



TELCOM
INSURANCE GROUP

2007 Annual Report



Telcom is always there for you when you're in a *pinch*



Contents

Mission Statement	2
Shareholders	3
President and Chairman's Management Report	4
Traditions and Foundation	7
2007 Annual NTC Board Meeting	8
Operations Report	9
Financial Report	11
Consolidated Balance Sheets	14
Consolidated Statements of Income & Comprehensive Income	15
Risk Management Report	16
Policyholders	18
Meeting Milestones	20
The Telcom Family	22

Highlights

Financial

- Year-end Assets totaled more than \$22 million
- Gross Written Premium over \$11.2 million
- Loss Reserves total more than \$5.5 million
- Shareholder's Equity (GAAP) is \$5.69 million
- Net Asset Value per share is \$3,808.05

Operating

- Total P&C and D&O family members (policyholder count) is 224
- Total states with policyholders is 41
- Stay Connected Handset Replacement Program is launched
- Most successful stock offering in Company history sunsets
- Risk Management and Loss Prevention services offered to all policyholders



The Telcom Insurance Group is dedicated to providing every NTCA member system with the best possible property and casualty coverage program at a fair price. We will support NTCA, our sponsor, through our participation in, and promotion of, Association programs.

We will strive to exemplify the highest standards of integrity, excellence in personalized customer service, and leadership in offering specialized, telecommunications-specific coverage packages. We will partner with our fellow members by providing educational programs designed to assist them in their quest to protect their corporate assets and provide stability for the corporate entity through a variety of risk management programs.

Achieving success in these areas will fulfill the mission of the NTCA originators and NTC shareholders by...

“Bettering the World of Commercial Insurance for Rural Telephony...One NTCA Member at a Time.”



Shareholders as of 12/31/2007

Shareholder	State	Shareholder	State
Cen-Ark Cellular, Inc.	AR	Pioneer Telephone Cooperative, Inc.	OK
Central Arkansas Telephone Cooperative, Inc.	AR	Pioneer Telephone Cooperative	OR
Comanche County Telephone Company, Inc.	TX	Polar Communications	ND
Craw-Kan Telephone Cooperative, Inc.	KS	Randolph Telephone Membership Corporation	NC
Etex Telephone Cooperative, Inc.	TX	Riviera Telephone Company, Inc.	TX
Farmers Telephone Cooperative, Inc.	SC	Rock Port Telephone Company	MO
Glenwood Telephone Company	GA	Santa Rosa Telephone Cooperative, Inc.	TX
Hancock Telecom	IN	Scott County Telephone Cooperative, Inc.	VA
Horry Telephone Cooperative, Inc.	SC	Skyline Telephone Membership Corporation	NC
Industry Telephone Cooperative	TX	Southwest Arkansas Telephone Cooperative	AR
KanOkla Telephone Association, Inc.	KS	Stanton Telecom, Inc.	NE
Mid-South Telecommunications	TX	Star Telephone Membership Corporation	NC
National Telecommunications Cooperative Association	VA	Surry Telephone Membership Corporation	NC
Panhandle Telephone Cooperative, Inc.	OK	Taylor Telephone Cooperative, Inc.	TX
Paul Bunyan Rural Telephone Cooperative	MN	Twin Lakes Telephone Cooperative Corporation	TN
Pembroke Telephone Cooperative	VA	West Carolina Rural Telephone Cooperative, Inc.	SC
Peoples Telecommunications, LLC	KS	West Kentucky Rural Telephone Coop. Corp.	KY
Peoples Telephone Cooperative, Inc.	TX	Wiggins Telephone Association	CO
Piedmont Rural Telephone Cooperative	SC	Wilkes Telephone Membership Corporation	NC
Pioneer Telephone Association, Inc.	KS	Yadkin Valley Telephone Membership Corporation	NC





Peter Elliott and Dick Veach

Because It Is a Matter of Trust...

Why is trust such an important trait for an insurer to demonstrate? For this answer, all one needs to do is look at its definition. Trust is “confidence in and reliance on good qualities, especially fairness, truth, honor, or ability”. *An insurer who can exhibit trustworthiness and has earned the faith of their customers is an unqualified success story.* No business that I can think of, sells trust as their “service and product” more than an insurance company. There are services and products. Technically, claim adjusting is a service and policies are the tangible product, but without the trust of the individual that

decided you should be their insurer, there would be no opportunity to sell, issue, or service anything. National Telcom Corporation, the captive insurance company you own, strives to conduct all business transactions with the highest level of fairness, truth, honor, and ability. As a result, we strive to earn the trust of the National Telecommunications Cooperative Association (NTCA) members as the ultimate protector of their businesses.

The management and staff of the Telcom Insurance Group have learned lessons from past history, engage them in the present, and use them to proactively plan for the future. The employees of the organization follow a conservative plan set forth by the Directors and Officers while keeping a keen sense of how to individually employ the traits of trust in the day-to-day transactions they execute. This fosters a sense of stability and responsibility with our customers and promotes a program that will ethically protect the businesses, assets, and employees of the NTCA members.

This President and Chairman of the Board's Management Report will be just a piece of the overall Telcom Insurance Group Annual Report which will chronicle the past year and provide you, the reader, with information that will allow you to continue to trust, respect, and support this Company.

The Insurance Industry in 2007...

The insurance industry in 2007 produced a very profitable Combined Ratio of 93.7%, as reported by Highline Data, which is very close to the 92% ratio from 2006. This will mark the third time in the last four years that the industry has produced an underwriting profit. Despite the recent results, the insurance industry is still considered to be subject to volatile results in any given year and to operational losses for long stretches of time. Regardless, the industry is attractive to investors due to profitable operating results. Capital is again available which in turn translates into capacity. The blending of all these items means a continued soft insurance marketplace where insurers will try to maximize results and gain market share by increasing written premium. This will represent increased competition and reduced rates. While this fact is positive for consumers, it is potentially negative to insurers who finally believed that adequate rates were being secured in 2003 and 2004. The past three years have only scratched the surface of paying back many investors for unprofitable results that occurred prior to this period. Investors and consumers need to keep an eye on news regarding sub-prime mortgage losses, terrorism, asbestos, and pandemic flu and make sure their interests have been fully accounted for and reserved by their company. Maybe the past bailouts of the Federal Government have left many insurers



and the industry feeling invincible, but the “well might run dry” someday. The outlook for 2008 is a slowing of the declining rates in most areas with the tougher classes of business and lines (like coastal property) seeing relief but not an overwhelming amount of interest in their risk.

Major Highlights of the Year for Telcom...

