

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

Reviewed Consolidated Financial Statements
and Supplemental Financial Information

December 31, 2009 and 2008

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

Reviewed Consolidated Financial Statements
and Supplemental Financial Information

December 31, 2009 and 2008

ACCOUNTANTS' REVIEW REPORT 1

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

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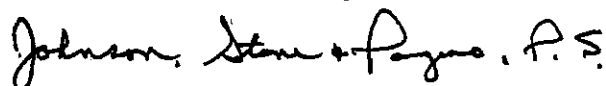
Board of Directors
R.J.B. Telecommunications Corp.
Union, Washington

We have reviewed the accompanying consolidated balance sheets of R.J.B. Telecommunications Corp. and Subsidiaries (an S corporation) as of December 31, 2009 and 2008 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of R.J.B. Telecommunications Corp.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with generally accepted accounting principles.

Our reviews were made for the purpose of expressing limited assurance that there are no material modifications that should be made to the consolidated financial statements in order for them to be in conformity with generally accepted accounting principles. The supplemental financial information for the years ended December 31, 2009 and 2008 is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.



JOHNSON, STONE & PAGANO, P.S.

February 5, 2010

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash | | |
| Cash - construction fund | | |
| Accounts receivable, less allowance for doubtful accounts | | |
| Interest receivable | | |
| Materials and supplies | | |
| Prepaid expenses | | |
| Due from affiliated company | | |
| Current portion of notes receivable | | |
| Total Current Assets | | |
| INVESTMENTS AND OTHER ASSETS | | |
| Notes receivable from stockholder | | |
| Notes receivable, less portion classified as a current asset | | |
| Investments | | |
| Cash surrender value of life insurance | | |
| Intangible assets, net | | |
| Unamortized debt issuance expense | | |
| Total Investments and Other Assets | | |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land and land improvements | | |
| Plant and equipment | | |
| Less accumulated depreciation | | |
| Construction in progress | | |
| Total Property, Plant and Equipment | | |
| Total Assets | | |

See accountants' review report and accompanying notes to consolidated financial statements.

2009

2008

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable
Customers' deposits
Accrued profit sharing
Taxes, other than income taxes
Dividends payable
Other current liabilities
Current portion of long-term debt

Total Current Liabilities

LONG-TERM DEBT, less portion classified as a
current liability

OTHER LIABILITIES

Deferred compensation payable
Deferred gain on sale of properties

Total Other Liabilities

Total Liabilities

STOCKHOLDERS' EQUITY

Common stock, no par value
Authorized - | shares
Issued and outstanding - | shares
Retained earnings

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|-------------|-------------|
| REVENUES | | |
| Telephone services | | |
| Cable television services | | |
| CLEC services | | |
| Internet and other operating revenues | | |
| Total Operating Revenues | | |
| EXPENSES | | |
| Telephone operations | | |
| Depreciation and amortization | | |
| General and administrative | | |
| Cable television operations | | |
| CLEC operations | | |
| Other operating expenses | | |
| Taxes, other than income | | |
| Total Expenses | | |
| Operating Income | | |
| OTHER INCOME (EXPENSE) | | |
| Interest and dividend income | | |
| Interest expense | | |
| Gain on disposal of assets | | |
| Miscellaneous expense | | |
| Total Other Expense | | |
| Net Income | | |

See accountants' review report and accompanying notes to consolidated financial statements.

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2009 and 2008

| | <u>Common Stock</u> | | <u>Retained</u> | <u>Total</u> |
|-------------------------------------|---------------------|---------------|-----------------|--------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Earnings</u> | |
| BALANCE AT DECEMBER 31, 2007 | | | | |
| Net income | | | | |
| Dividends on common stock: | | | | |
| Cash | | | | |
| Declared | | | | |
| BALANCE AT DECEMBER 31, 2008 | | | | |
| Net income | | | | |
| Dividends on common stock: | | | | |
| Cash | | | | |
| Declared | | | | |
| BALANCE AT DECEMBER 31, 2009 | | | | |

