsidiary Guarantees

The Company has no independent assets or operations separate from its operating subsidiaries. The guarantees of its senior subordinated notes by 12 of its 14 operating subsidiaries are full and unconditional, joint and several. The operating subsidiaries have no independent long-term notes payable. There are no significant restrictions on the ability of the Company to obtain funds from its operating subsidiaries by dividend or loan. The condensed consolidated financial information is provided for the guarantor entities.

OTELCO INC.

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The following tables present condensed consolidating balance sheets as of December 31, 2009 and 2010, condensed consolidating statements of operations for the years ended December 31, 2008, 2009 and 2010; and condensed consolidating statements of cash flows for the years ended December 31, 2008, 2009 and 2010.

Otelco Inc.
Condensed Consolidating Balance Sheet
December 31, 2009

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ –	$ 17,617,266	$ 113,778	$ –	$ 17,731,044
Accounts receivable, net	–	9,354,246	942,587	–	10,296,833
Materials and supplies	–	938,766	1,031,200	–	1,969,966
Prepaid expenses	76,219	1,192,272	73,758	–	1,342,249
Income tax receivables	389,486	–	–	–	389,486
Deferred income taxes	744,531	–	–	–	744,531
Investment in subsidiaries	113,558,790	–	–	(113,558,790)	–
Intercompany receivable	129,450,605	–	–	(129,450,605)	–
Total current assets	244,219,631	29,102,550	2,161,323	(243,009,395)	32,474,109
Property and equipment, net	–	57,762,888	11,266,085	–	69,028,973
Goodwill	–	190,126,718	(1,936,640)	–	188,190,078
Intangibles assets, net	–	31,361,923	2,856,192	–	34,218,115
Investments	1,000	1,661,027	329,131	–	1,991,158
Deferred income taxes	4,482,430	–	–	–	4,482,430
Other long-term assets	7,519,753	(376,413)	–	–	7,143,340
Total assets	$ 256,222,814	$ 309,638,693	$ 14,676,091	$ (243,009,395)	$ 337,528,203
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued expenses	$ 2,549,577	$ 5,650,086	$ 1,113,088	$ –	$ 9,312,751
Intercompany payables	–	123,837,610	5,612,995	(129,450,605)	–
Other current liabilities	394,850	1,758,112	79,419	–	2,232,381
Total current liabilities	2,944,427	131,245,808	6,805,502	(129,450,605)	11,545,132
Deferred income taxes	10,662,374	28,184,570	3,392,318	–	42,239,262
Other liabilities	1,592,813	864,320	–	–	2,457,133
Long-term notes payable	233,453,825	40,263,476	–	–	273,717,301
Class B common convertible to senior subordinated notes	4,085,033	–	–	–	4,085,033
Stockholders' equity	3,484,342	109,080,519	4,478,271	(113,558,790)	3,484,342
Total liabilities and stockholders' equity	$ 256,222,814	$ 309,638,693	$ 14,676,091	$ (243,009,395)	$ 337,528,203

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Otelco Inc.
Condensed Consolidating Balance Sheet
December 31, 2010