National Telcom Corporation monitored the events that created challenges for the insurance and telecommunications industry and worked diligently to make sure that the impact to the members of the National Telecommunications Cooperative Association (NTCA) would be minimal. As an example, when we learned that new Customer Proprietary Network Information (CPNI) requirements could impact telecommunications providers and potentially open you all up to fines and regulatory actions, we immediately gathered the information about the revised rules and developed an a position from a risk management perspective on how our customers could protect themselves. At the same time, we started to develop insurance products that would respond to the issue. In the insurance industry trust, stability, and expertise are critical operating requirements, and you gain them by putting a well thought-out business plan into action. Our results for

2007, which will follow, speak volumes about what we have designed and achieved.

The claims reserve strength of the Company continues to be an area that the Company's management carefully watches and manages. In 2007 an actuary opined that management's actions to be sufficient to support current and future obligations. Thus, with a secure foundation in place, Telcom commenced with responsible growth and development of the entire program. Due to the softening insurance market, premium volume remained at basically the same amount in 2007 as it was in 2006. The policyholder count tells of a robust and thriving business with property and casualty customers holding at 151 in the Captive and 224 for the Captive and agency combined. A strong and steady customer base with stable premiums and carefully managed expenses allowed the Company

*“We need men who
can dream of things
that never were.”*

– John F. Kennedy (1917 - 1963)

to post a solid profit for the year, despite having a small underwriting loss. According to the *National Underwriter*, the insurance industry as a whole generated a Combined Ratio of 94% which means that for each dollar in premium collected, losses and expenses consumed 94 cents of every dollar leaving a 6 cent profit per dollar. Based upon our industry's results, we are pleased with the results that we have generated. These factors simply scratch the surface of the accomplishments and the plans that have situated NTC for successful operating years both currently and in the future.

A major force in the success in the policyholder areas is based on our relationship with our fronting carrier, Great American Insurance Company. This relationship, has grown and amplified the benefit that the NTCA membership receives consistently; It was renewed for another year in January of 2008. Great American Insurance Company is a well respected and financially stable insurance company that understands the values of rural America. They have been instrumental in providing loss prevention and claims service that is unrivaled. Their excellence in these areas, coupled with their understanding of the rural telecommunications industry, and the Telcom Insurance Group, acting as the steward, have created a one-of-a-kind program. The Telcom staff deserves recognition for all the hard work that they



endured to develop this business partnership and for helping foster an understanding of both the geographic and industry-related nuances of NTCA member systems.

The Company also achieved great results in a Private Placement Stock Offering that opened in February of 2006 and continued in 2007. The offer which authorized the sale of 800 shares of common stock for \$3,000 per share has been very well received. As of the date of this report, 645 shares have been sold; 269 of which were from 2007. The NTCA member-based ownership has reached 40 which includes NTCA, itself, as an owner and sponsor of the Company. We welcomed 4 new owners in 2007: Central Arkansas Telephone Cooperative (AR); Pembroke Telephone Cooperative (VA); Riviera Telephone Company (TX); and West Kentucky Rural Telephone Cooperative (KY).

The report that follows in the pages of our 2007 Annual Report will provide an in-depth analysis of the year that was. The report itself is only part of the story of the Company and how we have earned the respect and trust of so many. One of the operation's greatest assets is the staff that guards the insureds and the members that participate in the program. The results that we report speak magnitudes of the quality of the employees, but the staff themselves can tell

our story the best. Our proud history is clear. However our actions, when you interact with us, speak volumes about how we have achieved so many things. So listen and watch carefully what we do when you come in contact with National Telcom Corporation. You will experience and notice a proud history, a bright future, and an incredible story—probably not unlike your own.

We Thank You for Your Support...

Telcom appreciates our customer. As such, we give back quite a bit to the telecommunications industry and the National Telecommunications Cooperative Association. The benefits provided by the fact that the NTC program is the only nationwide program writing all lines of insurance that specializes in rural telecommunications insurance, cannot be overlooked. Protection for all members regardless of the state they are domiciled can be secured if they fit the underwriting model. The employees of National Telcom Corporation continue to be the leaders in insurance education and risk management for the Association and its telecommunications company members. The staff continues to show that education begins at home and safety in the field by educating at NTCA meetings, industry statewide events, and in insureds offices and job sites to assure safety is implemented properly. The benefits of this work results in direct and indirect savings to National Telcom Corporation

customers and members of the Association. We are pleased to provide hands-on services and prove that true experts in safety roll up their sleeves and visit in the trenches and at the jobsite. We believe that leading and training by example is more effective than just handing out money to fund safety meetings and/or scholarship funds.

The employees of Telcom would like to thank you all, our sponsor NTCA, Shareholders, Directors, Officers and Policyholders for your loyalty, trust, and support. Without you, it would not have been possible to accomplish our goals. Our results are not by chance and your protection and trust are not either.



Peter J. Elliott, CPCU
President & Chief Executive Officer



Richard K. Veach
Chairman of the Board



The Traditions and Foundation of the Organization

Formed in 1982 from a search committee, National Telcom Corporation (NTC) was the fourth (4th) captive and the first (1st) association captive licensed in Vermont. NTC, after initial capitalization of \$1.1 million through the purchase of stock by NTCA and individual member systems, has grown current assets to more than \$22 million. We welcome all members of the National Telecommunications Cooperative Association including traditional rural telecommunications companies, Statewide Associations, Associate members, and Subsidiary members to join our program. NTC acts as a reinsurance company that shares a portion of the risk assumed from the primary underwriting company, which is also known as a “front”. Great American Insurance Company acts as Telcom’s captive partner and assists in providing exceptional underwriting, reinsurance, loss prevention, and claims services.

In 1989, the National Telcom Corporation program was expanded to include its own full-service brokerage facility known as the Telcom Insurance Services Corporation (TISC). Together, NTC and TISC form the Telcom Insurance Group (TIG). Telcom is the only nationwide program that specializes in property-casualty insurance for rural telecommunications companies that is fully licensed to do business in every line and in every state where NTCA members do business. Additionally, the only Directors and Officers

insurance product that is endorsed by NTCA is Telcom’s program. The overall benefits are undeniable; there is absolutely no reason to go elsewhere for this coverage as the rate and forms are superior to any other products on the market.

*“Because it has
Always Been a
Matter of Trust”*

As your businesses have evolved over the years, so has the Telcom program. As it stands today, Telcom is an industry leader in providing the coverages for all of the exposures of a modern telecommunications company—even as your endeavors continue to grow and develop. Furthermore, Telcom utilizes specialty line brokers as well as other carriers, such as The Hartford, Travelers, AIG, Philadelphia Insurance Companies, Employers Insurance Group, CNA, Texas Mutual, Nationwide, as well as several bond markets to provide additional coverages to meet your needs.

For Telcom, the focus has always been on education. Through the use of insurance and risk management education, training, and various other loss prevention services, Telcom continues practical hands-on training for the members of

NTCA to help mitigate your losses. You know the quality first-hand, if you have attended one of our sessions at the NTCA Annual Meeting, Fall Conference, Regionals, HRNet, OSHA Telecommunications Regulation seminars, various Statewide Association meetings, or at our Annual Risk Management Conference.

