



OXFORD NETWORKS
110th Annual Report

2010

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Oxford Networks' philosophy of doing business can best be described in terms of the company's approach to people.

Our People Values start with our employees and progress to relationships with customers, shareholders, industry peers, and vendors. The core People Value of Oxford Networks is the belief that employees want to be great. It is management's role to create the conditions within which employees can achieve their full potential. We are committed to employee development and to an ongoing quest of trusting them, treating them honestly, mentoring them, and being receptive to their ideas.

We do not mislead our employees. Oxford's approach to customers is personal and trusting. To ensure the greatest possible service to customers, we hire employees who demonstrate strong business ethics and cater to the differing needs of our customers. We train our employees with the necessary technical knowledge to make them great. We create products that recognize and

respond to differences among customers. We work to sell our customers the products that will meet their needs. We recognize that the loss of a customer represents our failure to match their needs with the proper solutions.

We compete with some of the largest companies in the world. While our competitors strive for economies of scale, we compete on the basis of personal service and an intense focus on satisfying the specific needs of each customer.

Executive Team



Craig
Gunderson
President and CEO



Mike
Harder
Chief Financial Officer



Mike
Tompkins
VP of Operations



Brian
Paul
VP of Business Development



Dawna
Hannan
Director HR, Regulatory Affairs



Matthew
Jancovic
Director of Marketing & Customer Service



Jennifer
Wilson
Controller

Officers

Craig Gunderson President & CEO

Mike Harder Chief Financial Officer/Treasurer

Mike Tompkins VP of Operations

Brian Paul VP of Business Development

Jennifer Wilson Corporate Clerk

Directors



Paul
Violette
Chairman of the Board



Doug
Boyd
Vice Chairman



Jim
Delamater
Director



Craig
Gunderson
President and CEO



Mike
Harder
Director



Richard
Huntley
Director



Richard
Schotte
Director

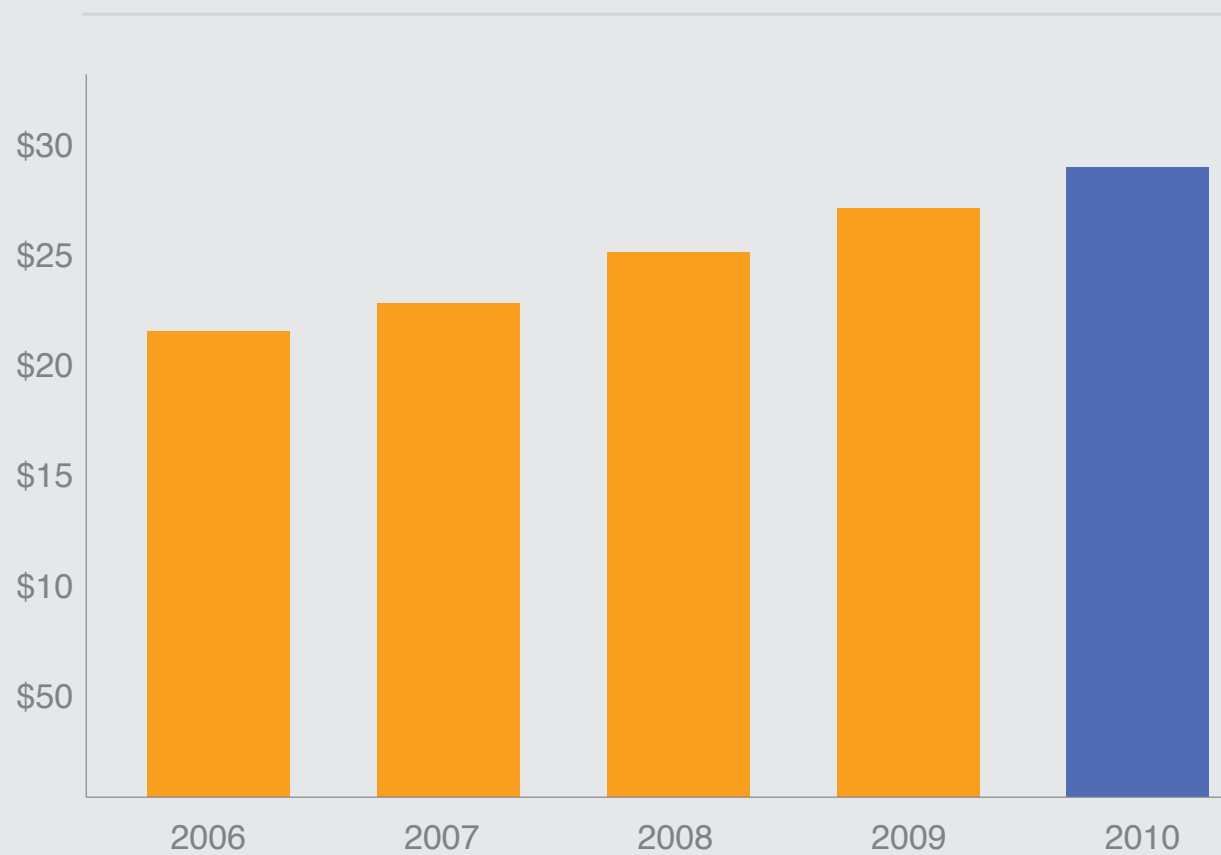


Craig Gunderson - President & CEO

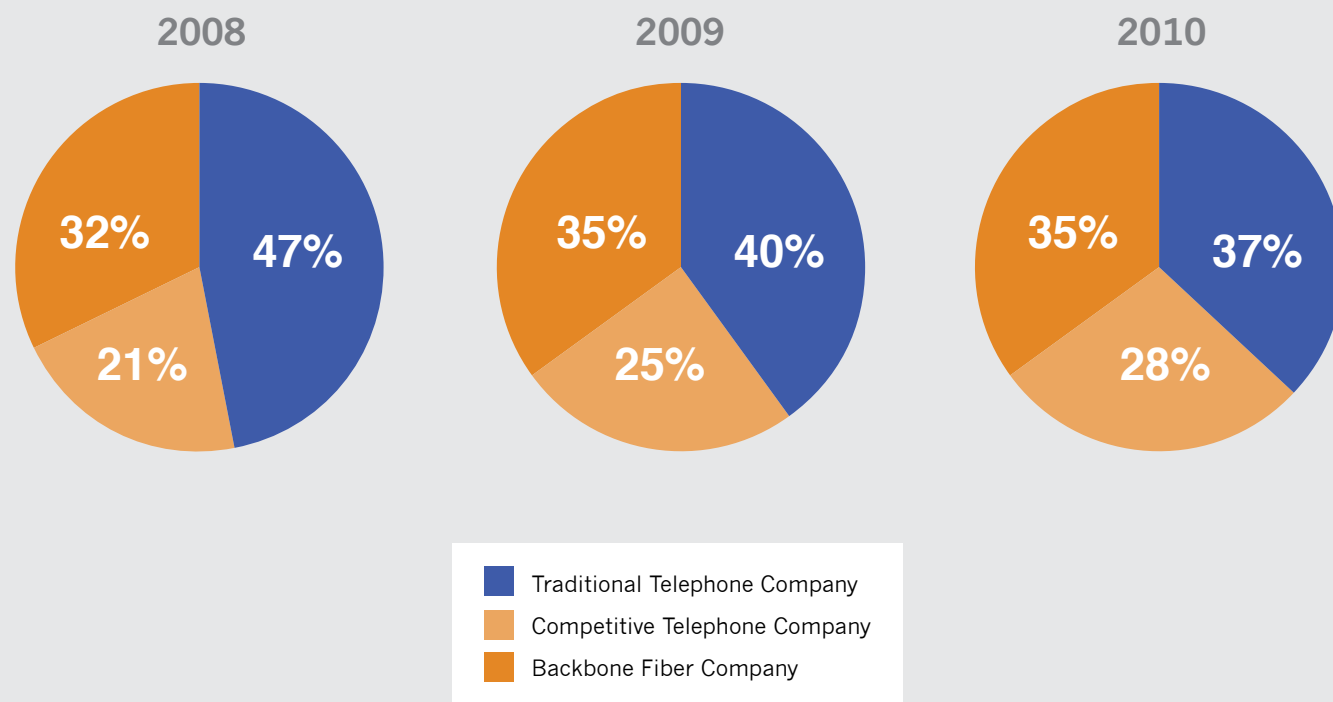
Dear Oxford Networks Stockholder

Throughout 2010, Oxford Networks continued to build on past successes and made significant progress in furthering its goal of transforming the Company from a traditional telephone company into a fiber and data services company focusing on serving the needs of business customers in Northern New England. We were able to strengthen the company's competitive position, build market share, and enhance the organization's products and services through key network investments.

