



P. O. BOX 240 • 1621 KY HWY 40 W • STAFFORDSVILLE, KY 41256

June 10, 2008

Mrs. Stephanie L. Stumbo, Executive Director  
Kentucky Public Service Commission  
P.O. Box 615  
211 Sower Boulevard  
Frankfort, Kentucky 40602-0615

**RECEIVED**

**JUN 11 2008**

**PUBLIC SERVICE  
COMMISSION**

Re: Supplemental Data for Case. No. 2008-00163

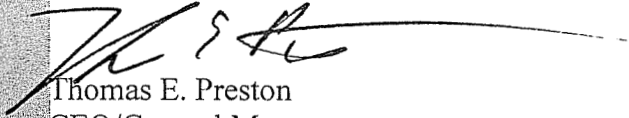
Dear Mrs. Stumbo:

We are supplementing our Petition filed May 2, 2008 to clarify that pursuant to KRS 278-020, Foothills Rural Telephone Cooperative Corporation, Inc. ("Foothills RTCC") requests authority to construct and upgrade facilities in its certified territory and further requests permission pursuant to 278.300(1) and 807 KAR 5:001 Sections 6 and 11 to borrow money to finance the proposed construction.

The supplemental information is more particularly identified on the schedule attached hereto as Exhibit "1" and supports our Petition currently pending before the Commission.

In the event that there are other filing requirements or information requests associated with this Petition, please advise me at your earliest convenience.

Yours Truly,



Thomas E. Preston  
CEO/General Manager

**EXHIBIT "1"**

**In Re: PSC Case No. 2008-00163**

Supplemental Data In Support Of Foothills RTCC

- (1) Attestation of Thomas E. Preston- CEO & GM – Attachment Item – 1A;
- (2) Balances and Loan Detail for current RTB and RUS Loans – Attachment Item – 1B;
- (3) Notes outstanding – collectively Attachment Item – 1C;
- (4) Copies of Existing Mortgage Information – Attachment Item- 1D;
- (5) Income Statements and Balance Sheets – Attachment Item- 1E;
- (6) Proposed Loan Rate and Terms from CoBank – Attachment Item- 1F.

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF APPLICATION OF FOOTHILLS)  
RURAL TELEPHONE COOPERATIVE CORPORATION) CASE NO. 2008-00163  
FOR FINANCING AUTHORITY)

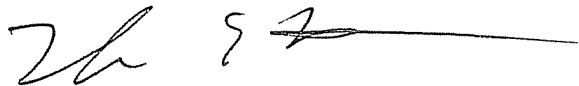
ATTESTATION OF THOMAS E. PRESTON

I, Thomas E. Preston, after being duly cautioned and sworn, hereby state that I am competent to testify as to the following matters and that the following is true and correct to the best of my personal knowledge and belief.

1. I am the Chief Executive Officer and General Manager of Foothills Rural Telephone Cooperative ("Foothills"), P.O. Box 240, Staffordsville, KY 41256.

2. Pursuant to the requirements set forth in KRS 278.300(2) the material filed herein is true and accurate.

FURTHER THE AFFIANT SAYETH NOT.

  
\_\_\_\_\_  
THOMAS E. PRESTON

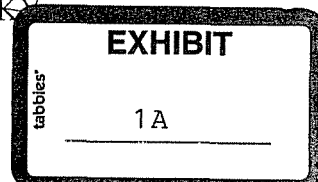
COUNTY OF FLOYD

STATE OF KENTUCKY

Subscribed and sworn to before me by Thomas E. Preston, on this 10th day of June, 2008.

My Commission expires: 2/24/2011.

  
\_\_\_\_\_  
NOTARY PUBLIC, STATE AT LARGE, KY



COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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My Commission expires: 2/24/2011.

  
\_\_\_\_\_  
NOTARY PUBLIC, STATE AT LARGE, KY

**1) Balances and loan detail for current RTB and RUS loans are listed below.**

Loan	Date of Execution	Mortgager	Mortgagee	Secured Debt To Date Balance	Remaining Debt to Draw	Total Available Indebtedness
P-12	11/1/1995	RUS/RTB	Foothills Rural Telephone Cooperative Corp.	1,900,231.24		1,900,231.24
R-12	10/1/2002	RUS/RTB	Foothills Rural Telephone Cooperative Corp.	9,365,156.89	1,344,531.00	10,709,687.89
Re-Finance* Cushion of Credit	7/14/2005	RUS/RTB	Foothills Rural Telephone Cooperative Corp.	18,832,015.86		18,832,015.86
		RUS	Foothills Rural Telephone Cooperative Corp.	(1,369,691.77)		(1,369,691.77)
TOTALS				28,727,712.22	1,344,531.00	30,072,243.22

\* The Re-Finance Loan is for Partial amounts of multiple loans (H8, K8, L8, M8, N4, ON7, P12 & R12).  
Details are included with Promissory Notes.



2)

RTB Outstanding	Loan	Date of Issue	Date of Maturity	Rate of Interest	Balance 5/31/2008
S030	R-12	10/1/2002	10/1/2018	5.00%	3,093,121.20
S031	R-12	10/1/2002	10/1/2018	5.49%	871,023.33
S040	Re-Finance	7/14/2005	7/14/2015	5.49%	7,156,968.25
Total RTB					11,121,112.78
RUS					
Outstanding		Date of Issue	Date of Maturity	Interest Rate	Balance 5/31/2008
12183	P-12	11/1/1995	11/1/2015	4.38%	1,900,231.24
12191	R-12	10/1/2002	10/1/2018	4.48%	890,145.73
12192	R-12	10/1/2002	10/1/2018	4.25%	3,285,497.95
12193	R-12	10/1/2002	10/1/2018	4.27%	1,225,368.68
12200	Re-Finance	7/14/2005	7/14/2015	4.36%	11,675,047.61
RUS Cushion of Credit				5.00%	(1,369,691.77)
Total RUS					17,606,599.44
<b>TOTAL Outstanding Balances</b>					
					<b>28,727,712.22</b>

Interest Paid in 2007	891,827.39
RUS	651,439.22
RTB	1,543,266.61
Total Interest Paid in 2007	

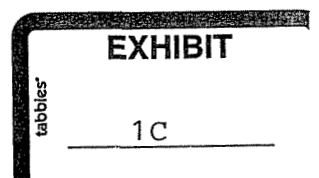
PROJECT DESIGNATION:  
KENTUCKY 522-R12 FOOTHILLS

MORTGAGE NOTE  
made by  
FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC.  
to  
RURAL TELEPHONE BANK

No. E

Generated: September 30, 2002

6.09



## MORTGAGE NOTE

Staffordsville, Kentucky  
October 1, 2002

### Article I: Special Provisions - Bank Note

#### 1. Amount

FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC. (hereinafter called the "Corporation"), a corporation organized and existing under the laws of the Commonwealth of Kentucky, for value received, promises to pay to the order of RURAL TELEPHONE BANK (the "Bank"), at Washington, D.C., at the times and in the manner hereinafter provided, such sums as may be advanced from time to time, not to exceed six million one hundred sixty thousand three hundred fifty dollars (\$6,160,350), with interest payable from the date of each advance ("Advance") on the unpaid principal balance, pursuant to a certain loan contract, dated as of October 1, 2002, among the Corporation, the United States of America (hereinafter called the "Government") and the Bank, as the same may be amended from time to time (said loan contract, as it may be so amended, being hereafter called the "Loan Contract"), and remaining unpaid from time to time.

#### 2. Payment on Advances made within two (2) years

Interest on each Advance made pursuant to the Loan Contract and remaining unpaid shall be payable on the last day of each month (the "Monthly Payment Date"), for a period ending on a date two (2) years after the date hereof. Thereafter, to and including a date sixteen (16) years after the date hereof (the "Maturity Date"), the Corporation shall make a payment every Monthly Payment Date on each such Advance (substantially equal to every other monthly payment on such Advance while it is subject to the same rate of interest, and (b) in an amount that will pay all principal and interest of such Advance no later than the Maturity Date.

#### 3. Payment on Advances made after two (2) years

Interest and principal payments on Advances made pursuant to the Loan Contract more than two (2) years after the date hereof shall be repaid in installments beginning with the Monthly Payment Date of the month following the month of each Advance and ending on the Maturity Date. The first payment on an Advance made more than two years after the date of this Note shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Thereafter, to and including the Maturity Date, the Corporation shall make a payment every Monthly Payment Date on each such Advance (a) substantially equal to every other monthly payment on such Advance while it is subject to the same rate of interest, and (b) in an amount that will pay all principal and interest of such Advance no later than the Maturity Date. This payment shall be in addition to the payments on the Advances made and unpaid two (2) years after the date hereof.

#### 4. Prepayment

The Corporation on any Monthly Payment Date, as hereinabove provided, may pay all or any part of an Advance remaining unpaid, but so long as any of the principal of such Advance shall remain unpaid, the Corporation shall be obligated to make the monthly payment on account of principal and interest, in the amount first determined pursuant to this Note, unless the Corporation and the holder of this Note shall otherwise agree.

#### 5. Interest Rate

Each Advance hereunder shall bear interest at the various rates determined for that Advance in accordance with Section 408(b)(3) of the Rural Electrification Act of 1936, as amended (7 U.S.C. §948(b)(3)) and the implementing regulations, as amended from time to time.

6. Determination of payment if interest rate changes

Whenever, under the terms of this Note, a payment consists of principal and interest equal to every other payment on such Advance, the payment shall be determined as if the interest rate then in effect would continue to apply to such Advance until the Maturity Date; provided, however, that if the interest rate applying to such Advance is changed pursuant to Article I, Section 5 hereof, then the payments of principal and interest on such Advance, beginning with the payment due on the next Monthly Payment Date after such change, shall be redetermined using the new interest rate.

Article II: Standard Provisions

1. Application of Payments

Each payment made on this Note shall be applied first to the payment of interest on principal and then on account of principal. Any principal hereof advanced pursuant to the Loan Contract remaining unpaid, and interest thereon, shall become due and payable on the Maturity Date.

2. Security

This Note has been executed and delivered pursuant to and is secured by a certain mortgage, dated as of October 1, 2002, made by and among the Corporation, the Government and the Bank, as the same may have been amended or supplemented by any supplemental mortgage or supplemental mortgages (said mortgage and any such supplemental mortgage or supplemental mortgages being hereinafter collectively called the "Mortgage"), and is one of several notes (hereinafter called the "notes") permitted to be secured by the Mortgage. The Mortgage provides that all notes shall be equally and ratably secured thereby and reference is hereby made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security and the rights of the holders of notes with respect thereto.

3. Default

In case of default by the Corporation, as provided in the Mortgage, all principal advanced pursuant to the Loan Contract and remaining unpaid, on this Note and any other notes at the time outstanding, and all interest thereon, may be declared or may become due and payable in the manner and with the effect provided in the Mortgage.

IN WITNESS WHEREOF, the Corporation has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

FOOTHILLS RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC.

by

President

(SEAL)

Attest:

Secretary

## PROMISSORY NOTE

Kentucky 522-S12 Foothills  
Staffordsville, Kentucky

THIS PROMISSORY NOTE (hereinafter the "Note,") dated as of July 14, 2005, is made by **FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC.** (hereinafter the "Borrower,") a corporation, cooperative, or limited liability company duly organized and existing under the laws of the State of Kentucky and the **UNITED STATES OF AMERICA**, (hereinafter the "Government,") acting through the Administrator of the Rural Utilities Service. For value received, the Borrower promises to pay to the order of the Government, at the United States Treasury, Washington, D.C., Fifteen Million One Hundred Twenty Thousand dollars (\$15,120,000), with interest payable, from the date of each advance, on the amount advanced by the Government (hereinafter the "Advance,") pursuant to a certain Loan Agreement Amendment, dated the same date as this Note (hereinafter the "Loan Agreement,") made by and among the Borrower, the Government, and the Rural Telephone Bank, and remaining unpaid from time to time, in the time and manner herein provided:

1. *Interest Rate.* Interest on each Advance shall be at rate(s), per annum (the "Cost of Money Interest Rate,") determined for each Advance in accordance with Section 305(d)(2)(A) of the Rural Electrification Act of 1936, as amended (7 U.S.C. 935 (d)(2)(A)) and the implementing regulations, as amended from time to time (7 C.F.R. 1735.31(c)).
2. *Maturity Date.* On a date ten (10) years after the date hereof, the principal hereof advanced pursuant to the Loan Agreement and remaining unpaid, if any, and interest thereon, shall be due and payable (hereinafter the "Maturity Date.")
3. *Fund Advance Period.* Funds will be advanced pursuant to the Loan Agreement. The fund advance period for this Note begins on the date hereof and terminates five (5) years from the date of this Note (hereinafter the "Termination Date.") No funds will be advanced subsequent to the Termination Date unless the Administrator extends the fund advance period in accordance with the Loan Agreement.
4. *Payments on Advances.* Interest and principal payments on Advances shall be payable on the last day of each month (hereinafter the "Monthly Payment Date,") and shall be repaid in installments beginning with the Monthly Payment Date of the month following each Advance and ending on the Maturity Date. The first such payment on an Advance shall be increased by - the amount of interest accruing between the date of the Advance and the first day of the next month. Thereafter, to and including the Maturity Date, the Borrower shall make a payment every Monthly Payment Date on each such Advance (i) substantially equal to every other monthly payment on such Advance, and (ii) in an amount that will pay all principal and interest of such Advance no later than the Maturity Date.



5. *Application of Payments.* Each payment made on this Note shall be applied as follows: First, to expenses, costs, and penalties; Second, to late charges; Third, to the payment of interest on principal; and Fourth, to principal.

6. *Prepayment.* All, or a portion of the outstanding balance, of any Advance may be prepaid on any payment date, as herein provided. However, so long as any of the principal advanced pursuant to the Loan Agreement shall remain unpaid, the Borrower shall be obligated to make the monthly payment on account of principal and interest, in the amount provided herein, unless the Borrower and the Government shall otherwise agree, in writing.

7. *Late Payments.* A late charge shall be charged on any payment not made within five (5) days of the date the payment becomes due. The late charge rate shall be computed on the payment from the due date at a rate equal to the rate of the cost of funds to the United States Treasury as prescribed and published by the Secretary of the Treasury. In addition, the Borrower shall pay administrative costs and penalty charges assessed in accordance with applicable Government regulations. Acceptance by the Government of a late payment shall not be deemed to be a waiver of any right or remedy of the Government.

8. *Security.* This Note is secured by a security interest in collateral described in the Restated Mortgage, Security Agreement and Financing Statement, dated as of October 1, 2002, made by and among the Borrower, the Government, and the Rural Telephone Bank (such mortgage, as amended, supplemented, consolidated, or restated from time to time, hereinafter the "Mortgage.") Rights and obligations with respect to the collateral are stated in the Mortgage.

9. *Noteholder.* This Note evidences indebtedness created by a loan made under the Rural Electrification Act (7 U.S.C. § 901 *et seq.*). The Government shall be and shall have all rights as holder of this Note. If the Government shall at any time assign this Note and insure the payment hereof, the Corporation shall continue to make payments hereunder to the Government as collection agent for the insured holder, and for purposes of the Mortgage, the Government, and not such insured holder, shall be considered to be, and shall have the rights of, the noteholder.

10. *Default.* In an event of default, as provided in the Loan Agreement and/or Mortgage, all principal advanced pursuant to the Loan Agreement and remaining unpaid on this Note, and all interest thereon may be declared or may become due and payable in the manner and with the effect provided in the Loan Agreement and/or Mortgage.

11. *Costs.* The Borrower shall pay any and all costs and expenses incurred in connection with the exercise of rights or the enforcement of remedies, as set forth in the Loan Agreement and/or Mortgage.

12. *Waivers.* The Borrower waives demand, presentment for payment, notice of non-payment, notice of dishonor, protest, and notice of non-payment of this Note.

13. *Obligations.* The obligations of the Borrower hereunder are absolute and unconditional, irrespective of any defense or any right to set off, recoupment, or counterclaim it might otherwise have against the Government.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate or legal name and its corporate seal, if any, to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

FOOTHILLS RURAL TELEPHONE  
COOPERATIVE CORPORATION, INC.

by Jeffrey A. Reed  
Name: Jeffrey A. Reed  
Title: President

(SEAL)

Attested to by: George J. Cafant  
Secretary

## PROMISSORY NOTE

Kentucky 522-S12 Foothills  
Staffordsville, Kentucky

THIS PROMISSORY NOTE (hereinafter the "Note,") dated as of July 14, 2005, is made by **FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**, (hereinafter the "Borrower,") a corporation duly organized and existing under the laws of the State of Kentucky, and the **RURAL TELEPHONE BANK**, (hereinafter the "Bank.") For value received, the Borrower promises to pay to the order of the Bank, at the United States Treasury, Washington, D.C., Ten Million Five Hundred Eighty-Four Thousand dollars (\$10,584,000), with interest payable, from the date of each advance, on the amount advanced by the Bank (hereinafter the "Advance,") pursuant to a certain Loan Agreement Amendment, dated the same date as this Note (hereinafter the "Loan Agreement,") made by and among the Borrower, the Bank, and the United States of America (hereinafter the "Government," acting through the Rural Utilities Service), and remaining unpaid from time to time, in the time and manner herein provided:

1. *Interest Rate.*

- (a) Interest on each Advance shall be at the various rates determined for each Advance in accordance with Section 408(b)(3) of the Rural Electrification Act of 1936, as amended (7 U.S.C. 948(b)(3)) and the implementing regulations, as amended from time to time (7C.F.R. 1610.10).
- (b) *Interest Rate Change on an Advance.* Whenever, under the terms of this Note, a payment consists of principal and interest equal to every other payment on an Advance, the payment shall be determined as if the interest rate then in effect would continue to apply to such Advance until the Maturity Date, as hereinafter defined,; provided, however, that if the interest rate applying to such Advance is changed pursuant to paragraph (a) of this section, then the payments of principal and interest on such Advance, beginning with the payment due on the next Monthly Payment Date, as hereinafter defined, after such change, shall be redetermined using the new interest rate.

2. *Maturity Date.* On a date ten (10) years after the date hereof, the principal hereof advanced pursuant to the Loan Agreement and remaining unpaid, if any, and interest thereon, shall be due and payable (hereinafter the "Maturity Date.")

3. *Fund Advance Period.* Funds will be advanced pursuant to the Loan Agreement. The fund advance period for this Note begins on the date hereof and terminates five (5) years from the date of this Note (hereinafter the "Termination Date.") No funds will be advanced subsequent to the Termination Date unless the Governor of the Bank extends the fund advance period in accordance with the Loan Agreement.

4. *Payments on Advances.* Interest and principal payments on Advances shall be payable on the last day of each month (hereinafter the "Monthly Payment Date,") and shall be repaid in installments beginning with the Monthly Payment Date of the month following each Advance and ending on the Maturity Date. The first such payment on an Advance shall be increased by the amount of interest accruing between the date of the Advance and the first day of the next month. Thereafter, to and including the Maturity Date,

the Borrower shall make a payment every Monthly Payment Date on each such Advance (i) substantially equal to every other monthly payment on such Advance, and (ii) in an amount that will pay all principal and interest of such Advance no later than the Maturity Date.

5. *Application of Payments.* Each payment made on this Note shall be applied as follows: First, to expenses, costs, and penalties; Second, to late charges; Third, to the payment of interest on principal; and Fourth, to principal.

6. *Prepayment.* All, or a portion of the outstanding balance, of any Advance may be prepaid on any payment date, as herein provided. However, so long as any of the principal advanced pursuant to the Loan Agreement shall remain unpaid, the Borrower shall be obligated to make the monthly payment on account of principal and interest, in the amount provided herein, unless the Borrower and the Bank shall otherwise agree, in writing.

7. *Late Payments.* A late charge shall be charged on any payment not made within five (5) days of the date the payment becomes due. The late charge rate shall be computed on the payment from the due date at a rate equal to the rate of the cost of funds to the Bank. In addition, the Borrower shall pay administrative costs and penalty charges assessed in accordance with applicable Government regulations. Acceptance by the Bank of a late payment shall not be deemed to be a waiver of any right or remedy of the Bank.

8. *Security.* This Note is secured by a security interest in collateral described in the Restated Mortgage, Security Agreement and Financing Statement, dated as of October 1, 2002, made by and among the Borrower, the Bank, and the Government (such mortgage, as amended, supplemented, consolidated, or restated from time to time, hereinafter the "Mortgage.") Rights and obligations with respect to the collateral are stated in the Mortgage.

9. *Noteholder.* This Note evidences indebtedness created by a loan made under the Rural Electrification Act (7 U.S.C. § 901 *et seq.*). The Bank shall be and shall have all rights as holder of this Note.

10. *Default.* In an event of default, as provided in the Loan Agreement and/or Mortgage, all principal advanced pursuant to the Loan Agreement and remaining unpaid on this Note, and all interest thereon may be declared or may become due and payable in the manner and with the effect provided in the Loan Agreement and/or Mortgage.

11. *Costs.* The Borrower shall pay any and all costs and expenses incurred in connection with the exercise of rights or the enforcement of remedies, as set forth in the Loan Agreement and/or Mortgage.

12. *Waivers.* The Borrower waives demand, presentment for payment, notice of non-payment, notice of dishonor, protest, and notice of non-payment of this Note.

13. *Obligations.* The obligations of the Borrower hereunder are absolute and unconditional, irrespective of any defense or any right to set off, recoupment, or counterclaim it might otherwise have against the Bank.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate or legal name and its corporate seal, if any, to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC.

by Jeffrey A. Reed

Name: Jeffrey A. Reed

Title: President

(SEAL)

Attested to by:

George J. Cafant  
Secretary

RTB PAYOFF FIGURES  
FOR FOOTHILLS RURAL TELEPHONE COOP  
AS OF 10/4/2005

ENTITY	LOAN DESIGNATION	YEAR OF LOAN	ACCOUNT NUMBER	INTEREST RATE	FINAL MATURITY	INTEREST DUE	PRINCIPAL DUE	PENALTY INTEREST	PAYOFF DUE	WEIGHTED AVERAGE YEARS TO MATURITY
FOOTHILLS RUR TELE COOP Reference No. 321522	ON7	1991	5011	6.050%	08/09/16	\$ 625.66	\$ 943,558.48	\$ 6,003.61	\$ 950,293.75	1.30
	ON7	1991	5012	6.150%	08/08/16	\$ 489.38	\$ 726,115.89	\$ 4,700.65	\$ 731,305.92	1.00
	ON7	1991	5014	6.040%	08/09/22	\$ 87.62	\$ 132,372.27	\$ 841.51	\$ 133,301.50	0.28
	ON7	1991	5016	5.950%	03/23/27	\$ 1,289.66	\$ 1,877,846.96	\$ 12,387.57	\$ 1,991,524.19	5.39
	ON7	1991	5017	6.510%	03/23/27	\$ 224.86	\$ 315,188.88	\$ 2,159.87	\$ 317,573.61	0.86
	P12	1995	5020	6.050%	11/01/15	\$ 961.44	\$ 1,450,108.22	\$ -	\$ 1,451,069.66	1.85
	P12	1995	5021	5.000%	11/01/15	\$ 1,282.91	\$ 2,341,302.27	\$ -	\$ 2,342,985.18	2.99
<b>TOTAL DUE =</b>						\$ 4,961.53	\$ 7,886,592.97	\$ 26,099.31	\$ 7,917,653.81	4 years (rounded)

Borrowers total interest payment due amount:  
after payment

\$ 0.97 \$ (0.97)

4962.5 \$ 7,886,592.00

**RET PAYOFF FIGURES  
FOR FOOTHILLS RURAL TELEPHONE COOP  
AS OF October 4, 2005**

ENTITY	LOAN DESIGNATION	YEAR OF LOAN	ACCOUNT NUMBER	INTEREST RATE	FINAL MATURITY	INTEREST DUE	PRINCIPAL DUE	PAYOFF DUE	WEIGHTED AVERAGE YEARS TO MATURITY
FOOTHILLS RUR TELE COOP	H8	1991	12130	5.0000%	01/18/09	\$ 2,276.82	\$ 488,846.18	\$ 491,123.00	0.10
Reference No. 221822	K8	1991	12140	5.0000%	09/02/10	\$ 1,744.31	\$ 374,510.93	\$ 376,255.24	0.11
	K8	1991	12141	5.0000%	09/02/10	\$ 203.04	\$ 43,593.25	\$ 43,796.29	0.01
	L8	1991	12150	5.0000%	08/14/13	\$ 16,201.86	\$ 3,478,633.75	\$ 3,494,835.61	1.67
	L8	1991	12151	5.0000%	08/14/13	\$ 1,825.61	\$ 391,969.82	\$ 393,795.43	0.19
	M8	1991	12160	5.0000%	10/21/16	\$ 8,664.34	\$ 1,860,284.80	\$ 1,868,949.14	1.26
	M8	1991	12161	5.0000%	10/21/16	\$ 1,652.97	\$ 354,901.89	\$ 356,554.86	0.24
	M8	1991	12162	5.0000%	10/22/16	\$ 918.65	\$ 197,240.01	\$ 198,158.66	0.13
	N4	1991	12170	5.0000%	08/08/16	\$ 587.28	\$ 1,071,783.17	\$ 1,072,370.45	0.71
	P12	1995	12180	5.7365%	11/01/15	\$ 922.54	\$ 1,467,474.24	\$ 1,468,396.78	0.90
	P12	1995	12181	4.7430%	11/01/15	\$ 680.53	\$ 1,309,258.44	\$ 1,309,938.97	0.81
	P12	1995	12182	6.6850%	11/01/15	\$ 1,131.84	\$ 1,544,956.51	\$ 1,546,088.35	0.95
	R12	2002	12190	4.6360%	10/01/18	\$ 1,926.36	\$ 3,791,638.08	\$ 3,793,564.44	3.01
<b>TOTAL DUE =</b>						<b>\$ 38,736.15</b>	<b>\$ 16,375,091.07</b>	<b>\$ 16,413,827.22</b>	<b>10 years (rounded)</b>

Borrowers total interest payment due amount: \$ 38,736.22 \$ 16,375,091.00

after payment

RUS PROJECT DESIGNATION:

KENTUCKY 522-R12 FOOTHILLS

RESTATED MORTGAGE,  
SECURITY AGREEMENT  
AND  
FINANCING STATEMENT

made by and among

FOOTHILLS RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC.