Telcom’s proud history has helped us get to where we are today. As of the end of 2007, there were thirty-nine NTCA member systems as well as the Association that are Shareholders/Owners of NTC. There were 151 insured telecommunications companies within the Captive and 224 members for which Telcom provides an insurance product as of the end of 2007. Clearly, you’ve put your trust in us, and we appreciate it.

While the membership’s property and casualty, specialty lines, and risk management needs evolve, so do the programs and coverages provided by Telcom. As such, the traditions and foundation of our history provide a benchmark for planning and implementation of these future goals. It’s an exciting time for the Company as the organization only continues to improve and to earn the trust of the more of the members.

*Your Captive—Proudly Owned
by the Members of*





Stowe, VT | October 15, 2007

Members present from left to right:

(bottom row) Mary C. Mongold; Richard C. Parker; Curley P. Huggins; Lonnie D. Pedersen; Peter J. Elliott; Edgar L. Olson (top row) Charles H. Creason, Jr.; William I. Nexsen, III.; Robbie L. Allen; Michael W. Stanley; George W. Nostrand; Richard K. Veach

Board Members not pictured: Loren L. Duerksen, Leroy H. Lage, and Raymond P. Henagan

Officers of the Corporation:

Richard K. Veach
Chairman of the Board

Richard C. Parker
Vice Chairman of the Board

Peter J. Elliott
President

Michael A. Huffman
Treasurer/Vice President

Marilyn A. Blake
Secretary/Executive Vice President

George W. Nostrand
Assistant Secretary/General Counsel



National Telcom Corporation (NTC) and Telcom Insurance Services Corporation (TISC) provide insurance protection for the members of the National Telecommunications Cooperative Association (NTCA). The Companies operate as a captive insurer and an independent insurance agent/broker. This organizational structure allows us to serve the needs of all members regardless of their geographic location or insurance coverage needs. Protecting our customers' businesses, which includes property or assets, employees, and revenue, is our main focus. Securing peace of mind and stability which earns the trust of our customers is the reward of successfully completing the mission.

In 2007, our fronting insurance carrier, Great American Insurance Company, renewed its contract to support the NTC program. The goal of the underwriting department is to build upon this relationship and to further develop, not only the program, but also the relationships between the front, the Captive, and our valued customers—all three parties. The staff of NTC and TISC closely monitors the insurance and telecommunications industries news for exposure, legal, and regulatory changes that might impact the NTCA member. When an item with insurance implications is determined, the three-party relationship pays dividends as Great American and our Staff engage telecommunication company leaders to determine a complete solution to the issue with both insurance and risk management techniques. This approach is unrivaled by any other provider of coverage for telecommunications companies in the insurance industry.

“Those who trust to chance, must abide by the results of chance.”

– Calvin Coolidge (1872 - 1933)

Exceptional timely responsive service continues to be the cornerstone of the operation. There are many insurance products available to telecommunications providers, but none that come with the service standards Telcom aspires to uphold. Better yet, none that are offered by individuals who care as much as we do about the well being of those we serve. *The service that is provided comes from a seasoned professional staff that believes that each insured is a member of the family.* In 2007, we reaffirmed our pledge of providing excellence in service. This is a continuation of our written contract with our customers that was introduced in 2003.

Underwriting Update

In 2007, the insurance marketplace was classified as “soft” with respect to availability and affordability of insurance coverage for consumers. The average decrease in premium rates for all commercial consumers in the United States was approximately 15%. With only a couple of regional storms hitting the central states and creating flood and ice storm claims, 2007 was

basically a calm weather-related catastrophe year. The market is driven by economic conditions in the country, but it will also be swayed by large natural and man-made catastrophes. Even in the best economy, events like 9/11 or Hurricanes Katrina and/or Rita will impact the cost of insurance for all consumers—not just those in the areas hit by the loss. In order to keep capital in this sector of the economy, there is a need for the insurance industry and insurance companies in particular to offer an acceptable rate-of-return to investors. The return to investors is affected by expenses of the operation and the charges to cover both the known and unknown losses/claims. Only when adequate premium is collected will the rate-of-return be acceptable to investors. The insurance industry as a whole reported a 94% Combined Ratio for 2007; break-even is 100%. This means the 2007 was very positive for the insurance industry as a whole.

By maintaining a conservative approach to managing operations and the understood exposure of rural telecommunications providers, National Telcom Corporation's operation avoided the industry rate roller coaster in many lines of insured business. This approach includes: charging the proper rate despite the insurance market conditions; controlling expenses; conservatively utilized the benefits of investment income; providing adequate loss reserves; and managing the assumption of higher hazard risk to provide a stable market for all NTCA members to access. In order to avoid the peaks and valleys of the premium rate cycle, the Company has concentrated on management of expenses and loss trend analysis. We are carefully



watching expenses without sacrificing service excellence. We also watching loss trends and implementing pro-active loss prevention methods to assist in keeping the second variable to the cost of insurance for our customers stable. Total Operating Expenses increased approximately 3.8% in 2007 from 2006. This is significant when one considers that this was supported by no increase in the Captive's Written Premium and a 43% increase in Other Commission Income for all specialty insurance products sold outside of the Captive. In addition to expense management, the conservative investments of NTC, which yielded \$539,043 of income, offsets a modest underwriting loss for the year and levels out overall results. Loss trends continue to be addressed, and the Company has excellent loss prevention programs for ergonomic stress and strain issues, lightning and electrical grounding, OSHA compliance, and jobsite safety—including bucket truck operation, tower maintenance, and automobile usage. All of these programs have a positive impact on the loss experience for our insureds. In 2008, we will educate on network/data privacy issues with our loss prevention program and address the growing concerns that this area is causing. Even with all of the work that we have done in maintaining stable expenses and watching for loss trends, Telcom's success will be improved upon, if the NTCA membership recognizes the positive aspect of aggregating insurance with one market and one company. NTC was created for exactly this purpose and with this in mind. We are still the only national provider of insurance with all lines of insurance written directly. We want the members of the Association to embrace the "power of unity"

and of being "one". Clearly, remaining an open market for the insurance needs of the NTCA membership in all states and lines of insurance requires a conservative and unified approach.

Underwriting premium in 2007 was flat, as was the insured base despite the softening insurance marketplace. Written Premium at year-end in the Captive was \$11,252,229.91. New business written continued to develop with 17 new P&C and/or D&O customers/members seeking their insurance protection from the Telcom Insurance Group. New premium written was offset by the rate reductions that are occurring in the insurance industry. Retention of customers was recorded at 94% in 2007 which is a testament to the fact that we are meeting the needs of those we serve for all lines of business in all states. This retention rate far outshines the industry averages.