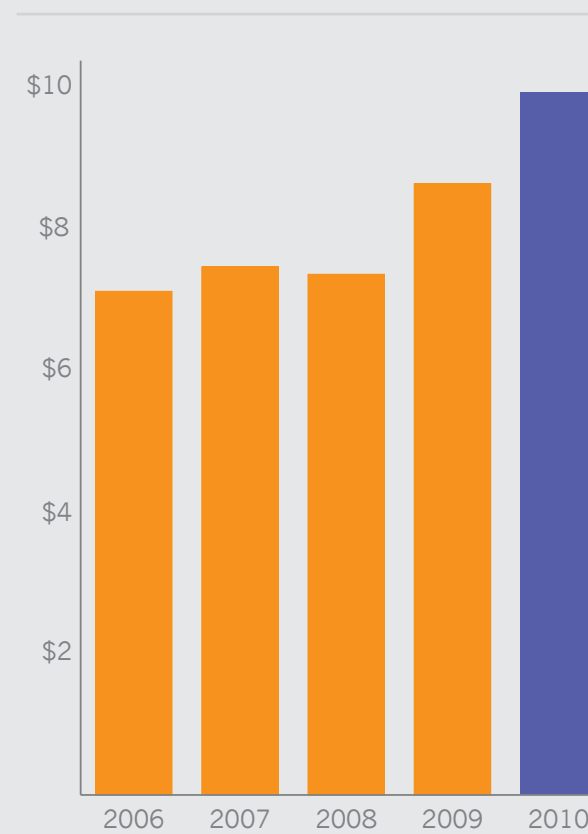
Total Company Revenue (in millions)



Revenue Breakdown



EBITDA (in millions)



Highlights 2010

- Achieved 12% growth in competitive operations
- Grew broadband internet service revenue by 9%
- Launched DirecTV services as we have completed our move away from providing our own video product to fight escalating costs and enhance service offerings to our customers.
- Gained a net 340 business customers
- Sold new contracts worth \$12.2 million and recontracted services with existing customers of \$5.8 million.
- Invested \$6,789,000 to deploy new network products, services and increase the redundancy, diversity and survivability of the network.

2010 Operations Review

Revenues for the year were \$28.6 million, up \$1.9 million or 7% over 2009.

Although the traditional regulated telephone company experienced a 3% access line loss during 2010, revenues still grew 1% through the addition of high speed Internet customers. As evident in the charts on the preceding page, our reliance on the traditional regulated telephone company to grow total company revenue is decreasing. Just two years ago almost half of total company revenues came from our regulated telephone company while today it is approaching one third of total revenues. Cellular phone substitution continues to negatively impact our regulated telephone business as consumers are making and receiving their calls on their mobile phones and abandoning their telephone lines altogether.

Our competitive telephone company and fiber optic data transport network revenues grew by a strong \$2.2 million or 13%. The number of access lines in our competitive company and the number of business customers utilizing Oxford's fiber networks increased by an impressive 22%. Our sales and marketing groups targeted potential new customers along our fiber network to enable the Company to capitalize on the investments we have been making in our fiber and switching infrastructure. We have found new customers anxious to take advantage of the benefits of a fiber connection directly into their business. This approach resulted in a strong increase in sales with little incremental operating expense based on network investments already in place. As a result the Company experienced continued improvement in operating expenses from 67.7% of revenues in 2009 to 64.6% in 2010.

Net Income from continuing operations was \$994,000, up \$463,000 or 115% over 2009. Earnings before interest, taxes, depreciation and amortization (EBITDA) were \$9.9 million, an increase of \$1.3 million or 15% over 2009. As a result, earnings per share climbed an impressive 173% from \$.29 to \$.79 per share. These solid results directly flowed from the investments we have been making in extending the reach, capabilities and breadth of our fiber optic networks and Oxford's growing reputation for providing unparalleled levels of quality and customer service.

In fact, as the year came to a close, we were informed that the Kennebec Valley Chamber of Commerce would be recognizing Oxford with Its President's Award and the Bangor Region Chamber of Commerce was distinguishing Oxford Networks with its Business of the Year award. It is our employee's involvement in the communities we serve and the reputation for providing service that led to these awards and is fueling our sales momentum.



Investments

We have invested over \$50 million in our fiber networks over the last 10 years. In 2010, while we continued to focus on growing the reach of our fiber network, we increased efforts to strengthen the route diversity and redundancy of the entire network. This serves to reduce operating costs and allows Oxford to respond proactively to service outage issues which gives our customers great peace of mind as they understand their service will continue despite a fiber cut.

In addition we took network redundancy to the next level by investing in a geographically redundant voice switching architecture. Our engineering team designed this to provide network redundancy throughout, with physically diverse voice calling and text messaging routes to each independent switch location. This gives us the ability to not only overflow calling traffic from one switch to another, but offer diverse switching for customers requiring an even greater level of assured service.

Industry Update

As of this writing, Fairpoint Communications has emerged from bankruptcy. It appears that they have made progress on the system integration issues which impacted them when they originally acquired their network from Verizon. Their investments in the network appear to have positioned them to offer much more stable service offerings to their retail and wholesale customers. From an operational perspective, this is good for Oxford Networks as

we rely on them for a myriad of services. From a competitive perspective, it means that they will be a stronger competitor going forward.

One Communications is the Massachusetts-based competitive telecommunications company that previously merged CTC Communications, Choice One Communications, Conversant Communications and Lightship Telecom, all of which were doing business in Maine. In December 2010, Earthlink announced that it will acquire One Communications.

Time Warner Cable continues to be a very strong competitor. They have a network that reaches a large percentage of the residential and business communities throughout Maine. Their ability to mass market and draw upon their corporate strength is a significant advantage. In 2010, Verizon Wireless awarded a majority of their cell tower backhaul business in a number of states, including Maine, to Time Warner Cable. We expect the fulfillment of this contract to phase in over the next couple of years.

Company News

For the fifth year in a row, Oxford Networks was named one of the Best Places to Work in Maine. The factors which enabled us to win this award are important to attract and retain our exceptional employee team. Our outstanding employees and the values based culture they continue to evolve has become a competitive differentiator for Oxford Networks. The quality of our networks, products, services, and our support of business development efforts in the communities we serve is proving to be a key part of Oxford Networks' success.

Oxford Networks' Values:

iTrust: Integrity • Truth • Risk Taking
Uniqueness • Selflessness • Trust

Dividends

This year's dividend will be paid prior to the annual meeting. The Board proceeded with a \$0.32 per share of common stock cash dividend. As a growth company desirous of investing more to expand our reach and capabilities, we will examine the appropriateness of paying future cash dividends.