P.O. Box 240  
Staffordsville, Kentucky 41256,

as mortgagor and debtor,

and

UNITED STATES OF AMERICA

Rural Utilities Service  
Washington, D.C. 20250-1500,

as mortgagee and secured party,

and

RURAL TELEPHONE BANK

Rural Telephone Bank  
c/o Rural Utilities Service  
Washington, D.C. 20250-1500,

as mortgagee and secured party.

Dated as of October 1, 2002

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.  
THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.  
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY, AFTER-ACQUIRED PROPERTY,  
PROCEEDS, FUTURE ADVANCES AND FUTURE OBLIGATIONS.  
NOTICE - THIS MORTGAGE SECURES CREDIT IN THE AMOUNT OF UP TO \$100,000,000.00  
INDEBTEDNESS SECURED HEREUNDER, INCLUDING FUTURE INDEBTEDNESS, TOGETHER WITH INTEREST, ARE SENIOR TO  
INDEBTEDNESS TO OTHER CREDITORS UNDER MORTGAGES AND LIENS FILED OR RECORDED SUBSEQUENT HERETO.  
THIS INSTRUMENT WAS PREPARED BY DAVID OBLICH OR TERESA TEMME-DIETZ, AS ATTORNEY FOR UNITED STATES  
DEPARTMENT OF AGRICULTURE, RURAL UTILITIES SERVICE, WASHINGTON, D.C. 20250-1500.

ORGANIZATIONAL NO. 61-0480100

No. D

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**EXHIBIT**

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RESTATED MORTGAGE, SECURITY AGREEMENT AND FINANCING STATEMENT, dated as of October 1, 2002, made by and among FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC. (hereinafter called the "Mortgagor"), a corporation existing under the laws of the Commonwealth of Kentucky, as mortgagor and debtor, and UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the Administrator of the Rural Utilities Service, successor to the Administrator of the Rural Electrification Administration (hereinafter called the "Administrator"), and RURAL TELEPHONE BANK (hereinafter called the "Bank"), a corporation existing under the laws of the United States of America, as mortgagees and secured parties (the Government and the Bank being hereinafter sometimes collectively called the "Mortgagees").

WHEREAS, pursuant to Public Law No. 103-354, the Rural Utilities Service (hereinafter sometimes called "RUS") is the successor to the Rural Electrification Administration (hereinafter sometimes called "REA") and the Administrator of the Rural Utilities Service is the successor to the Administrator of the Rural Electrification Administration and, for the purposes of the Underlying Mortgage, as amended, as hereinafter defined, the terms "REA" and "Administrator" will be deemed to mean respectively "RUS" and "Administrator of the RUS"; and

WHEREAS, the Mortgagor has heretofore borrowed funds from the Government and the Bank, or from a third party lender whose loans are guaranteed by the Government, acting through the Administrator of RUS, pursuant to the Rural Electrification Act of 1936, as amended (7 U.S.C. 901 *et seq.*, hereinafter called the "Act"), and pursuant to a loan contract or amending loan contract and any amendments thereto prior to the date of the Amending Telephone Loan Contract identified in the twelfth recital hereof (hereinafter called the "Instruments Recital"), by and among the Mortgagor, the Government and the Bank; and

WHEREAS, the Mortgagor, for value received, has heretofore duly authorized and executed, and has delivered to the Government, or has assumed the payment of, certain mortgage notes all payable to the order of, or obligating the Mortgagor otherwise to, the Government, in installments, of which mortgage notes (hereinafter called the "Outstanding RUS Notes") identified in the Instruments Recital are now outstanding and held by the Government; and

WHEREAS, the Mortgagor, for value received, has heretofore duly authorized and executed, and has delivered to the Bank, or has assumed the payment of, certain mortgage notes all payable to the order of the Bank, in installments, of which mortgage notes (hereinafter collectively called the "Outstanding Bank Notes") identified in the Instruments Recital are now outstanding and held by the Bank; and

WHEREAS, the Outstanding RUS Notes and the Outstanding Bank Notes (hereinafter collectively called the "Outstanding Notes") evidence loans made by the Government or a third party lender and guaranteed by the Government, acting through the Administrator, or the Bank either to the Mortgagor or to a third party or to third parties to finance telephone exchanges, lines and related facilities; and

WHEREAS, the Outstanding Notes are secured by the security instrument (hereinafter called the "Underlying Mortgage") made by the Mortgagor to the Government and the Bank, identified in the Instruments Recital; and

WHEREAS, the Underlying Mortgage provides that the Mortgagor shall, upon the request in writing of the holder or holders of not less than a majority in principal amount of the RUS Notes or the Bank Notes, as hereinafter defined, duly authorize, execute, and deliver and record and file all such supplemental mortgages and conveyances as may reasonably be requested by such holder or holders to effectuate the intention of the Underlying Mortgage and to provide for the conveying, mortgaging and pledging of the property of the Mortgagor intended to be conveyed, mortgaged or pledged by the Underlying Mortgage to secure the payment of the principal of and

interest on notes executed and delivered thereunder and pursuant thereto, or otherwise secured thereby, and the holders of all such notes have in writing requested the execution and delivery of this Restated Mortgage, Security Agreement and Financing Statement (hereinafter called "this Restated Mortgage"), pursuant to such provisions; and

WHEREAS, the Mortgagor has determined at this time to borrow additional funds from the Bank pursuant to the Act and the Amending Telephone Loan Contract (the Amending Telephone Loan Contract, as it may be from time to time amended or supplemented, consolidated or restated, being hereinafter called the "Consolidated Loan Agreement"), and has accordingly duly authorized and executed, and delivered to the Bank, its mortgage note (identified in the Instruments Recital and hereinafter called the "Concurrent Bank Note") to be secured by this Restated Mortgage of the property hereinafter described; and

WHEREAS, it is contemplated that the Outstanding Bank Notes and the Concurrent Bank Note shall be secured hereby, as well as additional notes and refunding, renewal and substitute notes (hereinafter collectively called the "Additional Bank Notes") which may from time to time be executed and delivered by the Mortgagor to the Bank as hereinafter provided, shall be secured hereby (the Outstanding Bank Notes, the Concurrent Bank Note and any Additional Bank Notes being hereinafter collectively called the "Bank Notes"); and

WHEREAS, the Mortgagor has determined at this time to borrow additional funds from the Government pursuant to the Act and the Amending Telephone Loan Contract, and has accordingly duly authorized and executed, and delivered to the Government, its mortgage note (identified in the Instruments Recital and hereinafter called the "Concurrent RUS Note") to be secured by this Restated Mortgage of the property hereinafter described; and

WHEREAS, it is contemplated that the Outstanding RUS Notes and the Concurrent RUS Note shall be secured hereby, as well as additional notes and refunding, renewal and substitute notes (hereinafter collectively called the "Additional RUS Notes" and, together with the Additional Bank Notes, the "Additional Notes") which may from time to time be executed and delivered by the Mortgagor to the Government as hereinafter provided, shall be secured hereby (the Outstanding RUS Notes, the Concurrent RUS Note and any Additional RUS Notes being hereinafter collectively called the "RUS Notes", and the RUS Notes and the Bank Notes, collectively, being hereinafter called the "notes"); and

WHEREAS, the instruments referred to in the preceding recitals are as follows:

#### INSTRUMENTS RECITAL

"Amending Telephone Loan Contract" dated as of October 1, 2002.

"Outstanding RUS Notes":

Eight (8) certain mortgage notes payable to the order of the Government, in an aggregate principal amount of \$30,402,000.00, all of which will finally mature on or before October 22, 2016.

"Outstanding Bank Notes":

Two (2) certain mortgage notes payable to the order of the Bank in an aggregate principal amount of \$10,218,600.00, all of which will finally mature on or before March 23, 2027.

"Concurrent RUS Note": (Of even date herewith):

<u>Principal Amount</u>	<u>Interest Rate</u> <u>(per annum)</u>	<u>Final Payment</u> <u>Date</u>
\$10,583,000	Determined by Advance	October 1, 2018

"Concurrent Bank Note": (Of even date herewith):

<u>Principal Amount</u>	<u>Interest Rate</u> <u>(per annum)</u>	<u>Final Payment</u> <u>Date</u>
\$6,160,350	Determined by Advance	October 1, 2018

"Underlying Mortgage":

<u>Instrument</u>	<u>Date</u>
Restated Mortgage, Security Agreement and Financing Statement	November 1, 1995

WHEREAS, it is further intended by the Mortgagor, at the request and with the consent of the Mortgagees, as owners and holders of the Outstanding Notes, to amend and supplement the Underlying Mortgage in the respects hereinafter set forth; and

WHEREAS, the changes in the Underlying Mortgage which the Mortgagor and the Mortgagees, as holders of the Outstanding Notes, desire now to effect make advisable the consolidating and restating of each of the instruments, constituting the Underlying Mortgage in its entirety; and

WHEREAS, all acts, things and conditions prescribed by law and by the articles of incorporation and bylaws of the Mortgagor have been duly performed and complied with to authorize the execution and delivery hereof and to make this Restated Mortgage a valid and binding mortgage, and to make this Restated Mortgage an amendment and supplement to, and a consolidation and restatement of, the Underlying Mortgage; and

WHEREAS, the Government and the Bank are authorized to enter into this Restated Mortgage; and

WHEREAS, the Mortgagor now owns a telephone system and other facilities identified in the Property Schedule contained in the Granting Clause hereof (hereinafter called the "Existing Facilities"); and

WHEREAS, to the extent that any of the property described or referred to herein and in the Underlying Mortgage is governed by the provisions of the Uniform Commercial Code of any State (hereinafter called the "Uniform Commercial Code"), the parties hereto desire that the Underlying Mortgage and this Restated Mortgage, collectively, be regarded as a "security agreement" under the Uniform Commercial Code and that this Restated Mortgage be regarded as a "financing statement" under the Uniform Commercial Code for said security agreement.

NOW, THEREFORE, this Restated Mortgage

WITNESSETH:

That each of the instruments constituting the Underlying Mortgage is hereby amended, supplemented, consolidated and restated to read in its entirety from and after the date of execution of this Restated Mortgage (the Underlying Mortgage, as amended, supplemented, consolidated and restated by this Restated Mortgage, being herein called "this Mortgage") as follows:

#### GRANTING CLAUSE

In order to secure the payment of the principal of and interest on the notes, according to their tenor and effect, and further to secure the due performance of the covenants, agreements and provisions contained in this Mortgage and the Consolidated Loan Agreement and to declare the terms and conditions upon which the notes are to

be secured, the Mortgagor, in consideration of the premises, has executed and delivered this Mortgage, and has granted, bargained, sold, conveyed, warranted, assigned, transferred, mortgaged, pledged, and set over, and by these presents does hereby grant, bargain, sell, convey, warrant, assign, transfer, mortgage, pledge and set over, unto the Mortgagees, and their respective assigns, all and singular the following-described property (hereinafter sometimes called the "Mortgaged Property"):

## I

All right, title and interest of the Mortgagor in and to the Existing Facilities and buildings, plants, works, improvements, structures, estates, grants, franchises, easements, rights, privileges and properties real, personal and mixed, tangible or intangible, of every kind or description, now owned or leased by the Mortgagor or which may hereafter be owned or leased, constructed or acquired by the Mortgagor, wherever located, and in and to all extensions and improvements thereof and additions thereto, including all buildings, plants, works, structures, improvements, fixtures, apparatus, materials, supplies, machinery, tools, implements, poles, posts, crossarms, conduits, ducts, lines, whether underground or overhead or otherwise, wires, cables, exchanges, switches including, without limitation, host switches and remote switches, desks, testboards, frames, racks, motors, generators, batteries and other items of central office equipment, pay stations, protectors, instruments, connections and appliances, office furniture and equipment, work equipment and any and all other property of every kind, nature and description, used, useful or acquired for use by the Mortgagor in connection therewith and including, without limitation, the property described in the following property schedule:

### PROPERTY SCHEDULE

(a) The Existing Facilities are located in the Counties of Breathitt, Johnson, Knott, Lawrence and Magoffin in the Commonwealth of Kentucky.

(b) The property referred to in the last line of paragraph I of the Granting Clause includes the real estate described on Exhibit A attached hereto, and by this reference made a part hereof, as if fully set forth at length at this point.

(c) If the real estate described in Exhibit A is by reference to deeds, grantor(s), grantee, etc., then the description of each of the properties conveyed by and through such deeds is by reference made a part of Exhibit A as though fully set forth at length therein.

(d) The real estate described in Exhibit A shall also include all plants, works, structures, erections, reservoirs, dams, buildings, fixtures and improvements now or hereafter located on such real estate, and all tenements, hereditaments and appurtenances now or hereafter thereunto belonging or in any wise appertaining.

## II

All right, title and interest of the Mortgagor in, to and under any and all grants, privileges, rights of way and easements now owned, held, leased, enjoyed or exercised, or which may hereafter be owned, held, leased, acquired, enjoyed or exercised, by the Mortgagor for the purposes of, or in connection with, the construction or operation by or on behalf of the Mortgagor of telephone properties, facilities, systems or businesses, whether underground or overhead or otherwise, wherever located;

## III

All right, title and interest of the Mortgagor in, to and under any and all licenses, franchises, ordinances, privileges and permits heretofore granted, issued or executed, or which may hereafter be granted, issued or executed, to it or to its assignors by the United States of America, or by any state, or by any county, township, municipality, village or other political subdivision thereof, or by any agency, board, commission or department of any of the foregoing, authorizing the construction, acquisition, or operation of telephone properties, facilities,

systems or businesses, insofar as the same may by law be assigned, granted, bargained, sold, conveyed, transferred, mortgaged, or pledged;

#### IV

All right, title and interest of the Mortgagor in, to and under any and all contracts heretofore or hereafter executed by and between the Mortgagor and any person, firm, or corporation relating to the Mortgaged Property together with any and all other accounts, contract rights and general intangibles (as such terms are defined in the applicable Uniform Commercial Code), and all stock, bonds, notes, debentures, commercial paper, subordinated capital certificates, securities, obligations of or beneficial interests or investments in any corporation, association, partnership, joint venture, trust, government or any agency or department thereof, or any other entity of any kind, heretofore or hereafter acquired by the Mortgagor;

#### V

Also, all right, title and interest of the Mortgagor in and to all other property, real or personal, tangible or intangible, of every kind, nature and description, and wheresoever situated, now owned or leased or hereafter acquired by the Mortgagor, it being the intention hereof that all such property now owned or leased but not specifically described herein or acquired or held by the Mortgagor after the date hereof shall be as fully embraced within and subjected to the lien hereof as if the same were now owned by the Mortgagor and were specifically described herein to the extent only, however, that the subjection of such property to the lien hereof shall not be contrary to law;

Together with all rents, income, revenues, proceeds, profits and benefits at any time derived, received or had from any and all of the above-described property of the Mortgagor.

Provided, however, that except as hereinafter provided in section 12(b) of article II hereof, no automobiles, trucks, trailers, tractors or other vehicles (including without limitation aircraft or ships, if any) owned or used by the Mortgagor shall be included in the Mortgaged Property.

TO HAVE AND TO HOLD all and singular the Mortgaged Property unto the Mortgagees and their respective assigns forever, to secure equally and ratably the payment of the principal of and interest on the notes, according to their tenor and effect, without preference, priority or distinction as to interest or principal (except as otherwise specifically provided herein) or as to lien or otherwise of any note over any other note by reason of the priority in time of the execution, delivery or maturity thereof or of the assignment or negotiation thereof, or otherwise, and to secure the due performance of the covenants, agreements and provisions herein and in the Consolidated Loan Agreement contained, and for the uses and purposes and upon the terms, conditions, provisos and agreements hereinafter expressed and declared.

### ARTICLE I

#### ADDITIONAL NOTES

SECTION 1. The Mortgagor, when authorized by resolution or resolutions of its board of directors, may from time to time (1) execute and deliver to the Government one or more Additional RUS Notes to evidence loans made or guaranteed by the Government to the Mortgagor pursuant to the Act, or to evidence indebtedness of the Mortgagor incurred by the assumption by the Mortgagor of the indebtedness of a third party or parties to the Government created by a loan or loans theretofore made or guaranteed by the Government to such third party or parties pursuant to the Act, and (2) execute and deliver to the Bank one or more Additional Bank Notes to evidence loans made by the Bank to the Mortgagor pursuant to the Act, or to evidence indebtedness of the Mortgagor incurred by the assumption by the Mortgagor of the indebtedness of a third party or parties to the Bank created by a loan or loans theretofore made by the Bank to such third party or parties pursuant to the Act. The Mortgagor, when authorized by resolution or resolutions of its board of directors, may also from time to time execute

and deliver one or more Additional Notes to refund any note or notes at the time outstanding and secured hereby, or in renewal of, or in substitution for, any such outstanding note or notes. Additional Notes shall contain such provisions and shall be executed and delivered upon such terms and conditions as the board of directors of the Mortgagor in the resolution or resolutions authorizing the execution and delivery thereof and the relevant lender shall prescribe; provided, however, that the outstanding principal balances owing on the notes shall not at any one time exceed one hundred million dollars (\$100,000,000), and no note shall mature more than fifty (50) years after the date hereof. Additional Notes, including refunding, renewal and substitute notes, when and as executed and delivered, shall be secured by this Mortgage, equally and ratably with all other notes at the time outstanding, without preference, priority, or distinction of any of the notes over any other of the notes by reason of the priority of the time of the execution, delivery or maturity thereof or of the assignment or negotiation thereof. As used in this Mortgage, the term "directors" includes trustees.

SECTION 2. The Mortgagor, when authorized by resolution or resolutions of its board of directors, may from time to time execute, acknowledge, deliver, record and file mortgages supplemental to this Mortgage which thereafter shall form a part hereof, for the purpose of formally confirming this Mortgage as security for the notes. Nothing herein contained shall require the execution and delivery by the Mortgagor of a supplemental mortgage in connection with the issuance hereunder or the securing hereby of notes except as hereinafter provided in section 12 of article II hereof.

## ARTICLE II

### PARTICULAR COVENANTS OF THE MORTGAGOR

The Mortgagor covenants with the Mortgagees and the holders of notes secured hereby (hereinafter sometimes collectively called the "noteholders") and each of them as follows:

SECTION 1. The Mortgagor is duly authorized under its articles of incorporation and bylaws and the laws of the Commonwealth of its incorporation and all other applicable provisions of law to execute and deliver the Outstanding RUS Notes, the Outstanding Bank Notes, the Concurrent RUS Note, the Concurrent Bank Note and this Mortgage and to execute and deliver Additional Notes; and all corporate action on its part for the execution and delivery of the Outstanding RUS Notes, the Outstanding Bank Notes, the Concurrent RUS Note, the Concurrent Bank Note and this Mortgage has been duly and effectively taken; and the Outstanding RUS Notes, the Outstanding Bank Notes, the Concurrent RUS Note, the Concurrent Bank Note and this Mortgage are, or when executed and delivered will be, the valid and enforceable obligations of the Mortgagor in accordance with their respective terms.

SECTION 2. The Mortgagor warrants that it has good right and lawful authority to mortgage the property described in the granting clauses of this Mortgage for the purposes herein expressed, and that the said property is free and clear of any deed of trust, mortgage, lien, charge or encumbrance thereon or affecting the title thereto, except (i) the lien of this Mortgage and taxes or assessments not yet due; (ii) deposits or pledges to secure payment of workmen's compensation, unemployment insurance, old age pensions or other social security; and (iii) deposits or pledges to secure performance of bids, tenders, contracts (other than contracts for the payment of borrowed money), leases, public or statutory obligations, surety or appeal bonds, or other deposits or pledges for purposes of like general nature in the ordinary course of business.

The Mortgagor will, so long as any of the notes shall be outstanding, maintain and preserve the lien of this Mortgage superior to all other liens affecting the Mortgaged Property, and will forever warrant and defend the title to the property described as being mortgaged hereby to the Mortgagees against any and all claims and demands whatsoever. The Mortgagor will promptly pay or discharge any and all obligations for or on account of which any such lien or charge might exist or could be created and any and all lawful taxes, rates, levies, assessments, liens, claims or other charges imposed upon or accruing upon any of the Mortgagor's property (whether taxed to the Mortgagor or to any noteholder), or the franchises, earnings or business of the Mortgagor, as and when the same

shall become due and payable; and whenever called upon so to do the Mortgagor will furnish to the Mortgagees or to any noteholder adequate proof of such payment or discharge.

SECTION 3. The Mortgagor will duly and punctually pay the principal of and interest on the notes at the dates and places and in the manner provided therein, according to the true intent and meaning thereof, and all other sums becoming due hereunder.

SECTION 4. (a) The Mortgagor will at all times, so long as any of the notes shall be outstanding, take or cause to be taken all such action as from time to time may be necessary to preserve its corporate existence and to preserve and renew all franchises, rights of way, easements, permits and licenses now or hereafter to it granted or upon it conferred, and will comply with all valid laws, ordinances, regulations and requirements applicable to it or its property. The Mortgagor will not, without the approval in writing of the holder or holders of not less than a majority in principal amount of the RUS Notes at the time outstanding (hereinafter called the "majority RUS noteholders") and of the holder or holders of not less than a majority in principal amount of the Bank Notes at the time outstanding (hereinafter called the "majority Bank noteholders"), take or suffer to be taken any steps to reorganize, or to consolidate with or merge into any other corporation, or to sell, lease or transfer (or make any agreement therefor) the Mortgaged Property, or any part thereof.

(b) The Mortgagor may, however, without obtaining the approval of the holder or holders of any of the notes at the time outstanding, at any time or from time to time so long as the Mortgagor is not in default hereunder, sell or otherwise dispose of, free from the lien hereof, any of its property which is neither necessary to nor useful for the operation of the Mortgagor's business, or which has become obsolete, worn out or damaged or otherwise unsuitable for the purposes of the Mortgagor; provided, however, that the Mortgagor shall: (1) to the extent necessary, replace the same by, or substitute therefor, other property of the same kind and nature, which shall be subject to the lien hereof, free and clear of all prior liens, and apply any proceeds derived from such sale or other disposition of such property and not needed for the replacement thereof to the payment of the indebtedness evidenced by the RUS Notes and the Bank Notes in the proportions which the aggregate principal balances then owing on the RUS Notes and the aggregate principal balances then owing on the Bank Notes, respectively, bear to the aggregate principal balances then owing on the RUS Notes and the Bank Notes, collectively, and shall be applied to such notes and installments thereof as may be designated by the respective noteholders at the time of any such receipt; or (2) immediately upon the receipt of the proceeds of any sale or other disposition of said property, apply the entire amount of such proceeds to the payment of the indebtedness evidenced by the RUS Notes and the Bank Notes in the proportions and in the manner provided for in (1) above; or (3) deposit all or such part of the proceeds derived from the sale or other disposition of said property as the majority RUS noteholders and the majority Bank noteholders shall specify in such restricted bank accounts as such holder or holders shall designate, and shall use the same only for such additions to or improvements of the Mortgaged Property and on such terms and conditions as such holder or holders shall specify.

SECTION 5. The Mortgagor will at all times maintain and preserve the Mortgaged Property in good repair, working order and condition, and will from time to time make all needful and proper repairs, renewals, and replacements, and useful and proper alterations, additions, betterments and improvements, and will, subject to contingencies beyond its reasonable control, at all times keep its plant and properties in continuous operation and use all reasonable diligence to furnish the subscribers served by it through the Mortgaged Property with adequate telephone service.

SECTION 6. Except as specifically authorized in writing in advance by the majority RUS noteholders and the majority Bank noteholders, the Mortgagor will purchase all materials, equipment, supplies and replacements to be incorporated in or used in connection with the Mortgaged Property outright, and not subject to any conditional sales agreement, chattel mortgage, bailment lease, or other agreement reserving to the seller any right, title or lien.

SECTION 7. (a) The Mortgagor shall take out, as the respective risks are incurred, and maintain the classes and amounts of insurance in conformance with generally accepted utility industry standards for

such classes and amounts of coverage for utilities of the size and character of the Mortgagor and consistent with Prudent Utility Practice. Prudent Utility Practice shall mean any of the practices, methods, and acts which, in the exercise of reasonable judgement, in light of the facts, including but not limited to, the practices, methods, and acts engaged in or approved by a significant portion of the telecommunications industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result consistent with cost-effectiveness, reliability, safety, and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to optimum practice, method, or act to the exclusion of all others, but rather is a spectrum of possible practices, methods, or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with cost-effectiveness, reliability, safety, and expedition.