The underwriting department of National Telcom Corporation and Telcom Insurance Services Corporation is proud to have successfully managed the challenges that 2007 offered. The employees of the operation stand ready to build upon the year and improve this department for the future. All business will be conducted with an "eye on" offering the best security and stability to the members of the National Telecommunications Cooperative Association.

Field Services Update

Telecommunication operations continue developing and new services are being offered all the time. It is only with a thorough understanding of telecommunications operations that we can determine the appropriate insurance

coverage needs of the membership. Every visit to your facilities for our staff is a learning experience. The field staff blends education, fact finding, and social interaction into their visits with NTCA members. The result is an unparalleled approach of using insurance and risk management solutions to meet the needs of the NTCA membership. In 2007, many of our customers began to address Customer Proprietary Network Information (CPNI) and our staff set up to provide management and insurance technique education. This is a perfect example of how and why a captive insurance company is different than most insurance operations that specialize in insuring, avoiding, or managing risk...but usually not all three.

Even with increased use of electronic means of communication, nothing can take the place of a personal visit and hearing the customer's story face-to-face. We earn your trust in many ways, and we are grateful for the opportunity to do so.

Thank You

National Telcom Corporation is in the risk taking business. We, however, value our relationship with our customers too much to leave risk and their protection to chance. With your help and our well planned conservative management, NTC will continue to be the best and the only nationwide telecommunications program offering all lines of insurance to the members of the NTCA. Our accomplishments would not be possible if we did not have the support of our loyal Association member Owners, Directors, Officers, Policyholders, and support vendors.



Telcom is an organization that keeps moving. Of course, balance is at the heart of financial reporting: debits and credits that in total equal each other.

Overall, 2007 was a positive year for Telcom Insurance Group. Net Income is \$218,415 before the effect of Comprehensive Income; and the bottom line after it is \$193,511. Both numbers are a significant increase over the prior year and represent continued momentum that adapts to changing conditions.

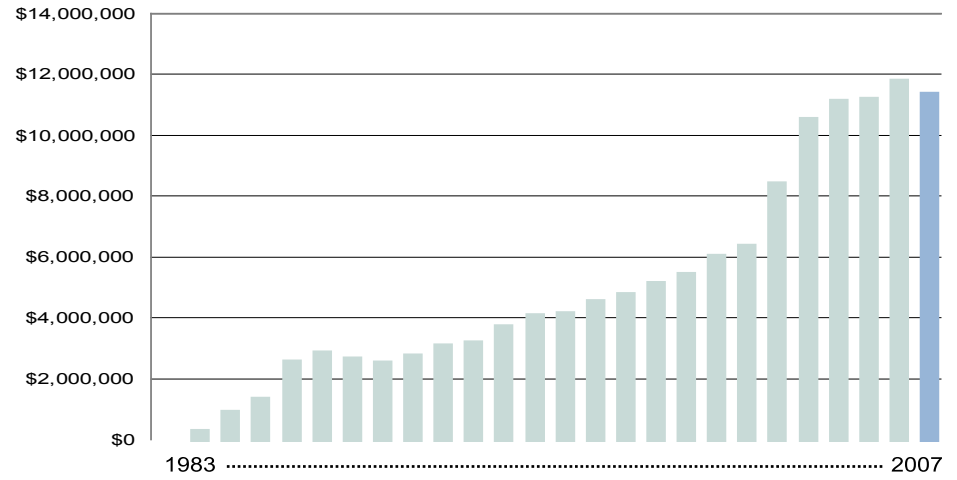
Moving Forward

Positive movement, growth, is something that Telcom strives for. We extended the very successful stock offering into 2007, issuing 269 more shares and adding four new shareholders. 156 of the shares were sold for cash, and 113 shares were issued through the conversion of Subordinated Capital Notes (SCN). The net addition to equity from the extended offering was \$692,265.

Cash and Investments grew during the year by 8.6% or \$1,157,816; and total assets grew by 7.9% or \$1,613,399. An insurance company is, in a sense, a finance company, and Telcom's return-on-investments is an integral part of its activity. Investment Income, gross of the SCN Interest Expense, increased in 2007 from \$591,599 to \$677,304. This is an increase of 14.5%; and is a return of 4.34% on the average portfolio balance for the year. Telcom reduced Interest Expense on SCNs from \$177,568 to \$138,261 through conversion to shares of 20 notes and the call of 12 notes at face value on September 28, 2007.