See accountants' review report and accompanying notes to consolidated financial statements.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | | |
| Amortization | | |
| Gain on disposal of assets | | |
| Cash surrender value of life insurance | | |
| Deferred income | | |
| Net change in operating assets and liabilities | | |
| Net Cash Provided by Operating Activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | | |
| Salvage on retired plant and equipment | | |
| Increase in cash - construction fund | | |
| Advances to affiliated company | | |
| Proceeds from sale of assets, net of expenses | | |
| Decrease in notes receivable from stockholder | | |
| Payments on notes receivable | | |
| Increase in notes receivable | | |
| Decrease in deposits | | |
| Net Cash Used by Investing Activities | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term debt | | |
| Payments on long-term debt | | |
| Dividends paid | | |
| Net Cash Used by Financing Activities | | |
| Net Increase in Cash | | |
| CASH AT BEGINNING OF YEAR | | |
| Cash at End of Year | | |

See accountants' review report and accompanying notes to consolidated financial statements.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|-------------|-------------|
| COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES | | |
| (Increase) decrease in assets: | | |
| Accounts receivable | | |
| Interest receivable | | |
| Materials and supplies | | |
| Prepaid expenses | | |
| Increase (decrease) in liabilities: | | |
| Accounts payable | | |
| Customers' deposits | | |
| Accrued profit sharing | | |
| Taxes, other than income taxes | | |
| Other current liabilities | | |
| Net Change in Operating Assets and Liabilities | | |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS

Notes receivable from sale of property

Deferred gain on sale of properties

Dividends declared

See accountants' review report and accompanying notes to consolidated financial statements.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 1 - ORGANIZATION AND OPERATIONS

R.J.B. Telecommunications Corp. (the Company) is the parent corporation of Hood Canal Telephone Co., Inc., including Hood Canal Cablevision, its cable television division, and Hood Canal Communications Long Distance, Inc., both wholly-owned subsidiaries. Hood Canal Telephone Co., Inc. provides telecommunications, cable television and internet access service in and around Union, Washington. Long distance telecommunication services to some of Hood Canal Telephone Co., Inc.'s subscribers are provided through Hood Canal Communications Long Distance, Inc., which was merged into Hood Canal Telephone Co., Inc. on January 1, 2008 (Note 11).

Regulatory changes in the telecommunications industry have modified, or could modify, the manner in which Hood Canal Telephone Co., Inc.'s approved telecommunication tariffed rates are calculated as well as modify the manner in which the Hood Canal Telephone Co., Inc. recovers its revenue requirements. Implementation of modifications and the outcome of regulatory proceedings may adversely affect certain current or future revenue streams of Hood Canal Telephone Co., Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of R.J.B. Telecommunications Corp. and its wholly-owned subsidiaries, Hood Canal Telephone Co., Inc. and Hood Canal Communications Long Distance, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

Regulation

Hood Canal Telephone Co., Inc. and Hood Canal Communications Long Distance, Inc. are subject to the accounting rules and rate regulation policies of the Washington Utilities and Transportation Commission (WUTC) and adhere to the FCC Uniform System of Accounts for a Class B telephone company as prescribed by the Federal Communications Commission under Part 32.

Revenue Recognition

Revenues for interstate access services are 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. These access charges are billed by the Company to interstate interexchange carriers and are pooled with like-revenues from all NECA member companies. The pooled access charge revenues received by the Company are based upon the actual cost of providing interstate access services, plus a return on the investment dedicated to providing these services. Pooled access charge revenues are estimated at December 31 each year and are subject to adjustment. Such adjustments are normal occurrences and are recorded by the Company during the year in which they occur.

See accountants' review report.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Revenues for intrastate access service are received through tariffed access charges filed by the Company and the Washington Exchange Carrier Association (WECA) and approved by Washington Utilities Telecommunication Commission (WUTC). The access charges are billed by the Company to intrastate interexchange carriers. The carrier common line and state universal service fund revenues are pooled with all WECA member companies. The traffic sensitive revenues are considered bill and keep based on tariffed rates.