Board Changes

In early 2011, two long term Board members resigned from the Board. They have both played major roles in Oxford Networks' success over the years and their Involvement on the Board of Directors will be missed. Frank Frye resigned from the Board on January 10, 2011 and Rick Anstey resigned on April 4, 2011. Frank has been a Board of Directors member at Oxford Networks over the last 24 years. He has served as the Company's Chairman and most recently chaired the Compensation Committee. Oxford Networks will continue to benefit from his guidance as he will remain the general counsel to the Company. Craig Gunderson has been appointed to fill Frank's Board seat.

Rick Anstey came to Oxford Networks in 1998 as the Company's President and CEO. He transformed the organization into a Company with a values based culture that has enabled the Company to grow from a largely rural residential telephone company into a well respected telecommunications provider known for exceptional service to business customers across the State. He most recently served as the Company's Chairman. His charismatic engaging leadership style coupled with his relentless efforts to make Oxford Networks a unique organization will be missed. Mike Harder has been appointed to fill Rick's board seat.

Strategic Planning

During the second half of 2010, the Company initiated a strategic planning effort to help focus and enhance the Company's future. We hired Brown Brothers Harriman, a leading investment banking firm with significant experience and knowledge in the communications industry, to assist in assembling the plan.

Oxford Networks, with a history as a small rural telephone company, is rapidly becoming a fully integrated regional communications provider focused on serving business customers in Northern New England. Brown Brothers Harriman has confirmed that the investments we have made in our fiber distribution networks, new products, and improved customer service levels, positions Oxford Networks to grow the competitive side of our business well into the future. With the support of our Board of Directors we are actively taking steps to continue this expansion.

On the other hand, our traditional Telephone Company is not growing and, with Brown Brothers Harriman help, we are considering the strategic alternatives for this business going forward.

Your Company had a good year in 2010. We remain focused on providing a customer experience that exceeds expectations and makes a positive difference in the communities we serve. We believe our company culture attracts and retains a talented employee team that is fully engaged in driving shareholder value through the execution of sound strategies.

We thank you for your trust and support. We also thank our employees and Board of Directors for the results they produce and the endless energy they put into ensuring Oxford Networks continues to win in the marketplace.

Annual Shareholders' Meeting

The next annual meeting of Oxford Networks' stockholders will take place on Thursday, June 9, 2011 at 5:30PM at the Auburn Riverwatch Hilton in Auburn, Maine. It's a perfect chance to understand the Company's current performance, as well as the strategies initiated by your management team and our Board of Directors.

I look forward to seeing you there.

Sincerely,

Craig S. Gunderson

President and CEO

Independent Auditors' Report

December 31, 2010 and 2009

BERRY, DUNN, MCNEIL & PARKER



INDEPENDENT AUDITORS' REPORT

Board of Directors
Oxford County Telephone and Telegraph Company and Subsidiaries

We have audited the accompanying consolidated balance sheets of Oxford County Telephone and Telegraph Company and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Oxford County Telephone and Telegraph Company and Subsidiaries management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Oxford County Telephone and Telegraph Company and Subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Berry, Dunn, McNeil & Parker

Portland, Maine
February 3, 2011

Consolidated Statements of Income

Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenues		
Regulated telecommunications services	\$ 7,641,980	\$ 7,642,529
Nonregulated telecommunications services	9,374,773	8,312,616
Fiber network services	10,042,277	9,471,889
Miscellaneous	1,630,923	1,649,065
Uncollectible revenues	(116,247)	(651,338)
Total operating revenues	28,573,706	26,424,761
Operating expenses		
Network operations	10,646,018	10,267,046
Customer operations	3,476,260	3,502,711
Corporate operations	3,321,917	3,051,035
Other operating taxes	1,125,179	958,082
Total operating expenses	18,569,374	17,778,874
Net operating income from continuing operations, before depreciation, amortization, and loss on disposition of assets	10,004,332	8,645,887
Depreciation and amortization expense	5,412,870	4,895,404
Loss on disposition of assets	6,422	38,031
Net operating income from continuing operations	4,585,040	3,712,452
Other income (expense)		
Interest and dividends	296,285	296,605
Other, net	(214,584)	(108,124)
Interest expense	(2,584,866)	(2,732,574)
Net other expense	(2,503,165)	(2,544,093)
Income from continuing operations before income taxes	2,081,875	1,168,359
Income tax provision	1,088,300	704,800
Income from continuing operations	993,575	463,559
Discontinued operations		
Operating revenues	4,946	274,988
Operating expenses	92,580	288,735
Net operating loss from discontinued operations, before impairment on assets	(87,634)	(13,747)
Impairment on assets of discontinued operations	13,617	9,127
Loss from discontinued operations before income taxes	(101,251)	(22,874)
Income tax benefit	(40,700)	(9,100)
Loss from discontinued operations	(60,551)	(13,774)
Net income	\$ 933,024	\$ 449,785

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

Consolidated Balance Sheets

December 31, 2010 and 2009

ASSETS

	2010	2009
Current assets		
Cash and cash equivalents	\$ 234,271	\$306,703
Accounts receivable, net of allowance for doubtful accounts of \$644,048 in 2010 and \$673,988 in 2009	2,866,225	2,437,016
Materials and supplies	1,297,823	1,111,178
Prepaid expenses and other current assets	1,509,947	1,332,080
Total current assets	5,908,266	5,186,977
Property, plant and equipment, at cost		
General support assets	9,663,734	9,174,032
Central office equipment	15,459,416	15,440,226
Cable and wire facilities	21,824,362	20,964,237
Competitive telecommunications plant and equipment	61,020,132	53,264,856
Telecommunications plant under construction	5,182,141	7,934,580
	113,149,785	106,777,931
Less accumulated depreciation and amortization	52,987,190	47,994,657
Net property, plant and equipment	60,162,595	58,783,274
Noncurrent assets		
Deferred charges, net	348,115	444,699
Investments in nontraded stocks	744,048	751,500
Other assets	360,482	295,442
Goodwill	2,440,607	2,440,607
Total noncurrent assets	3,893,252	3,932,248
	\$ 69,964,113	\$67,902,499

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

Consolidated Balance Sheets

December 31, 2010 and 2009

Liabilities and Stockholders' Equity

	2010	2009
Current liabilities		
Current portion of long-term debt	\$ 3,000,000	\$ 1,709,100
Current portion of capital leases and future service obligations	597,400	452,400
Accounts payable	2,352,144	2,084,813
Accrued interest	143,257	231,283
Accrued expenses and other current liabilities	870,615	709,101
Dividends payable	-	333,340
Deferred revenue	853,652	829,637
Total current liabilities	7,817,068	6,349,674
Long-term debt, excluding current portion	26,591,440	28,108,703
Long-term capital leases and future service obligations, excluding current portion	4,156,528	3,991,919
Deferred income taxes	5,389,100	4,324,000
Deferred revenue	2,221,844	2,447,180
Other liabilities	61,717	592,437
Series B Preferred Stock, subject to mandatory redemption	4,294,738	4,175,506
Total liabilities	50,532,435	49,989,419
Commitments and contingencies (Notes 3, 4, 6, 7, 8, 9, and 13)		
Stockholders' equity		
Series A Convertible Preferred Stock; 6% cumulative dividend on \$18.10 stated value; 600,000 shares authorized, 165,751 shares issued and outstanding	2,980,188	2,980,188
Series C Convertible Preferred Stock; 6% cumulative dividend on \$1,000 stated value; 2,000 shares authorized, 1,630 shares issued and outstanding	1,583,516	1,583,516
Common stock, \$1 par value; 4,393,000 shares authorized; 832,369 and 820,265 shares issued and outstanding in 2010 and 2009, respectively	832,369	820,265
Additional paid-in capital, common	2,570,226	2,305,598
Additional paid-in capital, stock options	49,400	44,800
Retained earnings	12,343,846	11,688,131
Accumulated other comprehensive gain (loss)		
Unrealized gain (loss) on interest rate swap	74,382	(507,169)
	20,433,927	18,915,329
Less:		
Notes receivable from stock issuance	(1,002,249)	(1,002,249)
Total stockholders' equity	19,431,678	17,913,080
	\$ 69,964,113	\$ 67,902,499

