JACKSON KELLY
ATTORNEYS AT LAW PLLC
175 EAST MAIN STREET • P.O. BOX 2150 • LEXINGTON, KENTUCKY 40588-9945 • TELEPHONE: 859-255-9500 • TELECOPIER: 859-281-6478
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December 8, 2010

Via Hand Delivery

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
P. O. Box 615
Frankfort, KY 40602-0615

RECEIVED
DEC 08 2010
PUBLIC SERVICE COMMISSION

**Re: In the Matter of: Adjustment of Rates of Highland Telephone Cooperative, Inc.
Case No. 2010-00227**

Dear Mr. Derouen:

Enclosed for filing in the above-referenced case, please find one original and ten (10) copies of Highland Telephone Cooperative, Inc.'s Responses to Commission Staff's First Request for Information to Highland Telephone Cooperative, Inc. I have also enclosed three copies of the pleading which we request be date stamped and returned to the person delivering this letter.

Thank you and please call if you have any questions.

Sincerely yours,

Jeff Yost

Jeffrey J. Yost

JJY/pom
Enclosures
c: Attorney General, Office of Rate Intervention (w/encl)
Highland Telephone Cooperative, Inc. (w/encl)

{L0498260.1}

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2010-00227

ADJUSTMENT OF RATES OF HIGHLAND TELEPHONE COOPERATIVE, INC.

HIGHLAND TELEPHONE COOPERATIVE, INC.'S RESPONSES TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO HIGHLAND TELEPHONE COOPERATIVE, INC.

* * * * * * *

Highland Telephone Cooperative, Inc. ("Highland") hereby files the information requested by the Commission Staff's First Request for Information to Highland Telephone Cooperative, Inc. dated November 18, 2010 (the "Request"). Each request is restated and followed by the requested information behind the tab corresponding to the number of the request.

Respectfully submitted,

Highland Telephone Cooperative, Inc.

By: ______________________________

Jeffrey J. Yost
JACKSON KELLY PLLC
P. O. Box 2150
175 East Main Street, Suite 500
Lexington, Kentucky 40588-2150
(859) 255-9500
Counsel for Highland Telephone Cooperative, Inc.

{L0525118.2}

CERTIFICATION

F. L. Terry, being duly sworn, hereby deposes and says that he is General Manager of Highland Telephone Cooperative, Inc., that he has supervised the preparation of the attached Responses to Commission Staff's First Request for Information, and that the responses are true and accurate to the best of his knowledge, information and belief formed after a reasonable inquiry.

F. L. Terry, General Manager

STATE OF TENNESSEE)
COUNTY OF Scott)

The foregoing certification was subscribed, sworn to and acknowledged before me this 8th day of December, 2010, by F. L. Terry as General Manager of Highland Telephone Cooperative, Inc., a Tennessee corporation, for and on behalf of the corporation.

MY COMMISSION EXPIRES:
7-20-2011

NOTARY PUBLIC

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Highland Telephone Cooperative, Inc.'s Responses to Commission Staff's First Request for Information to Highland Telephone Cooperative, Inc. was served by U.S. Mail, postage prepaid, on this 8th day of December, 2010, upon the following:

Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601

Counsel for Highland Telephone Cooperative, Inc.

{L0525118.2}

1. On page 2 of the application Highland states that the Rural Utilities Services ("RUS") has advised Highland that unless revenues are replaced, it will not be eligible to apply for stimulus funds or loans being made available for the continued upgrading and expansion of its telecommunications services. Highland has notified the Commission in Case No. 2010-00341 that, on August 13, 2010, RUS approved Highland's application and that on August 16, 2010 Highland accepted the offer. The filing further stated that Highland had applied for a loan of $16.6 million and a grant of $49.9 million.

a. When RUS said that revenues needed to be replaced, how was this notification made? If the notification was made by letter, provide a copy of the letter. State whether there was a specific amount of revenue that needed to be replaced.

RUS did not deliver a formal notification that revenues needed to be replaced, but RUS representatives made this apparent to Highland's auditor and accounting staff during general discussions in the course of reviewing the status of the loan to Highland in the amount of $48,611,000 designated as RUS Tennessee 554-V42 (the "V42 Loan") that RUS had approved on September 23, 2008 and the possibility of obtaining financing through stimulus programs. The RUS representatives referenced the financial covenants that apply to RUS financings. No letter or other written notification on this issue was delivered to Highland, and no specific amount of replacement revenue was identified.

b. Since August 16, 2010, did RUS change its stance that Highland was not eligible to apply for grant or loans?