(b) The foregoing insurance coverage shall be obtained by means of bond and policy forms approved by regulatory authorities having jurisdiction, and, with respect to insurance upon any part of the Mortgaged Property, shall provide that the insurance shall be payable to Mortgagees as their interests may appear by means of the standard mortgagee clause without contribution. Each policy or other contract for such insurance shall contain an agreement by the insurer that, notwithstanding any right of cancellation reserved to such insurer, such policy or contract shall continue in force for at least 30 days after written notice to each Mortgagee of suspension, cancellation, or termination.

(c) In the event of damage to or the destruction of any portion of the Mortgaged Property which is used or useful in the Mortgagor's business and which shall be covered by insurance, unless each Mortgagee shall otherwise agree, the Mortgagor shall replace or restore such damaged, destroyed, or lost portion so that such Mortgaged Property shall be in substantially the same condition as it was in prior to such damage, destruction, or loss and shall apply the proceeds of the insurance for that purpose. The Mortgagor shall replace the lost portion of such Mortgaged Property or shall commence such restoration promptly after such damage, destruction, or loss shall have occurred and shall complete such replacement or restoration as expeditiously as practicable, and shall pay or cause to be paid out of the proceeds of such insurance form all costs and expenses in connection therewith.

(d) Sums recovered under any policy or fidelity bond by the Mortgagor for a loss of funds advanced under the Notes or recovered by any Mortgagor or any Noteholder for any loss under such policy or bond shall, unless applied as provided in the preceding paragraph, be used to finance construction of utility plant secured or to be secured by this Mortgage, or unless otherwise directed by the Mortgagees, be applied to the prepayment of the Notes pro rata according to the unpaid principal amounts thereof (such prepayments to be applied to such Notes and installments thereof as may be designated by the respective Mortgagee at the time of any such prepayment), or be used to construct or acquire utility plant which will become part of the Mortgaged Property. At the request of any Mortgagee, the Mortgagor shall exercise such rights and remedies which they may have under such policy or fidelity bond and which may be designated by such Mortgagee, and the Mortgagor hereby irrevocably appoints each Mortgagee as its agent to exercise such rights and remedies under such policy or bond as such Mortgagee may choose, and the Mortgagor shall pay all costs and reasonable expenses incurred by the Mortgagee in connection with such exercise.

SECTION 8. In the event of the failure of the Mortgagor in any respect to comply with the covenants and conditions herein contained with respect to the procuring of insurance, the payment of taxes, assessments and other charges, the keeping of the Mortgaged Property in repair and free of liens and other claims or to comply with any other covenant contained in this Mortgage, any noteholder or noteholders shall have the right (without prejudice to any other rights arising by reason of such default) to advance or expend moneys for the purpose of procuring such insurance, or for the payment of insurance premiums, taxes, assessments or other charges, or to save the Mortgaged Property from sale or forfeiture for any unpaid tax or assessment, or otherwise, or to redeem the same from any tax or other sale, or to purchase any tax title thereon, or to remove or purchase any mechanics' liens or other encumbrance thereon, or to make repairs thereon or to comply with any other covenant herein contained or to prosecute or defend any suit in relation to the Mortgaged Property or in any manner to protect the Mortgaged Property and the title thereto, and all sums so advanced for any of the aforesaid purposes with interest thereon at the highest legal rate but not in excess of twelve per centum (12%) per annum shall be deemed a charge upon the Mortgaged Property in the same manner as the notes at the time outstanding are secured and shall be forthwith paid



to the noteholder or noteholders making such advance or advances upon demand. It shall not be obligatory for any noteholder in making any such advances or expenditures to inquire into the validity of any such tax title, or of any of such taxes or assessments or sales therefor, or of any such mechanics' liens or other encumbrance.

SECTION 9. The Mortgagor will not, without the approval in writing of the majority RUS noteholders and the majority Bank noteholders: (a) enter into any contract or contracts for the operation or maintenance of all or any part of its property, for the use by others of any of the Mortgaged Property, or for toll traffic, operator assistance, extended scope or switching services to be furnished by or for connecting or other companies; provided, however, that such approval shall not be required for any toll traffic or operator assistance contract which in form and substance conforms with contracts in general use in the telephone industry; or (b) deposit any of its funds, regardless of the source thereof, in any bank, institution or other depository which is not insured by the Federal Government.

SECTION 10. Salaries, wages and other compensation paid by the Mortgagor for services, and directors' or trustees' fees, shall be reasonable and in conformity with the usual practice of corporations of the size and nature of the Mortgagor. Except as specifically authorized in writing in advance by the majority RUS noteholders and the majority Bank noteholders, the Mortgagor will make no advance payments or loans, or in any manner extend its credit, either directly or indirectly, with or without interest, to any of its directors, trustees, officers, employees, stockholders, members or affiliated companies, provided, however, the Mortgagor may make an investment for any purpose described in section 607(c)(2) of the Rural Development Act of 1972 (including any investment in, or extension of credit, guarantee or advance made to, an affiliated company of the Mortgagor that is used by such company for such purpose) to the extent that, immediately after such investment, (1) the aggregate of such investments does not exceed one-third of the net worth (defined in Exhibit One hereto) of the Mortgagor and (2) the Mortgagor's net worth is at least twenty percent of its total assets (defined in Exhibit One hereto). As used in this section, the term "affiliated companies" shall have the meaning prescribed for this term by the Federal Communications Commission in its prevailing uniform system of accounts for Class A telephone companies.

SECTION 11. The Mortgagor will at all times keep, and safely preserve, proper books, records and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Mortgagor, in accordance with the methods and principles of accounting then prescribed by the state regulatory body having jurisdiction over the Mortgagor, or in the absence of such regulatory body or such prescription, by the Federal Communications Commission in its uniform system of accounts for telecommunications companies, as those methods and principles of accounting may be supplemented, from time to time, by RUS. The Mortgagor will prepare and furnish each noteholder not later than the thirtieth day of January in each year, or at such more or less frequent intervals when specified by the majority RUS noteholders and the majority Bank noteholders, financial and statistical reports on its condition and operations. Such reports shall be in such form and include such information as may be specified by the majority RUS noteholders and the majority Bank noteholders, including without limitation an analysis of the Mortgagor's revenues, expenses, and subscriber accounts. The Mortgagor will cause to be prepared and furnished to each noteholder at least once during each twelve (12)-month period during the term hereof, full and complete reports of its financial condition and cash flow as of a date (hereinafter called the Fiscal Date"), and a full and complete report of its operations of the twelve (12)-month period ended on the Fiscal Date, all in form and substance satisfactory to the majority RUS noteholders and the majority Bank noteholders, and will cause such reports to be furnished to each noteholder within 120 days of the Fiscal Date, such reports having been audited and certified by independent certified public accountants satisfactory to said noteholders and accompanied by such reports of such audit in form and substance satisfactory to said noteholders. The majority RUS noteholders and the majority Bank noteholders, through their representatives, shall at all times during reasonable business hours have access to, and the right to inspect and make copies of, any or all books, records and accounts, and any or all invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in possession of the Mortgagor and in anywise pertaining to its property or business. The Mortgagor shall enter into an audit agreement with an independent certified public accountant in form and substance satisfactory to the majority RUS noteholders and the majority Bank noteholders.

SECTION 12. (a) The Mortgagor will from time to time upon written demand of the majority RUS noteholders or the majority Bank noteholders make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered all such further and supplemental indentures of mortgage, deeds of trust, mortgages, financing statements, continuation statements, security agreements, instruments and conveyances as may reasonably be requested by the majority RUS noteholders or the majority Bank noteholders and take or cause to be taken all such further action as may reasonably be requested by the majority RUS noteholders or the majority Bank noteholders to effectuate the intention of these presents and to provide for the securing and payment of the principal of and interest on the notes according to the terms thereof and for the purpose of fully conveying, transferring and confirming unto the Mortgagees the property hereby conveyed, mortgaged and pledged, or intended so to be, whether now owned by the Mortgagor or hereafter acquired by it and to reflect the assignment of the rights or interests of either of the Mortgagees or of any noteholder hereunder or under any note. The Mortgagor will cause this Mortgage and any and all supplemental indentures of mortgage, mortgages and deeds of trust and every security agreement, financing statement, continuation statement and every additional instrument which shall be executed pursuant to the foregoing provisions forthwith upon execution to be recorded and filed and rerecorded and refiled as conveyances and mortgages and deeds of trust of and security interests in real and personal property in such manner and in such places as may be required by law or reasonably requested by the majority RUS noteholders or the majority Bank noteholders in order fully to preserve the security for the notes and to perfect and maintain the superior lien of this Mortgage and all supplemental indentures of mortgage, mortgages and deeds of trust and the rights and remedies of the Mortgagees and the noteholders.

(b) In the event that the Mortgagor has had or suffers a deficit in net income or net margins, as determined in accordance with methods of accounting prescribed in section 11 of article II hereof, for any of the five fiscal years immediately preceding the date hereof or for any fiscal year while any of the notes are outstanding, the Mortgagor will at any time or times upon written demand of the majority RUS noteholders or the majority Bank noteholders, make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered all such further and supplemental indentures of mortgage, mortgages, security agreements, financing statements, instruments and conveyances, and take or cause to be taken all such further action, as may reasonably be requested by the majority RUS noteholders or the majority Bank noteholders in order to include in this Mortgage, as Mortgaged Property, and to subject to all the terms and conditions of this Mortgage, all right, title and interest of the Mortgagor in and to, all and singular, the automobiles, trucks, trailers, tractors, aircraft, ships and other vehicles then owned by the Mortgagor, or which may thereafter be owned or acquired by the Mortgagor. From and after the time of such written demand of the majority RUS noteholders or the majority Bank noteholders, such vehicles shall be deemed to be part of the Mortgaged Property for all purposes hereof.

SECTION 13. Any noteholder may, at any time or times in succession without notice to or the consent of the Mortgagor or any other noteholder and upon such terms as such noteholder may prescribe, grant to any person, firm or corporation who shall have become obligated to pay all or any part of the principal of or interest on any note held by or indebtedness owed to such noteholder or who may be affected by the lien hereby created, an extension of the time for the payment of such principal or interest, and after any such extension the Mortgagor will remain liable for the payment of such note or indebtedness to the same extent as though it had at the time of such extension consented thereto in writing.

SECTION 14. The Mortgagor, subject to applicable laws and rules, and regulations and orders of regulatory bodies, will charge for telephone service furnished by it rates which shall yield revenues at least sufficient to enable the Mortgagor to pay and discharge all taxes and expenses when due, and also to make any payment in respect of principal of and interest on the notes when and as the same shall become due.

SECTION 15. (a) The Mortgagor may make a distribution (hereinafter called a "distribution"), in the nature of an investment, guarantee, extension of credit, advance, loan, non-affiliated company joint venture, affiliated company investment, or dividend or capital credit distribution only if the majority RUS noteholders and the majority Bank noteholders have given prior written approval to the distribution or if, after such distribution,

- (1) the Mortgagor's net worth is equal to at least one percent of its total assets and the amount of all such distributions during the calendar year does not exceed twenty-five percent of the Mortgagor's net income or net margins for the prior calendar year;
- (2) the Mortgagor's net worth is equal to at least twenty percent of its total assets and the amount of all such distributions during the calendar year does not exceed fifty percent of the Mortgagor's earnings or margins for the prior calendar year;
- (3) the Mortgagor's net worth is equal to at least thirty percent of its total assets and the amount of all such distributions during the calendar year does not exceed seventy-five percent of its net income or net margins for the prior calendar year; or
- (4) the Mortgagor's net worth is equal to at least forty percent of its total assets, regardless of the aggregate amount of such distributions.

The terms "net worth", "total assets", and "net income or net margins" are determined in accordance with Exhibit One.

(b) In addition to the distributions authorized under the preceding subsection 15(a), the Mortgagor may make any distribution or investment provided in 7 CFR 1744 Subpart D.

SECTION 16. In the event that the Mortgaged Property, or any part thereof, shall be taken under the power of eminent domain, all proceeds and avails therefrom, except to the extent that all noteholders shall consent to other use and application thereof by the Mortgagor, shall forthwith be applied by the Mortgagor: first, to the ratable payment of any indebtedness by this Mortgage secured other than principal of or interest on the notes; second, to the ratable payment of interest which shall have accrued on the notes and be unpaid; third, to the ratable payment of or on account of the unpaid principal of the notes and to such installments thereof as may be designated by the respective noteholders at the time of any such payment, and fourth, the balance shall be paid to whosoever shall be entitled thereto.

SECTION 17. The Mortgagor will well and truly observe and perform all of the covenants, agreements, terms and conditions contained in the Consolidated Loan Agreement, on its part to be observed or performed.

SECTION 18. If all the RUS Notes have been paid and discharged while any of the Bank Notes are still outstanding, all rights and powers of the Government and the holders of the RUS Notes under this Mortgage shall immediately vest in the Bank and the holders of the Bank Notes, respectively, and, correspondingly, if all the Bank Notes have been paid and discharged while any of the RUS Notes are still outstanding, all rights and powers of the Bank and the holders of the Bank Notes under this Mortgage shall immediately vest in the Government and the holders of the RUS Notes, respectively. The Bank, the Government, the Mortgagor and the noteholders shall execute and deliver such instruments, assignments, releases or other documents as shall be reasonably required to carry out the intention of this section.

SECTION 19. At all times when any note is held by the Government, or in the event the Government shall assign a note without having insured the payment of such note, this Mortgage shall secure payment of such note for the benefit of the Government or such uninsured holder thereof, as the case may be. Whenever any note may be sold to an insured purchaser, it shall continue to be considered a "note" as defined herein, but as to any such insured note the Government, and not such insured purchaser, shall be considered to be, and shall have the rights of, the noteholder for purposes of this Mortgage. Notice of the rights of the Government under the preceding sentence shall be set forth in all such insured notes. As to any note which evidences a loan made by a third party lender to the Mortgagor and guaranteed by the Government, acting through the Administrator, pursuant to the Act, the Government and not such third party lender shall be considered to be, and shall have the rights of the noteholder for purposes of this Mortgage.

SECTION 20. (a) The Mortgagor, subject to applicable laws and rules and orders of regulatory bodies, shall design its rates for telephone service and other services furnished by it with a view to paying and discharging all taxes, maintenance expenses and operating expenses of its telephone system, and also to making all payments in respect of principal of and interest on the notes when and as the same shall become due, to providing and maintaining reasonable working capital for the Mortgagor and to maintaining an Average TIER on all of its outstanding indebtedness to the Government, the Bank, and all other lenders of not less than 1.00 commencing with the date hereof and ending December 31, 2006 (hereinafter called the "Forecast Period"), and the TIER the Mortgagor is required to maintain after the Forecast Period shall be 1.50.

(b) For purposes of this section 20, Average TIER shall be determined as of January 1 of each year during which any obligation secured by this Mortgage remains unsatisfied and shall mean the average of the two highest TIER ratios achieved by the Mortgagor during each of the three calendar years last preceding the various dates of its determination.

(c) As used in this section 20, TIER means the Mortgagor's net income or net margins (determined in accordance with Exhibit One hereto) plus interest expense (determined in accordance with Exhibit One hereto) divided by interest expense.

SECTION 21. (a) Net worth, net income or net margins, interest expense, and total assets, as used in sections 10, 15 or 20 of article II of this Mortgage, are defined in Exhibit One hereto. Net Plant and secured debt, if referred to in this Mortgage, are also determined in accordance with Exhibit One hereto.

(b) Accounting terms used in this Mortgage shall also apply to accounts or groups of accounts of the Mortgagor, regardless of the account title or the system of accounts used, if such accounts have substantially the same meaning as those prescribed by the Federal Communications Commission in its prevailing uniform system of accounts for telecommunications companies (47 CFR Part 32).

SECTION 22. If the Underlying Mortgage contains provisions requiring the Mortgagor to maintain a net plant to secured debt ratio or a funded reserve, then such provisions are incorporated in and made a part of this Mortgage as though fully set forth herein at this point.

SECTION 23. Exhibit One is attached hereto and by reference is made a part of this Mortgage.

SECTION 24. The Mortgagor will not pay its directors or trustees, as such, any salaries for their services, except such as shall have been approved by the majority RUS noteholders and the majority Bank noteholders, provided that nothing herein contained shall preclude any director or trustee from serving the Mortgagor in any other capacity and receiving compensation therefor.

SECTION 25. (a) The Mortgagor will not at any time employ, or enter into any contract for the employment of, any manager of its telephone properties, unless such employment or such contract shall first have been approved by the majority RUS noteholders and the majority Bank noteholders. (b) If, during such periods as the Mortgagor shall be in default in the making of a payment or payments of principal of or interest on one or more of the notes, the majority RUS noteholders or the majority Bank noteholders shall give notice to the Mortgagor that in their opinion its telephone properties are not being efficiently operated, and shall request the termination of the employment of any such manager, or shall request the termination of any operating contract in respect of any such telephone properties, the Mortgagor will terminate such employment or operating contract within thirty (30) days after the date of such notice. (c) All contracts in respect of the employment of any such manager or for the operation of such telephone properties shall contain provisions to permit compliance with the foregoing covenants.

### ARTICLE III

#### REMEDIES OF THE MORTGAGEES AND NOTEHOLDERS

SECTION 1. If one or more of the following events (hereinafter called "events of default") shall happen, that is to say:

(a) default shall be made in the payment of any installment of or on account of interest on or principal of any note or notes when and as the same shall be required to be made and such default shall continue for thirty (30) days;

(b) default shall be made in the due observance or performance of any other of the representations, warranties, covenants, conditions or agreements on the part of the Mortgagor in any of the notes or in this Mortgage or in the Consolidated Loan Agreement contained; and such default shall continue for a period of thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Mortgagor by any noteholder;

(c) the Mortgagor shall file a petition in bankruptcy or be adjudicated a bankrupt or insolvent, or shall make an assignment for the benefit of its creditors, or shall consent to the appointment of a receiver of itself or of its property, or shall institute proceedings for its reorganization or proceedings instituted by others for its reorganization shall not be dismissed within thirty (30) days after the institution thereof;

(d) a receiver or liquidator of the Mortgagor or of any substantial portion of its property shall be appointed and the order appointing such receiver or liquidator shall not be vacated within thirty (30) days after the entry thereof;

(e) the Mortgagor shall forfeit or otherwise be deprived of its corporate charter or franchises, permits or licenses required to carry on any material portion of its business;

(f) a final judgment shall be entered against the Mortgagor and shall remain unsatisfied or without a stay in respect thereof for a period of thirty (30) days;

then in each and every such case any noteholder may, by notice in writing to the Mortgagor and delivery of a copy thereof to the other noteholders, declare all unpaid principal of and accrued interest on any or all notes held by such noteholder to be due and payable immediately; and upon any such declaration all such unpaid principal and accrued interest so declared to be due and payable shall become and be due and payable, immediately, anything contained herein or in any note or notes to the contrary notwithstanding; provided, however, that if at any time after the unpaid principal of and accrued interest on any of the notes shall have been so declared to be due and payable, all payments in respect of principal and interest which shall have become due and payable by the terms of such note or notes shall be paid to the respective noteholders, and all other defaults hereunder and under the notes shall have been made good or secured to the satisfaction of all of the noteholders, then and in every such case, the noteholder or noteholders who shall have declared the principal of and interest on notes held by such noteholder or noteholders to be due and payable may, by written notice to the Mortgagor and delivery of a copy thereof to the other noteholders, annul such declaration or declarations and waive such default or defaults and the consequences thereof, but no such waiver shall extend to or affect any subsequent default or impair any right consequent thereon.

SECTION 2. If one or more of the events of default shall happen, the holder or holders of not less than a majority in principal amount of the notes at the time outstanding (hereinafter called the "majority noteholders"), for itself or themselves, and as the agent or agents of the other noteholders, personally or by attorney, in its or their discretion, may, insofar as not prohibited by law:

(a) take immediate possession of the Mortgaged Property, collect and receive all credits, outstanding accounts and bills receivable of the Mortgagor and all rents, income, revenues and profits

pertaining to or arising from the Mortgaged Property, or any part thereof, and issue binding receipts therefor; and manage, control and operate the Mortgaged Property as fully as the Mortgagor might do if in possession thereof, including, without limitation, the making of all repairs or replacements deemed necessary or advisable;

(b) proceed to protect and enforce the rights of the Mortgagees and the rights of the noteholder or noteholders under this Mortgage by suits or actions in equity or at law in any court or courts of competent jurisdiction, whether for specific performance of any covenant or any agreement contained herein or in aid of the execution of any power herein granted or for the foreclosure hereof or hereunder or for the sale of the Mortgaged Property, or any part thereof, or to collect the debts hereby secured or for the enforcement of such other or additional appropriate legal or equitable remedies as may be deemed most effectual to protect and enforce the rights and remedies herein granted or conferred, and in the event of the institution of any such action or suit the noteholder or noteholders instituting such action or suit shall have the right to have appointed a receiver of the Mortgaged Property and of all rents, income, revenues and profits pertaining thereto or arising therefrom derived, received or had from the time of the commencement of such suit or action, and such receiver shall have all the usual powers and duties of receivers, in like and similar cases, to the fullest extent permitted by law, and if application shall be made for the appointment of a receiver the Mortgagor hereby expressly consents that the court to which such application shall be made may make said appointment; and

(c) sell or cause to be sold all and singular the Mortgaged Property or any part thereof, and all right, title, interest, claim and demand of the Mortgagor therein or thereto, at public auction at such place in any county in which the property to be sold, or any part thereof is located, at such time and upon such terms as may be specified in a notice of sale, which shall state the time when and the place where the sale is to be held, shall contain a brief general description of the property to be sold, and shall be given by mailing a copy thereof to the Mortgagor at least fifteen (15) days prior to the date fixed for such sale and by publishing the same once in each week for two successive calendar weeks prior to the date of such sale in a newspaper of general circulation published in said county, or if no such newspaper is published in such county, in a newspaper of general circulation in such county, the first such publication to be not less than fifteen (15) days nor more than thirty (30) days prior to the date fixed for such sale. Any sale to be made under this subparagraph 2(c) may be adjourned from time to time by announcement at the time and place appointed for such sale or for such adjourned sale or sales, and without further notice or publication the sale may be had at the time and place to which the same shall be adjourned, provided, however, that in the event another or different notice of sale or another or different manner of conducting the same shall be required by law the notice of sale shall be given or the sale shall be conducted, as the case may be, in accordance with the applicable provisions of law.

SECTION 3. If, within thirty (30) days after the majority noteholders shall have had knowledge of the happening of an event or events of default, the majority noteholders shall not have proceeded to exercise the rights and enforce each of the remedies herein or by law conferred upon or reserved to the Mortgagees or to said majority noteholders, then, and only then, any noteholder for itself and as the agent of all the other noteholders, including the majority noteholders, may proceed to exercise any such right or rights and remedy or remedies not being enforced by the majority noteholders. Nothing contained in this Mortgage shall affect or impair the right, which is absolute and unconditional, of any holder of any note which may be secured hereby to enforce the payment of the principal of or interest on such note on the date or dates any such interest or principal shall become due and payable in accordance with the terms of such note.

SECTION 4. At any sale hereunder any noteholder or noteholders shall have the right to bid for and purchase the Mortgaged Property, or such part thereof as shall be offered for sale, and any noteholder or noteholders may apply in settlement of the purchase price of the property so purchased the portion of the net proceeds of such sale which would be applicable to the payment on account of the principal of and interest on the note or notes held by such noteholder or noteholders, and such amount so applied shall be credited as a payment on account of principal of and interest on the note or notes held by such noteholder or noteholders.

SECTION 5. Any proceeds or funds arising from the exercise of any rights or the enforcement of any remedies herein provided after the payment or provision for the payment of any and all costs and expenses in connection with the exercise of such rights or the enforcement of such remedies shall be applied first, to the payment of indebtedness hereby secured other than the principal of or interest on the notes; second, to the ratable payment of interest which shall have accrued on the notes and which shall be unpaid; third, to the ratable payment of or on account of the unpaid principal of the notes, and the balance, if any, shall be paid to whosoever shall be entitled thereto.

SECTION 6. The Mortgagor covenants that it will give immediate written notice to both of the Mortgagees and to all of the noteholders of the occurrence of an event of default or in the event that any right or remedy described in clauses 2(a) through 2(c) of this article III is exercised or enforced, or of any action taken to exercise or enforce any such right or remedy.

SECTION 7. Every right or remedy herein conferred upon or reserved to the Mortgagees or to the noteholders shall be cumulative and shall be in addition to every other right and remedy given hereunder or now or hereafter existing at law, or in equity, or by statute. The pursuit of any right or remedy shall not be construed as an election.

SECTION 8. The Mortgagor, for itself and all who may claim through or under it, covenants that it will not at any time insist upon or plead, or in any manner whatever claim, or take the benefit or advantage of, any appraisal, valuation, stay, extension or redemption laws now or hereafter in force in any locality where any of the Mortgaged Property may be situated, in order to prevent, delay or hinder the enforcement or foreclosure of this Mortgage, or the absolute sale of the Mortgaged Property, or any part thereof, or the final and absolute putting into possession thereof, immediately after such sale, of the purchaser or purchasers thereat, and the Mortgagor, for itself and all who may claim through or under it, hereby waives the benefit of all such laws unless such waiver shall be forbidden by law.