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

Consolidated Statements of Income (Concluded)

Years Ended December 31, 2010 and 2009

	2010	2009
Basic earnings from continuing operations per share	\$ 0.87	\$ 0.31
Diluted earnings from continuing operations per share	\$ 0.86	\$ 0.31
Basic loss from discontinued operations per share	\$ (0.07)	\$ (0.02)
Diluted loss from discontinued operations per share	\$ (0.07)	\$ (0.02)
Basic earnings per share	\$ 0.79	\$ 0.29
Diluted earnings per share	\$ 0.79	\$ 0.29

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2010 and 2009

	Series A Preferred Stock	Series C Preferred Stock	Common Stock	Additional Paid-in Capital, Common	Additional Paid-in Capital, Stock Options	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Notes Receivable from Stock Issuance	Total Stockholders' Equity	
Balances, December 31, 2008	\$ 2,980,188	\$ -	\$ 813,684	\$ 2,159,934	\$ 26,300	\$ 11,714,447	\$ (707,202)	\$ 16,987,351	\$ (1,002,249)	\$ 15,985,102
Net income	-	-	-	-	-	449,785	-	449,785	-	449,785
Unrealized gain on interest rate swap	-	-	-	-	-	-	200,033	200,033	-	200,033
Total comprehensive income	-	-	-	-	-	449,785	200,033	649,818	-	649,818
Purchase of 803 shares of common stock	-	-	(803)	(14,797)	-	-	-	(15,600)	-	(15,600)
Issuance of 7,384 shares of common stock	-	-	7,384	160,461	-	-	-	167,845	-	167,845
Issuance of 1,630 shares of Series C Convertible Preferred Stock	-	1,583,516	-	-	-	-	-	1,583,516	-	1,583,516
Stock option compensation expense	-	-	-	-	18,500	-	-	18,500	-	18,500
Dividends declared	-	-	-	-	-	(476,101)	-	(476,101)	-	(476,101)
Balances, December 31, 2009	2,980,188	1,583,516	820,265	2,305,598	44,800	11,688,131	(507,169)	18,915,329	(1,002,249)	17,913,080
Net income	-	-	-	-	-	933,024	-	933,024	-	933,024
Unrealized gain on interest rate swaps	-	-	-	-	-	-	581,551	581,551	-	581,551
Total comprehensive income	-	-	-	-	-	933,024	581,551	1,514,575	-	1,514,575
Purchase of 275 shares of common stock	-	-	(275)	(4,440)	-	-	-	(4,715)	-	(4,715)
Issuance of 12,379 shares of common stock	-	-	12,379	269,068	-	-	-	281,447	-	281,447
Stock option compensation expense	-	-	-	-	4,600	-	-	4,600	-	4,600
Dividends declared	-	-	-	-	-	(277,309)	-	(277,309)	-	(277,309)
Balances, December 31, 2010	\$ 2,980,188	\$ 1,583,516	\$ 832,369	\$ 2,570,226	\$ 49,400	\$ 12,343,846	\$ 74,382	\$ 20,433,927	\$ (1,002,249)	\$ 19,431,678

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

Consolidated Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Net income	\$ 933,024	\$ 449,785
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,412,870	4,895,404
Amortization of interest costs	87,372	87,372
Amortization of discount on Series B Preferred Stock	119,232	107,124
Change in present value of patronage capital certificates	95,352	-
Compensation expense, stock options	4,600	18,500
Patronage capital dividends	(87,900)	(87,790)
Deferred income taxes	1,065,100	670,700
Directors' fees, stock compensation expense	55,446	58,357
Loss on disposition of assets	6,422	38,031
Impairment and depreciation on assets of discontinued operations	13,617	9,127
Satisfaction of future service obligations	(18,451)	(16,933)
Payment of Series B Preferred Stock dividends with common stock	200,000	100,000
Redemption of common stock for interest payment	-	(14,295)
Decrease (increase) in		
Accounts receivable	(429,209)	1,294,992
Materials and supplies	(245,875)	251,667
Prepaid expenses and other current assets	(177,867)	(122,325)
Other assets	8,900	11,700
Increase (decrease) in		
Accounts payable	267,331	347,810
Accrued interest	(88,026)	1,980
Accrued expenses and other current liabilities	161,514	60,440
Other liabilities	(23,551)	(18,638)
Deferred revenue	(201,321)	281,270
Net cash provided by operating activities	7,158,580	8,424,278
Cash flows from investing activities		
Extension and replacement of plant	(6,019,270)	(9,505,758)
Net proceeds from the sale of assets	45,937	12,656
Net cash used by investing activities	(5,973,333)	(9,493,102)
Cash flows from financing activities		
Net advances on revolving line of credit	1,482,758	1,839,958
Principal payments on long-term debt	(1,709,121)	(1,592,625)
Payments on capital leases	(441,953)	(308,729)
Payment of dividends	(610,649)	(449,550)
Proceeds from issuance of Series C Preferred Stock	-	1,630,000
Series C Preferred Stock issuance costs	-	(46,484)
Net payments on common stock purchases	(4,715)	(1,305)
Net proceeds from issuance of common stock	26,001	9,488
Net cash (used) provided by financing activities	(1,257,679)	1,080,753
Net (decrease) increase in cash and cash equivalents	(72,432)	11,929
Cash and cash equivalents, beginning of year	306,703	294,774
Cash and cash equivalents, end of year	\$ 234,271	\$ 306,703

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

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Nature of Business

Oxford County Telephone and Telegraph Company and Subsidiaries (the Company) derives substantially all of its operating revenues from providing regulated and nonregulated telecommunications services and network operations, voice, and data services, primarily in the state of Maine. The Company extends credit at standard terms, after appropriate review, to its retail customers and to domestic interexchange carriers for access to its network. Its regulated telecommunications services are subject to varying degrees of regulation by the Federal Communications Commission (FCC) and the Maine Public Utilities Commission (MPUC).

I. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Oxford Telephone Company, Oxford West Telephone Company (collectively, the independent telephone company subsidiaries), Oxford County Telephone Service Company, Northeast Competitive Access Providers, LLC and its subsidiary Revolution Networks and Oxford Networks Broadband, LLC (as a discontinued operation). All material intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Accounting

The Company's independent telephone company subsidiaries are subject to regulation of rates and other matters by the FCC and the MPUC. The Companies follow the accounting prescribed by the Uniform System of Accounts of the FCC, the MPUC and the Accounting Standards Codification

(ASC) 980, *Regulated Operations*. This accounting 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. The Company annually reviews the continued applicability of ASC 980 based on the current regulatory and competitive environment.

Cash and Cash Equivalents

All liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Company has invested substantially all cash under a master repurchase agreement which is collateralized by U.S. government securities. The Company maintains its cash in bank accounts which may exceed federally insured limits. The Company has not experienced any losses in such accounts, and believes it is not exposed to any significant risk with respect to these accounts. The Company maintains a cash management sweep arrangement under which cash balances are held at predetermined levels in order to optimize cash flow and minimize interest costs. On a daily basis, when deposits exceed the amount of checks cleared the excess is paid on the Company's outstanding revolving line of credit balance and when checks cleared exceed the amount of deposits the net amount is advanced on the Company's revolving line of credit.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Materials and Supplies

Materials and supplies are valued at their average cost.

Depreciation

Depreciation is computed on average plant investment by primary plant accounts using the straight-line method over the estimated useful lives of the assets. Assets under capital leases are amortized over the lesser of the lease term or the estimated useful lives of the assets.