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets					
Cash and cash equivalents	$ –	$ 18,064,970	$ 161,404	$ –	$ 18,226,374
Accounts receivable, net	–	9,031,641	793,775	–	9,825,416
Materials and supplies	–	893,186	924,125	–	1,817,311
Prepaid expenses	184,055	1,022,697	98,276	–	1,305,028
Income tax receivables	–	–	–	–	–
Deferred income taxes	626,267	–	–	–	626,267
Investment in subsidiaries	131,010,180	–	–	(131,010,180)	–
Intercompany receivable	(129,599,481)	–	–	129,599,481	–
Total current assets	2,221,021	29,012,494	1,977,580	(1,410,699)	31,800,396
Property and equipment, net	218,301	54,043,819	9,625,093	–	63,887,213
Goodwill	239,970,317	(49,843,599)	(1,936,640)	–	188,190,078
Intangibles assets, net	–	23,326,214	2,607,828	–	25,934,042
Investments	1,203,605	433,059	330,431	–	1,967,095
Deferred income taxes	4,415,097	–	–	–	4,415,097
Other long-term assets	5,757,825	183,946	–	–	5,941,771
Total assets	$ 253,786,166	$ 57,155,933	$ 12,604,292	$ (1,410,699)	$ 322,135,692
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Current liabilities					
Accounts payable and accrued expenses	$ 2,280,661	$ 3,950,043	$ 1,423,099	$ –	$ 7,653,803
Intercompany payables	–	(131,769,870)	2,170,389	129,599,481	–
Other current liabilities	353,285	1,678,145	89,467	–	2,120,897
Total current liabilities	2,633,946	(126,141,682)	3,682,955	129,599,481	9,774,700
Deferred income taxes	22,592,597	16,666,501	3,253,478	–	42,512,576
Other liabilities	2,471,331	1,025,317	–	–	3,496,648
Long-term notes payable	231,332,379	40,263,476	–	–	271,595,855
Class B common convertible to senior subordinated notes	–	–	–	–	–
Stockholders' equity (deficit)	(5,244,087)	125,342,321	5,667,859	(131,010,180)	(5,244,087)
Total liabilities and stockholders' equity (deficit)	$ 253,786,166	$ 57,155,933	$ 12,604,292	$ (1,410,699)	$ 322,135,692

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Otelco Inc.
Condensed Consolidating Statement of Operations
For the Twelve Months Ended December 31, 2008

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 3,113,485	$ 70,986,248	$ 12,441,820	$ (9,426,613)	$ 77,114,940
Operating expenses	(3,113,485)	(52,706,074)	(9,635,352)	9,426,613	(56,028,298)
Income from operations	–	18,280,174	2,806,468	–	21,086,642
Other income (expense)	(20,483,939)	(363,814)	3,795	–	(20,843,958)
Earnings from subsidiaries	15,165,333	–	–	(15,165,333)	–
Income (loss) before income tax	(5,318,606)	17,916,360	2,810,263	(15,165,333)	242,684
Income tax (expense) benefit	5,532,480	(4,460,513)	(1,100,777)	–	(28,810)
Net income to common stockholders	$ 213,874	$ 13,455,847	$ 1,709,486	$ (15,165,333)	$ 213,874

Otelco Inc.
Condensed Consolidating Statement of Operations
For the Twelve Months Ended December 31, 2009

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 3,318,678	$ 100,173,351	$ 11,701,213	$ (11,437,788)	$ 103,755,454
Operating expenses	(3,318,678)	(80,815,648)	(9,132,057)	11,437,788	(81,828,595)
Income from operations	–	19,357,703	2,569,156	–	21,926,859
Other income (expense)	(26,098,959)	(390,828)	78,488	–	(26,411,299)
Earnings from subsidiaries	14,247,278	–	–	(14,247,278)	–
Income (loss) before income tax	(11,851,681)	18,966,875	2,647,644	(14,247,278)	(4,484,440)
Income tax (expense) benefit	8,733,870	(6,330,343)	(1,036,898)	–	1,366,629
Net income (loss) to common stockholders	$ (3,117,811)	$ 12,636,532	$ 1,610,746	$ (14,247,278)	$ (3,117,811)

Otelco Inc.
Condensed Consolidating Statement of Operations
For the Twelve Months Ended December 31, 2010

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 3,493,053	$ 101,600,140	$ 10,855,909	$ (11,548,883)	$ 104,400,219
Operating expenses	(3,493,053)	(77,083,003)	(9,004,282)	11,548,883	(78,031,455)
Income from operations	–	24,517,137	1,851,627	–	26,368,764
Other income (expense)	(24,856,925)	(311,219)	99,904	–	(25,068,240)
Earnings from subsidiaries	26,157,449	–	–	(26,157,449)	–
Income before income tax	1,300,524	24,205,918	1,951,531	(26,157,449)	1,300,524
Income tax expense	(609,809)	(7,944,116)	(761,943)	8,706,059	(609,809)
Net income to common stockholders	$ 690,715	$ 16,261,802	$ 1,189,588	$ (17,451,390)	$ 690,715

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DECEMBER 31, 2010

Otelco Inc.
Condensed Consolidating Statement of Cash Flows
For the Twelve Months Ended December 31, 2008