Major Customers and Services

Network access service revenues, which represent a major portion of the Company's operating revenues, are derived from the provision of exchange access services to interexchange carriers or to an end user of telecommunication services beyond the Company's local network.

CLEC revenues consist of competitive local exchange carrier telecommunication revenues provided to subscribers outside of the Company's regulated service area, in nearby communities. Other operating revenues consist principally of internet service revenues and sales of business systems.

For some of the services that the Company provides to its customers, the Company relies upon services and facilities supplied to it by other companies. Any material disruption of the services or facilities supplied to the Company by other companies could potentially have an adverse effect upon the Company's operating results.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions used in preparing the accompanying financial statements. Significant accounting estimates include the recoverability of long-term assets and the recognition of certain network access service revenues.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers cash to be cash on hand, in checking and savings accounts, and money market accounts.

Materials and Supplies

Regulated and nonregulated materials and supplies inventories are stated at average cost.

See accountants' review report.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unamortized Debt Issuance Expense

Costs incurred to obtain financing for plant and equipment additions are capitalized and amortized over the respective loan period.

Allowance for Funds Used During Construction

Interest applicable to funds used for long-term construction projects is capitalized as part of the cost of the asset and depreciated over the asset's estimated useful life. There was no interest capitalized in 2009; interest capitalized totaled \$ in 2008.

Intangible Assets

Goodwill and other intangibles consist of goodwill and other acquisition-related intangible assets which are stated at fair value as of the date acquired in a business acquisition, less accumulated amortization, prior to the implementation of new authoritative guidance. The Company performs an annual impairment test to determine whether the carrying value of goodwill and intangible assets exceeds its fair market value. The Company does not believe that there is an impairment of the balance of goodwill and intangible assets December 31, 2009 or 2008. Accumulated amortization at December 31, 2009 and 2008 is \$.

Property, Plant and Equipment

Property, plant and equipment is stated at cost and is depreciated on a straight-line basis for accounting purposes over the estimated useful lives of the assets. Lives used for calculating depreciation on telecommunications plant are in accordance with the rules of the WUTC and are based on the estimated economic useful lives of the assets.

Plant and Equipment Retirements

When telecommunications and cable television assets are retired or otherwise disposed of, the cost of the asset is removed from the asset account and charged to the related allowance for depreciation. Similarly, the cost of removal and salvage proceeds are charged or credited to the allowance for depreciation. Consequently, no gain or loss upon disposition is recognized.

Asset Retirement and Long-Lived Assets

Authoritative guidance requires that the Company and its subsidiaries to record the fair value, if material, of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets. The Company would also record a corresponding asset to be depreciated over the remaining life of the asset to be retired; such amounts are to be adjusted periodically to reflect the passage of time and changes in estimates. The Company had no significant asset retirement obligations at December 31, 2009 or 2008.

See accountants' review report.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Retirement and Long-Lived Assets (Continued)

Authoritative guidance provides that long-lived assets such as property, plant, and equipment, and purchased intangibles other than goodwill subject to amortization be 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 estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2009 and 2008, management has determined that there were no material impairment charges to be recorded as of those dates.

Federal Income Taxes

Subsequent Events

The Company evaluated for subsequent events through February 5, 2010, the date of completion of the accountants' review procedures. No subsequent events requiring disclosure were noted.

Reclassifications

Certain reclassifications have been made to the previously reported 2008 financial statements in order to make them comparable with the 2009 classifications.

See accountants' review report.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Company and its subsidiaries maintain cash balances at a financial institution insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 until December 31, 2013.

NOTE 4 - ACCOUNTS RECEIVABLE

The accounts receivable balance at December 31 consists of:

| | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|
| Due from customers and agents | | |
| Due from exchange carriers and exchange carrier associations | | |
| Other accounts receivable | | |
| Allowance for doubtful accounts (deduction) | | |

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 Company has established an allowance for doubtful accounts to estimate for the amount of potential uncollectible accounts. The allowance is 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. Approximately % of accounts receivable are ninety days or more overdue from the date invoices were first issued.