Capitalization Policy

Additions to plant and replacements of retirement units of property are capitalized at original cost, which includes labor, material and overhead, and direct charges such as equipment costs. Capitalized labor includes costs for construction, installation, planning, engineering and supervision activities. Included in overhead are allocated employee benefits associated with the labor. Capitalized labor and benefits amounted to approximately \$2,181,000 in 2010 and \$2,045,000 in 2009.

Long-Lived Assets

The Company evaluates long-lived assets, such as property, plant and equipment, for impairment whenever events or changes in circumstances indicate a carrying value of an asset may not be recoverable in accordance with ASC 360, *Property, Plant and Equipment*. The Company assesses the fair value of the assets based on the undiscounted future cash flows the assets are expected to generate and recognizes an impairment loss when estimated undiscounted

future cash flow expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. If the Company identifies impairment, the Company reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values..

Deferred Charges

Deferred charges primarily consist of a covenant not to compete, assumable contracts, customer lists purchased and financing fees amortized using the straight-line method over the estimated useful lives of the respective assets.

Investments in Nontraded Stocks

The Company owns Rural Telephone Finance Cooperative (RTFC) Patronage Capital Certificates (PCCs) that were recorded at their original cost. In 2010, the Company identified an event that had a significant adverse effect on the fair market value of these investments when RTFC extended the repayment period from fifteen to twenty-five years. Accordingly, the Company adjusted the present value of the RTFC PCCs to reflect this change based on the adjusted repayment dates. These PCCs are included in investments in nontraded stocks in the consolidated balance sheets and the Company recorded the adjustment amount of approximately \$95,000 in "Other, net" in the consolidated statement of income in 2010. Other investments included in non-traded stocks are recorded at original cost. The Company did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair market value of these investments.

Goodwill

Goodwill arose from the purchase of the customer base and assets used to provide service in Oxford West Telephone Company's service area from GTE of Maine in 1994. Goodwill is reviewed annually for impairment. By agreement with the MPUC, the goodwill and any related charges are excluded from regulated operations for ratemaking purposes.

Other Assets

In June 2003, the telephone company subsidiaries changed their practice of billing certain services to subscribers from billing in arrears to billing in advance. This change was approved by the MPUC; however, the MPUC did not permit the Company to bill its subscribers for this transitional period at that time, but rather is requiring the Company bill for this period as individual subscribers disconnect from service. The Company recorded initial unbilled revenue for this transitional period of approximately \$394,000. The remaining balance of the unbilled receivable, included in noncurrent other assets in the consolidated balance sheets, was approximately \$286,100 and \$295,000 at December 31, 2010 and 2009, respectively.

Sales Taxes

The Company reports sales taxes on a net basis; accordingly, they are recorded as a liability when collected from customers and excluded from revenues and expenses.

Deferred Revenue

Deferred revenue consists of advance payments received from customers for Internet, access, telecommunication services and dark fiber. The amounts are recognized as earned over one to twenty years.

Income Taxes

Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, and for operating losses that are available to offset future taxable income. The Company files a consolidated tax return which includes its subsidiaries. Income taxes are allocated to the Companies based on the statutory rates of the consolidated group applied to their separate income before income taxes. In July 2006, the Financial Accounting Standards Board (FASB) issued accounting guidance for uncertainty in Income Taxes which is now part of ASC 740, *Income Taxes*. The guidance prescribes a recognition threshold

and measurement attributes for financial statement recognition of a tax position taken or expected to be taken on a tax return. The Company implemented the guidance in 2009 and it did not have an impact on the consolidated financial statements. As of December 31, 2010, tax years 2007 - 2009 remain subject to examination by federal and state authorities.

Preferred Stock

The detailed rights and preferences of the Series A Convertible Preferred Stock, Series B Cumulative Preferred Stock and Series C Convertible Preferred Stock are described in Note 8. Despite any differences which exist in the rights and preferences specific to each of the Series of Preferred Stock, preferences upon liquidation are the same for each Series of Preferred Stock. The Series B Cumulative Preferred Stock is classified in the consolidated balance sheets as a liability in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the Company has an unconditional obligation to redeem the shares at a fixed date. Accordingly, dividends on Series B Preferred Stock are reported as interest expense in the consolidated statements of income and the accrual of unpaid cumulative dividends on Series B Preferred Stock are reported as accrued interest in the consolidated balance sheets.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosure*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1:

Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2:

Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3:

Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, investments in nontraded stocks, accounts payable, notes payable, capital leases, redeemable Series B Preferred Stock and interest rate swaps. The fair values of all financial instruments approximate their carrying values at December 31, 2010 and 2009.

In October 2010 and March 2009, the Company entered into interest rate swap derivatives to manage changes in market conditions related to interest rate payments on portions of its variable rate long-term debt. The notional amounts of the agreements at year end are \$12,709,000 and \$9,000,000, respectively, with expiration dates of September 2014 and March 2012, respectively. The swaps call for quarterly settlements and meet all of the criteria for cash flow hedges. Gains or losses on these derivatives are recorded in Accumulated Other Comprehensive Gain (Loss) in stockholders' equity and reclassified through interest expense as the underlying hedged items affect earnings. The Company recognizes these derivatives in the consolidated balance sheets at fair value in other assets in the amount of \$74,382 and in other liabilities in the amount of \$507,169 as of December 31, 2010 and 2009, respectively, with offsetting entries to Other Comprehensive Income (Loss) for the change in the fair value each year. The fair values of the interest rate swaps are based on market prices for similar swaps with Level 2 inputs.

Revenue Recognition

All operating revenues are recognized when services are provided to customers. Interstate network access services revenues for Oxford Telephone Company are recorded on an interstate pooling method based on average schedule settlement formulas calculated by the National Exchange Carrier Association (NECA), of which the Companies are members. Oxford West Telephone Company's interstate network access revenues are based on estimates of the Company's telephone plant investment, operating expenses, and allowable rates of return on investments allocable to those services. NECA files interstate access charge tariff schedules with the FCC and accumulates and distributes pooled revenues, derived from interstate access services, to its members. The Companies record the effect of NECA settlements, including retroactive adjustments, if applicable, upon notification of such settlements from NECA. Intrastate network access service revenues result from charges to interexchange carriers based on applying the Companies' intrastate access tariffed rates to intrastate access usage. Certain nonregulated revenues of Oxford County Telephone Service Company and Northeast Competitive Access Providers, LLC are derived from services provided to customers for which the customers pay in advance. In those instances, the revenues are deferred and recognized as earned when the Companies provide the services.

Advertising

The Company expenses the cost of advertising as incurred. Advertising expense amounted to approximately \$641,000 in 2010 and \$577,000 in 2009.

Stock Options and Earnings (Loss) Per Share

During 2000, with requisite approvals by the stockholders and Board of Directors, the Company adopted an Incentive Stock Option Plan (ISOP) and a Nonqualified Stock Option Plan (NSOP). Eligibility for the ISOP is limited to employees and eligibility for the NSOP is limited to nonemployee directors of the Company. Options awarded vest after two years under the ISOP and immediately under the NSOP. Under both plans, options will expire ten years after the grant date. The maximum number of shares that may be granted under the ISOP and NSOP are 50,000 and 25,000, respectively. The ISOP terminated on January 31, 2010 and the NSOP terminated on August 16, 2010. Under both plans, no options were granted or awarded after the termination date. The Plan does not constitute inducement of consideration for the employment of any employee or the service of any director.