#### ARTICLE IV

##### POSSESSION UNTIL DEFAULT-DEFEASANCE CLAUSE

SECTION 1. Until some one or more of the events of default shall have happened, the Mortgagor shall be suffered and permitted to retain actual possession of the Mortgaged Property, and to manage, operate and use the same and any part thereof, with the rights and franchises appertaining thereto, and to collect, receive, take, use and enjoy the rents, revenues, issues, earnings, income, products and profits thereof or therefrom, subject to the provisions of this Mortgage.

SECTION 2. If the Mortgagor shall well and truly pay or cause to be paid the whole amount of the principal of and interest on the notes at the time and in the manner therein provided, according to the true intent and meaning thereof, and shall also pay or cause to be paid all other sums payable hereunder by the Mortgagor and shall well and truly keep and perform according to the true intent and meaning of this Mortgage, all covenants herein required to be kept and performed by it, then and in that case, all property, rights and interests hereby conveyed or assigned or pledged shall revert to the Mortgagor and the estate, right, title and interest of the Mortgagees and the noteholders shall thereupon cease, determine and become void and the Mortgagees and the noteholders, in such case, on written demand of the Mortgagor but at the Mortgagor's cost and expense, shall enter satisfaction of this Mortgage upon the record. In any event, each noteholder, upon payment in full to him by the Mortgagor of all principal of and interest on any note held by him and the payment and discharge by the Mortgagor of all charges due to such noteholder hereunder, shall execute and deliver to the Mortgagor such instrument of satisfaction, discharge or release as shall be required by law in the circumstances.

ARTICLE V

MISCELLANEOUS

SECTION 1. It is hereby declared to be the intention of the Mortgagor that all lines, or systems, embraced in the Mortgaged Property, including, without limitation, all rights of way and easements granted or given to the Mortgagor or obtained by it to use real property in connection with the construction, operation or maintenance of such lines, or systems, and all service and connecting lines, poles, posts, crossarms, wires, cables, conduits, ducts, connections and fixtures forming part of, or used in connection with, such lines, or systems, and all other property physically attached to any of the foregoing-described property, shall be deemed to be real property.

SECTION 2. All acts and obligations of the Mortgagor hereunder shall be subject to all applicable orders, rules and regulations, now or hereafter in effect, of all regulatory bodies having jurisdiction in the premises, to the end that no act or omission to act on the part of the Mortgagor shall constitute a default hereunder insofar as such act or omission shall have been required by reason of any order, rule or regulation of any such regulatory body.

SECTION 3. All of the covenants, stipulations, promises, undertakings and agreements herein contained by or on behalf of the Mortgagor shall bind its successors and assigns, whether so specified or not, and all titles, rights and remedies hereby granted to or conferred upon the Mortgagees shall pass to and inure to the benefit of the successors and assigns of the Mortgagees and shall be deemed to be granted or conferred for the ratable benefit and security of all who shall from time to time be the holders of notes executed and delivered as herein provided.

SECTION 4. The descriptive headings of the various articles of this Mortgage were formulated and inserted for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

SECTION 5. All demands, notices, reports, approvals, designations, or directions required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given if mailed by registered mail addressed to the proper party or parties at the following addresses:

As to the Mortgagor: As stated in the testimonium clause hereof

As to the Mortgagees: The Bank:  
Rural Telephone Bank  
c/o Rural Utilities Service  
Washington, D. C. 20250-1500

The Government:  
Rural Utilities Service  
Washington, D. C. 20250-1500

and as to any other person, firm, corporation or governmental body or agency having an interest herein by reason of being the holder of any note or otherwise, at the last address designated by such person, firm, corporation, governmental body or agency to the Mortgagor and the Mortgagees. The Mortgagor or the Mortgagees may from time to time designate to one another a new address to which demands, notices, reports, approvals, designations or directions may be addressed and from and after any such designation the address designated shall be deemed to be the address of such party in lieu of the address hereinabove given. The Mortgagor will promptly notify the Mortgagees in writing of any change in location of its chief place of business or the office where its records concerning accounts and contract rights are kept.



SECTION 6. To the extent that any of the property described or referred to in this Mortgage is governed by the provisions of the Uniform Commercial Code, this Mortgage is hereby deemed a "security agreement" under the Uniform Commercial Code and a "financing statement" under the Uniform Commercial Code for said security agreement. The mailing address of the Mortgagor, as debtor, and of the Mortgagees as secured parties, are as set forth in section 5 of this article V.

SECTION 7. The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions shall not affect the remaining portions of this Mortgage, nor shall any such invalidity as to one Mortgagee or as to any holder of notes hereunder affect the rights hereunder of the other Mortgagee or any other holder of notes.

SECTION 8. This Mortgage may be simultaneously executed in any number of counterparts, and all said counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF, FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC., P.O. Box 240, Staffordsville, Kentucky 41256, as Mortgagor, has caused this Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, RURAL TELEPHONE BANK, as Mortgagee, has caused this Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized and UNITED STATES OF AMERICA, as Mortgagee, has caused this Mortgage to be duly executed in its behalf, all as of the day and year first above written.

FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC.

by

President

(Seal)

Attest:

Secretary

Executed by the Mortgagor  
in the presence of:

\_\_\_\_\_

\_\_\_\_\_

Witnesses

UNITED STATES OF AMERICA, and  
RURAL TELEPHONE BANK, respectively

by

as  
Assistant Administrator  
Telecommunications Program  
of the  
Rural Utilities Service  
and as Assistant Governor  
of the  
Rural Telephone Bank

(Seal)

Attest:

Assistant Secretary  
of the  
Rural Telephone Bank

Executed by United States of America,  
Mortgagee, and Rural Telephone Bank,  
Mortgagee, in the presence of:

\_\_\_\_\_

\_\_\_\_\_

Witnesses





Exhibit One (Exhibit to Mortgage)  
UNIFORM SYSTEM OF ACCOUNTS  
ACCOUNT NUMBERS USED IN CERTAIN PROVISIONS  
THIS EXHIBIT CONSISTS OF 2 PAGES

All references regarding account numbers are to 47 CFR Part 32 and supplementary accounts required by RUS.

<u>ACCOUNT NAMES</u>	<u>ACCOUNT NUMBERS</u>	
	<u>CLASS A</u>	<u>CLASS B</u>

INTEREST EXPENSE: the sum of the balances of the following accounts of the Mortgagor:

Interest and Related Items	7500**	7500
Interest on Funded Debt		7510
Interest Expense - Capital Leases		7520
Amortization of Debt Issuance Expense		7530
Other Interest Deductions		7540
LESS: Allowance for Funds Used		
During construction	7340	7300.4

NET INCOME OR NET MARGINS: the sum of the balances of the following accounts of the Mortgagor:

Local Network Services Revenues		
Network Access Services Revenues		
Long Distance Network Services Revenues	5000	thru 5300s
Miscellaneous Revenues		
LESS: Uncollectible Revenues		
Other Operating Income and Expense	7100**	7100
Nonoperating Income and Expense	7300**	7300
Income Effect of Jurisdictional		
Rate-making Difference - Net	7910	7910
Nonregulated Net Income	7990	7990
Other Nonregulated Revenues	7991	7991
LESS balances of the following accounts:		
Plant Specific Operations Expense		
Plant Nonspecific Operations Expense	6100s	thru 6700s
Customer Operations		
Corporate Operations		
Operating Taxes	7200**	7200
Nonoperating Taxes	7400**	7400
Interest and Related Items	7500**	7500
Extraordinary Items	7600**	7600

\*\* Summary Accounts

NET WORTH: the sum of the balances of the following accounts of the Mortgagor:

Capital Stock	4510	4510
Additional Paid-In Capital	4520	4520
Treasury Stock	4530	4530
Other Capital	4540	4540
Retained Earnings	4550	4550

NOTE: FOR NONPROFIT ORGANIZATIONS (OWNERS' EQUITY SHALL BE SHOWN IN  
SUBACCOUNTS OF 4540 AND 4550)

TOTAL ASSETS: the sum of the balances of the following accounts of the Mortgagor:

Current Assets	1100s	thru	1300s
Noncurrent Assets	1400s	thru	1500s
Total Telecommunications Plant	2001	thru	2007
LESS: Accumulated Depreciation	3100	thru	3300s
LESS: Accumulated Amortization	3400	thru	3600s

EXHIBIT A

## PROPERTY SCHEDULE

1. A certain tract or parcel of property described in that certain Deed of Conveyance dated June 29, 1953 from Fannie M. Patrick and C. W. Patrick (unstated relationship) to Foothills recorded at Deed Book 79, Page 415, records of the Magoffin County Clerk's Office.
2. A certain tract or parcel of property described in that certain Deed of Conveyance dated June 29, 1953 from Fannie M. Patrick and C. W. Patrick (unstated relationship) to Foothills recorded at Deed Book 132, Page 106, records of the Johnson County Clerk's Office.
3. A certain tract or parcel of property described in that certain Deed of Conveyance dated November 11, 1953 from Oscar P. Williams, Jr., and Mary G. Williams, his wife, to Foothills and recorded at Deed Book 132, Page 256, records of the Johnson County Clerk's Office.
4. A certain tract or parcel of property described in that certain Deed of Conveyance dated November 27, 1953 from Paul Gambill and Callie Gambill, his wife, to Foothills and recorded at Deed Book 124, Page 213, records of the Lawrence County Clerk's Office.
5. A certain tract or parcel of property described in that certain Deed of Conveyance dated January 19, 1954 from Wiley Rice and Rose Rice, his wife, to Foothills and recorded at Deed Book 79, Page 612, records of the Magoffin County Clerk's Office.
6. A certain tract or parcel of property described in that certain Deed of Conveyance dated February 13, 1954 from Russell Carroll and Naomi Carroll, his wife, to Foothills and recorded at Deed Book 124, Page 321, records of the Lawrence County Clerk's Office.
7. Right-of-Way from Russell and Naomi Carroll to Foothills dated February 13, 1952 and recorded at Deed Book 124, Page 322, records of the Lawrence County Clerk's Office.
8. A certain tract or parcel of property described in that certain Deed of Conveyance dated February 13, 1953 from Lonzo Arrington and Zella G. Arrington, his wife, to Foothills and recorded at Deed Book 124, Page 323, records of the Lawrence County Clerk's Office.
9. A certain tract or parcel of property described in that certain Deed of Conveyance dated April 28, 1958 from Elizabeth McKenzie, single, to Foothills and recorded at Deed Book 139, Page 639, records of the Johnson County Clerk's Office.
10. A certain tract or parcel of property described in that certain Deed of Conveyance dated November 29, 1959 from Roy K. Helton and Mary Helton, his wife, to Foothills and recorded at Deed Book 142, Page 139, records of the Johnson County Clerk's Office.



11. A certain tract or parcel of property described in that certain Deed of Conveyance dated December 17, 1960 from George W. Carroll and Mae Carroll, his wife, to Foothills and recorded at Deed Book 132, Page 535, records of the Lawrence County Clerk's Office.
12. A certain tract or parcel of property described in that certain Deed of Conveyance dated December 29, 1960 from George W. Carroll and Mae Carroll, his wife, to Foothills and recorded at Deed Book 132, Page 552, records of the Lawrence County Clerk's Office.
13. A certain tract or parcel of property described in that certain Deed of Conveyance dated January 4, 1962 from Mace Howard, et. ux. to Foothills and recorded at Deed Book 90, Page 330, records of the Magoffin County Clerk's Office.
14. A certain tract or parcel of property described in that certain Deed of Conveyance dated April 30, 1963 from Gladys McKenzie, single, to Foothills and recorded at Deed Book 146, Page 497, records of the Johnson County Clerk's Office.
15. A certain tract or parcel of property described in that certain Deed of Conveyance dated October 6, 1964 from Scott P. Rice, et. al. to Foothills and recorded at Deed Book 94, Page 573, records of the Magoffin County Clerk's Office.
16. A certain tract or parcel of property described in that certain Deed of Conveyance dated December 1, 1966 from Clint Salyer, Jr. and Christa Salyer, his wife, to Foothills and recorded at Deed Book 153, Page 69, records of the Johnson County Clerk's Office.
17. A certain tract or parcel of property described in that certain Deed of Conveyance dated April 5, 1967 from Clint Salyer, Jr. and Christa Salyer, his wife, to Foothills and recorded at Deed Book 153, Page 583, records of the Johnson County Clerk's Office.
18. A certain tract or parcel of property described in that certain Deed of Conveyance dated September 7, 1967 from Zella G. Arrington, et. ux., to Foothills and recorded at Deed Book 145, Page 86, records of the Lawrence County Clerk's Office.
19. Right-of-Way Agreement by and between L. G. Howard and Foothills dated October 6, 1964 and recorded at Deed Book 97, Page 172, records of the Magoffin County Clerk's Office.
20. A certain tract or parcel of property described in that certain Deed of Conveyance dated February 27, 1969 from Callie Gambill, widow, to Foothills and recorded at Deed Book 148, Page 300, records of the Lawrence County Clerk's Office.
21. A certain tract or parcel of property described in that certain Deed of Conveyance dated March 15, 1974 from Ray VanHorn, et. ux., to Foothills and recorded at Deed Book 160, Page 369, records of the Lawrence County Clerk's Office.

22. A certain tract or parcel of property described in that certain Deed of Conveyance dated August 4, 1978 from Una Howard, widow, to Foothills and recorded at Deed Book 114, Page 207, records of the Magoffin County Clerk's Office.
23. Right-of- Way Agreement by and between Thomas Cartmel and Foothills dated July 21, 1978 and recorded at Deed Book 173, Page 319, records of the Lawrence County Clerk's Office.
24. A certain tract or parcel of property described in that certain Deed of Conveyance dated November 21, 1978 from Walter R. Isaacs and Maggie Isaacs, his wife, to Foothills and recorded at Deed Book 114, Page 545, records of the Magoffin County Clerk's Office.
25. A certain tract or parcel of property described in that certain Deed of Conveyance dated January 8, 1979 from Proctor Owens, Jr. and Mollie Owens, his wife, to Foothills and recorded at Deed Book 117, Page 32, records of the Magoffin County Clerk's Office.
26. A certain tract or parcel of property described in that certain Deed of Conveyance dated June 6, 1979 from Dudley Carpenter and Ada Carpenter, his wife, to Foothills and recorded at Deed Book 117, Page 409, records of the Magoffin County Clerk's Office.
27. A certain tract or parcel of property described in that certain Deed of Conveyance dated August 28, 1979 from George W. Combs, unmarried, to Foothills and recorded at Deed Book 197, Page 247, records of the Johnson County Clerk's Office.
28. A certain tract or parcel of property described in that certain Deed of Conveyance dated September 13, 1979 from Roger O'Bryan and Diana Sue O'Bryan, his wife, to Foothills and recorded at Deed Book 197, Page 375, records of the Johnson County Clerk's Office.
29. A certain tract or parcel of property described in that certain Deed of Conveyance dated October 19, 1979 from John W. Turner, M.D. and Gwendolyn Turner, his wife, to Foothills and recorded at Deed Book 197, Page 627, records of the Johnson County Clerk's Office.
30. Right-of-Way Agreement by and between James M. Spillman and Connie Spillman and Foothills dated February 5, 1982 and recorded at Deed Book 181, Page 424, records of the Lawrence County Clerk's Office.
31. Right-of-Way Agreement by and between Virginia Frazier and Foothills dated March 19, 1982 and recorded at Deed Book 181, Page 424, records of the Lawrence County Clerk's Office.
32. Right-of-Way Agreement by and between Jack G. See and Foothills dated March 19, 1982 and recorded at Deed Book 181, Page 425, records of the Lawrence County Clerk's Office.

33. Right-of-Way Agreement by and between Edgar P. Thompson dated June 25, 1982 and recorded at Deed Book 182, Page 108, records of the Lawrence County Clerk's Office.
34. Right-of-Way Agreement by and between Mary Moore and Foothills dated July 23, 1982 and recorded at Deed Book 182, Page 276, records of the Lawrence County Clerk's Office.
35. Right-of-Way Agreement by and between Port and Grettie Dobyns and Foothills dated August 27, 1982 and recorded at Deed Book 182, Page 426, records of the Lawrence County Clerk's Office.
36. Right-of-Way Agreement by and between Ruth and W. T. Withers and Foothills dated September 10, 1982 and recorded at Deed Book 182, Page 483, records of the Lawrence County Clerk's Office.
37. Right-of-Way Agreement by and between Elza and Garnet Moore and Foothills dated October 15, 1982 and recorded at Deed Book 182, Page 670, records of the Lawrence County Clerk's Office.
38. Right-of-Way Agreement by and between The United States of America and Foothills dated October 5, 1989 and recorded at Deed Book 203, Page 654, records of the Lawrence County Clerk's Office
39. Right-of-Way Agreement by and between Edgar P. Thompson dated June 25, 1982 and recorded at Deed Book 182, Page 108, records of the Lawrence County Clerk's Office.
40. A certain tract or parcel of property described in that certain Deed of Conveyance dated May 17, 1983 from Department of the Army to Foothills and recorded at Deed Book 228, Page 285, records of the Johnson County Clerk's Office.
41. Easement by and between Jacob Allen Little and Foothills dated May 20, 1983 and recorded at Deed Book 229, Page 27, records of the Johnson County Clerk's Office.
42. Right-of-Way Agreement by and between Grover and Della Allen and Foothills dated February 19, 1990 and recorded at Deed Book 139, Page 298, records of the Magoffin County Clerk's Office.
43. A certain tract or parcel of property described in that certain Deed of Conveyance dated October 23, 1991 from Osmund Kidd, et. ux., to Foothills and recorded at Deed Book 211, Page 367, records of the Lawrence County Clerk's Office.
44. A certain tract or parcel of property described in that certain Deed of Conveyance dated October 24, 1991 from Jimmy D. See, et. ux., to Foothills and recorded at Deed Book 211, Page 376, records of the Lawrence County Clerk's Office.

45. A certain tract or parcel of property described in that certain Deed of Conveyance dated December 10, 1991 from Kenneth Mills, et. ux., to Foothills and recorded at Deed Book 212, Page 24, records of the Lawrence County Clerk's Office.
46. A certain tract or parcel of property described in that certain Deed of Conveyance dated February 18, 1992 from Kermit McGinnis, et. ux., to Foothills and recorded at Deed Book 212, Page 520, records of the Lawrence County Clerk's Office.
47. A certain tract or parcel of property described in that certain Deed of Conveyance dated February 18, 1992 from Elmer Lee Ketzell, et. ux., to Foothills and recorded at Deed Book 212, Page 527, records of the Lawrence County Clerk's Office.
48. A certain tract or parcel of property described in that certain Deed of Conveyance dated February 18, 1992 from William A. Cheek, et. al., to Foothills and recorded at Deed Book 212, Page 533, records of the Lawrence County Clerk's Office.
49. A certain tract or parcel of property described in that certain Deed of Conveyance dated February 18, 1992 from David L. Bond to Foothills and recorded at Deed Book 212, Page 540, records of the Lawrence County Clerk's Office.
50. A certain tract or parcel of property described in that certain Deed of Conveyance dated February 18, 1992 from Francis Elam Burgess, single, to Foothills and recorded at Deed Book 212, Page 547, records of the Lawrence County Clerk's Office.
51. A certain tract or parcel of property described in that certain Deed of Conveyance dated March 10, 1994 from Faye Ely and Phillip Ely, her husband, to Foothills and recorded at Deed Book 148, Page 310, records of the Magoffin County Clerk's Office.
52. Right-of-Way Agreement by and between Gene A. Wilson, et. ux., and Foothills and recorded at Deed Book 220, Page 377, records of the Lawrence County Clerk's Office.
53. A certain tract or parcel of property described in that certain Deed of Conveyance dated August 4, 1995 from Galene Richard Mulford to Foothills and recorded at Deed Book 152, Page 109, records of the Magoffin County Clerk's Office.
54. A certain tract or parcel of property described in that certain Deed of Conveyance dated August 25, 1995 from C. J. Tackett and Dianne L. Tackett, his wife, to Foothills and recorded at Deed Book 152, Page 246, records of the Magoffin County Clerk's Office.
55. A certain tract or parcel of property described in that certain Deed of Conveyance dated October 2, 1995 from Maxie Rice, widow, to Foothills and recorded at Deed Book 152, Page 409, records of the Magoffin County Clerk's Office.

56. A certain tract or parcel of property described in that certain Deed of Conveyance dated October 2, 1995 from R. C. May and Martha May (unstated relationship) to Foothills and recorded at Deed Book 152, Page 413, records of the Magoffin County Clerk's Office.
57. Right-of-Way and Easement Agreement by and between Grover J. Thompson and Foothills dated November 6, 1995 and recorded at Deed Book 227, Page 324, records of the Lawrence County Clerk's Office.
58. Right-of-Way and Easement Agreement by and between Lafe S. Hinkle, II and Foothills dated November 6, 1995 and recorded at Deed Book 227, Page 326, records of the Lawrence County Clerk's Office.
59. Right-of-Way and Easement Agreement by and between Gary L. Rager and Foothills dated November 20, 1995 and recorded at Deed Book 227, Page 457, records of the Lawrence County Clerk's Office.
60. Right-of-Way Agreement by and between Thurman Endicott and Foothills dated January 1, 1996 and recorded at Deed Book 228, Page 42, records of the Lawrence County Clerk's Office.
61. Right-of-Way and Easement Agreement by and between Favored United Baptist Church and Foothills dated February 29, 1996 and recorded at Deed Book 228, Page 422, records of the Lawrence County Clerk's Office.
62. Right-of-Way and Easement Agreement by and between David L. Compton and Foothills dated May 1, 1996 and recorded at Deed Book 229, Page 356, records of the Lawrence County Clerk's Office.
63. Right-of-Way and Easement Agreement by and between Donald VanHorn and Foothills dated May 1, 1996 and recorded at Deed Book 229, Page 358, records of the Lawrence County Clerk's Office.
64. Right-of-Way and Easement Agreement by and between Charlotte A. Skaggs and Foothills dated May 1, 1996 and recorded at Deed Book 229, Page 360, records of the Lawrence County Clerk's Office.
65. Right-of-Way and Easement Agreement by and between Orië Chaffin and Foothills dated May 1, 1996 and recorded at Deed Book 229, Page 362, records of the Lawrence County Clerk's Office.
66. Easement Agreement by and between The United States of America and Foothills dated January 8, 1997 and recorded at Deed Book 232, Page 270, records of the Lawrence County Clerk's Office.

67. Right-of-Way and Easement Agreement by and between Glen Prince and Foothills dated January 15, 1997 and recorded at Deed Book 232, Page 498, records of the Lawrence County Clerk's Office.
68. Right-of-Way and Easement Agreement by and between Virginia Frazier and Foothills dated January 15, 1997 and recorded at Deed Book 232, Page 500, records of the Lawrence County Clerk's Office.
69. Right-of-Way and Easement Agreement by and between Marie Moore and Foothills dated January 15, 1997 and recorded at Deed Book 232, Page 502, records of the Lawrence County Clerk's Office.
70. Right-of-Way and Easement Agreement by and between Curtis Ralph Sturgill and Foothills dated February 22, 1997 and recorded at Deed Book 233, Page 175, records of the Lawrence County Clerk's Office.
71. A certain tract or parcel of property described in that certain Deed of Conveyance dated February 22, 1997 from D. R. Thompson to Foothills and recorded at Deed Book 233, Page 177, records of the Lawrence County Clerk's Office.
72. A certain tract or parcel of property described in that certain Deed of Conveyance dated November 28, 1995 from Garland L. Arnett and M. Louise Arnett, his wife, to Foothills and recorded at Deed Book 152, Page 753, records of the Magoffin County Clerk's Office.
73. A certain tract or parcel of property described in that certain Deed of Conveyance dated November 28, 1995 from Jimmy Patrick and Elizabeth Patrick, his wife, to Foothills and recorded at Deed Book 152, Page 753, records of the Magoffin County Clerk's Office.
74. A certain tract or parcel of property described in that certain Deed of Conveyance dated December 4, 1995 from James C. Howard and Linda Howard, his wife, to Foothills and recorded at Deed Book 153, Page 94, records of the Magoffin County Clerk's Office.
75. A certain tract or parcel of property described in that certain Deed of Conveyance dated March 11, 1997 from Robert G. Miller, Jr. and Kimberly P. Miller, his wife, to Foothills and recorded at Deed Book 346, Page 92, records of the Johnson County Clerk's Office.
76. Right-of-Way and Easement Agreement by and between Con Young and Foothills dated May 9, 1997 and recorded at Deed Book 234, Page 61, records of the Lawrence County Clerk's Office.
77. Right-of-Way and Easement Agreement by and between Mable Fyffe and Foothills dated May 9, 1997 and recorded at Deed Book 234, Page 63, records of the Lawrence County Clerk's Office.