See accountants' review report.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 5 - NOTES RECEIVABLE

The notes receivable balances consist of the following:

| Current Annual Installments of Principal | <u>Amount</u> | |
|---|---------------|-------------|
| | <u>2009</u> | <u>2008</u> |

Notes receivable from stockholder consist of promissory notes receivable payable on demand with interest at %.

| | |
|------------|----|
| 2010 | \$ |
| 2011 | |
| 2012 | |
| 2013 | |
| 2014 | |
| Thereafter | |
| Total | \$ |

See accountants' review report.

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 6 - INVESTMENTS

Investments consist of marketable securities as follows:

| | <u>2009</u> | <u>2008</u> |
|----------------------------------|-------------|-------------|
| Hood Canal Telephone Co., Inc.: | | |
| R.J.B. Telecommunications Corp.: | | |
| Total | | |

Marketable securities are carried at cost; the difference between fair market value and cost at December 31, 2009 and 2008 is not considered material.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. The following is a summary of asset classifications and estimated useful lives for major classifications of property, plant and equipment:

| | <u>Useful Lives</u> <u>(Years)</u> | <u>Amount</u> | |
|--|---------------------------------------|---------------|-------------|
| | | <u>2009</u> | <u>2008</u> |
| R.J.B. Telecommunications Corp.: | | | |
| Support assets | 5 to 40 | | |
| Hood Canal Telephone Co., Inc.: | | | |
| Telecommunications Plant and Equipment | | | |
| Support assets | 4 to 25 | | |
| Central office assets | 9 to 11 | | |
| Cable and wire facilities | 5 to 23 | | |
| Intangibles | | | |

See accountants' review report.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Useful Lives (Years) | <u>Amount</u> | |
|---|-------------------------|---------------|-------------|
| | | <u>2009</u> | <u>2008</u> |
| Hood Canal Telephone Co., Inc. (Continued): | | | |
| Cable Television Plant and Equipment | | | |
| Support assets | 20 to 25 | | |
| Head end equipment | 14 | | |
| Subscriber equipment | 3 to 16 | | |
| Cable and wire facilities | 16 | | |
| Franchises | | | |
| Nonregulated Plant and Equipment | 5 to 23 | | |
| Total Property, Plant and Equipment | | | |

The Company evaluates the appropriateness of estimated useful lives assigned to its cable television property, plant and equipment based on an annual analysis of such useful lives, and revises such lives to the extent warranted by changing facts and circumstances. Any change in estimated useful lives as a result of these analyses are reflected prospectively beginning in the period in which the analysis is complete. The Company's analysis indicated changes in useful lives of certain subscriber equipment.

Depreciation Expense

The provision for depreciation on property, plant and equipment in service is:

| | For the Year Ended December 31 | |
|----------------------------|-----------------------------------|-------------|
| | <u>2009</u> | <u>2008</u> |
| Telecommunications plant | | |
| Cable television plant | | |
| Nonregulated plant | | |
| Total Depreciation Expense | | |

See accountants' review report.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following:

| | <u>Current Annual Installments of Principal</u> | <u>Principal Amount</u> | |
|--|---|-----------------------------|-------------|
| | | <u>2009</u> | <u>2008</u> |
| Hood Canal Telephone Co., Inc. | | | |
| Rural Development Utilities Programs - 5% (RDUP) first and supplemental mortgage notes | | | |
| Due December 2011 | | | |
| Due November 2013 | | | |
| Due October 2014 | | | |
| Due June 2019 | | | |
| 3.976% - due October 2022, interest only until October 2011 | | | |
| Rural Telephone Bank (RTB) - supplemental notes (paid in full during 2009) | | | |
| % - due March 2009 | | | |
| % - due March 2009 | | | |
| % - due March 2009 | | | |
| % - due March 2009 | | | |

Less principal installments of long-term debt
due within one year

Long-term Debt

At December 31, 2009, maturities on long-term debt for the next five years and thereafter are as follows:

2010
2011
2012
2013
2014
Thereafter

See accountants' review report.