In December 2004, the FASB issued a revision in accounting for stock-based compensation which is now part of ASC 718, *Compensation-Stock Compensation* and ASC 505-50, *Equity-Based Payments to Non-Employees*. The revision made significant changes to accounting for "payments" involving employee compensation and "shares" or securities in the form of stock options, restricted stock or other arrangements settled in the reporting entity's securities. Most significant in the standard is the requirement that all stock options be measured at estimated fair value at the grant date and recorded as compensation expense over the requisite service period associated with the option, usually the vesting period. The revised standard was effective for fiscal years beginning after December 15, 2005 for non-public companies and is applied prospectively to stock options granted after the effective date. The primary effect of the revised standard's implementation on the Company is recognition of compensation expense associated with stock options.

Effective January 1, 2007, the Company adopted the fair value recognition provision using the prospective-transition method which is now part of ASC 718, *Compensation-Stock Compensation* and ASC 505-50, *Equity-Based Payments to Non-Employees*. Under that transition method, compensation expense that the Company recognizes beginning in 2007 includes compensation expense for all stock options granted on or after January 1, 2007, based on the grant date fair value. Because the Company elected to use the prospective-transition method, results for prior periods have not been restated. Prior to January 1, 2007, the Company accounted for its stock options, which were granted prior to 2006, under Accounting Principles Board (APB) Opinion 25 *Accounting for Stock Issued to Employees* and related interpretations, as previously permitted under Statement of Financial Accounting Standards No. 123 *Accounting for Stock-Based Compensation*. The exercise price set under both plans will not be less than the estimated fair market value of the Company's stock at the date of grant. Therefore, in accordance with APB Opinion 25, no compensation cost had been recognized prior to January 1, 2007 for the plans.

The computation of earnings (loss) per share is as follows:

	2010	2009
Income from continuing operations	\$ 993,575	\$ 463,559
Preferred stock dividends	(277,309)	(213,616)
Income from continuing operations available to holders of common stock	716,266	249,943
Loss from discontinued operations	(60,551)	(13,774)
Net income (loss) attributable to holders of common stock	\$ 655,715	\$ (236,169)
Weighted-average shares outstanding	826,812	816,538
Dilutive potential common shares	5,112	1,656
Adjusted weighted-average shares outstanding	831,924	818,194
Basic earnings from continuing operations per share	\$ 0.87	\$ 0.31
Diluted earnings from continuing operations per share	\$ 0.86	\$ 0.31
Basic loss from discontinued operations per share	\$ (0.07)	\$ (0.02)
Diluted loss from discontinued operations per share	\$ (0.07)	\$ (0.02)
Basic earnings per share	\$ 0.79	\$ 0.29
Diluted earnings per share	\$ 0.79	\$ 0.29

Basic earnings per share (EPS) data is computed based on the weighted-average number of common shares outstanding each year. Potential common stock is considered in the calculation of weighted average shares outstanding for diluted earnings per share, and is determined using the treasury stock method. In 2009, the Company excluded from the calculation of diluted EPS 30,488 stock options because the effect was antidilutive. Stock options are antidilutive when the exercise price of the options is greater than the average market price of the common shares for the period. In addition, the Company excluded all the Series A Convertible Preferred Stock and Series C Convertible Preferred Stock issuable upon the assumed conversion to Common Stock from the calculation of diluted EPS because the effect was antidilutive in 2010 and 2009 due to the effect of removing preferred dividends.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other gains and losses affecting stockholders' equity that, under United States generally accepted accounting principles, are excluded from net income (loss). Comprehensive income (loss) is presented in the consolidated statements of changes in stockholders' equity.

Subsequent Events

For purposes of preparation of these financial statements in conformity with U.S. generally accepted accounting principles, the Corporation has considered transactions or events occurring through February 3, 2011, which was the date the financial statements were available to be issued.

2. Investments in Nontraded Stocks

Investments in nontraded stocks consist of the following:

	2010	2009
RTFC PCCs	\$ 124,000	\$ 219,352
CoBank, ACB	620,048	532,148
	\$ 744,048	\$ 751,500

3. Indebtedness

Long-term debt consists of the following:

	2010	2009
Notes payable to CoBank, ACB	\$ 29,591,440	\$ 29,817,803
Less current portion	3,000,000	1,709,100
Long-term debt, excluding current portion	\$ 26,591,440	\$ 28,108,703

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Notes payable consists of a secured credit facility with CoBank, ACB (CoBank) including a term loan and a revolving line of credit (“revolver”) referred to collectively as the “credit facility.” The purpose of the credit facility is to provide capital for network expansion projects. The Company has maximum availability of \$15 million on the revolver, and a maximum availability on the then outstanding term loan of \$21.7 million at December 31, 2010, and \$23.4 million at December 31, 2009. At December 31, 2010 and 2009, the total outstanding balances on the credit facility were \$29,591,440 and \$29,817,803, respectively.

In March 2009, the Company entered into an interest rate swap derivative on \$9,000,000 of the term loan. The Company is obligated to pay interest quarterly at the fixed swap rate of 1.95%, plus an applicable margin of 2.875% at December 31, 2010. The Company receives or makes payments based on the three-month LIBOR rate, plus an applicable margin (3.1581% at December 31, 2010). The applicable margin ranges from 2.5% to 3.25% and is determined quarterly based on the Company’s total leverage ratio.

In October 2010, the Company entered into an interest rate swap derivative on \$12,709,000 of the term loan. The Company is obligated to pay interest quarterly at the fixed swap rate of 1.0625%, plus an applicable margin of 2.875% at December 31, 2010. The Company receives or makes payments based on the three-month LIBOR rate, plus an applicable margin (3.1778% at December 31, 2010). The applicable margin ranges from 2.5% to 3.25% and is determined quarterly based on the Company’s total leverage ratio.

The term loan required interest only payments until December 31, 2009 and then principal payments ranging from \$625,000 to \$1,000,000 due quarterly through September 30, 2014.

The revolver requires interest only payments until March 31, 2014, at which point it matures and the principal will be due in full. At December 31, 2010 and 2009, \$7,882,440 and \$6,399,561, respectively, were outstanding on the revolver with interest at a variable rate of 5.125% at December 31, 2010.

Absent the Company fixing all or portions of the debt, the term loan and the revolver bear interest at a variable rate based on CoBank’s base rate plus an applicable margin. The applicable margin ranges from 1.5% to 2.25% and is determined quarterly based on the Company’s total leverage ratio.

The credit facility is collateralized by all of the assets of Oxford County Telephone and Telegraph Company (Parent), including the stock and membership interests of its subsidiaries and all of the assets of its subsidiaries. The Parent and each subsidiary are guarantors of the facility.

Included in the terms are certain required financial ratios and restrictive covenants which must be met. The covenants also include limitations on additional indebtedness, investments, capital expenditures, equity issuances and payment of dividends. Under the agreement, the Company may declare and make dividend payments or other distributions as follows: for the fiscal year ending December 31, 2009 in an aggregate amount not to exceed \$938,000; and for each subsequent fiscal year, not to exceed the lesser of \$938,000 or 100% of the Company’s consolidated net income, adjusted for Series B dividends, for the fiscal year immediately preceding the fiscal year in which the payment of such dividends is made.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Scheduled maturities of long-term debt for the next four years are estimated as follows:

2011	\$ 3,000,000
2012	3,500,000
2013	4,000,000
2014	19,091,440

4. Leases

Oxford County Telephone and Telegraph Company leases certain computer and office equipment under operating leases that expire over the next five years. It also leases a sales and administrative office building under an operating lease with an original lease term of twenty years. In addition, the Company leases vehicles under capital leases with original lease terms of four or five years and equipment with original lease terms of five years.

Oxford County Telephone Service Company leases bandwidth capacity under operating leases that expire over the next five years.

Oxford County Telephone Service Company leases a central office building under a capital lease with an original term of twenty years.