78. Right-of-Way and Easement Agreement by and between James B. Ball and Foothills dated July 17, 1997 and recorded at Deed Book 234, Page 704, records of the Lawrence County Clerk's Office.
79. Right-of-Way and Easement Agreement by and between Herman Young and Foothills dated November 21, 1997 and recorded at Deed Book 236, Page 301, records of the Lawrence County Clerk's Office.
80. Right-of-Way and Easement Agreement by and between James T. Franklin and Foothills dated December 8, 1997 and recorded at Deed Book 350, Page 113, records of the Johnson County Clerk's Office.
81. Right-of-Way and Easement Agreement by and between James T. Franklin and Foothills dated June 21, 1999 and recorded at Deed Book 358, Page 307, records of the Johnson County Clerk's Office.
82. Right-of-Way and Easement Agreement by and between Gary Davis and Foothills dated June 28, 1997 and recorded at Deed Book 348, Page 67, records of the Johnson County Clerk's Office.
83. Right-of-Way and Easement Agreement by and between Arvin and Marie Skaggs and Foothills dated July 28, 1997 and recorded at Deed Book 348, Page 69, records of the Johnson County Clerk's Office.
84. Right-of-Way and Easement Agreement by and between Wendell Nickell and Foothills dated July 28, 1997 and recorded at Deed Book 348, Page 71, records of the Johnson County Clerk's Office.
85. Right-of-Way and Easement Agreement by and between Garnet Gay Bailey Goble and Foothills dated July 28, 1997 and recorded at Deed Book 348, Page 73, records of the Johnson County Clerk's Office.
86. Right-of-Way and Easement Agreement by and between Mark and Marsha Murray and Foothills dated July 28, 1997 and recorded at Deed Book 348, Page 75, records of the Johnson County Clerk's Office.
87. Right-of-Way and Easement Agreement by and between Gail and Phyllis Gillem and Foothills dated July 31, 1997 and recorded at Deed Book 348, Page 111, records of the Johnson County Clerk's Office.
88. Right-of-Way and Easement Agreement by and between Fred and Jewell Ross and Foothills dated July 31, 1997 and recorded at Deed Book 348, Page 113, records of the Johnson County Clerk's Office.

89. Lease Agreement by and between Bruce and Gene Castle and Foothills dated December 10, 1997 and recorded at Lease Book 105, Page 651, records of the Johnson County Clerk's Office.
90. Easement by and between Callis Kelly and Foothills dated January 22, 1998 and recorded at Deed Book 350, Page 517, records of the Johnson County Clerk's Office.
91. A certain tract or parcel of property described in that certain Deed of Conveyance dated August 8, 1990 from Gladys Baker to Foothills and recorded at Deed Book 287, Page 247, records of the Johnson County Clerk's Office.
92. A certain tract or parcel of property described in that certain Deed of Conveyance dated September 4, 1990 from Charles Thomas Meade to Foothills and recorded at Deed Book 288, Page 137, records of the Johnson County Clerk's Office.
93. Right-of-Way and Easement Agreement by and between Estill Hitchcock and Foothills dated September 18, 1997 and recorded at Deed Book 348, Page 790, records of the Johnson County Clerk's Office.
94. Right-of-Way and Easement Agreement by and between William M. McCloud and Foothills dated September 18, 1997 and recorded at Deed Book 348, Page 792, records of the Johnson County Clerk's Office.
95. Easement by and between Edath M. Conley and Foothills dated March 26, 1999 and recorded at Deed Book 357, Page 67, records of the Johnson County Clerk's Office.
96. Easement by and between Cecil Hitchcock and Foothills dated September 9, 1997 and recorded at Deed Book 348, Page 686, records of the Johnson County Clerk's Office.
97. Easement by and between Marsha and Mark Murray and Foothills dated August 10, 1998 and recorded at Deed Book 351, Page 243, records of the Johnson County Clerk's Office.
98. Lease Agreement by and between Robert and Elvira Davis and Foothills dated August 27, 1998 and recorded at Deed Book 160, Page 471, records of the Magoffin County Clerk's Office.
99. Lease Agreement by and between John P. and June Montgomery and Foothills dated August 27, 1998 and recorded at Deed Book 160, Page 474, records of the Magoffin County Clerk's Office.
100. Easement by and between Jessie J. and Joyce Hale and Foothills dated September 25, 1998 and recorded at Deed Book 160, Page 635, records of the Magoffin County Clerk's Office.



112. Right-of-Way Agreement by and between Buck and Sue Joseph to Foothills dated July 24, 1998 and recorded at Deed Book 160, Page 261, records of the Magoffin County Clerk's Office.
113. A certain tract or parcel of property described in that certain Deed of Conveyance dated September 25, 1998 from Cledith Wireman and Goldie Wireman, husband and wife, to Foothills and recorded at Deed Book 160, Page 630, records of the Magoffin County Clerk's Office.



RUS Project Designation:

Kentucky 522-S12 Foothills

LOAN AGREEMENT AMENDMENT

dated as July 14, 2005,

among

FOOTHILLS RURAL TELPHONE COOPERATIVE CORPORATION, INC.,

UNITED STATES OF AMERICA

and

RURAL TELEPHONE BANK

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL UTILITIES SERVICE

## LOAN AGREEMENT AMENDMENT

THIS LOAN AGREEMENT AMENDMENT (this "Amendment,") dated as of July 14, 2005, is among **FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**, (hereinafter the "Borrower,") a corporation<sup>14</sup> organized and existing under the laws of Kentucky, the **UNITED STATES OF AMERICA**, (hereinafter the "Government,") acting through the Administrator of the Rural Utilities Service ("RUS,") and the **RURAL TELEPHONE BANK** (hereinafter called the "Bank,") a corporation existing under the laws of the Government, acting through the Governor of the Bank.

The Borrower, the Government, and the Bank are parties to a certain telephone loan contract (hereinafter the "Loan Contract") identified in Schedule 1.

The Borrower has applied to RUS and/or the Bank, requesting financial assistance (hereinafter the "Application") to refinance telecommunications loans made pursuant to the Rural Electrification Act of 1936 (7 U.S.C. § 901 *et seq.*, as amended from time to time) (the "Act") for the purpose of furthering the deployment of broadband service in eligible rural communities.

RUS and the Bank are willing to extend financial assistance, in the form of loans or loan guarantees to the Borrower, pursuant to the Act, and all applicable federal regulations, on the terms and conditions stated herein.

THEREFORE, in consideration of the promises and mutual covenants herein contained, the Borrower, the Government, and the Bank agree as follows:

SECTION 1. Section 1.1 of the Loan Contract is amended by increasing the maximum amount(s) of:

- (a) the RUS Cost-of-Money Loan by the amount (hereinafter the "RUS Cost-of-Money Loan Increase") specified in Schedule 1;
- (b) the RUS Hardship Loan by the amount (hereinafter the "RUS Hardship Loan Increase") specified in Schedule 1;
- (c) the Guaranteed Loan by the amount (hereinafter the "Guaranteed Loan Increase") specified in Schedule 1; and/or
- (d) the Bank Loan by the amount (hereinafter the "Bank Loan Increase") specified in Schedule 1.

SECTION 2. The Loans provided for in Section 1.1 of the Loan Contract, as amended by this Amendment, shall bear interest as follows:

- (a) *RUS Cost-of-Money Loan Increase.* Each advance of funds hereunder shall bear interest at the "Cost-of-Money Rate" determined by the Government pursuant to Section 305(d)(2)(A) of the Act and the implementing regulations in 7 C.F.R. §1735.31(c), as amended from time to time.
- (b) *RUS Hardship Loan Increase.* Each advance of funds hereunder shall bear interest at the rate of five percent (5%) per annum.
- (c) *Guaranteed Loan Increase.* Each advance of funds hereunder shall bear interest at the rate established by the Federal Financing Bank at the time such advance is made, on the basis of the determination made by the Secretary of the Treasury pursuant to 12 U.S.C. § 2285(b), as amended from time to time.

- (d) *Bank Loan Increase.* Each advance of the Bank Loan Increase shall bear interest at the various rates determined by the Bank in accordance with section 408(b)(3) of the Act and the implementing regulations in 7 C.F.R. 1610.10, as amended from time to time.

SECTION 3. Recognizing that RUS and the Bank are relying hereon, the Borrower represents and warrants, as of the date of this Amendment, the following:

- (a) *Organization; Power, Etc.* The Borrower: (i) is the type of organization specified in the first paragraph hereof, duly organized, validly existing, and in good standing under the laws of the State identified in the first paragraph hereof; (ii) is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business make such qualification necessary; (iii) has legal power to own and operate its assets and to carry on its business and to enter into and perform its obligations under the Loan Contract, as amended hereby; (iv) has duly and lawfully obtained and maintained all material licenses, certificates, permits, authorizations, and approvals necessary to conduct its business or required by applicable Laws (as hereinafter defined); and (v) is eligible to obtain the financial assistance from RUS and the Bank contemplated by this Amendment.
- (b) *Authority.* The execution, delivery, and performance by the Borrower of this Amendment, the notes evidencing the loan(s) and/or loan guarantee(s) provided for herein, and any other loan documents (hereinafter collectively, the "Loan Documents") and the performance of the transactions contemplated hereby and thereby have been duly authorized by all necessary actions and do not violate any provision of law, any charter, articles of incorporation, organization documents or bylaws of the Borrower nor result in a breach of, or constitute a default under, any agreement, security agreement, note, or other instrument to which the Borrower is a party or by which it may be bound. The Borrower has not received any notice from any other party to any of the foregoing that a default has occurred or that any event or condition exists that with the giving of notice or lapse of time, or both, would constitute such a default.
- (c) *Consents.* No consent, approval, authorization, order, filing, qualification, license, or permit of any governmental authority is necessary in connection with the execution, delivery, performance, or enforcement of the Loan Documents, except such as have been obtained and are in full force and effect.
- (d) *Binding Agreement.* Each of the Loan Documents is, or when executed and delivered will be, the legal, valid, and binding obligation of the Borrower, enforceable in accordance with its terms, subject only to limitations on enforceability imposed in equity or by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.
- (e) *No Event of Default under Loan Contract and Mortgage.* No Event of Default under the Loan Contract or the Mortgage identified in Schedule 1 hereto and no event, which with the passage of time or giving of notice, or both, would constitute such an Event of Default, shall have occurred and be continuing, or shall occur after giving effect to an advance hereunder on the books of the Borrower.
- (f) *Compliance with Laws.* The Borrower is in compliance in all material respects with all federal, state, and local laws, rules, regulations, ordinances, codes, and orders (hereinafter collectively, "Laws.")

- (g) *Litigation.* There are no pending or threatened legal, arbitration, or governmental actions or proceedings to which the Borrower is a party or to which any of its property is subject which, if adversely determined, could have a material adverse effect on the Borrower.
- (h) *Information Submitted with Application.* All information, reports, and other documents and data submitted to RUS or the Bank in connection with the Application were, at the time the same were furnished, complete and correct in all material respects. Any financial statements or data submitted to RUS or the Bank in connection with the Application present fairly, in all material respects, the financial position of the Borrower and the results of its operations in conformity with the system of accounting prescribed by RUS. Since the date thereof, there has been no material adverse change in the financial condition or operations of the Borrower.

SECTION 4. The obligations of RUS to make or approve any advances of the RUS Cost-of-Money Loan Increase, the RUS Hardship Loan Increase, the Guaranteed Loan Increase, and the obligations of the Bank to make advances of the Bank Loan Increase are subject to the satisfaction of each of the following conditions precedent on or before the date of such advance (all documents, certificates and other evidence of such conditions precedent are to be satisfactory to RUS and the Bank in their discretion):

- (a) *Compliance with Conditions to Advance in Loan Contract.* That all prerequisites and conditions to advance of funds specified in the Loan Contract have been satisfied;
- (b) *Continuing Representations and Warranties.* That the representations and warranties of the Borrower contained in this Amendment be true and correct on and as of the date of each advance as though made on and as of such date;
- (c) *Current Financial Information and Certification of Authority.* That RUS or the Bank, as applicable, has received from the Borrower (i) its current, updated balance sheets, statement of cash flow, and income statements and (ii) a duly authorized and executed certification, Form 675, "Certificate of Authority," designating an officer, employee, or agent of the Borrower as the person or persons authorized to execute and submit, on behalf of the Borrower, REA Form 481, "Financial Requirement Statement;"
- (d) *Compliance with Loan Documents, Loan Contract and Mortgage.* That the Borrower is in material compliance with the Loan Documents, the Loan Contract and the Mortgage;
- (e) *Additional Documents.* The Borrower agrees to provide RUS and the Bank with such additional documents as RUS or the Bank may request; and
- (f) *Additional Conditions.* The Borrower has met all additional conditions specified in Schedule 1 hereto.

SECTION 5. The Borrower shall apply the proceeds of any loan increase provided for herein, other than amounts of the Bank Loan Increase approved for the purchase of Class B Stock, to the repayment of all or a portion of the outstanding obligations of the notes ("Note(s)") identified in Schedule 1.

SECTION 6. The Borrower agrees that unadvanced funds evidenced by the Notes shall be rescinded by RUS or the Bank, as applicable, and further agrees that RUS and the Bank have no further obligation to approve or make advances under the Note(s). Upon receipt of a timely written request from the Borrower detailing the need and advance schedule for unadvanced loan funds, RUS, and the Bank when applicable, may, in their sole discretion, waive the rescission requirement of this section.

SECTION 7. The Borrower agrees that any portion of the loan increases provided for herein remaining after repayment of all or a portion of the outstanding obligations under the Notes, as provided in Section 5 hereof, shall be rescinded by RUS or the Bank, as applicable, and further agrees that RUS and the Bank have no further obligation to approve or make advances hereunder.

SECTION 8. Except as expressly amended hereby, all terms of the Loan Contract shall remain in full force and effect and applicable to the loan increases provided for herein.

SECTION 9. The headings and sub-headings contained in the titling of this Amendment are intended to be used for convenience only and do not constitute part of this Amendment.

SECTION 10. Each Schedule attached hereto and referred to herein is each an integral part of this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

FOOTHILLS RURAL TELEPHONE  
COOPERATIVE CORPORATION, INC.

by \_\_\_\_\_

Name:

Title:

(Seal)

Attested to by: \_\_\_\_\_  
Secretary

UNITED STATES OF AMERICA, and  
RURAL TELEPHONE BANK, respectively

by \_\_\_\_\_

Acting Administrator,  
Rural Utilities Service  
and  
Acting Governor  
Rural Telephone Bank

(Seal)

Attest:

Assistant Secretary  
of the  
Rural Telephone Bank

SCHEDULE 1

Recitals:

1. Loan Contract: **Amending Telephone Loan Contract, dated as of October 1, 2002, among the, Borrower, the Government, and the Bank.**

Section 1:

1. RUS Cost-of-Money Loan Increase: **\$15,120,000**
2. RUS Hardship Loan Increase: **0**
3. Guaranteed Loan Increase: **0**
4. Bank Loan Increase: **\$10,584,000**

Section 3:

1. Paragraph (e) Mortgage: **Restated Mortgage, Security Agreement and Financing Statement, dated as of October 1, 2002, made by and among the Borrower, the Government, and the Bank.**

Section 4:

The additional conditions to advance referred in to in Paragraph (f) are as follow: **None**

Section 5:

Note(s):

<u>RUS Designation</u>	<u>Payee</u>	<u>Stated Principal Amount</u>	<u>Date</u>
H8	RUS	\$ 2,609,000	01-18-1974
K8	RUS	\$ 1,507,000	09-02-1975
L8	RUS	\$ 9,600,000	08-14-1978
M8	RUS	\$ 4,500,000	10-21-1981
N4	RUS	\$ 1,834,000	08-08-1988
N7	RTB	\$ 5,155,500	08-08-1988
P12	RUS	\$ 8,677,000	11-01-1995
P12	RTB	\$ 5,063,100	11-01-1995
R12	RUS	\$10,583,000	10-01-2002

RESTATED MORTGAGE, SECURITY AGREEMENT AND FINANCING STATEMENT dated as of November 1, 1995, made by and among FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC. (hereinafter called the "Mortgagor"), a corporation existing under the laws of the Commonwealth of Kentucky, as mortgagor and debtor, and UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the Administrator of the Rural Utilities Service, successor to the Administrator of the Rural Electrification Administration (hereinafter called the "Administrator"), and RURAL TELEPHONE BANK (hereinafter called the "Bank"), a corporation existing under the laws of the United States of America, as mortgagees and secured parties (the Government and the Bank being hereinafter sometimes collectively called the "Mortgagees").

WHEREAS, pursuant to Public Law No. 103-354, the Rural Utilities Service (hereinafter sometimes called "RUS") is the successor to the Rural Electrification Administration (hereinafter sometimes called "REA") and the Administrator of the Rural Utilities Service is the successor to the Administrator of the Rural Electrification Administration and, for the purposes of the Underlying Mortgage, as amended, as hereinafter defined, the terms "REA" and "Administrator" will be deemed to mean respectively "RUS" and "Administrator of the RUS"; and

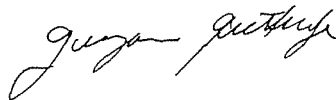
WHEREAS, the Mortgagor has heretofore borrowed funds from the Government and the Bank, or from a third party lender whose loans are guaranteed by the Government, acting through the Administrator of RUS, pursuant to the Rural Electrification Act of 1936, as amended (7 U.S.C. 901 et seq., hereinafter called the "Act"), and pursuant to a loan contract or amending loan contract identified in the ninth recital hereof (hereinafter called the "Instruments Recital"), by and among the Mortgagor, the Government and the Bank (said loan contract, as it may have been amended prior to the date of the Telephone Loan Contract Amendment referred to below, being hereinafter called the "Prior Loan Agreement"); and

RUS PROJECT DESIGNATION: KENTUCKY 522-P12 FOOTHILLS

THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.  
AFTER-ACQUIRED PROPERTY IS COVERED BY THIS INSTRUMENT.  
THIS INSTRUMENT WAS PREPARED BY GEORGANN GUTTERIDGE,  
ATTORNEY, ELECTRIC AND TELEPHONE DIVISION, OFFICE OF THE  
GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON,  
D.C. 20250-1400.

No. 2

Georgann Gutteridge





WHEREAS, the Mortgagor, for value received, has heretofore duly authorized and executed, and has delivered to the Government, or has assumed the payment of, certain mortgage notes all payable to the order of, or obligating the Mortgagor otherwise to, the Government, in installments, of which mortgage notes (hereinafter collectively called the "Outstanding RUS Notes") identified in the Instruments Recital are now outstanding and held by the Government; and

WHEREAS, the Mortgagor, for value received, has heretofore duly authorized and executed, and has delivered to the Bank, or has assumed the payment of, certain mortgage notes all payable to the order of the Bank, in installments, of which mortgage notes (hereinafter collectively called the "Outstanding Bank Notes") identified in the Instruments Recital are now outstanding and held by the Bank; and

WHEREAS, the Outstanding RUS Notes and the Outstanding Bank Notes (hereinafter collectively called the "Outstanding Notes") evidence loans made by the Government or a third party lender and guaranteed by the Government, acting through the Administrator, or the Bank either to the Mortgagor or to a third party or to third parties to finance telephone exchanges, lines and related facilities; and

WHEREAS, the Outstanding Notes are secured by the security instrument (hereinafter called the "Underlying Mortgage") made by the Mortgagor to the Government and the Bank, identified in the Instruments Recital; and

WHEREAS, the Mortgagor has determined to borrow additional funds from the Government pursuant to the Act and to the Prior Loan Agreement, as it may have heretofore been amended and as it is amended by the Telephone Loan Contract Amendment, identified in the Instruments Recital (the Prior Loan Agreement, as so amended, and as it may from time to time be further amended, supplemented, consolidated or restated, together with any agreements, among the Mortgagor, the Government and a third party lender, whose loans to the Mortgagor are guaranteed by the Government, acting through the Administrator, being hereinafter called the "Consolidated Loan Agreement") and has accordingly duly authorized, executed and delivered to the Government its mortgage note (identified in the Instruments Recital and hereinafter called the "Concurrent RUS Note") to be secured by the Underlying Mortgage, as amended, supplemented, consolidated and restated hereby; and

WHEREAS, the Mortgagor has determined at this time to borrow additional funds also from the Bank pursuant to the Act and to the Consolidated Loan Agreement, and has accordingly duly authorized and executed, and delivered to the Bank, its mortgage

note (as identified and hereinafter called the "Concurrent Bank Note") to be secured by the Underlying Mortgage, as amended, supplemented, consolidated and restated hereby; and

WHEREAS, the instruments referred to in the preceding recitals are as follows:

INSTRUMENTS RECITAL

"Prior Loan Agreement" (exclusive of amendments) dated as of October 15, 1952.

"Telephone Loan Contract Amendment" dated as of August 21, 1995.

"Outstanding RUS Notes":

Eleven (11) certain mortgage notes payable to the order of the Government, in an aggregate principal amount of \$23,856,000, all of which will finally mature on or before August 8, 2016.

"Outstanding Bank Notes":

Two (2) certain mortgage notes payable to the order of the Bank in an aggregate principal amount of \$5,155,500, all of which will finally mature on or before August 8, 2016.

"Concurrent RUS Note": (Of even date herewith):

<u>Principal Amount</u>	<u>Interest Rate</u> <u>(per annum)</u>	<u>Final Payment</u> <u>Date</u>
\$8,677,000	Determined by Advance	November 1, 2015

"Concurrent Bank Note": (Of even date herewith):

<u>Principal Amount</u>	<u>Interest Rate</u> <u>(per annum)</u>	<u>Final Payment</u> <u>Date</u>
\$5,063,100	Determined by Advance	November 1, 2015

"Underlying Mortgage":

<u>Instrument</u>	<u>Date</u>
Supplemental Mortgage and Security Agreement	August 8, 1988

WHEREAS, the Underlying Mortgage provides that the Mortgagor shall, upon the request in writing of the holder or holders of not less than a majority in principal amount of the RUS Notes or the Bank Notes, as hereinafter defined, duly authorize, execute, and deliver and record and file all such

supplemental mortgages and conveyances as may reasonably be requested by such holder or holders to effectuate the intention of the Underlying Mortgage and to provide for the conveying, mortgaging and pledging of the property of the Mortgagor intended to be conveyed, mortgaged or pledged by the Underlying Mortgage to secure the payment of the principal of and interest on notes executed and delivered thereunder and pursuant thereto, or otherwise secured thereby, and the holders of all such notes have in writing requested the execution and delivery of this Restated Mortgage, Security Agreement and Financing Statement (hereinafter called "this Restated Mortgage"), pursuant to such provisions; and

WHEREAS, it is further intended by the Mortgagor, at the request and with the consent of the Mortgagees, as owners and holders of the Outstanding Notes, to amend and supplement the Underlying Mortgage in the respects hereinafter set forth; and

WHEREAS, the changes in the Underlying Mortgage which the Mortgagor and the Mortgagees, as holders of the Outstanding Notes, desire now to effect make advisable the consolidating and restating of each of the instruments, constituting the Underlying Mortgage in its entirety; and

WHEREAS, all acts, things and conditions prescribed by law and by the articles of incorporation and bylaws of the Mortgagor have been duly performed and complied with to authorize the execution and delivery hereof and to make this Restated Mortgage a valid and binding mortgage, and to make this Restated Mortgage an amendment and supplement to, and a consolidation and restatement of, the Underlying Mortgage; and

WHEREAS, the Government and the Bank are authorized to enter into this Restated Mortgage; and

WHEREAS, it is contemplated that the Outstanding RUS Notes and the Concurrent RUS Note shall be secured hereby, as well as additional notes and refunding, renewal and substitute notes (hereinafter collectively called the "Additional RUS Notes") which may from time to time be executed and delivered by the Mortgagor to the Government as hereinafter provided (the Outstanding RUS Notes, the Concurrent RUS Note, and any Additional RUS Notes being hereinafter collectively called the "RUS Notes"); and

WHEREAS, it is contemplated that the Outstanding Bank Notes and the Concurrent Bank Note shall be secured hereby, as well as additional notes and refunding, renewal and substitute notes (hereinafter collectively called the "Additional Bank Notes" and, together with the Additional RUS Notes, hereinafter collectively called the "Additional Notes") which may from time to time be executed and delivered by the Mortgagor to the Bank as

hereinafter provided (the Outstanding Bank Notes, the Concurrent Bank Note, and any Additional Bank Notes being hereinafter collectively called the "Bank Notes", and the RUS Notes and the Bank Notes, collectively, being hereinafter called the "notes"); and

WHEREAS, the Mortgagor now owns a telephone system and other facilities identified in the Property Schedule contained in the Granting Clause hereof (hereinafter called the "Existing Facilities"); and

WHEREAS, to the extent that any of the property described or referred to herein and in the Underlying Mortgage is governed by the provisions of the Uniform Commercial Code of any State (hereinafter called the "Uniform Commercial Code"), the parties hereto desire that the Underlying Mortgage and this Restated Mortgage, collectively, be regarded as a "security agreement" under the Uniform Commercial Code and that this Restated Mortgage be regarded as a "financing statement" under the Uniform Commercial Code for said security agreement.