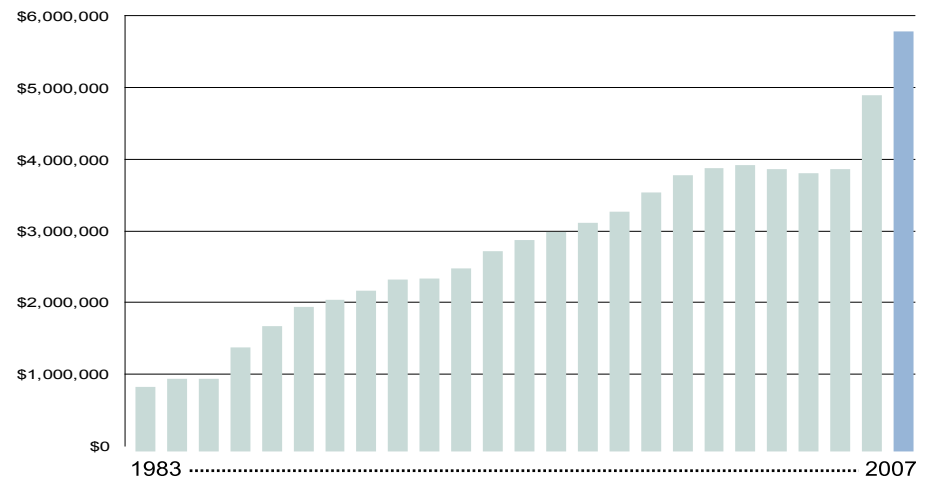
Written Premium

Experienced, Ethical Underwriting Practices and Policyholder Retention



Shareholders Equity

Steady Growth through Operations & Impressive Results of Current Stock Offering



Balancing Losses

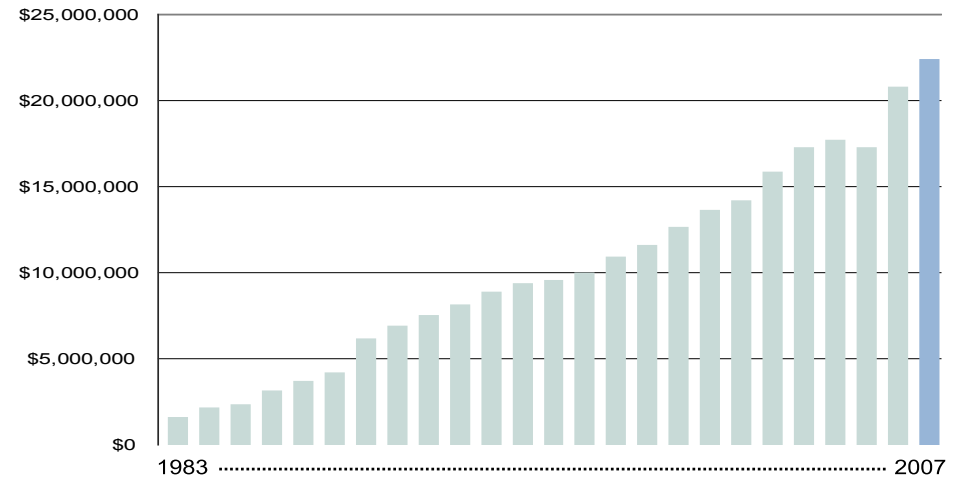
The Reserve for Losses and Loss Adjustment Expenses is Telcom’s “reason for being” and is of paramount concern to management. The 2007 balance of \$5,512, 284 is the highest in Telcom’s 25-year history. Activity that effects the reserve balance are additions, which is a percentage of Earned Premium called the Incurred Loss Ratio (ILR), and disbursements, which are amounts to indemnify policyholders. The amounts for 2007 were \$2,967,062 (or 63% of the \$4,713,217 Net Earned Premium) and \$2,305,768, respectively. During the year, management worked with our independent consulting actuary to determine the adequacy of the Loss Reserve. We are currently above the actuary’s point estimate of ultimate losses and Loss Adjustment Expenses but within a tolerable range for the reserve balance. Management is comfortable holding the reserve amount above the point estimate; we want to avoid any sudden swings in the Incurred Loss Ratio.

Keeping Moving

Keeping moving for Telcom also means premium growth and new sources of Commission Income. Market forces beyond Telcom’s control, however, sometimes thwart our efforts. Gross Written Premium declined from 2006 to 2007 by -3.8% or \$(444,355), primarily because of the softening insurance market. Commission Income, in contrast, exploded beyond all expectations and came in at 143% or \$344,247 of the 2006 results. Telcom strives to be the “one-stop-shop” for the insurance needs of NTCA members, and that sometimes entails searching other markets for the best fit to the member’s particular needs.

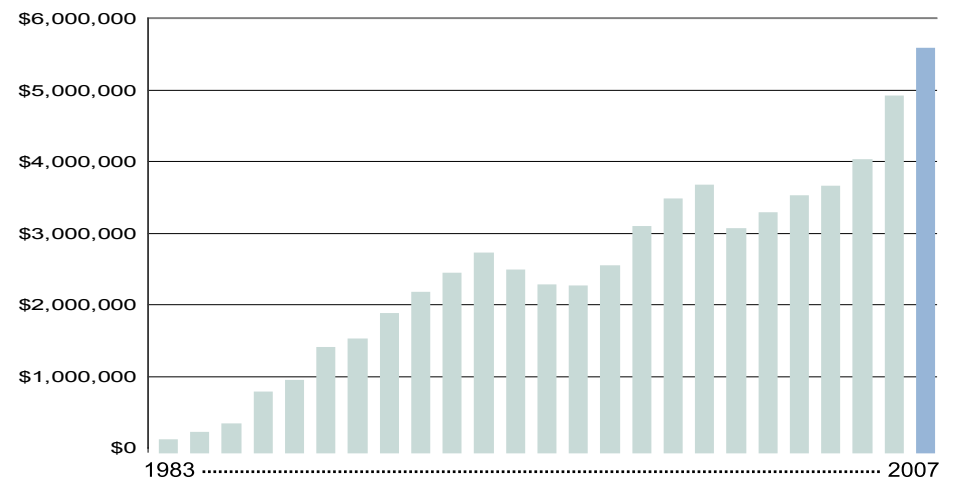
Total Assets

Steady Growth Combined with New Resources from the Current Stock Offering



Reserves for Losses

Security in Ample Reserves for Paying Claims



Keeping moving for Telcom also means developing new products. In 2007 Telcom and Great American introduced *Stay Connected*. It is an insurance product that we offer to the subscribing telephone company's customers for cellphone replacement coverage. At the end of the year, we had 120 policyholders through seven telephone companies participating in the program. Our program developers and consultants say that this acceptance-rate is on track, and that we should see steady growth as customers replace their cellphones through their NTCA-member phone company.

Telcom made heroic efforts to keep its name in front of the membership. In addition to regular advertising, sponsorships and contributions, we, along with Great American, raffled off a plasma flat-screen television at the NTCA Expo in Orlando. We also held our Risk Management Conference in Baltimore, which had the highest attendance of our conferences to date. Other efforts include distribution of safety related items, speaking at regional meetings, and safety newsletters. Costs for these activities are recorded as either Risk Management Expense or Public Relations Expense, depending on the type of activity. It's often convenient for management to view these accounts as one, and together they increased by \$29,903 over last year.

Lack of movement might cause Telcom to tip and fall. We will never let that happen. We will keep moving forward, keep striving to be the insurance solution for NTCA, and keep our balance through fitting financial management.

The graphs in this section, give a visual of the financial report.

Written Premium
Total Assets

Shareholders Equity
Reserves for Losses

*“Life is like riding a bicycle.
To keep your balance, you
must keep moving”*

– Albert Einstein (1879 - 1955)



National Telcom Corporation and Subsidiary Consolidated Balance Sheets

	At December 31,	
	2007	2006
Assets		
Fixed maturity securities, available for sale	\$ 3,201,547	\$ 3,038,453
Cash and cash equivalents	2,029,455	1,513,497
Funds held by insurance companies	9,380,713	8,901,950
Agency billings receivable from insureds	6,627,388	6,131,685
Assumed reinsurance premiums receivable, net of allowance of \$35,730 and \$0, respectively	147,854	171,881
Deferred policy acquisition costs	261,339	210,786
Net deferred tax asset	246,000	264,720
Deposits	46,022	57,802
Other assets	159,246	195,393
Total assets	\$ 22,099,564	\$ 20,486,167
Liabilities and shareholders' equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 5,512,284	\$ 4,850,990
Unearned premiums	1,416,948	1,502,228
Premiums and commissions billed or collected in advance	25,556	191,983
Accounts payable and accrued expenses	344,829	327,771
Agency billings payable to insurance carriers	7,149,381	6,420,236
Federal income taxes payable	122,621	12,136
Subordinated capital notes and accrued interest	1,831,104	2,369,758
Total liabilities	16,402,723	15,675,102
Shareholders' equity:		
Common stock: Class B - \$1,000 par value; 5,000 shares Authorized; 1,496 and 1,227 shares issued and outstanding as of December 31, 2007 and 2006, respectively	1,496,000	1,227,000
Additional paid-in capital	1,808,632	1,385,367
Retained earnings	2,483,614	2,265,200
Accumulated other comprehensive loss	(91,405)	(66,502)
Total shareholders' equity	5,696,841	4,811,065
Total liabilities and shareholders' equity	\$ 22,099,564	\$ 20,486,167