Northeast Competitive Access Providers, LLC has secured fiber optic cable access and electronic equipment under agreements, classified as capital leases and rights to use. The fiber optic cable leases have original terms of five years and automatic renewal options for an additional fifteen years. The electronic equipment leases have terms of five years. An Indefeasible Right to Use (IRU) certain cable has a term of thirty years, but is being amortized over twenty years, the estimated economic useful life of the related fiber optic cable.

Leased capital assets included in the consolidated balance sheets classified in telecommunications plant under construction at December 31, 2010 and 2009 were approximately \$497,288 and \$1,143,916, respectively. Amounts included in property, plant and equipment at December 31 are as follows:

	2010	IRU	Lease	Total
Fiber optic cable and equipment, classified in competitive telecommunications plant and equipment	\$ 967,978		\$ 4,133,434	5,101,412
Vehicles, classified in general support assets		–	868,943	868,943
Land and buildings, classified in general support assets		–	394,992	394,992
Accumulated amortization	(795,765)		(1,515,586)	(2,311,351)
	\$ 172,213		\$ 3,881,783	\$ 4,053,996

	2009	IRU	Lease	Total
Fiber optic cable and equipment, classified in competitive telecommunications plant and equipment	\$ 967,968		\$ 2,989,518	3,957,496
Vehicles, classified in general support assets		–	591,475	591,475
Land and buildings, classified in general support assets		–	394,992	394,992
Accumulated amortization	(718,327)		(1,094,448)	(1,812,775)
	\$ 249,651		\$ 2,881,537	\$ 3,131,188

The original cost of the IRU is comprised of \$544,403 of fiber optic cable constructed by the Company and turned over to an unrelated party in exchange for the IRU in 2000. Additional consideration amounting to \$423,565 was also given to the unrelated party in the form of a reciprocal IRU for that party to use another portion of the Company’s network. The \$423,565 represents the net present value of future revenues to the Company for providing the access and is reflected in the balance sheet as future service obligations.

Future minimum lease payments under operating leases that have remaining noncancelable lease terms in excess of one year and the present value of future minimum capital lease payments and future service obligations as of December 31, 2010 are:

	Capital Leases and Service Obligations	Operating Leases
2011	\$ 915,000	\$ 1,147,000
2012	957,000	617,000
2013	874,000	417,000
2014	662,000	331,000
2015	533,000	309,000
Thereafter	3,030,297	1,692,000
	6,971,297	\$ 4,513,000
Less amount representing interest at various rates ranging from 5.5% - 9.0%	2,217,369	
Present value of net minimum capital lease payments and future service obligations	4,753,928	
Less current portion	597,400	
Capital leases and future service obligations, excluding current portion	\$ 4,156,528	

The Company's rental expense for operating leases approximated \$1,204,000 for 2010 and \$1,194,000 for 2009.

5. Income Taxes

Income tax expense amounted to \$1,047,600 in 2010 and \$695,700 in 2009. The actual tax differs from that expected (computed at a federal rate of 34%) primarily due to interest and discount amortization on mandatorily redeemable preferred stock not deductible for tax purposes and the effect of state income taxes. The components of income tax expense (benefit) are as follows:

2010	Current	Deferred	Total
Federal income tax	\$ -	\$ 847,700	\$ 847,700
State income tax	\$(17,500)	217,400	199,900
	\$(17,500)	\$1,065,100	\$1,047,600
2009	Current	Deferred	Total
Federal income tax	\$ -	\$ 546,900	\$ 546,900
State income tax	25,000	123,800	148,800
	\$ 25,000	\$ 670,700	\$ 695,700

The tax effects of all temporary differences that give rise to the net deferred tax liability (asset) at December 31 are as follows:

	2010	2009
Temporary differences related to:		
Depreciation	\$ 9,711,800	\$ 8,458,900
Amortization of goodwill	965,100	965,100
Other	154,800	93,200
Net operating loss carryovers	(5,442,600)	(5,193,200)
	\$ 5,389,100	\$ 4,324,000

Net operating loss carryovers for federal purposes amounting to approximately \$15,337,000 at December 31, 2010 will begin to expire in 2023.

6. 401(k) Profit Sharing Plan

The Company sponsors a 401(k) Profit Sharing Plan. Employees of the Company may elect to make contributions pursuant to a salary reduction agreement upon meeting age and length-of-service requirements. At the Board of Directors' discretion, the Company may match employee contributions based on a percentage of an eligible employee's compensation. The Company may also make a profit sharing contribution, at the Board of Directors' discretion, each plan year. There were no matching contributions in 2010. Matching contributions to the plan were \$258,800 for 2009. Profit sharing contributions to the plan were \$175,000 for 2010. There were no profit sharing contributions in 2009.

7. Board of Directors' Compensation

Directors are compensated for service in annual amounts ranging from \$4,000 to \$7,000 based on the Board position and per meeting amounts ranging from \$400 to \$700. The total Director's compensation was \$82,150 and \$72,900 in 2010 and 2009, respectively. A minimum of 50% of the Directors' fees paid must be paid with shares of common stock. The Company paid \$55,446 of its Directors' fees with 2,871 shares of its common stock in 2010 and \$58,357 of its Directors' fees with 2,837 shares of its common stock in 2009.

8. Preferred Stock

Series A

The Series A Convertible Preferred Stock has voting rights equal to the number of whole shares of Common Stock into which such shares are convertible, at a price of \$21.75 per share. The Series A Convertible Preferred Stock has no par value and is not participating. The holders will be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of the Company's Common Stock and on parity with holders of the Company's Series B Cumulative Preferred Stock and

Series C Convertible Preferred Stock, a liquidation amount equal to \$18.10 per share plus all accrued and unpaid cumulative dividends on such share, whether or not declared. Dividends are payable quarterly, if declared, at an annual rate of 6%, and are cumulative. Each holder of a share of the Series A Convertible Preferred Stock shall have the option to convert the Series A Convertible Preferred Stock to Common Stock based on share price of \$21.75 per share (i.e., each share of Series A Convertible Preferred Stock is convertible into approximately .832 share of Common Stock, based upon an original purchase price of \$18.10 per share).

Effective in May 2010, each holder has the right to cause the Company to redeem the then outstanding shares of Series A Convertible Preferred Stock owned by such holder with an aggregate value equal to such holder's original investment in the Company, subject to an annual, aggregate cap for all Series A Convertible Preferred Stock holders in the amount of \$3,000,000. None of the holders of the Series A Convertible Preferred Stock currently outstanding have notified the Company of intent to redeem their shares.

Series B

The Company has 5,000 shares of Series B Cumulative Preferred Stock issued, authorized and outstanding. The shares were originally issued at a fair value of \$4,074,350 (recorded net of issuance costs of \$48,363). This resulted in a recorded liability of \$4,025,987 and a \$974,013 discount. The discount is being amortized over the term of the obligations at an effective rate of 14.678%. Accumulated amortization was \$268,751 and \$149,519 at December 31, 2010 and 2009, respectively, and the unamortized discount was \$705,262 and \$824,494 at December 31, 2010 and 2009, respectively.

The Series B Cumulative Preferred Stock has no voting rights, \$1 par value and \$1,000 stated value. The Series B Cumulative Preferred Stock is not participating. The holder will be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of the Company's Common Stock and on parity with holders of the Company's Series A Convertible Preferred Stock and Series C Convertible Preferred Stock, a liquidation amount equal to \$1,000 per share plus all dividends accumulated and unpaid on such share, whether or not declared. Dividends are payable at a quarterly rate of 2.5% from the date of issuance to May 31, 2014; then payable at a quarterly rate of 3% to May 31, 2015; thereafter, should redemption be deferred by agreement with the holder, at a quarterly rate of 4.5%. On any Dividend Payment Date, the Company at its option may redeem all or any portion of the Series B Cumulative Preferred Stock, at a redemption price of \$1,000 per share plus all dividends accumulated and unpaid on such share, whether or not declared.