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 213,874	$ 13,455,847	$ 1,709,486	$(15,165,333)	$ 213,874
Adjustment to reconcile net income to cash flows from operating activities	3,187,009	12,636,002	3,471,784	–	19,294,795
Changes in operating assets and liabilities, net of operating assets and liabilities acquired	(82,872,573)	86,250,017	(4,197,584)	–	(820,140)
Net cash provided by operating activities	(79,471,690)	112,341,866	983,686	(15,165,333)	18,688,529
Cash flows used in investing activities	(5,278,911)	(111,528,403)	(1,065,392)	–	(117,872,706)
Cash flows from financing activities	84,750,601	1	–	15,165,333	99,915,935
Net increase (decrease) in cash and cash equivalents	–	813,464	(81,706)	–	731,758
Cash and cash equivalents, beginning of period	–	12,707,674	102,823	–	12,810,497
Cash and cash equivalents, end of period	$ –	$ 13,521,138	$ 21,117	$ –	$ 13,542,255

Otelco Inc.
Condensed Consolidating Statement of Cash Flows
For the Twelve Months Ended December 31, 2009

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ (3,117,811)	$ 12,636,532	$ 1,610,746	$(14,247,278)	$ (3,117,811)
Adjustment to reconcile net income (loss) to cash flows from operating activities	5,379,288	21,551,341	2,761,121	–	29,691,750
Changes in operating assets and liabilities, net of operating assets and liabilities acquired	25,922,898	(21,716,059)	(2,871,653)	–	1,335,186
Net cash provided by operating activities	28,184,375	12,471,814	1,500,214	(14,247,278)	27,909,125
Cash flows used in investing activities	–	(8,375,686)	(1,407,553)	–	(9,783,239)
Cash flows used in financing activities	(28,184,375)	–	–	14,247,278	(13,937,097)
Net increase in cash and cash equivalents	–	4,096,128	92,661	–	4,188,789
Cash and cash equivalents, beginning of period	–	13,521,138	21,117	–	13,542,255
Cash and cash equivalents, end of period	$ –	$ 17,617,266	$ 113,778	$ –	$ 17,731,044

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010

Otelco Inc.
Condensed Consolidating Statement of Cash Flows
For the Twelve Months Ended December 31, 2010

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income	$ 690,715	$ 16,261,802	$ 1,189,588	$(17,451,390)	$ 690,715
Adjustment to reconcile net income to cash flows from operating activities	5,075,290	18,105,293	3,206,795	–	26,387,378
Changes in operating assets and liabilities, net of operating assets and liabilities acquired	27,592,163	(25,289,272)	(2,969,463)	–	(666,572)
Net cash provided by operating activities	33,358,168	9,077,823	1,426,920	(17,451,390)	26,411,521
Cash flows used in investing activities	(218,301)	(8,630,120)	(1,379,294)	–	(10,227,715)
Cash flows used in financing activities	(33,139,867)	1	–	17,451,390	(15,688,476)
Net increase in cash and cash equivalents	–	447,704	47,626	–	495,330
Cash and cash equivalents, beginning of period	–	17,617,266	113,778	–	17,731,044
Cash and cash equivalents, end of period	$ –	$ 18,064,970	$ 161,404	$ –	$ 18,226,374

17. Revenue Concentrations

Revenues for interstate access services are based on reimbursement of costs and an allowed rate of return. Revenues of this nature are received from the National Exchange Carrier Association in the form of monthly settlements. Such revenues amounted to 13.7%, 10.8%, and 9.9% of the Company's total revenues for the years ended December 31, 2008, 2009 and 2010, respectively.

In connection with the acquisition of the CR Companies, the Company has a contract through 2012 with TW for the provision of wholesale network connections to TW's customers in Maine and New Hampshire. TW represented approximately 9.1% and 10.7% of the consolidated revenue for the years ended December 31, 2009 and 2010, respectively. Other unrelated telecommunications providers also pay the Company access revenue for terminating calls through us to TW's customers.

18. Commitments and Contingencies

From time to time, we may be involved in various claims, legal actions and regulatory proceedings incidental to and in the ordinary course of business, including administrative hearings of the APSC, MDTC, MPSC, MPUC, NHPUC and WVPSC relating primarily to rate making. Currently, none of the legal proceedings are expected to have a material adverse effect on our business.