NOW, THEREFORE, this Restated Mortgage

#### WITNESSETH

That each of the instruments constituting the Underlying Mortgage is hereby amended, supplemented, consolidated and restated to read in its entirety from and after the date of execution of this Restated Mortgage (the Underlying Mortgage, as amended, supplemented, consolidated and restated by this Restated Mortgage, being herein called "this Mortgage") as follows:

#### GRANTING CLAUSE

In order to secure the payment of the principal of and interest on the notes, according to their tenor and effect, and further to secure the due performance of the covenants, agreements and provisions contained in this Mortgage and the Consolidated Loan Agreement and to declare the terms and conditions upon which the notes are to be secured, the Mortgagor, in consideration of the premises, has executed and delivered this Mortgage, and has granted, bargained, sold, conveyed, warranted, assigned, transferred, mortgaged, pledged, and set over, and by these presents does hereby grant, bargain, sell, convey, warrant, assign, transfer, mortgage, pledge and set over, unto the Mortgagees, and assigns, all and singular the following-described property (hereinafter sometimes called the "Mortgaged Property"):

All right, title and interest of the Mortgagor in and to the Existing Facilities and buildings, plants, works, improvements, structures, estates, grants, franchises, easements, rights, privileges and properties real, personal and mixed, tangible or intangible, of every kind or description, now owned or leased by the Mortgagor or which may hereafter be owned or leased, constructed or acquired by the Mortgagor, wherever located, and in and to all extensions and improvements thereof and additions thereto, including all buildings, plants, works, structures, improvements, fixtures, apparatus, materials, supplies, machinery, tools, implements, poles, posts, crossarms, conduits, ducts, lines, whether underground or overhead or otherwise, wires, cables, exchanges, switches including, without limitation, host switches and remote switches, desks, testboards, frames, racks, motors, generators, batteries and other items of central office equipment, pay stations, protectors, instruments, connections and appliances, office furniture and equipment, work equipment and any and all other property of every kind, nature and description, used, useful or acquired for use by the Mortgagor in connection therewith and including, without limitation, the property described in the following property schedule:

PROPERTY SCHEDULE

(a) The Existing Facilities are located in the Counties of Breathitt, Johnson, Knott, Lawrence, and Magoffin in the Commonwealth of Kentucky.

(b) The property referred to in the last line of paragraph 1 of the Granting Clause includes the real estate described on Exhibit A attached hereto, and by this reference made a part hereof, as if fully set forth at length at this point.

(c) If the real estate described in Exhibit A is by reference to deeds, grantor(s), grantee, etc., then the description of each of the properties conveyed by and through such deeds is by reference made a part of Exhibit A as though fully set forth at length therein.

(d) The real estate described in Exhibit A shall also include all plants, works, structures, erections, reservoirs, dams, buildings, fixtures and improvements now or hereafter located on such real estate, and all tenements, hereditaments and appurtenances now or hereafter thereunto belonging or in any wise appertaining.

## II

All right, title and interest of the Mortgagor in, to and under any and all grants, privileges, rights of way and easements now owned, held, leased, enjoyed or exercised, or which may hereafter be owned, held, leased, acquired, enjoyed or exercised, by the Mortgagor for the purposes of, or in connection with, the construction or operation by or on behalf of the Mortgagor of telephone properties, facilities, systems or businesses, whether underground or overhead or otherwise, wherever located;

## III

All right, title and interest of the Mortgagor in, to and under any and all licenses, franchises, ordinances, privileges and permits heretofore granted, issued or executed, or which may hereafter be granted, issued or executed, to it or to its assignors by the United States of America, or by any state, or by any county, township, municipality, village or other political subdivision thereof, or by any agency, board, commission or department of any of the foregoing, authorizing the construction, acquisition, or operation of telephone properties, facilities, systems or businesses, insofar as the same may by law be assigned, granted, bargained, sold, conveyed, transferred, mortgaged, or pledged;

## IV

All right, title and interest of the Mortgagor in, to and under any and all contracts heretofore or hereafter executed by and between the Mortgagor and any person, firm, or corporation relating to the Mortgaged Property together with any and all other accounts, contract rights and general intangibles (as such terms are defined in the applicable Uniform Commercial Code), and all stock, bonds, notes, debentures, commercial paper, subordinated capital certificates, securities, obligations of or beneficial interests or investments in any corporation, association, partnership, joint venture, trust, government or any agency or department thereof, or any other entity of any kind, heretofore or hereafter acquired by the Mortgagor;

## V

Also, all right, title and interest of the Mortgagor in and to all other property, real or personal, tangible or intangible, of every kind, nature and description, and wheresoever situated, now owned or leased or hereafter acquired by the Mortgagor, it being the intention hereof that all such property now owned or leased but not specifically described herein or acquired or held by the Mortgagor after the date hereof shall be as fully embraced within and subjected to the lien

hereof as if the same were now owned by the Mortgagor and were specifically described herein to the extent only, however, that the subjection of such property to the lien hereof shall not be contrary to law;

Together with all rents, income, revenues, proceeds, profits and benefits at any time derived, received or had from any and all of the above-described property of the Mortgagor.

Provided, however, that except as hereinafter provided in section 12(b) of article II hereof, no automobiles, trucks, trailers, tractors or other vehicles (including without limitation aircraft or ships, if any) owned or used by the Mortgagor shall be included in the Mortgaged Property.

TO HAVE AND TO HOLD all and singular the Mortgaged Property unto the Mortgagees and their respective assigns forever, to secure equally and ratably the payment of the principal of and interest on the notes, according to their tenor and effect, without preference, priority or distinction as to interest or principal (except as otherwise specifically provided herein) or as to lien or otherwise of any note over any other note by reason of the priority in time of the execution, delivery or maturity thereof or of the assignment or negotiation thereof, or otherwise, and to secure the due performance of the covenants, agreements and provisions herein and in the Consolidated Loan Agreement contained, and for the uses and purposes and upon the terms, conditions, provisos and agreements hereinafter expressed and declared.

#### ARTICLE I

##### ADDITIONAL NOTES

SECTION 1. The Mortgagor, when authorized by resolution or resolutions of its board of directors, may from time to time (1) execute and deliver to the Government one or more Additional RUS Notes to evidence loans made or guaranteed by the Government to the Mortgagor pursuant to the Act, or to evidence indebtedness of the Mortgagor incurred by the assumption by the Mortgagor of the indebtedness of a third party or parties to the Government created by a loan or loans theretofore made or guaranteed by the Government to such third party or parties pursuant to the Act, and (2) execute and deliver to the Bank one or more Additional Bank Notes to evidence loans made by the Bank to the Mortgagor pursuant to the Act, or to evidence indebtedness of the Mortgagor incurred by the assumption by the Mortgagor of the indebtedness of a third party or parties to the Bank created by a loan or loans theretofore made by the Bank to such third party or parties pursuant to the Act. The Mortgagor, when

authorized by resolution or resolutions of its board of directors, may also from time to time execute and deliver one or more Additional Notes to refund any note or notes at the time outstanding and secured hereby, or in renewal of, or in substitution for, any such outstanding note or notes. Additional Notes shall contain such provisions and shall be executed and delivered upon such terms and conditions as the board of directors of the Mortgagor in the resolution or resolutions authorizing the execution and delivery thereof and the relevant lender shall prescribe; provided, however, that the outstanding principal balances owing on the notes shall not at any one time exceed one hundred million dollars (\$100,000,000), and no note shall mature more than fifty (50) years after the date hereof. Additional Notes, including refunding, renewal and substitute notes, when and as executed and delivered, shall be secured by this Mortgage, equally and ratably with all other notes at the time outstanding, without preference, priority, or distinction of any of the notes over any other of the notes by reason of the priority of the time of the execution, delivery or maturity thereof or of the assignment or negotiation thereof. As used in this Mortgage, the term "directors" includes trustees.

SECTION 2. The Mortgagor, when authorized by resolution or resolutions of its board of directors, may from time to time execute, acknowledge, deliver, record and file mortgages supplemental to this Mortgage which thereafter shall form a part hereof, for the purpose of formally confirming this Mortgage as security for the notes. Nothing herein contained shall require the execution and delivery by the Mortgagor of a supplemental mortgage in connection with the issuance hereunder or the securing hereby of notes except as hereinafter provided in section 12 of article II hereof.

## ARTICLE II

### PARTICULAR COVENANTS OF THE MORTGAGOR

The Mortgagor covenants with the Mortgagees and the holders of notes secured hereby (hereinafter sometimes collectively called the "noteholders") and each of them as follows:

SECTION 1. The Mortgagor is duly authorized under its articles of incorporation and bylaws and the laws of the Commonwealth of its incorporation and all other applicable provisions of law to execute and deliver the Outstanding RUS Notes, the Outstanding Bank Notes, the Concurrent RUS Note, the Concurrent Bank Note and this Mortgage and to execute and deliver Additional Notes; and all corporate action on its part for the execution and delivery of the Outstanding RUS Notes, the



Outstanding Bank Notes, the Concurrent RUS Note, the Concurrent Bank Note and this Mortgage has been duly and effectively taken; and the Outstanding RUS Notes, the Outstanding Bank Notes, the Concurrent RUS Note, the Concurrent Bank Note and this Mortgage are, or when executed and delivered will be, the valid and enforceable obligations of the Mortgagor in accordance with their respective terms.

SECTION 2. The Mortgagor warrants that it has good right and lawful authority to mortgage the property described in the granting clauses of this Mortgage for the purposes herein expressed, and that the said property is free and clear of any deed of trust, mortgage, lien, charge or encumbrance thereon or affecting the title thereto, except (i) the lien of this Mortgage and taxes or assessments not yet due; (ii) deposits or pledges to secure payment of workmen's compensation, unemployment insurance, old age pensions or other social security; and (iii) deposits or pledges to secure performance of bids, tenders, contracts (other than contracts for the payment of borrowed money), leases, public or statutory obligations, surety or appeal bonds, or other deposits or pledges for purposes of like general nature in the ordinary course of business.

The Mortgagor will, so long as any of the notes shall be outstanding, maintain and preserve the lien of this Mortgage superior to all other liens affecting the Mortgaged Property, and will forever warrant and defend the title to the property described as being mortgaged hereby to the Mortgagees against any and all claims and demands whatsoever. The Mortgagor will promptly pay or discharge any and all obligations for or on account of which any such lien or charge might exist or could be created and any and all lawful taxes, rates, levies, assessments, liens, claims or other charges imposed upon or accruing upon any of the Mortgagor's property (whether taxed to the Mortgagor or to any noteholder), or the franchises, earnings or business of the Mortgagor, as and when the same shall become due and payable; and whenever called upon so to do the Mortgagor will furnish to the Mortgagees or to any noteholder adequate proof of such payment or discharge.

SECTION 3. The Mortgagor will duly and punctually pay the principal of and interest on the notes at the dates and places and in the manner provided therein, according to the true intent and meaning thereof, and all other sums becoming due hereunder.

SECTION 4. (a) The Mortgagor will at all times, so long as any of the notes shall be outstanding, take or cause to be taken all such action as from time to time may be necessary to preserve its corporate existence and to preserve and renew all franchises, rights of way, easements, permits and licenses now or hereafter to it granted or upon it conferred, and will comply

with all valid laws, ordinances, regulations and requirements applicable to it or its property. The Mortgagor will not, without the approval in writing of the holder or holders of not less than a majority in principal amount of the notes at the time outstanding (hereinafter called the "majority RUS noteholders") and of the holder or holders of not less than a majority in principal amount of the Bank Notes at the time outstanding (hereinafter called the "majority Bank noteholders"), take or suffer to be taken any steps to reorganize, or to consolidate with or merge into any other corporation, or to sell, lease or transfer (or make any agreement therefor) the Mortgaged Property, or any part thereof.

(b) The Mortgagor may, however, without obtaining the approval of the holder or holders of any of the notes at the time outstanding, at any time or from time to time so long as the Mortgagor is not in default hereunder, sell or otherwise dispose of, free from the lien hereof, any of its property which is neither necessary to nor useful for the operation of the Mortgagor's business, or which has become obsolete, worn out or damaged or otherwise unsuitable for the purposes of the Mortgagor; provided, however, that the Mortgagor shall: (1) to the extent necessary, replace the same by, or substitute therefor, other property of the same kind and nature, which shall be subject to the lien hereof, free and clear of all prior liens, and apply any proceeds derived from such sale or other disposition of such property and not needed for the replacement thereof to the payment of the indebtedness evidenced by the RUS Notes and the Bank Notes in the proportions which the aggregate principal balances then owing on the RUS Notes and the aggregate principal balances then owing on the Bank Notes, respectively, bear to the aggregate principal balances then owing on the RUS Notes and the Bank Notes, collectively, and shall be applied to such notes and installments thereof as may be designated by the respective noteholders at the time of any such receipt; or (2) immediately upon the receipt of the proceeds of any sale or other disposition of said property, apply the entire amount of such proceeds to the payment of the indebtedness evidenced by the RUS Notes and the Bank Notes in the proportions and in the manner provided for in (1) above; or (3) deposit all or such part of the proceeds derived from the sale or other disposition of said property as the majority RUS noteholders and the majority Bank noteholders shall specify in such restricted bank accounts as such holder or holders shall designate, and shall use the same only for such additions to or improvements of the Mortgaged Property and on such terms and conditions as such holder or holders shall specify.

SECTION 5. The Mortgagor will at all times maintain and preserve the Mortgaged Property in good repair, working order and condition, and will from time to time make all needful and proper repairs, renewals, and replacements, and useful and proper

alterations, additions, betterments and improvements, and will, subject to contingencies beyond its reasonable control, at all times keep its plant and properties in continuous operation and use all reasonable diligence to furnish the subscribers served by it through the Mortgaged Property with adequate telephone service.

SECTION 6. Except as specifically authorized in writing in advance by the majority RUS noteholders and the majority Bank noteholders, the Mortgagor will purchase all materials, equipment, supplies and replacements to be incorporated in or used in connection with the Mortgaged Property outright, and not subject to any conditional sales agreement, chattel mortgage, bailment lease, or other agreement reserving to the seller any right, title or lien.

SECTION 7. (a) The Mortgagor will take out, as the respective risks are incurred, and maintain the following classes and amounts of insurance: (1) fidelity bonds covering each officer and employee of the Mortgagor in not less than the following amounts, based on the estimated annual gross revenues (including gross toll collected) of the Mortgaged Property:

	<u>Annual Gross Revenue</u>	<u>Amount of Coverage</u>
	Less than \$ 200,000	\$ 50,000
From	\$ 200,001 to 400,000	100,000
	400,001 to 600,000	250,000
	600,001 to 800,000	300,000
	800,001 to 1,000,000	400,000
	over 1,000,000	500,000

and each collection agent of the Mortgagor shall be included in such fidelity bonds for not less than \$2,500, or 10 percent of the highest amount collected annually by any one collection agent, whichever is greater; (2) workmen's compensation and employer's liability insurance covering all employees of the Mortgagor, in such amounts as may be required by law, or if the Mortgagor or any of its employees are not subject to the workmen's compensation laws of the Commonwealth or Commonwealths in which the Mortgagor conducts its operations, then its workmen's compensation policy shall provide voluntary compensation coverage to the same extent as though the Mortgagor and such employees were subject to such laws; and including occupational disease liability coverage, employer's liability insurance and "additional medical" coverage of not less than \$10,000 in Commonwealths where full medical coverage is not required by law; (3) public liability and property damage insurance, covering ownership liability, and all operations of the Mortgagor, with limits for bodily injury or death of not less than \$1,000,000 for one person and \$1,000,000 for each accident and with limits for property damages of not less than \$1,000,000

for each accident and \$1,000,000 aggregate for the policy period; (4) liability insurance on all motor vehicles, trailers, semitrailers, and aircraft used in the conduct of the Mortgagor's business, whether owned, non-owned or hired by the Mortgagor, with bodily injury limits of not less than \$1,000,000 for one person and \$1,000,000 for each accident, and with property damage limits of \$1,000,000 for each accident; in connection with aircraft liability, also passenger bodily injury limits of \$1,000,000 per person and \$1,000,000 for each accident; (5) comprehensive, or separate fire, theft and windstorm insurance covering loss of or damage to all owned motor vehicles, trailers, and aircraft of the Mortgagor, having a unit value in excess of \$1,000, in an amount not less than the actual cash value of the property insured; and (6) fire and extended coverage insurance, designating the Government and the Bank as mortgagees in the policy, on each building, each building and its contents, and materials, supplies, poles and crossarms, owned by the Mortgagor, having a value at any one location in excess of \$5,000, or in excess of one percent of the total plant value, whichever is larger, and in an amount not less than 80 percent of the current cost to replace the property new, less actual depreciation.

The Mortgagor will also, from time to time, increase or supplement the classes and amounts of insurance specified above to the extent requested by the Administrator of RUS or the Governor of the Bank or required to conform to the accepted practice of the telephone industry for companies of the size and character of the Mortgagor. The Mortgagor will, upon request of the majority RUS noteholders and the majority Bank noteholders, submit to the noteholder or noteholders designated in such request a schedule of its insurance in effect on the date specified in such request. If the Mortgagor shall at any time fail or refuse to take out or maintain insurance or to make changes in respect thereof upon appropriate request by such noteholder or noteholders, such noteholder or noteholders may take out such insurance on behalf and in the name of the Mortgagor, and the Mortgagor will pay the cost thereof.

(b) In the event of damage to or the destruction or loss of any portion of the Mortgaged Property which shall be covered by insurance, unless the majority RUS noteholders and the majority Bank noteholders shall otherwise agree, the Mortgagor shall replace or restore such damaged, destroyed or lost portion so that the Mortgaged Property shall be in substantially the same condition as it was in prior to such damage, destruction or loss, and shall deposit the proceeds of the insurance in the Special Construction Account required by the Consolidated Loan Agreement to be applied for that purpose. The Mortgagor shall replace the loss or shall commence such restoration promptly after such damage, destruction or loss shall have occurred and shall complete such replacement or restoration as expeditiously as practicable, and shall pay or cause to be

paid out of the proceeds of such insurance all costs and expenses in connection therewith so that such replacement or restoration shall be so completed that the portion of the Mortgaged Property so replaced or restored shall be free and clear of all mechanics' liens and other claims.

(c) Sums recovered under any fidelity bond by the Mortgagor for a loss of funds advanced under the notes or recovered by the Mortgagees for any loss under such bond shall, unless otherwise directed by the Mortgagees, be applied to the prepayment of the notes, pro rata according to the unpaid principal amounts thereof (such prepayments to be applied to such installments thereof as may be designated by the respective noteholders at the time of such prepayments) or to construct or acquire facilities approved by the Mortgagees, which will become part of the Mortgaged Property.

(d) The foregoing insurance coverage shall be obtained by means of bond and policy forms approved by regulatory authorities, including standard RUS endorsements and riders used by the insurance industry to provide coverage for RUS borrowers. Each policy or other contract for such insurance shall contain an agreement by the insurer that, notwithstanding any right or cancellation reserved to such insurer, such policy or contract shall continue in force for at least ten (10) days after written notice to the Mortgagees of cancellation.

SECTION 8. In the event of the failure of the Mortgagor in any respect to comply with the covenants and conditions herein contained with respect to the procuring of insurance, the payment of taxes, assessments and other charges, the keeping of the Mortgaged Property in repair and free of liens and other claims or to comply with any other covenant contained in this Mortgage, any noteholder or noteholders shall have the right (without prejudice to any other rights arising by reason of such default) to advance or expend moneys for the purpose of procuring such insurance, or for the payment of insurance premiums, taxes, assessments or other charges, or to save the Mortgaged Property from sale or forfeiture for any unpaid tax or assessment, or otherwise, or to redeem the same from any tax or other sale, or to purchase any tax title thereon, or to remove or purchase any mechanics' liens or other encumbrance thereon, or to make repairs thereon or to comply with any other covenant herein contained or to prosecute or defend any suit in relation to the Mortgaged Property or in any manner to protect the Mortgaged Property and the title thereto, and all sums so advanced for any of the aforesaid purposes with interest thereon at the highest legal rate but not in excess of twelve per centum (12%) per annum shall be deemed a charge upon the Mortgaged Property in the same manner as the notes at the time outstanding are secured and shall be forthwith paid to the noteholder or noteholders making such advance or advances upon demand. It shall not be obligatory for

any noteholder in making any such advances or expenditures to inquire into the validity of any such tax title, or of any of such taxes or assessments or sales therefor, or of any such mechanics' liens or other encumbrance.

SECTION 9. The Mortgagor will not, without the approval in writing of the majority RUS noteholders and the majority Bank noteholders: (a) enter into any contract or contracts for the operation or maintenance of all or any part of its property, for the use by others of any of the Mortgaged Property, or for toll traffic, operator assistance, extended scope or switching services to be furnished by or for connecting or other companies; provided, however, that such approval shall not be required for any toll traffic or operator assistance contract which in form and substance conforms with contracts in general use in the telephone industry; or (b) deposit any of its funds, regardless of the source thereof, in any bank, institution or other depository which is not insured by the Federal Government.

SECTION 10. Salaries, wages and other compensation paid by the Mortgagor for services, and directors' or trustees' fees, shall be reasonable and in conformity with the usual practice of corporations of the size and nature of the Mortgagor. Except as specifically authorized in writing in advance by the majority RUS noteholders and the majority Bank noteholders, the Mortgagor will make no advance payments or loans, or in any manner extend its credit, either directly or indirectly, with or without interest, to any of its directors, trustees, officers, employees, stockholders, members or affiliated companies, provided, however, the Mortgagor may make an investment for any purpose described in section 607(c)(2) of the Rural Development Act of 1972 (including any investment in, or extension of credit, guarantee or advance made to, an affiliated company of the Mortgagor that is used by such company for such purpose) to the extent that, immediately after such investment, (1) the aggregate of such investments does not exceed one-third of the net worth (defined in Exhibit One hereto) of the Mortgagor and (2) the Mortgagor's net worth is at least twenty percent of its total assets (defined in Exhibit One hereto). As used in this section, the term "affiliated companies" shall have the meaning prescribed for this term by the Federal Communications Commission in its prevailing uniform system of accounts for Class A telephone companies.

SECTION 11. The Mortgagor will at all times keep, and safely preserve, proper books, records and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Mortgagor, in accordance with the methods and principles of accounting then prescribed by the state regulatory body having jurisdiction over the Mortgagor, or in the absence of such regulatory body or such prescription, by the

Federal Communications Commission in its uniform system of accounts for telecommunications companies, as those methods and principles of accounting may be supplemented, from time to time, by RUS. The Mortgagor will prepare and furnish each noteholder not later than the thirtieth day of January in each year, or at such more or less frequent intervals when specified by the majority RUS noteholders and the majority Bank noteholders, financial and statistical reports on its condition and operations. Such reports shall be in such form and include such information as may be specified by the majority RUS noteholders and the majority Bank noteholders, including without limitation an analysis of the Mortgagor's revenues, expenses, and subscriber accounts. The Mortgagor will cause to be prepared and furnished to each noteholder at least once during each twelve (12)-month period during the term hereof, full and complete reports of its financial condition and cash flow as of a date (hereinafter called the Fiscal Date), and a full and complete report of its operations of the twelve (12)-month period ended on the Fiscal Date, all in form and substance satisfactory to the majority RUS noteholders and the majority Bank noteholders, and will cause such reports to be furnished to each noteholder within 120 days of the Fiscal Date, such reports having been audited and certified by independent certified public accountants satisfactory to said noteholders and accompanied by such reports of such audit in form and substance satisfactory to said noteholders. The majority RUS noteholders and the majority Bank noteholders, through their representatives, shall at all times during reasonable business hours have access to, and the right to inspect and make copies of, any or all books, records and accounts, and any or all invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in possession of the Mortgagor and in anywise pertaining to its property or business. The Mortgagor shall enter into an audit agreement with an independent certified public accountant in form and substance satisfactory to the majority RUS noteholders and the majority Bank noteholders.

SECTION 12. (a) The Mortgagor will from time to time upon written demand of the majority RUS noteholders or the majority Bank noteholders make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered all such further and supplemental indentures of mortgage, deeds of trust, mortgages, financing statements, continuation statements, security agreements, instruments and conveyances as may reasonably be requested by the majority RUS noteholders or the majority Bank noteholders and take or cause to be taken all such further action as may reasonably be requested by the majority RUS noteholders or the majority Bank noteholders to effectuate the intention of these presents and to provide for the securing and payment of the principal of and interest on the notes according to the terms thereof and for the purpose of fully conveying, transferring and confirming unto the Mortgagees the property

hereby conveyed, mortgaged and pledged, or intended so to be, whether now owned by the Mortgagor or hereafter acquired by it and to reflect the assignment of the rights or interests of either of the Mortgagees or of any noteholder hereunder or under any note. The Mortgagor will cause this Mortgage and any and all supplemental indentures of mortgage, mortgages and deeds of trust and every security agreement, financing statement, continuation statement and every additional instrument which shall be executed pursuant to the foregoing provisions forthwith upon execution to be recorded and filed and rerecorded and refiled as conveyances and mortgages and deeds of trust of and security interests in real and personal property in such manner and in such places as may be required by law or reasonably requested by the majority RUS noteholders or the majority Bank noteholders in order fully to preserve the security for the notes and to perfect and maintain the superior lien of this Mortgage and all supplemental indentures of mortgage, mortgages and deeds of trust and the rights and remedies of the Mortgagees and the noteholders.

(b) In the event that the Mortgagor has had or suffers a deficit in net income or net margins, as determined in accordance with methods of accounting prescribed in section 11 of article II hereof, for any of the five fiscal years immediately preceding the date hereof or for any fiscal year while any of the notes are outstanding, the Mortgagor will at any time or times upon written demand of the majority RUS noteholders or the majority Bank noteholders, make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered all such further and supplemental indentures of mortgage, mortgages, security agreements, financing statements, instruments and conveyances, and take or cause to be taken all such further action, as may reasonably be requested by the majority RUS noteholders or the majority Bank noteholders in order to include in this Mortgage, as Mortgaged Property, and to subject to all the terms and conditions of this Mortgage, all right, title and interest of the Mortgagor in and to, all and singular, the automobiles, trucks, trailers, tractors, aircraft, ships and other vehicles then owned by the Mortgagor, or which may thereafter be owned or acquired by the Mortgagor. From and after the time of such written demand of the majority RUS noteholders or the majority Bank noteholders, such vehicles shall be deemed to be part of the Mortgaged Property for all purposes hereof.