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 8 - LONG-TERM DEBT (Continued)

Substantially all of Hood Canal Telephone Co., Inc.'s plant now owned and hereafter acquired is subject to a first mortgage executed to the Rural Development Utilities Programs (RDUP) and the Rural Telephone Bank (RTB). The terms of the mortgage agreements restrict distributions to stockholders, redemptions of capital stock and investments in affiliated companies. Allowable distributions, including outstanding amounts of guarantees of the debt of an affiliated company, are based on minimum net worth requirements defined in the agreements. In addition, Hood Canal Telephone Co., Inc. must also maintain certain times interest earned, interest coverage and net plant to secured debt ratios under the mortgage agreements.

Hood Canal Telephone Co., Inc. has available \$ _____ for future borrowings from the Rural Development Utilities Programs for approved telephone plant expenditures.

NOTE 9 - DEFERRED COMPENSATION

NOTE 10 - PENSION PLANS

See accountants' review report.

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 10 - PENSION PLANS (Continued)

**NOTE 11 - REORGANIZATION WITH HOOD CANAL COMMUNICATIONS LONG
DISTANCE, INC.**

On January 1, 2008, the Boards of Directors of R.J.B. Telecommunications Corp., Hood Canal Telephone Co., Inc. and Hood Canal Communications Long Distance, Inc. approved a statutory merger under State of Washington law between Hood Canal Telephone Co., Inc. and Hood Canal Communications Long Distance, Inc. to comply with regulatory requirements. In order to effect the merger and reorganization, R.J.B. Telecommunications Corp. transferred ownership of its investment in its wholly-owned subsidiary, Hood Canal Communications Long Distance, Inc. to its other wholly-owned subsidiary, Hood Canal Telephone Co., Inc. after which Hood Canal Communications Long Distance, Inc. was dissolved into Hood Canal Telephone Co., Inc. in a tax-free reorganization. In accordance with authoritative guidance, nonreciprocal transfers between entities under common ownership in a merger are accounted for at their recorded amounts. As such, the assets and liabilities transferred in the reorganization by Hood Canal Communications Long Distance, Inc. to R.J.B. Telecommunications Corp. and merged into Hood Canal Telephone Co., Inc. were recorded at carrying value. A summary of assets transferred, liabilities assumed and the related deficiency in stockholders' equity of Hood Canal Communications Long Distance, Inc. recorded by Hood Canal Telephone Co., Inc. in the merger are as follows:

Cash
Prepaid expenses
Intercompany payables
Common stock
Paid-in capital

See accountants' review report.

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 12 - SALE - LEASEBACK TRANSACTIONS

| | |
|------------|----|
| 2010 | \$ |
| 2011 | |
| 2012 | |
| 2013 | |
| 2014 | |
| Thereafter | \$ |

NOTE 13 - RELATED PARTY TRANSACTIONS

See accountants' review report.

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 13 - RELATED PARTY TRANSACTIONS (Continued)

2010
2011
2012
2013
2014
Thereafter

See accountants' review report.

REDACTED

SUPPLEMENTAL FINANCIAL INFORMATION

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATING BALANCE SHEETS

December 31, 2009 and 2008

| | Consolidated | | Eliminations | | R.J.B. Telecommunications Corp. | | Hood Canal Telephone Co., Inc. | |
|--|--------------|------|--------------|------|---------------------------------------|------|--------------------------------------|------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |

ASSETS

CURRENT ASSETS

Cash
 Cash - construction fund
 Accounts receivable, less allowance for doubtful accounts
 Interest receivable
 Materials and supplies
 Prepaid expenses
 Due from parent
 Due from affiliated company
 Current portion of notes receivable

Total Current Assets

INVESTMENTS AND OTHER ASSETS

Notes receivable from stockholder
 Notes receivable, less portion classified as a current asset
 Investment in subsidiaries
 Investments
 Cash surrender value of life insurance
 Intangible assets, net
 Unamortized debt issuance expense

Total Investments and Other Assets

PROPERTY, PLANT AND EQUIPMENT

Land and land improvements
 Plant and equipment
 Less accumulated depreciation

Construction in progress

Total Property, Plant and Equipment

Total Assets

See accountants' review report.