National Telcom Corporation and Subsidiary Consolidated Statements of Income and Comprehensive Income

Years ended December 31,

Revenues

	2007	2006
Premiums earned, net	\$ 4,713,217	\$ 4,672,809
Commission income	1,142,768	798,521
Investment income	677,304	591,599
Realized losses on investments	-	(11,067)
Other income	20,704	15,790
	<u>6,553,9934</u>	<u>6,067,652</u>
Total revenues		

Expenses

Losses and loss adjustment expenses	2,967,062	3,084,054
Salaries and employee benefits	1,196,559	1,125,650
Amortization of policy acquisition costs	884,351	799,707
Other operating expenses	999,020	813,257
Interest expense	138,261	177,568
	<u>6,185,253</u>	<u>6,000,236</u>
Total expenses		
Income before federal income taxes	368,740	67,416
Federal income tax expense	150,326	9,077
	<u>218,414</u>	<u>58,339</u>
Net income	\$	\$

Comprehensive Income

Net income	\$ 218,414	\$ 58,339
Other comprehensive income:		
Net unrealized holdings losses arising during the period	(37,731)	(20,196)
Less: reclassification adjustment for realized losses included in net income	-	11,067
	<u>(37,731)</u>	<u>(9,129)</u>
Income tax benefit related to items of other comprehensive income	12,828	3,104
Total other comprehensive loss	(24,903)	(6,025)
Comprehensive income	<u>\$ 193,511</u>	<u>\$ 52,314</u>

Note: Johnson Lambert & Co. LLP, Certified Public Accountants, has audited the consolidated financial statements of National Telcom Corporation and subsidiary as of and for the years ended December 31, 2007 and 2006, prepared in conformity with accounting principles generally accepted in the United States, and issued an unqualified opinion on such financial statements in their report dated April 2, 2008.

These consolidated balance sheets and consolidated statements of income and comprehensive income of National Telcom Corporation for the years ended December 31, 2007 and 2006 were derived from the audited financial statements. The complete audited financial statements may be obtained from National Telcom Corporation at 6301 Ivy Lane, Suite 506, Greenbelt, MD 20770.

Because the core benefits of an active risk management program include reduced accidents, providing adequate asset protection for the entity, and the ability to plan and budget better for retained losses, Telcom continues to strengthen its value to the Association by offering these services generically to the entire membership and distinctively to our family of policyholders.

During 2007, the main emphasis of Telcom's Risk Management department continued to be the importance of contributing to the community through safety and loss prevention techniques on a local level at the individual telecommunications company. In reality, when the company's assets, both human and financial, are protected through a complete insurance and risk management program, your community is a better place.

Educational Offerings

We ascribe to the philosophy that education is the key component to a comprehensive risk management program and that learning is what we do as working adults to continue to better ourselves and our organizations. Through various educational endeavors or learning objectives, the goal is to teach the members about the importance and value of safety and loss prevention and allow them to facilitate the principles in their own companies.

Telcom incorporated several techniques to promote education throughout the year, some of which included: quarterly newsletters and safety promotional item mailings to all members of NTCA; seminars at all Regionals, HRNet, Asheville Benefits Seminar, and the Fall Conference; participation in the HRNet; authoring three articles in the *Rural Telecommunications Journal*; monthly safety video/training materials to 24 NTCA member systems; a loss prevention seminar at Hancock Telecom in Indiana that addressed bucket truck safety and driving the utility truck procedures; the *Telcom Watch* which announced current happenings; 2 community art contests—nutrition and fire safety; as well as our annual Risk Management Conference in Baltimore, MD.

During the spring, we sponsored a National Nutrition Month safety art contest for the children of our policyholders and their communities. We had about 100 entries which addressed several different exercises and healthy eating tips, and we gave away \$675 in prize money to the winners. We also sponsored an October Fire Safety art contest and gave away Halloween trick-or-treat bags with safety information and brochures to our policyholders to distribute in their community to promote fire safety both at home and at work in addition to the prize money. In 2007, we had about 500 entries in the Fire Safety Contest.

*“Learning is what
most adults will do for
a living in the
21st century”*

– Perelman

The Risk Management Conference in Baltimore had the theme: *“Telcom is there for you when you're in a pinch”*. The two day seminar was attended by 27 NTCA member systems (3 of which were non-customers), all of our major insurance partners and brokers, and the entire Telcom staff. The speakers were described as excellent and the sessions, location, activities, and networking opportunities were well received as practical and useful at the telco level.

Using the electronic medium of email, we promoted a more complete understanding of D&O, EPLI, and Fiduciary coverages through a quarterly e-letter to all members of NTCA. We also have our second letter endorsed and mailed by NTCA to promote our D&O program. We designed a banner ad for NTCA's website that



links you to a simple questionnaire which can give the customer a premium indication...and it only takes about 5 minutes to do.

Public Relations took on several projects. Early in February, we sponsored a huge Super Bowl party at NTCA's Annual Meeting in which we and Great American sponsored a Plasma TV raffle for expiration dates. We acquired more than 50 ex-dates that we didn't previously have as confirmed dates. At the Regionals, we sponsored pens for everyone. At the Fall Conference, we sponsored hotel key cards that promoted our stock offering.

Also included in this expense category are items like flowers/plants and donations that Telcom makes for condolences, get well wishes, and congratulations. Other items, like raffle prizes for telecommunication companies customer appreciation days, golf tournaments, and statewide trade association tradeshows are also incorporated into this category.

We did a survey to our policyholders to gauge their interest in a fee-for-service risk management training program. We had 27 responses and there were varying degrees of interest. We have secured the services of Utilicom Safety and are working on offering these training classes on an as-needed basis to our policyholders.

Loss Prevention

Great American continued to conduct our on-site physical loss prevention visits. Key areas continued to be valuations, motor vehicle records, lightning protection, OSHA specific compliance, fall protection, and accident records as a comparison of the industry averages. We've supplemented the costs of Ergonomics/Wellness specific training, for both inside and outside employees, through Dr. Richard Bunch's IBS Institute at several seminars during the year at individual member systems. Great American continues to offer Driver Training, return-to-work implementation, on-line web-based safety training, and functional capacity testing for specific jobs as additional resources for our policyholders. Great American also continues to offer a safety resource in Safety First, a driver check program available, at no charge, to policyholders who sign up for this service; currently we have 4 customers who are using the service.