No, RUS did not change its stance; a borrower still must comply with the financial covenants of the loan documents. Highland had replaced revenues before RUS approved the Broadband Initiatives Program ("BIP") stimulus grant of $49,866,871 and RUS loan of

$16,622.291, designated as RUS Tennessee 1140-B40 (the "B40 Grant/Loan") on August 13, 2010. This was accomplished by implementing the rate increase in Highland's Tennessee territory. Highland had also filed its notification of rate adjustment with this Commission.

c. Did RUS make the grant and loan contingent upon approval of this rate application?

No.

d. Explain any further circumstances that relate to RUS approving the grant and loan application.

Highland recognized that with the inclusion of its indebtedness for the V42 Loan it would be infeasible to incur additional indebtedness. Since it had not drawn any proceeds of the V42 Loan, Highland rescinded the V42 to enhance its chances of obtaining the B40 Grant/Loan, which provided increased funding on more favorable terms.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

2. **Does Highland have any loans with RUS that have a requirement that Highland must achieve a certain Times Interest Earned Ratio ("TIER")? Provide documentation.**

Yes, there are three RUS loans with applicable TIER requirements.

TIER requirements are contained in the Restated Mortgage, Security Agreement, and Financing Statement (the "Restated Mortgage") made by and among Highland, as mortgagor and debtor, United States of America Rural Electrification Administration, as mortgagee and secured party, and Rural Telephone Bank, as mortgagee and secured party dated as of August 26, 1991 and relating to REA Project Designation: Tennessee 554-T8 Highland (the "T8 Loan"). This T8 loan is still in place. Section 21(a) on page 23 of the Restated Mortgage calls for initially maintaining an average TIER of not less than 1.25, which changed to 1.50 after April 3, 1989. A copy of Section 21 is attached as Exhibit 2.A.

TIER requirements were also included in the Loan Agreement dated as of September 23, 2008 between Highland Telephone Cooperative, Inc. and The United States of America for the V42 Loan (the "V42 Loan Agreement"). Section 5.12 of the V42 Loan Agreement required Highland initially to maintain a TIER of at least 1.0 and starting December 31, 2012 to maintain a TIER of at least 1.5. A copy of these provisions is attached as Exhibit 2.B. As noted in the Response to Request 1.d, the V42 Loan was rescinded, but it was still outstanding, but unfunded, at the time of the discussions with RUS representatives about the need to comply with applicable financial covenants.

TIER requirements were also included in the Loan Agreement dated as of September 30, 2010 between Highland Telephone Cooperative, Inc. and The United States of America for the B40 Loan (the "B40 Loan Agreement"). Section 5.8 of the B40 Loan Agreement required

{L0525118.2}

Highland to maintain a TIER of at least 1.0. A copy of these provisions is attached as Exhibit 2.C.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

Exhibit 2.A

Section 21of Restated Mortgage, Security Agreement, and Financing Statement for T8 Loan

JD

3-435
Form - Restated REA/RTB Mortgage (Restating REA/RTB Common Mtg.) - Telephone Subsequent REA Loan - 10/89

REA PROJECT DESIGNATION:

TENNESSEE 554-T8 HIGHLAND

RESTATED MORTGAGE, SECURITY AGREEMENT, AND FINANCING STATEMENT

made by and among

HIGHLAND TELEPHONE COOPERATIVE, INC.,

as mortgagor and debtor,

UNITED STATES OF AMERICA
Rural Electrification Administration
Washington, D. C. 20250-1500,

as mortgagee and secured party,

and

RURAL TELEPHONE BANK
Rural Telephone Bank
Washington, D. C. 20250-1500,

as mortgagee and secured party,

THE MORTGAGOR, AS DEBTOR, IS A TRANSMITTING UTILITY

THIS INSTRUMENT WAS PREPARED BY ARTHUR D. RUBIN, ATTORNEY, ELECTRIC AND TELEPHONE DIVISION, OFFICE OF THE GENERAL COUNSEL, U. S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C. 20250-1400

No. 2

SECTION 21. (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, 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 and all other lenders of not less than 1.25, or an average TIER of not less than 1.50 if, after April 3, 1989, the Mortgagor has obtained a loan from the Bank or a loan guaranteed by the Government pursuant to the Act and any portion of such loan is outstanding during the period for which TIER is determined.