SECTION 13. Any noteholder may, at any time or times in succession without notice to or the consent of the Mortgagor or any other noteholder and upon such terms as such noteholder may prescribe, grant to any person, firm or corporation who shall have become obligated to pay all or any part of the principal of or interest on any note held by or indebtedness owed to such noteholder or who may be affected by the lien hereby created, an extension of the time for the payment of such principal or interest, and after any such extension the Mortgagor will remain



liable for the payment of such note or indebtedness to the same extent as though it had at the time of such extension consented thereto in writing.

SECTION 14. The Mortgagor, subject to applicable laws and rules, and regulations and orders of regulatory bodies, will charge for telephone service furnished by it rates which shall yield revenues at least sufficient to enable the Mortgagor to pay and discharge all taxes and expenses when due, and also to make any payment in respect of principal of and interest on the notes when and as the same shall become due. The Mortgagor will, not less than ninety (90) days prior to the effective date of any proposed change in its rates, give to the holder or holders of the notes at the time outstanding written notice of such proposed change and a copy of a schedule showing the then existing rates and the proposed changes therein.

SECTION 15. (a) Except as specifically authorized in writing in advance by the majority RUS noteholders or the majority Bank noteholders, the Mortgagor will not declare or pay any dividends on its capital stock, membership certificates or equity capital certificates (other than in shares of such capital stock or in such certificates), or make any other distribution to its stockholders, members or subscribers, or purchase, redeem or retire any of its capital stock, membership certificates or equity capital certificates, or make any investment in affiliated companies (except as allowed by subsection 15(d) below, unless after such action the Mortgagor's current assets (determined in accordance with Exhibit One hereto) will equal or exceed its current liabilities (determined in accordance with Exhibit One hereto) (exclusive of current liabilities incurred for additions to plant), and the Mortgagor's adjusted net worth (determined in accordance with Exhibit One hereto) will be at least forty per centum (40%) of its adjusted assets (determined in accordance with Exhibit One hereto), or the sum of the following (whichever is the smaller amount):

- (1) ten per centum (10%) of its adjusted assets, plus
- (2) thirty per centum (30%) of its adjusted net worth, if any, in excess of the amount represented by the percentage of adjusted assets set out in the immediately preceding subparagraph (1), plus
- (3) thirty per centum (30%) of the amount of any reduction of its adjusted net worth after December 31, 1965, resulting from the declaration or payment of dividends or distributions, the purchase, redemption or retirement of its capital stock, membership certificates or equity capital certificates or investments in affiliated companies.

(b) During such time or times as the Mortgagor's adjusted net worth is less than ten per centum (10%) of its adjusted assets:

- (1) The Mortgagor will make no increase, without prior written approval of the majority RUS noteholders and the majority Bank noteholders, in salaries, wages, fees and other compensation paid to officers, directors, trustees, executives, or supervisors of the Mortgagor, or to other employees having either a substantial ownership interest in the Mortgagor, or a close family relationship with officers, directors, trustees, executives, supervisors, or holders of substantial ownership interests in the Mortgagor; and
- (2) the Mortgagor will promptly furnish the majority RUS noteholders and the majority Bank noteholders with certified copies of the minutes of all meetings of its stockholders, members, directors or trustees;
- (3) if the operation of the Mortgaged Property for the preceding calendar year resulted in a decrease in the Mortgagor's retained earnings (determined in accordance with Exhibit One hereto), the Mortgagor shall upon the written direction of the majority RUS noteholders and the majority Bank noteholders, take all required action to promptly (1) increase its charges for telephone service or (2) execute a plan for reducing expenses, such increase in charges and such plan to be submitted to all the noteholders and to be acceptable to and approved in writing by the majority RUS noteholders and the majority Bank noteholders.

(c) During such time or times as the Mortgagor's adjusted net worth is less than twenty per centum (20%) of its adjusted assets, the Mortgagor will promptly furnish the majority RUS noteholders and the majority Bank noteholders with a detailed report on ownership or transfers of its capital stock, membership certificates or equity capital certificates whenever requested in writing by the majority RUS noteholders or the majority Bank noteholders, or whenever one per centum (1%) or more of its outstanding ownership interests has been transferred since the last preceding report to such noteholders on ownership interests or transfers; and

(d) If the Mortgagor's net worth (defined in Exhibit One hereto) is equal to at least 20 percent of its total assets (defined in Exhibit One hereto), then the term "investment in affiliated companies" used in subsection

15(a) shall not include investments by the Mortgagor for any purpose described in section 607(c)(2) of the Rural Development Act of 1972 (including any investment in, or extension of credit, guarantee, or advance made to an affiliated company of the Mortgagor that is used by such company for such purpose) to the extent that, immediately after such investment, the aggregate of such investments does not exceed one-third of the net worth of the Mortgagor.

SECTION 16. In the event that the Mortgaged Property, or any part thereof, shall be taken under the power of eminent domain, all proceeds and avails therefrom, except to the extent that all noteholders shall consent to other use and application thereof by the Mortgagor, shall forthwith be applied by the Mortgagor: first, to the ratable payment of any indebtedness by this Mortgage secured other than principal of or interest on the notes; second, to the ratable payment of interest which shall have accrued on the notes and be unpaid; third, to the ratable payment of or on account of the unpaid principal of the notes and to such installments thereof as may be designated by the respective noteholders at the time of any such payment, and fourth, the balance shall be paid to whosoever shall be entitled thereto.

SECTION 17. The Mortgagor will well and truly observe and perform all of the covenants, agreements, terms and conditions contained in the Consolidated Loan Agreement, on its part to be observed or performed.

SECTION 18. If all the RUS Notes have been paid and discharged while any of the Bank Notes are still outstanding, all rights and powers of the Government and the holders of the RUS Notes under this Mortgage shall immediately vest in the Bank and the holders of the Bank Notes, respectively, and, correspondingly, if all the Bank Notes have been paid and discharged while any of the RUS Notes are still outstanding, all rights and powers of the Bank and the holders of the Bank Notes under this Mortgage shall immediately vest in the Government and the holders of the RUS Notes, respectively. The Bank, the Government, the Mortgagor and the noteholders shall execute and deliver such instruments, assignments, releases or other documents as shall be reasonably required to carry out the intention of this section.

SECTION 19. At all times when any note is held by the Government, or in the event the Government shall assign a note without having insured the payment of such note, this Mortgage shall secure payment of such note for the benefit of the Government or such uninsured holder thereof, as the case may be. Whenever any note may be sold to an insured purchaser, it shall continue to be considered a "note" as defined herein, but as to any such insured note the Government, and not such insured

purchaser, shall be considered to be, and shall have the rights of, the noteholder for purposes of this Mortgage. Notice of the rights of the Government under the preceding sentence shall be set forth in all such insured notes. As to any note which evidences a loan made by a third party lender to the Mortgagor and guaranteed by the Government, acting through the Administrator, pursuant to the Act, the Government and not such third party lender shall be considered to be, and shall have the rights of the noteholder for purposes of this Mortgage.

SECTION 20. (a) The Mortgagor, subject to applicable laws and rules and orders of regulatory bodies, shall design its rates for telephone service and other services furnished by it with a view to paying and discharging all taxes, maintenance expenses and operating expenses of its telephone system, and also to making all payments in respect of principal of and interest on the notes when and as the same shall become due, to providing and maintaining reasonable working capital for the Mortgagor and to maintaining an Average TIER on all of its outstanding indebtedness to the Government, the Bank, and all other lenders of not less than 1.00 commencing with the date hereof and ending December 31, 1998 (hereinafter called the "Forecast Period"), and the TIER the Mortgagor is required to maintain after the Forecast Period shall be 1.47.

(b) For purposes of this section 20, Average TIER shall be determined as of January 1 of each year during which any obligation secured by this Mortgage remains unsatisfied and shall mean the average of the two highest TIER ratios achieved by the Mortgagor during each of the three calendar years last preceding the various dates of its determination.

(c) As used in this section 20, TIER means the Mortgagor's net income or net margins (determined in accordance with Exhibit One hereto) plus interest expense (determined in accordance with Exhibit One hereto) divided by interest expense.

SECTION 21. (a) Current assets, current liabilities, net worth, adjusted net worth, adjusted assets, retained earnings, net income or net margins, interest expense, and total assets, as used in sections 10, 15 or 20 of article II of this Mortgage, are defined in Exhibit One hereto. Net Plant and secured debt, if referred to in this Mortgage, are also determined in accordance with Exhibit One hereto.

(b) Accounting terms used in this Mortgage shall also apply to accounts or groups of accounts of the Mortgagor, regardless of the account title or the system of accounts used, if such accounts have substantially the same meaning as those prescribed by the Federal Communications

Commission in its prevailing uniform system of accounts for telecommunications companies (47 CFR Part 32).

SECTION 22. If the Underlying Mortgage contains provisions requiring the Mortgagor to maintain a net plant to secured debt ratio or a funded reserve, then such provisions are incorporated in and made a part of this Mortgage as though fully set forth herein at this point.

SECTION 23. Exhibit One is attached hereto and by reference is made a part of this Mortgage.

SECTION 24. The Mortgagor will not pay its directors or trustees, as such, any salaries for their services, except such as shall have been approved by the majority RUS noteholders and the majority Bank noteholders, provided that nothing herein contained shall preclude any director or trustee from serving the Mortgagor in any other capacity and receiving compensation therefor.

SECTION 25. (a) The Mortgagor will not at any time employ, or enter into any contract for the employment of, any manager of its telephone properties, unless such employment or such contract shall first have been approved by the majority RUS noteholders and the majority Bank noteholders. (b) If, during such periods as the Mortgagor shall be in default in the making of a payment or payments of principal of or interest on one or more of the notes, the majority RUS noteholders or the majority Bank noteholders shall give notice to the Mortgagor that in their opinion its telephone properties are not being efficiently operated, and shall request the termination of the employment of any such manager, or shall request the termination of any operating contract in respect of any such telephone properties, the Mortgagor will terminate such employment or operating contract within thirty (30) days after the date of such notice. (c) All contracts in respect of the employment of any such manager or for the operation of such telephone properties shall contain provisions to permit compliance with the foregoing covenants.

### ARTICLE III

#### REMEDIES OF THE MORTGAGEES AND NOTEHOLDERS

SECTION 1. If one or more of the following events (hereinafter called "events of default") shall happen, that is to say:

(a) default shall be made in the payment of any installment of or on account of interest on or principal of

any note or notes when and as the same shall be required to be made and such default shall continue for thirty (30) days;

(b) default shall be made in the due observance or performance of any other of the representations, warranties, covenants, conditions or agreements on the part of the Mortgagor in any of the notes or in this Mortgage or in the Consolidated Loan Agreement contained; and such default shall continue for a period of thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Mortgagor by any noteholder;

(c) the Mortgagor shall file a petition in bankruptcy or be adjudicated a bankrupt or insolvent, or shall make an assignment for the benefit of its creditors, or shall consent to the appointment of a receiver of itself or of its property, or shall institute proceedings for its reorganization or proceedings instituted by others for its reorganization shall not be dismissed within thirty (30) days after the institution thereof;

(d) a receiver or liquidator of the Mortgagor or of any substantial portion of its property shall be appointed and the order appointing such receiver or liquidator shall not be vacated within thirty (30) days after the entry thereof;

(e) the Mortgagor shall forfeit or otherwise be deprived of its corporate charter or franchises, permits or licenses required to carry on any material portion of its business;

(f) a final judgment shall be entered against the Mortgagor and shall remain unsatisfied or without a stay in respect thereof for a period of thirty (30) days;

then in each and every such case any noteholder may, by notice in writing to the Mortgagor and delivery of a copy thereof to the other noteholders, declare all unpaid principal of and accrued interest on any or all notes held by such noteholder to be due and payable immediately; and upon any such declaration all such unpaid principal and accrued interest so declared to be due and payable shall become and be due and payable, immediately, anything contained herein or in any note or notes to be the contrary notwithstanding; provided, however, that if at any time after the unpaid principal of and accrued interest on any of the notes shall have been so declared to be due and payable, all payments in respect of principal and interest which shall have become due and payable by the terms of such note or notes shall be paid to the respective noteholders, and all other defaults

hereunder and under the notes shall have been made good or secured to the satisfaction of all of the noteholders, then and in every such case, the noteholder or noteholders who shall have declared the principal of and interest on notes held by such noteholder or noteholders to be due and payable may, by written notice to the Mortgagor and delivery of a copy thereof to the other noteholders, annul such declaration or declarations and waive such default or defaults and the consequences thereof, but no such waiver shall extend to or affect any subsequent default or impair any right consequent thereon.

SECTION 2. If one or more of the events of default shall happen, the holder or holders of not less than a majority in principal amount of the notes at the time outstanding (hereinafter called the "majority noteholders"), for itself or themselves, and as the agent or agents of the other noteholders, personally or by attorney, in its or their discretion, may, insofar as not prohibited by law:

(a) take immediate possession of the Mortgaged Property, collect and receive all credits, outstanding accounts and bills receivable of the Mortgagor and all rents, income, revenues and profits pertaining to or arising from the Mortgaged Property, or any part thereof, and issue binding receipts therefor; and manage, control and operate the Mortgaged Property as fully as the Mortgagor might do if in possession thereof, including, without limitation, the making of all repairs or replacements deemed necessary or advisable;

(b) proceed to protect and enforce the rights of the Mortgagees and the rights of the noteholder or noteholders under this Mortgage by suits or actions in equity or at law in any court or courts of competent jurisdiction, whether for specific performance of any covenant or any agreement contained herein or in aid of the execution of any power herein granted or for the foreclosure hereof or hereunder or for the sale of the Mortgaged Property, or any part thereof, or to collect the debts hereby secured or for the enforcement of such other or additional appropriate legal or equitable remedies as may be deemed most effectual to protect and enforce the rights and remedies herein granted or conferred, and in the event of the institution of any such action or suit the noteholder or noteholders instituting such action or suit shall have the right to have appointed a receiver of the Mortgaged Property and of all rents, income, revenues and profits pertaining thereto or arising therefrom derived, received or had from the time of the commencement of such suit or action, and such receiver shall have all the usual powers and duties of receivers, in like and similar cases, to the fullest extent permitted by law, and if application shall be made for the appointment of

a receiver the Mortgagor hereby expressly consents that the court to which such application shall be made may make said appointment; and

(c) sell or cause to be sold all and singular the Mortgaged Property or any part thereof, and all right, title, interest, claim and demand of the Mortgagor therein or thereto, at public auction at such place in any county in which the property to be sold, or any part thereof is located, at such time and upon such terms as may be specified in a notice of sale, which shall state the time when and the place where the sale is to be held, shall contain a brief general description of the property to be sold, and shall be given by mailing a copy thereof to the Mortgagor at least fifteen (15) days prior to the date fixed for such sale and by publishing the same once in each week for two successive calendar weeks prior to the date of such sale in a newspaper of general circulation published in said county, or if no such newspaper is published in such county, in a newspaper of general circulation in such county, the first such publication to be not less than fifteen (15) days nor more than thirty (30) days prior to the date fixed for such sale. Any sale to be made under this subparagraph 2(c) may be adjourned from time to time by announcement at the time and place appointed for such sale or for such adjourned sale or sales, and without further notice or publication the sale may be had at the time and place to which the same shall be adjourned, provided, however, that in the event another or different notice of sale or another or different manner of conducting the same shall be required by law the notice of sale shall be given or the sale shall be conducted, as the case may be, in accordance with the applicable provisions of law.

SECTION 3. If, within thirty (30) days after the majority noteholders shall have had knowledge of the happening of an event or events of default, the majority noteholders shall not have proceeded to exercise the rights and enforce each of the remedies herein or by law conferred upon or reserved to the Mortgagees or to said majority noteholders, then, and only then, any noteholder for itself and as the agent of all the other noteholders, including the majority noteholders, may proceed to exercise any such right or rights and remedy or remedies not being enforced by the majority noteholders. Nothing contained in this Mortgage shall affect or impair the right, which is absolute and unconditional, of any holder of any note which may be secured hereby to enforce the payment of the principal of or interest on such note on the date or dates any such interest or principal shall become due and payable in accordance with the terms of such note.



SECTION 4. At any sale hereunder any noteholder or noteholders shall have the right to bid for and purchase the Mortgaged Property, or such part thereof as shall be offered for sale, and any noteholder or noteholders may apply in settlement of the purchase price of the property so purchased the portion of the net proceeds of such sale which would be applicable to the payment on account of the principal of and interest on the note or notes held by such noteholder or noteholders, and such amount so applied shall be credited as a payment on account of principal of and interest on the note or notes held by such noteholder or noteholders.

SECTION 5. Any proceeds or funds arising from the exercise of any rights or the enforcement of any remedies herein provided after the payment or provision for the payment of any and all costs and expenses in connection with the exercise of such rights or the enforcement of such remedies shall be applied first, to the payment of indebtedness hereby secured other than the principal of or interest on the notes; second, to the ratable payment of interest which shall have accrued on the notes and which shall be unpaid; third, to the ratable payment of or on account of the unpaid principal of the notes, and the balance, if any, shall be paid to whosoever shall be entitled thereto.

SECTION 6. The Mortgagor covenants that it will give immediate written notice to both of the Mortgagees and to all of the noteholders of the occurrence of an event of default or in the event that any right or remedy described in clauses 2(a) through 2(c) of this article III is exercised or enforced, or of any action taken to exercise or enforce any such right or remedy.

SECTION 7. Every right or remedy herein conferred upon or reserved to the Mortgagees or to the noteholders shall be cumulative and shall be in addition to every other right and remedy given hereunder or now or hereafter existing at law, or in equity, or by statute. The pursuit of any right or remedy shall not be construed as an election.

SECTION 8. The Mortgagor, for itself and all who may claim through or under it, covenants that it will not at any time insist upon or plead, or in any manner whatever claim, or take the benefit or advantage of, any appraisal, valuation, stay, extension or redemption laws now or hereafter in force in any locality where any of the Mortgaged Property may be situated, in order to prevent, delay or hinder the enforcement or foreclosure of this Mortgage, or the absolute sale of the Mortgaged Property, or any part thereof, or the final and absolute putting into possession thereof, immediately after such sale, of the purchaser or purchasers thereat, and the Mortgagor, for itself and all who may claim through or under it, hereby

waives the benefit of all such laws unless such waiver shall be forbidden by law.

#### ARTICLE IV

##### POSSESSION UNTIL DEFAULT-DEFEASANCE CLAUSE

SECTION 1. Until some one or more of the events of default shall have happened, the Mortgagor shall be suffered and permitted to retain actual possession of the Mortgaged Property, and to manage, operate and use the same and any part thereof, with the rights and franchises appertaining thereto, and to collect, receive, take, use and enjoy the rents, revenues, issues, earnings, income, products and profits thereof or therefrom, subject to the provisions of this Mortgage.

SECTION 2. If the Mortgagor shall well and truly pay or cause to be paid the whole amount of the principal of and interest on the notes at the time and in the manner therein provided, according to the true intent and meaning thereof, and shall also pay or cause to be paid all other sums payable hereunder by the Mortgagor and shall well and truly keep and perform according to the true intent and meaning of this Mortgage, all covenants herein required to be kept and performed by it, then and in that case, all property, rights and interests hereby conveyed or assigned or pledged shall revert to the Mortgagor and the estate, right, title and interest of the Mortgagees and the noteholders shall thereupon cease, determine and become void and the Mortgagees and the noteholders, in such case, on written demand of the Mortgagor but at the Mortgagor's cost and expense, shall enter satisfaction of this Mortgage upon the record. In any event, each noteholder, upon payment in full to him by the Mortgagor of all principal of and interest on any note held by him and the payment and discharge by the Mortgagor of all charges due to such noteholder hereunder, shall execute and deliver to the Mortgagor such instrument of satisfaction, discharge or release as shall be required by law in the circumstances.

#### ARTICLE V

##### MISCELLANEOUS

SECTION 1. It is hereby declared to be the intention of the Mortgagor that all lines, or systems, embraced in the Mortgaged Property, including, without limitation, all rights of way and easements granted or given to the Mortgagor or obtained by it to use real property in connection with the

construction, -operation or maintenance of such lines, or systems, and all service and connecting lines, poles, posts, crossarms, wires, cables, conduits, ducts, connections and fixtures forming part of, or used in connection with, such lines, or systems, and all other property physically attached to any of the foregoing-described property, shall be deemed to be real property.

SECTION 2. All acts and obligations of the Mortgagor hereunder shall be subject to all applicable orders, rules and regulations, now or hereafter in effect, of all regulatory bodies having jurisdiction in the premises, to the end that no act or omission to act on the part of the Mortgagor shall constitute a default hereunder insofar as such act or omission shall have been required by reason of any order, rule or regulation of any such regulatory body.

SECTION 3. All of the covenants, stipulations, promises, undertakings and agreements herein contained by or on behalf of the Mortgagor shall bind its successors and assigns, whether so specified or not, and all titles, rights and remedies hereby granted to or conferred upon the Mortgagees shall pass to and inure to the benefit of the successors and assigns of the Mortgagees and shall be deemed to be granted or conferred for the ratable benefit and security of all who shall from time to time be the holders of notes executed and delivered as herein provided.

SECTION 4. The descriptive headings of the various articles of this Mortgage were formulated and inserted for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

SECTION 5. All demands, notices, reports, approvals, designations, or directions required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given if mailed by registered mail addressed to the proper party or parties at the following addresses:

As to the Mortgagor: As stated in the testimonium clause hereof

As to the Mortgagees: The Bank:  
Rural Telephone Bank  
c/o Rural Utilities Service  
Washington, D. C. 20250-1500

The Government:  
Rural Utilities Service  
Washington, D. C. 20250-1500

and as to any other person, firm, corporation or governmental body or agency having an interest herein by reason of being the holder of any note or otherwise, at the last address designated by such person, firm, corporation, governmental body or agency to the Mortgagor and the Mortgagees. The Mortgagor or the Mortgagees may from time to time designate to one another a new address to which demands, notices, reports, approvals, designations or directions may be addressed and from and after any such designation the address designated shall be deemed to be the address of such party in lieu of the address hereinabove given. The Mortgagor will promptly notify the Mortgagees in writing of any change in location of its chief place of business or the office where its records concerning accounts and contract rights are kept.

SECTION 6. To the extent that any of the property described or referred to in this Mortgage is governed by the provisions of the Uniform Commercial Code, this Mortgage is hereby deemed a "security agreement" under the Uniform Commercial Code and a "financing statement" under the Uniform Commercial Code for said security agreement. The mailing address of the Mortgagor, as debtor, and of the Mortgagees as secured parties, are as set forth in section 5 of this article V.

SECTION 7. The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions shall not affect the remaining portions of this Mortgage, nor shall any such invalidity as to one Mortgagee or as to any holder of notes hereunder affect the rights hereunder of the other Mortgagee or any other holder of notes.

SECTION 8. This Mortgage may be simultaneously executed in any number of counterparts, and all said counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

IN WITNESS WHEREOF, FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC., P. O. Box 240, Staffordsville, Kentucky 41256, as Mortgagor, has caused this Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, RURAL TELEPHONE BANK, as Mortgagee, has caused this Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized and UNITED STATES OF AMERICA,

as Mortgagee, has caused this Mortgage to be duly executed in its behalf, all as of the day and year first above written.

FOOTHILLS RURAL TELEPHONE COOPERATIVE CORPORATION, INC.

by *J. L. [Signature]*  
President

(Seal)

Attest: *George J. [Signature]*  
Secretary

Executed by the Mortgagor  
in the presence of:

*[Signature]*  
\_\_\_\_\_  
*[Signature]*  
\_\_\_\_\_  
Witnesses

UNITED STATES OF AMERICA, and  
RURAL TELEPHONE BANK, respectively

by *Robert Petto* as

Assistant Administrator -  
Telecommunications Program  
of the  
Rural Utilities Service  
and as Assistant Governor  
of the  
Rural Telephone Bank

(Seal)

Attest: *Barbara A. Eddy*  
Assistant Secretary  
of the  
Rural Telephone Bank

Executed by United States  
of America, Mortgagee, and  
Rural Telephone Bank,  
Mortgagee, in the presence  
of:

*Lucina Miller*  
*Suzanne Nettleton*  
Witnesses

COMMONWEALTH OF KENTUCKY

COUNTY OF *Johnson*

)  
) SS 407-68-8829  
)

I, *Bonita Rice*, a Notary Public in and for the County and Commonwealth aforesaid, do hereby certify that *J. L. Burton*, personally known to me to be the President of Foothills Rural Telephone Cooperative Corporation, Inc., a corporation of the Commonwealth of Kentucky, and to me known to be the identical person whose name is as President of said corporation, subscribed to the foregoing instrument, appeared before me this day in person and produced the foregoing instrument to me in the County aforesaid and acknowledged that as such President he signed the foregoing instrument pursuant to authority given by the board of directors of said corporation as his free and voluntary act and deed and as the free and voluntary act and deed of said corporation for the uses and purposes therein set forth and that the seal affixed to the foregoing instrument is the corporate seal of said corporation.

19*95* Given under my hand this *9th* day of *November*.