Claims Management

TRM continues to act as an advocate and facilitator on behalf of the insureds to all carriers, past and present, on claims matters. We used trending reports to review claims trends for the entire book of business as well as for each individual system and design our educational programs to address these concerns. We

have designed a more detailed explanation of how Workers Compensation (WC) works to accompany the state required posting notices and have finished a WC primer for the insureds to help avoid confusion at the telecommunications company level. Overall in all lines combined, frequency (number) of claims is down and has been improving each year and severity of claims (cost) is a little better than 2006.

The Total Package Approach

By strengthening the specific services that we offer our insureds through risk management education, we strengthen our relationship with the individual policyholders. When TRM is combined with all of the other services provided by Telcom, it makes one impressive package for the policyholder and accomplishes the goals set out in Telcom's Mission Statement.



“Call it a clan, call it a network, call it a tribe, call it a family. Whatever you call it, whoever you are, you need one.”

– Jane Howard

Policyholders...One Big Family

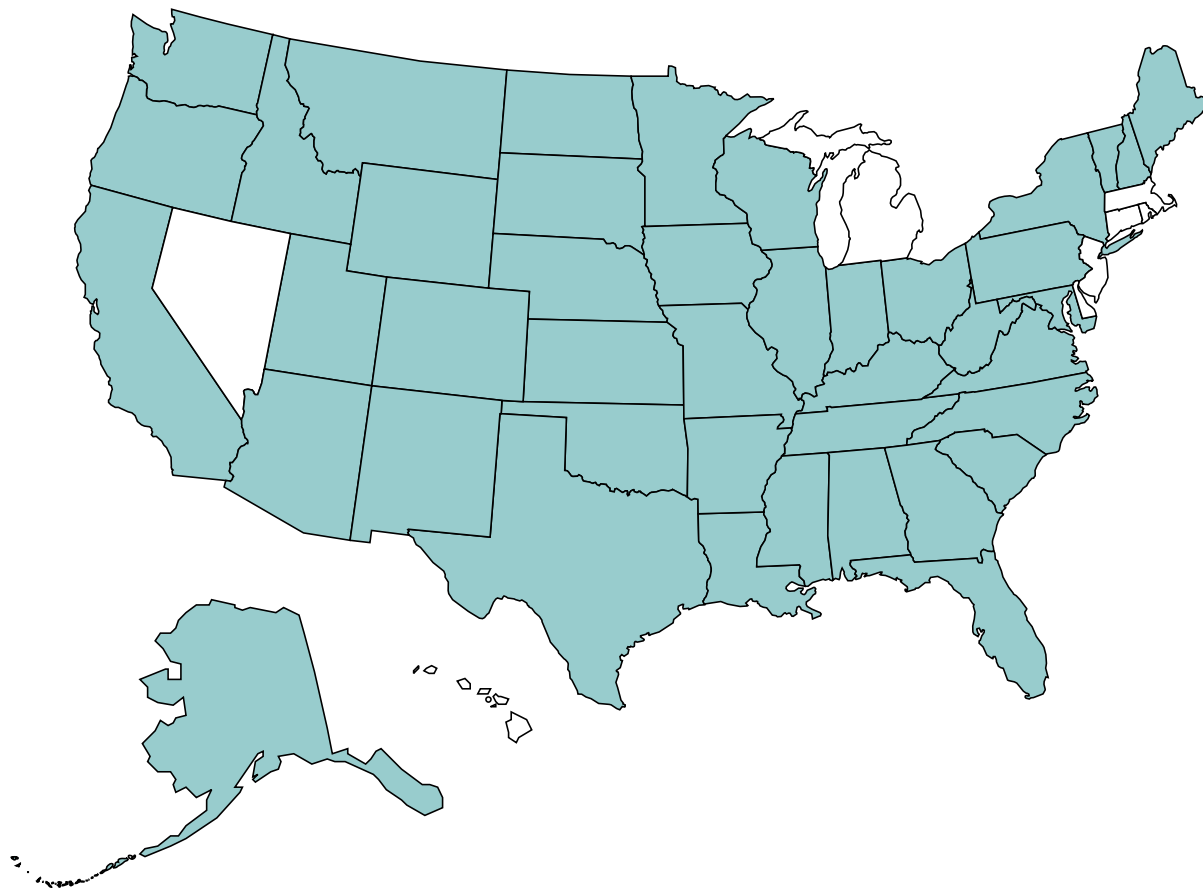
The Telcom Insurance Group operates much like a family, and we like to think of our customers as part of our big diverse family. As of the end of 2007, our Property-Casualty customers written through the Captive are spread throughout the United States as follows:

State	Percent of Property-Casualty Written Premium by State	State	Percent of Property-Casualty Written Premium by State
AK	5.55%	ND	0.06%
AL	0.80%	NH	0.01%
AR	2.15%	NM	0.03%
AZ	0.38%	NY	2.66%
GA	0.33%	OH	1.34%
IA	0.17%	OK	7.72%
ID	1.04%	OR	3.73%
IN	3.66%	PA	0.18%
KS	5.89%	SC	15.10%
KY	2.29%	TN	6.49%
LA	1.95%	TX	19.60%
MD	0.07%	VA	2.33%
MN	1.09%	VT	1.56%
MO	0.95%	WA	0.65%
MS	0.13%	WI	0.34%
NC	10.65%	WV	1.08%
		Total	100.00%

When you add the members who are written through the Agency, like the Directors and Officers Insurance participants, the following states must be added to our map: California, Colorado, Florida, Illinois, Maine, Montana, Nebraska, Utah, and South Dakota.

Each year when additional states are represented by newly written insureds, we continue to strengthen the operation and add geographic diversity.

National Telcom Corporation...proud, strong, growing, and available in all states.



*National Telcom
Corporation...proud,
strong, growing, and
available in all states.*

NTCA's Annual Meeting and Expo **Orlando, FL** **February 4-7, 2007**

Super Bowl Sunday, February 4th, gave us an opportunity to again sponsor a really fun event. We hosted the Super Bowl party, aka the Opening Reception, for about 2300 of our “closest friends”. There was food, gifts, games, raffles—including a plasma TV, and a pretty interesting game to watch. Everyone had a fabulous time! As our Hancock Telecom folks will proudly tell you, the Indianapolis Colts defeated the Chicago Bears by a score of 29 to 17.

As we are always honored to do, Telcom also hosted our annual “Special Friends” Breakfast on Monday morning for approximately 250 policyholders. It's our way of saying thanks for putting your trust in us throughout the year. The program included a state-of-the-company and insurance industry review, an introduction of staff and insurance partners, raffle prizes, and a PowerPoint display of the 77 companies who not only had low losses, but that had actually had no losses during the previous calendar year. Good Risk Management at work!

On Tuesday, the Board of Directors met and the Expo opened. Our expo theme of the year was “*Telcom's always there for you when you're in*

a pinch”. It was the kick-off to our annual Risk Management Conference (RMC), which was held in Baltimore, MD in June. At our booth at the expo, we gave away some very popular bean-bag crabs as a way to promote Baltimore, the host city for the RMC.