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATING BALANCE SHEETS (Continued)

December 31, 2009 and 2008

| | Consolidated | | Eliminations | | R.J.B. Telecommunications Corp. | | Hood Canal Telephone Co., Inc. | |
|--|--------------|------|--------------|------|---------------------------------|------|--------------------------------|------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

- Accounts payable
- Customers' deposits
- Accrued profit sharing
- Taxes, other than income taxes
- Dividends payable
- Other current liabilities
- Current portion of long-term debt

Total Current Liabilities

DUE TO AFFILIATED COMPANY

LONG-TERM DEBT, less portion classified as a current liability

OTHER LIABILITIES

- Deferred compensation payable
- Deferred gain on sale of properties

Total Other Liabilities

Total Liabilities

STOCKHOLDERS' EQUITY

- Common stock
- Additional paid-in capital
- Retained earnings

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

See accountants' review report.

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATING STATEMENTS OF INCOME

Years Ended December 31, 2009 and 2008

| | Consolidated | | Eliminations | | R.J.B. Telecommunications Corp. | | Hood Canal Telephone Co., Inc. | |
|--|--------------|------|--------------|------|---------------------------------------|------|--------------------------------------|------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |

REVENUES

Telephone services
Cable television services
CLEC services
Internet and other operating revenues

Total Operating Revenues

EXPENSES

Telephone operations
Depreciation and amortization
General and administrative
Cable television operations
CLEC operations
Other operating expenses
Taxes, other than income taxes

Total Expenses

Operating Income (Loss)

OTHER INCOME (EXPENSE)

Equity in earnings of subsidiaries
Interest and dividend income
Interest expense
Gain on disposal of assets
Miscellaneous expense
Other income

Total Other Income (Expense)

Net Income

See accountants' review report.

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATING STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

| | Consolidated | | Eliminations | | R.J.B. Telecommunications Corp. | | Hood Canal Telephone Co., Inc. | | Hood Canal Communications Long Distance, Inc. | |
|--|--------------|------|--------------|------|---------------------------------|------|--------------------------------|------|---|------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |

CASH FLOWS FROM OPERATING ACTIVITIES

Net income
 Adjustments to reconcile net income to net cash provided (used) by operating activities:
 Depreciation
 Amortization
 Equity in earnings of subsidiaries
 Gain on disposal of assets
 Cash surrender value of life insurance
 Deferred income
 Net change in operating assets and liabilities

Net Cash Used by Operating Activities

CASH FLOWS FROM INVESTING ACTIVITIES

Additions to property, plant and equipment
 Salvage on retired plant and equipment
 Increase in cash - construction fund
 Advances to (repayments from) parent
 Advances to affiliated company
 Proceeds from sale of assets, net of expenses
 Decrease in notes receivable from stockholder
 Payments on notes receivable
 Increase in notes receivable
 Decrease in note receivable - affiliate
 Decrease in deposits

Net Cash Provided (Used) by Investing Activities

See accountants' review report.

REDACTED

**R.J.B. TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES**

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2009 and 2008

| | Consolidated | | Eliminations | | R.J.B. Telecommunications Corp. | | Hood Canal Telephone Co., Inc. | | Hood Canal Communications Long Distance, Inc. | |
|--|--------------|------|--------------|------|---------------------------------|------|--------------------------------|------|---|------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from long-term debt
Payments on long-term debt
Dividends paid

Net Cash Used by Financing Activities

NET INCREASE (DECREASE) IN CASH

CASH AT BEGINNING OF YEAR

Cash at End of Year

COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES

(Increase) decrease in assets:
Accounts receivable
Interest receivable
Materials and supplies
Prepaid expenses
Increase (decrease) in liabilities:
Accounts payable
Customers' deposits
Accrued profit sharing
Taxes, other than income taxes
Other current liabilities

Net Change in Operating Assets and Liabilities

See accountants' review report.

REDACTED