On May 31, 2015 the Company shall be required to redeem all outstanding shares of Series B Cumulative Preferred Stock in cash at \$1,000 per share plus all dividends accumulated and unpaid on such shares, whether or not declared. The Company shall also be required to redeem all outstanding shares upon the occurrence of an Accelerated Redemption Event (as defined in the agreement).

Series C

The Series C Convertible Preferred Stock has voting rights equal to the number of whole shares of Common Stock into which such shares are convertible, at a price of \$22 per share. The Series C Convertible Preferred Stock has no par value and is not participating. The holders will be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of the Company's Common Stock and on parity with holders of the Company's Series A Convertible Preferred Stock and Company's Series B Cumulative Preferred Stock, a liquidation amount equal to \$1,000 per share plus all dividends accumulated and unpaid on such share, whether or not declared. Dividends are payable quarterly, if declared, at an annual rate of 6%, and are cumulative. Each holder of a share of the Series C Convertible Preferred Stock shall have the option to convert the Series C Convertible Preferred Stock to Common Stock based on share price of \$22 per share (i.e., each share of Series C Convertible Preferred Stock is convertible into approximately 45.45 shares of Common Stock, based upon an original purchase price of \$1,000 per share).

9. Stock Options

There were no options granted in 2010 or 2009. The fair value of each option granted was estimated on the date of grant using the Black-Scholes options-pricing model with weighted average assumptions for dividend yield, expected lives, risk-free interest rate, and volatility. The Company used the calculated value method of estimating volatility, as permitted by ASC 505 and 718. Under this method, the Company used historical volatility of a published aggregate sector index for the expected term of the option granted. The Company was unable to identify a publicly traded company that it believes to be adequately representative of the Company's business and other characteristics, and believes this sector index to be an appropriate approximation of the volatility of the Company's stock price. The exercise prices of options granted were set at the estimated market price at date of grant. There was no unrecognized compensation expense at December 31, 2010. The unrecognized compensation expense at December 31, 2009 was \$4,600. A summary of the status of the Company's stock option plans as of December 31, 2010 and 2009, and changes during the years ended on those dates, is presented below.

The following table summarizes information about stock options outstanding at December 31, 2010:

Number Outstanding	Number Exercisable	Remaining Contractual Life	Exercise Price
4,500	4,500	1.0	\$ 20.45
5,800	5,800	2.0	17.05
4,917	4,917	3.0	17.39
6,000	6,000	4.0	17.78
8,500	8,500	5.0	17.77
2,200	2,200	7.0	20.57
6,300	6,300	8.0	20.57
38,217	38,217	4.27	\$ 18.55

The Company also sponsors an employee stock purchase plan. Employees may purchase a maximum of seventy-five shares under the employee stock purchase plan. Eligible employees may purchase shares of the Company's \$1 par value common stock at 85% of the fair market value. Purchases (net of repurchased shares) to date under this plan amounted to 2,915 and 3,190 at December 31, 2010 and 2009, respectively. The Company did not offer any shares for purchase by employees under the plan in 2010 and 2009.

	2010		2009	
	Number of Shares	Weighted Average Exercise Price	Numer of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	43,488	\$ 18.49	44,035	\$ 18.90
Exercised during year	(1,508)	17.24	(547)	17.35
Forfeited during year	(3,763)	17.18	–	–
Outstanding at end of year	38,217	\$ 18.55	43,488	\$ 18.49
Exercisable at end of year	38,217	\$ 18.55	37,188	\$ 18.02

10. Notes Receivable From Stock Issuance

During 2007, the Company issued shares of common stock to certain members of management in exchange for secured promissory notes totaling \$1,002,249. Each member of management purchasing stock entered into a non-competition agreement with the Company and agreed to restrictions to protect its proprietary information. The notes bear interest at 4.5% and are collateralized by a pledge of the underlying stock. Under the pledge agreement the pledgor shall not sell, assign, transfer, gift, pledge, encumber or otherwise dispose of, grant any option with respect to, or pledge or grant any security interest in or otherwise encumber any of the collateral or any interest therein. Interest is payable quarterly beginning March 1, 2008 and principal is due in full on February 28, 2014. In accordance with the plan, the shares can be redeemed at the lower of: the then fair market value of the common stock; or \$20.57, the original purchase price per share. The notes receivable are shown in the consolidated balance sheets as a reduction in stockholders' equity.

11. Supplemental Disclosure of Cash Flow Information

	2010	2009
Interest paid	\$ 2,557,570	\$ 2,614,309
Income tax payment	\$ 1,781	\$ -

Dividends payable of \$333,340 declared in 2009 were paid in 2010.

In 2010, the Company paid a portion of its directors' fees with 2,871 shares of its common stock valued at \$55,446 in noncash transactions.

In 2009, the Company paid a portion of its directors' fees with 2,837 shares of common stock valued at \$58,357 in noncash transactions.

In 2010 and 2009, the Company disposed of \$59,230 and \$45,212, respectively, of materials and supplies in noncash transactions.

In 2009, certain members of management paid a portion of the interest on notes receivable with 728 shares of common stock valued at \$14,295 in non-cash transactions.

In 2010 and 2009, the Company paid a portion of its interest expense on Series B Cumulative Stock with 8,000 and 4,000, respectively, shares of common stock valued at \$200,000 and \$100,000, respectively, in noncash transactions.

In 2010 and 2009, the Company purchased vehicles financed with capital leases in the amount of \$272,725 and \$189,080, respectively, in noncash transactions.

During 2009, the Company classified materials and supplies in the amount of \$266,538 as telephone plant under construction in a noncash transaction.

In 2010 and 2009, the Company purchased equipment classified as telephone plant under construction in the amount of \$497,288 and \$497,046, respectively, financed with capital leases in noncash transactions. In 2009, the Company also purchased fiber financed with a capital lease in the amount of \$1,232,598 in a noncash transaction.

12. Discontinued Operations

In December 2008, the Company began execution of a plan to exit its cable television services business and impaired all of the related assets. The cable television assets which had no remaining book value were retired in March 2010 upon completion of transitioning customers to an alternate provider. The operating results of the business are presented as discontinued operations, net of related income tax benefits in the consolidated statements of income for 2010 and 2009. The Company has accrued franchise fees commitment costs of approximately \$45,000 and \$66,000 in 2010 and 2009, respectively, in its consolidated balance sheets.

13. Regulatory Matter

In 2007, CRC Communications of Maine, Inc. (CRC) and Time Warner Cable Information Services (Maine), LLC (TWCIS) petitioned the MPUC to lift the rural exemption and grant authority for them to provide local exchange service in the territories currently served by the Oxford independent telephone company subsidiaries. In order to grant such authority, the MPUC would have to determine doing so was: i) not unduly economically burdensome on the incumbent local exchange carrier (ILEC) impacted by the exemption, ii) technically feasible, and iii) consistent with the universal service provisions of the Telecommunications Act of 1996. In late 2008, the MPUC ruled CRC and TWCIS had not provided sufficient evidence to substantiate their requests and dismissed them; however, the MPUC allowed CRC and TWCIS the option to file renewed petitions provided they present detailed analyses on the negative economic impact on the ILECs involved. CRC filed a renewed petition in early 2009. In June 2010, the MPUC ruled the impact of lifting the rural exemption and permitting TWCIS and CRC to provide local exchange service in the ILEC territories would be unduly economically burdensome to the Oxford independent telephone company subsidiaries and denied CRC's petition. In July 2010, TWCIS filed a petition with the FCC to overturn the MPUC ruling. At present, the case remains ongoing before the FCC and the future impacts, if any, on the regulated operations, revenues and expenses of the Oxford independent telephone company subsidiaries are unknown at this time.



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