*Bonita Rice*  
\_\_\_\_\_  
Notary Public  
in and for *Johnson* County,  
Kentucky

(Notarial Seal)

My Commission expires: *11-1-97*

DISTRICT OF COLUMBIA ) SS

This instrument was acknowledged before me on 31st of October, 1995, by ROBERT PETERS  
Assistant Administrator - Telecommunications Program of the  
Rural Utilities Service of the United States of America and  
as Assistant Governor of the Rural Telephone Bank.

Shelia M. Vallat  
Notary Public

(Notarial Seal)

Shelia M. Vallat  
Notary Public, District of Columbia  
My Commission Expires Sept. 14, 1996

My commission expires: \_\_\_\_\_.

RECORDED  
27 NOV 1995  
2:20 P.M.  
250 PAGE 397  
BOOK 3  
B. R...

MTG.  
XUTRE  
EN BOOK 3  
GE 301

STATE OF KENTUCKY, COUNTY OF JOHNSON, SCT.  
I, BETTY JO CONLEY, CLERK OF JOHNSON COUNTY,  
DO HEREBY CERTIFY THAT THE FOREGOING MORTGAGE  
AND FIXTURE LIEN WAS ON THE 27TH DAY OF  
NOVEMBER, 1995 AT 2:20 P.M., LODGED IN MY  
OFFICE FOR RECORD, WHEREUPON THE SAME WITH  
THE FOREGOING AND THIS CERTIFICATE HAVE BEEN  
DULY RECORDED IN MY OFFICE IN MORTGAGE BOOK 250  
PAGE 397 AND FIXTURE LIEN BOOK 3 PAGE 301.  
GIVEN UNDER MY HAND THIS 4TH DAY OF DECEMBER, 1995.

BETTY JO CONLEY, CLERK  
BY: Latasha Collins DC



Exhibit One (Exhibit to Mortgage)  
UNIFORM SYSTEM OF ACCOUNTS  
ACCOUNT NUMBERS USED IN CERTAIN PROVISIONS  
THIS EXHIBIT CONSISTS OF 4 PAGES

All references regarding account numbers are to 47 CFR Part 32 and supplementary accounts required by RUS.

ACCOUNT NAMES	ACCOUNT NUMBERS	
	CLASS A	CLASS B

ADJUSTED ASSETS - Article II, Sec. 15(a): the sum of the balances of the following accounts of the Mortgagor:

Current Assets	1100s thru 1300s	
Noncurrent Assets	1400s thru 1500s	
Total Telecommunications Plant (Defined Below)		
LESS: Accumulated Depreciation	3100 thru 3300s	
LESS: Accumulated Amortization	3400 thru 3600s	
LESS: Adjustments (Defined Below)		

ADJUSTMENTS: the sum of the balances of the following accounts of the Mortgagor:

Telecommunications Accounts Receivable	1180*	1180*
Accounts Receivable Allowance - Telecommunications	1181*	1181*
Other Accounts Receivable	1190*	1190*
Accounts Receivable Allowance - Other	1191*	1191*
Notes Receivable	1200*	1200*
Notes Receivable Allowance	1201*	1201*
(* Include Only Those Portions of These Accounts Shown in Subsidiary Record Accounts Related to Affiliates)		
Investments in Affiliated Companies	1401	1401
Telecommunications Plant Adjustment & Goodwill (Debit Amounts in Excess of Accumulated Amortization)	2005 & 2007, LESS 3600	

TOTAL TELECOMMUNICATIONS PLANT: the sum of the balances of the following accounts of the Mortgagor:

Telecommunications Plant in Service	2001	2001
Property Held for Future		
Telecommunications Use	2002	2002
Telecommunications Plant Under		
Construction - Short Term	2003	2003
Telecommunications Plant Under		
Construction - Long Term	2004	2004
Telecommunications Plant Adjustment	2005	2005
Nonoperating Plant	2006	2006
Goodwill	2007	2007

ADJUSTED NET WORTH - Article II, Sec. 15(a): the sum of the balances of the following accounts of the Mortgagor:

Capital Stock	4510	4510
Additional Paid-In Capital	4520	4520
Treasury Stock	4530	4530
Other Capital	4540	4540
Retained Earnings	4550	4550

NOTE: FOR NONPROFIT ORGANIZATIONS (OWNERS' EQUITY SHALL BE SHOWN IN SUBACCOUNTS OF 4540 AND 4550)

LESS: Adjustments (Defined above)

INTEREST EXPENSE - Article II, Sec. 20(a): the sum of the balances of the following accounts of the Mortgagor:

Interest and Related Items	7500**	7500
Interest on Funded Debt		7510
Interest Expense - Capital Leases		7520
Amortization of Debt Issuance Expense		7530
Other Interest Deductions		7540
LESS: Allowance for Funds Used		
During construction	7340	7300.4

NET INCOME OR-NET MARGINS - Article II, Sec. 20(a): the sum of the balances of the following accounts of the Mortgagor:

Local Network Services Revenues	)		
Network Access Services Revenues	)		
Long Distance Network Services Revenues	)	5000 thru 5300s	
Miscellaneous Revenues	)		
LESS: Uncollectible Revenues	)		
Other Operating Income and Expense	)	7100**	7100
Nonoperating Income and Expense	)	7300**	7300
Income Effect of Jurisdictional			
Rate-making Difference - Net	)	7910	7910
Nonregulated Net Income	)	7990	7990
Other Nonregulated Revenues	)	7991	7991
LESS balances of the following accounts:			
Plant Specific Operations Expense	)		
Plant Nonspecific Operations Expense	)	6100s thru 6700s	
Customer Operations	)		
Corporate Operations	)		
Operating Taxes	)	7200**	7200
Nonoperating Taxes	)	7400**	7400
Interest and Related Items	)	7500**	7500
Extraordinary Items	)	7600**	7600

\*\* Summary Accounts

NET WORTH - Article II, Sec. 10 and 15(d): the sum of the balances of the following accounts of the Mortgagor:

Capital Stock	4510	4510
Additional Paid-In Capital	4520	4520
Treasury Stock	4530	4530
Other Capital	4540	4540
Retained Earnings	4550	4550
NOTE:	FOR NONPROFIT ORGANIZATIONS (OWNERS' EQUITY SHALL BE SHOWN IN SUBACCOUNTS OF 4540 AND 4550)	

RETAINED EARNINGS - Article II, Sec. 15(b)(3): the balance of the following account of the Mortgagor:

Retained Earnings	4550	4550
NOTE:	FOR NONPROFIT ORGANIZATIONS - RETAINED EARNINGS (MARGINS) SHALL BE SHOWN IN SUBACCOUNTS OF 4550	

TOTAL ASSETS - Article II, Sec. 10 and 15(d): the sum of the  
balances of the following accounts of the Mortgagor:

Current Assets	1100s thru 1300s
Noncurrent Assets	1400s thru 1500s
Total Telecommunications Plant	2001 thru 2007
LESS: Accumulated Depreciation	3100 thru 3300s
LESS: Accumulated Amortization	3400 thru 3600s

EXHIBIT A

EXHIBIT A

**Kentucky 522**  
**Foothills Rural Telephone**  
**Cooperative and Subsidiary**  
**Staffordsville, Kentucky**  
**Audited Financial Statements**  
**December 31, 2007 and 2006**

**ALAN ZUMSTEIN**

**CERTIFIED PUBLIC ACCOUNTANT**

**1032 Chetford Drive**  
**Lexington, Kentucky 40509**

**EXHIBIT**

tabbles

1E

**ALAN M. ZUMSTEIN**  
**CERTIFIED PUBLIC ACCOUNTANT**

1032 CHETFORD DRIVE  
LEXINGTON, KENTUCKY 40509  
(859) 264-7147

**MEMBER:**

- AMERICAN INSTITUTE OF CPA'S
- INDIANA SOCIETY OF CPA'S
- KENTUCKY SOCIETY OF CPA'S
- AICPA DIVISION FOR FIRMS
- TENNESSEE STATE BOARD OF ACCOUNTANCY

To the Board of Directors  
Foothills Rural Telephone Cooperative Corporation

I have audited the financial statements of Foothills Rural Telephone Cooperative Corporation and Subsidiary as of and for the years ended December 31, 2007 and 2006, and have issued my report thereon dated March 5, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered Foothills Rural Telephone's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Foothills Rural Electric's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Foothills Rural Electric's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

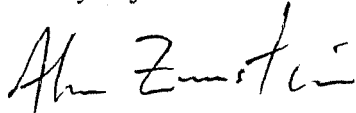
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Foothills Rural Telephone's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, the Rural Utilities Service and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.



Alan M. Zumstein  
March 5, 2008



Foothills Rural Telephone Cooperative and Subsidiary  
Consolidated Balance Sheets, December 31, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$4,754,073	\$2,739,307
Accounts receivable, less allowance for 2007 of \$400,521 and 2006 of \$410,534	255,171	203,004
Other accounts receivable	1,418,117	1,045,087
Materials and supplies, at average cost	836,709	681,338
Prepayments	151,844	184,726
	<u>7,415,914</u>	<u>4,853,462</u>
<b>Other Assets:</b>		
Investment securities available for sale	2,309,481	2,359,955
Investment in associated organization	10,355,683	8,687,076
Rural Telephone Bank stock, at cost	0	-
Nonregulated investments	1,291,506	940,654
	<u>13,956,670</u>	<u>11,987,685</u>
<b>Utility Plant, at original cost:</b>		
In service	102,184,166	99,295,917
Under construction	3,211,534	785,150
	<u>105,395,700</u>	<u>100,081,067</u>
Less accumulated depreciation	48,501,779	41,784,567
	<u>56,893,921</u>	<u>58,296,500</u>
<b>Total</b>	<u><u>\$78,266,505</u></u>	<u><u>\$75,137,647</u></u>
<u><b>Liabilities and Member's Equities</b></u>		
<b>Current Liabilities:</b>		
Accounts payable	\$2,634,614	\$735,089
Current portion of long term debt	3,150,000	3,070,000
Customer deposits	183,985	174,497
Other current and accrued expenses	1,354,459	1,431,137
	<u>7,323,058</u>	<u>5,410,723</u>
Long Term Debt	<u>26,900,671</u>	<u>30,075,770</u>
Accrued Postretirement Benefits	<u>1,418,248</u>	<u>9,418</u>
<b>Members' Equities:</b>		
Memberships and capital investment	719,294	717,002
Patronage capital and retained earnings	43,193,897	38,813,886
Donated capital	113,050	110,848
Accumulated other comprehensive income	(1,401,713)	-
	<u>42,624,528</u>	<u>39,641,736</u>
<b>Total</b>	<u><u>\$78,266,505</u></u>	<u><u>\$75,137,647</u></u>

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Revenue and Patronage Capital  
for the years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenue:		
Basic local network services	\$4,000,752	\$3,684,464
Network access services	16,414,526	13,237,084
Billing and collection	659,182	671,582
Miscellaneous	233,271	282,317
Less provision for uncollectibles	<u>(24,000)</u>	<u>(70,167)</u>
	<u>21,283,731</u>	<u>17,805,280</u>
 Operating Expenses:		
Plant specific operations	4,480,749	5,064,095
Plant nonspecific operations	1,662,600	1,659,568
Depreciation	6,907,086	6,425,028
Customer operations	1,460,482	1,293,431
Corporate operations	1,164,521	1,186,559
Taxes, other than income	<u>1,403,679</u>	<u>694,358</u>
	<u>17,079,117</u>	<u>16,323,039</u>
 Operating margins	<u>4,204,614</u>	<u>1,482,241</u>
 Nonoperating Margins		
Other nonoperating income	2,519,080	4,160,617
Non regulated activities	<u>145,509</u>	<u>342,255</u>
	<u>2,664,589</u>	<u>4,502,872</u>
 Margins before interest charges	<u>6,869,203</u>	<u>5,985,113</u>
 Interest Charges:		
Interest on long-term debt	1,543,267	1,606,496
Other	<u>11,024</u>	<u>10,291</u>
	<u>1,554,291</u>	<u>1,616,787</u>
 Net margins	5,314,912	4,368,326
 Patronage capital, beginning of year	38,813,886	35,525,498
Retirement of capital credits	(703,743)	(819,154)
Retirements to estates	<u>(231,158)</u>	<u>(260,784)</u>
 Patronage capital, end of year	<u>\$43,193,897</u>	<u>\$38,813,886</u>

The accompanying notes are an integral part of the financial statements.

*Un audited*

FOOTHILLS RURAL TELEPHONE OPERATIVE CORPORATION, INC.  
 STATEMENT OF INCOME  
 FOR THE PERIOD ENDING  
 March 31, 2008

	CURRENT PERIOD		YEAR TO DATE		LAST YEAR	
	ACTUAL	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET
LOCAL NETWORK SERVICES REVENUES	329,336.33	347,962.58	984,325.12	1,043,887.74	1,009,060.11	957,024.00
NETWORK ACCESS SERVICE REVENUES	1,649,280.99	1,401,812.50	4,901,869.77	4,205,437.50	4,416,322.10	4,065,057.72
MISCELLANEOUS NETWORK SERVICES REVENUES	2,315.40	3,118.08	8,278.80	9,354.24	9,589.20	0.00
MISCELLANEOUS REVENUES	78,087.87	76,332.75	245,858.55	228,998.25	215,308.70	245,195.49
UNCOLLECTABLE REVENUES	2,000.00-	2,000.00-	6,000.00-	6,000.00-	6,000.00-	6,000.00-
NET OPERATING REVENUES	2,057,020.59	1,827,225.91	6,134,332.24	5,481,677.73	5,644,280.11	5,261,277.21
PLANT SPECIFIC OPERATIONS EXPENSE	341,732.97	378,171.83	1,140,642.58	1,134,515.49	1,006,695.54	1,197,863.60
PLANT NONSPECIFIC OPERATIONS EXPENSE	122,630.13	144,783.67	387,196.29	434,351.01	433,576.33	459,834.71
DEPRECIATION EXPENSE	561,866.32	635,120.42	1,682,158.68	1,905,361.26	1,649,239.54	1,541,205.75
AMORTIZATION EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
CUSTOMER OPERATIONS EXPENSE	119,401.00	137,357.50	398,179.36	412,072.50	322,820.35	359,049.34
CORPORATE OPERATIONS EXPENSE	112,478.89	93,310.17	359,675.24	279,930.51	304,141.48	339,329.23
TOTAL OPERATING EXPENSES	1,258,109.31	1,388,743.59	3,967,852.15	4,166,230.77	3,716,473.24	3,897,282.63
OPERATING INCOME OR MARGINS	798,911.28	438,482.32	2,166,480.09	1,315,446.96	1,927,806.87	1,363,994.58
STATE AND LOCAL TAXES	53,900.00	46,305.00	161,700.00	138,915.00	181,950.56	139,628.01
FEDERAL INCOME TAXES	0.00	0.00	0.00	0.00	0.00	0.00
OTHER TAXES	17,979.00	17,716.00	53,914.00	53,148.00	47,206.00	41,706.99
TOTAL OPERATING TAXES	71,879.00	64,021.00	215,614.00	192,063.00	229,156.56	181,335.00
NET OPERATING INCOME OR MARGIN	727,032.28	374,461.32	1,950,866.09	1,123,383.96	1,698,650.31	1,182,659.58
INTEREST ON FUNDED DEBT	123,852.21	145,718.08	371,516.72	437,154.24	381,843.59	379,642.26
OTHER INTEREST EXPENSE	1,037.68	944.92	3,066.11	2,834.76	2,723.52	2,739.24
TOTAL FIXED CHARGES	124,889.89	146,663.00	374,582.83	439,989.00	384,567.11	382,381.50
NONOPERATING INCOME AND EXPENSE	1,227.36-	22,176.92	46,764.06	66,530.76	42,608.07	37,842.75
NONREGULATED NET INCOME	7,949.63-	10,796.50	38,565.60-	32,389.50	110,803.43	23,390.01
TOTAL NET INCOME OR MARGINS	592,965.40	260,771.74	1,584,481.72	782,315.22	1,467,494.70	861,510.84

FOOTHILLS RURAL TELEPHON OPERATIVE CORPORATION, INC.  
BALANCE SHEET  
AS OF:  
March 31, 2008

CURRENT ASSETS  
CASH AND EQUIVALENTS  
CASH - REA CONSTRUCTION FUND  
TELECOMMUNICATIONS ACCOUNTS RECEIVABLE  
OTHER ACCOUNTS RECEIVABLE  
INTEREST AND DIVIDENDS RECEIVABLE  
MATERIAL - REGULATED  
MATERIAL - NONREGULATED  
PREPAYMENTS

5,216,286.66  
0.00  
190,805.12  
2,048,155.61  
7,632.48  
581,464.74  
316,900.01  
77,303.19

TOTAL CURRENT ASSETS

8,438,547.81

NONCURRENT ASSETS  
INVESTMENTS IN AFFILIATED COMPANIES  
OTHER INVESTMENTS  
NONREGULATED INVESTMENTS  
DEFERRED CHARGES

13,299,789.80  
0.00  
1,414,428.15  
0.00

TOTAL NONCURRENT ASSETS

14,714,217.95

PLANT, PROPERTY AND EQUIPMENT  
TELECOMMUNICATIONS PLANT IN SERVICE  
PLANT UNDER CONSTRUCTION  
LESS: ACCUMULATED DEPRECIATION

98,744,837.63  
4,402,334.82  
49,586,115.52

NET PLANT

53,561,056.93

TOTAL ASSETS

76,713,822.69

FOOTHILLS RURAL TELEPHON OPERATIVE CORPORATION, INC.  
 BALANCE SHEET  
 AS OF:  
 March 31, 2008

CURRENT LIABILITIES  
 ACCOUNTS PAYABLE  
 CUSTOMER DEPOSITS  
 CURRENT MATURITIES LONG-TERM DEBT  
 INCOME TAXES ACCRUED  
 OTHER TAXES ACCRUED  
 OTHER CURRENT LIABILITIES

TOTAL CURRENT LIABILITIES

LONG-TERM DEBT  
 FUNDED DEBT - RUS NOTES  
 FUNDED DEBT - RTB NOTES

TOTAL LONG-TERM DEBT

OTHER LIABILITIES AND DEFERRED CREDITS  
 OTHER LONG-TERM LIABILITIES

TOTAL OTHER LIABILITIES & DEFERRED CREDIT

EQUITY  
 MEMBERSHIP & CAPITAL CERTIFICATES  
 OTHER CAPITAL  
 PATRONAGE CAPITAL CREDITS  
 RETAINED EARNINGS OR MARGINS

TOTAL EQUITY

TOTAL LIABILITIES AND EQUITY

954,985.04  
 190,573.90  
 0.00  
 400,000.00  
 169,629.47  
 815,175.99  
 -----  
 2,530,364.40  
 -----

17,946,314.72  
 11,311,840.69  
 -----  
 29,258,155.41  
 -----

1,439,110.52  
 -----  
 1,439,110.52  
 -----

721,064.19  
 1,288,663.11  
 32,947,799.33  
 11,105,991.95  
 -----  
 43,486,192.36  
 -----

76,713,822.69  
 =====



Rural America's Cooperative Bank

### Projection of Cash Flows and Effective Interest Rate

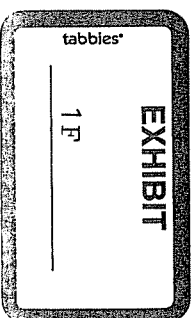
The projection of cash flows is based on loan amounts, dates and interest rates shown below along with the present capital plan and expected retirement of bank equities.

The capital plan, patronage rate and equity retirements may be changed at the discretion of the bank's board of directors. The following projections are intended for illustrative purposes only, are not intended to represent a commitment to a specific interest rate, and will not become part of any loan documentation.

The effective interest rate shown is the discount rate applied on a monthly basis at which the net present value of all the cash flows equal to zero (commonly called the internal rate of return).

Borrower Name	Foothills Rural Telephone Corporation
Schedule	10 Year Term Loan
Account Officer	Andy Smith
Prepared by:	Andy Smith
Quote Date	April 29, 2008
Origination Date	April 29, 2008
Amortization Start Date	September 30, 2008
Loan Amount	\$8,500,000
Years to Maturity	10
Nominal Interest Rate	5.95%
Origination Fee (\$)	31,875
Payments/Year	4
Amort Method	Irregular Payments
Days per Year	360
Payment Amount	\$0

Nominal Interest Rate	5.95%
Net Effective Interest Rate	5.29%
Reduction of Interest Rate	0.66%
Patronage Rate	1.00%
% Cash Patronage	65.00%
Initial Capital Purchase Amount	\$1,000
Target Equity	9.00%
Prior Year End Capital Balance	1,000
Avg. Loan Balance - 1 year ago	0
Avg. Loan Balance - 2 years ago	0
Avg. Loan Balance - 3 years ago	0
Avg. Loan Balance - 4 years ago	0
Avg. Loan Balance - 5 years ago	0
Avg. Loan Balance - 6 years ago	0
Avg. Loan Balance - 7 years ago	0
Avg. Loan Balance - 8 years ago	0



**Borrower: Foothills Rural Telephone Corporation**

Quote Date: April 29, 2008  
 Origination Date: April 29, 2008

Schedule:  
 Effective Interest Rate:

10 Year Term Loan  
 5.29%

Year	A	B	C	D	E	F	G	H	I	J	K	L	M
Year	Principal Advance	Principal Payments	Interest Payments	Capital Purchases	Cash Payments	Capital Returned in Cash	Net Cash Flow	Patronage Paid as Capital	Capital Balance	End of Period Loan Balance	1 Year Avg Loan Balance	10 Year Avg Loan Balance	Target Equity
2008	8,500,000	637,300	661,444	0	0	0	7,298,156	19,435	20,435	7,862,500	5,552,869	555,287	61,082
2009	0	850,000	455,087	0	46,094	0	-1,268,994	26,396	46,831	7,012,500	7,541,712	1,099,458	130,946
2010	0	850,000	403,810	0	-49,021	0	-1,264,789	23,421	70,252	6,162,500	6,691,712	1,978,629	178,077
2011	0	850,000	352,532	0	43,496	0	-1,159,036	20,446	90,698	5,312,500	5,841,712	2,562,801	230,652
2012	0	850,000	301,255	0	37,971	0	-1,113,284	17,474	108,172	4,462,500	4,992,589	3,062,059	275,585
2013	0	850,000	249,977	0	32,452	0	-1,067,526	14,496	122,668	3,612,500	4,141,712	3,476,231	312,861
2014	0	850,000	198,700	0	26,921	0	-1,021,779	11,521	134,189	2,762,500	3,291,712	3,805,402	342,486
2015	0	850,000	147,423	0	21,396	0	-976,026	8,546	142,735	1,912,500	2,441,712	4,049,573	378,795
2016	0	850,000	96,145	0	15,871	0	-930,574	5,574	148,309	1,062,500	1,592,589	4,208,832	385,470
2017	0	850,000	44,868	0	10,352	0	-884,516	2,596	150,905	212,500	741,712	4,283,003	385,470
2018	0	212,500	3,295	0	4,821	0	-210,884	183	151,089	0	52,307	4,283,003	385,470
2019	0	0	0	0	441	0	441	0	151,089	0	2,978,785	2,978,785	207,865
2020	0	0	0	0	0	0	0	0	151,089	0	2,409,614	2,409,614	207,865
2021	0	0	0	0	0	0	0	0	151,089	0	1,725,442	1,725,442	155,290
2022	0	0	0	0	0	0	0	0	151,089	0	1,226,184	1,226,184	110,357
2023	0	0	0	0	0	0	0	0	110,357	0	812,012	812,012	73,081
2024	0	0	0	0	0	0	0	0	73,081	0	482,841	482,841	43,456
2025	0	0	0	0	0	0	0	0	43,456	0	238,670	238,670	21,480
2026	0	0	0	0	0	0	0	0	21,480	0	79,411	79,411	7,147
2027	0	0	0	0	0	0	0	0	7,147	0	5,240	5,240	472
2028	0	0	0	0	0	0	0	0	472	0	0	0	0
2029	0	0	0	0	0	0	0	0	0	0	0	0	0

TOTAL: 88,500,000      88,500,000      52,617,346      50      5278,736      5151,089

5150,089



*Rural America's Cooperative Bank*

### **Projection of Cash Flows and Effective Interest Rates**

The following provides a column-by-column description of CoBank's Loan Rate Model. The Loan Rate Model provides projections of cash flows and effective interest rates based upon the assumptions given for each printout.

- Column C reflects the principal advances on the loan.
- Column E reflects the periodic principal payments.
- Column F reflects the periodic interest payments.
- Column H shows the capital purchases required based upon the assumptions. A new borrower must purchase \$1,000 capital.
- Column I reflects the cash patronage. Total patronage is calculated as a percentage of the one year average loan balance. CoBank is required by statute to pay a minimum of 20 percent patronage capital allocated to a borrower during each year in cash.
- Column J shows capital retirements in cash.
- Column K reflects the net cash flow for the borrower throughout the term of the loan.
- Column L reflects the allocated patronage used to purchase additional capital in CoBank. This represents the balance of the capital allocated each year which was not paid in cash.
- Column M shows the balance of purchased and allocated capital on a cumulative basis each year.
- Column N reflects the loan balance at the end of the year.
- Column O represents the one year average loan balance which is the basis for annual patronage.
- Column P represents average ten year loan balance which is the basis for determining the capital target for the borrower.
- Column Q shows the target equity for the borrower based upon the ten year average loan balance.