The Association always does a fabulous job and we're glad to be a part of it. We were pleased to get to see so many of our Telcom family and friends at this meeting and look forward to future meetings to do the same.

NTCA's Regionals **Tricks & Traps of Handset** **Replacement Coverage**

On Tuesday afternoons (Thursday at Region 6), we presented an interactive workshop titled “The Tricks and Traps of Handset Replacement Coverage”. Various Telcom representatives reviewed Handset or Cellphone replacement programs that NTCA member systems could sell to their customers. They looked at coverage options including accidental damage, theft and loss, and potential economic/business challenges of administering a program at your telecommunications company. In addition to providing an overview on the topic, effective loss prevention techniques to improve the results and prevent fraud were explored. It was the kick-off to the *Stay Connected* program.

2007 Risk Management **Conference** **Baltimore, MD** **June 24-26, 2007**

The annual Risk Management Conference is a time to network with other NTCA telecommunication company professionals and to gain a better understanding of property/casualty insurance and risk management specific to your company. This year, it was practically in our backyard—as it was in Baltimore. The two-day session included the following:

The State of Rural Telecommunications: **What's Happening in 2007!**

Mike Brunner, CEO of NTCA, addressed the current issues and trends facing rural telecommunication companies today and into the future. It was an honor to have him as our keynote speaker.

The State of the Insurance Industry **and Telcom in 2007**

Peter Elliott, Telcom's CEO, examined the changing world of the insurance industry and shared how Telcom continues to respond to your ever expanding business needs. Plus, he shared Telcom's vision and innovative plans for the future.



1st and 3rd Party Network Security

As businesses increase their reliance on technology to store their data or their customers' data on every imaginable format from peripheral devices, networks, and even laptop computers, they face increased computer attacks, viruses, and security breaches. Traditional coverage forms fall short of covering information and network-related risks. We examined the coverages available to you for both 1st and 3rd party cyber risks.

Understanding Workers Compensation

You asked for it, so we brought a practical who, what, when, where, and why premier on Workers Comp. coverages. Participants left with a better understanding of the coverages for indemnity, lost wages, how return-to-work policies have an impact on what you pay, and how your experience affects your modification factor and in turn your premium.

SMC—Another NTCA Benefit

Royden Russell, SMC Field Representative, presented an update on the NTCA benefit plans including the Group Health Plan, Retirement and Security Plan, Savings Plan, and updates in the various other plans offered by NTCA.

Computer Security Risk Management Tips

Rob Lee of Midwest Data examined risk management controls for both 1st and 3rd party exposures to the network security related issues that all technology companies have. He explained network security polices and procedures and offered various security suggestions to help manage this ever increasing risk—in a way that everyone understood. Tragically, Rob passed away in 2007. We will miss not only his knowledge but his incredible spirit.

Behavior Based Safety

With as much as 40% of workplace losses being attributed to human error, it becomes increasingly important for companies to establish a safety program that works. Behavior Based Safety is one established method of using positive reinforcement to change unsafe individual behaviors. Craig Rapp of Utilicom Safety presented this session and addressed the benefits of both behavior-based and traditional safety programs.

Slips, Trips, and Falls

Most of us have been walking for longer than we care to admit. So, why is it that the simple act of putting one foot in front of the other either on level ground or on a ladder results in so many injuries? Even though weather conditions increase the hazards of Slips, Trips, and Falls, they

can happen just about anywhere and can cause serious injuries. Good news: preventing them isn't that difficult. Marilyn Blake reviewed three simple steps to avoid slips, trips, and falls both at home and at work

NTCA's Fall Conference

Denver, CO

September 16-19, 2007

In addition to sponsoring the hotel key cards, Telcom and Craig Rapp of Utilicom Safety presented one session on Behavior Based Safety. Specifically, Behavior Based Safety is an established method of using positive reinforcement to change unsafe individual behaviors. The process starts with a behavioral hazard analysis to identify "at-risk" behaviors. Removing these barriers lowers the workers' exposure to at-risk conditions and makes it easier for employees to work safely, thereby creating a win-win situation for both the employees and the employer. It was very well attended.

The Telcom Family...Our Staff



This Telcom family is just that...a family. The staff, itself, is composed of hard working, dedicated, professional individuals who work diligently everyday to provide all of the members of the NTCA with the best property casualty and insurance risk management services possible... all the while, with a positive, caring attitude. Although there is some crossover, the 2007 team is composed of 3 major departments which are: Underwriting/Field Services, Risk Management/Corporate, and Finance. Peter Elliott, as the Chief Executive Officer, directs all aspects of the Company's operations and is ultimately responsible for underwriting, risk management, financial, and corporate functions.

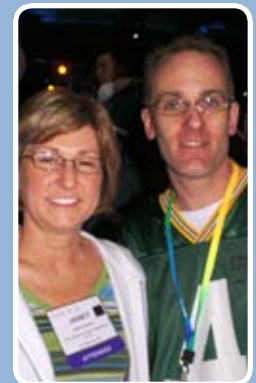
The Underwriting Department is composed of a Senior Underwriting Manager & Director of Specialty Lines, Sue Flanders; two Senior Underwriting/Marketing Technicians: Janice Johnson and Todd Travis; two Underwriting/Marketing Technicians: Beckie Menard and Tisa Smith; an Association Program Manager in Wisconsin, Bonnie Gauerke; and two Senior Account Executives (Field Services), Joyce Hermann in Maryland and Chris Jones in Texas. In early 2008, we added to the Senior Account Executives, when we hired Kim Olson to work directly for Telcom. As a group they handle the entire underwriting process from initial visit, to application, to proposal, to binding, and the customer service needs for each individual account after binding. This group handles all the core property casualty lines, as well as specialty

lines coverages in areas such as Directors and Officers, bonds and Cyberliability. They may handle various geographic regions, but they all work together for the benefit of the individual telecommunications company.

The Risk Management/Corporate department includes Marilyn Blake as the Chief Operating Officer; Cheri Condee is the day-to-day Senior Claims Specialist and Corporate Assistant; and Stephanie Szymczak, who is the Risk Management Assistant. The risk management department, is responsible for internal human resources, claims and trending, safety and loss control education and training, meeting and seminar planning, the website, and all Telcom publications and communication pieces. The Corporate department also handles Shareholder and Board administrative needs.

The Finance department is headed by Mike Huffman who is the Chief Financial Officer. He is assisted by Kim Spear, the Finance/Accounting Assistant, in managing all financial functions of the Company. Mike and Stephanie handle the information technology issues.

For more specific information and some pictures on each member of the family, go to the website (www.TelcomInsGrp.com) to "About Telcom" and then to "Telcom Staff". We're proud that together, the combined efforts of this family provides outstanding professional services to all of the members of NTCA.





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