(b) For purposes of this section 21, 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 21, 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) plus taxes based upon income (determined in accordance with Exhibit One hereto), all divided by interest expense.

Exhibit 2.B

Section 5.12 of V41 Loan Agreement

RUS Project Designation:

Tennessee 554-V42 Highland

LOAN AGREEMENT

dated as of September 23, 2008,

between

HIGHLAND TELEPHONE COOPERATIVE, INC.

and

THE UNITED STATES OF AMERICA

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

Section 5.12 <u>TIER Requirement</u>

From the date of this Agreement until the date specified in Schedule 1, the Borrower will maintain a TIER of at least 1.0. Thereafter, starting on the date specified in Schedule 1 (hereinafter called the "TIER Commencement Date") the Borrower shall maintain the TIER level(s) as specified in Schedule 1.

SCHEDULE 1

Article II Representations and Warranties

1. Paragraph (i) Borrower's address: **Highland Telephone Cooperative, Inc.**
7840 Morgan County Hwy
Sunbright, Tennessee 37872

2. Paragraph (j) Borrower's Organization Number: **0119210** **DUNS #: 066711003**

3. Paragraph (k) Borrower's Subsidiaries: **Highland Communications Corporation & Highland Media Corporation**

4. Paragraph (k) Borrower's Parent:

Article III The Loans

1. Broadband Loan
Section 3.1(a) Broadband Loan amount: **$0**
Section 3.1(a)(i) Broadband Loan portion at the cost-of-money interest rate: **$0**
Section 3.1(a)(i) Broadband Loan portion at the four percent (4%) rate of interest: **$0**

2. Telecommunications Loan
Section 3.1(b) Telecommunications Loan amount: **$48,611,000**
Section 3.1(b)(i) Telecommunications Loan amount at the cost-of-money interest rate: **$48,611,000**
Section 3.1(b)(i) Telecommunications Loan amount five percent (5%) rate of interest: **$0**

3. Telecommunications Loan Guarantee
Section 3.1(c) Telecommunications Loan Guarantee amount: **$0**

4. Bank Loan
Section 3.1(d) Bank Loan amount: **$0**

Article IV Conditions of Lending

1. Section 4.2(i) funds required on deposit by Broadband borrower in accordance with 7 C.F.R. 1738.20(b):

2. The additional conditions to advance referred to in Section 4.2(m) are as follows:

No funds will be advanced for outside plant construction that will deviate from existing rights-of-ways, towns and subdivisions or that will impact the Indiana Bat, unless reports and/or cultural resource surveys are submitted for our review and approved prior to initiating, clearing, or construction activities.

Article V Affirmative Covenants

1. Section 5.4(a) Additional Funds: **None**

2. Section 5.4(a) Additional Purposes: **None**

3. Section 5.4(b) Pledged Deposit Account **IS NOT** required.

4. Section 5.8(b) Additional Reporting Date(s): **March 31st, June 30th, and September 30th**

5. Section 5.12 TIER: **1.5**

6. Section 5.12 TIER Commencement Date: **December 31, 2012**

7. The additional affirmative covenants referred to in Section 5.21 are as follows:

   1. The Borrower will convert to cost based toll settlements by December 31, 2010.

   2. The Borrower must request a rescission of $9,259,000 before funds are released.

Article VI Negative Covenants

1. The additional negative covenants referred to in Section 6.17 are as follows: **None**

Article X Miscellaneous

1. Section 10.1 Borrower's address for purposes of notification: **Highland Telephone Cooperative, Inc.**
Mr. Fred E. Terry, General Manager
7840 Morgan County Highway
P.O. Box 119
Sunbright, Tennessee 37872
Telephone: (423) 628-2121
Fax: (423) 628-2409

2. Section 10.1 Address for Borrower's notification copy: **Stansberry, Petroff, Marcum & Blakley, P.C.**
Attorneys at Law
3 Courthouse Square
P.O. Box 240
Huntsville, Tennessee 37756
Fax: (423) 663-2111
Telephone: (423) 663-2321

3. Section 10.1 Address for RUS' notification copy: **Rural Utilities Service**
United States Department of Agriculture
1400 Independence Avenue, S.W.
Stop 1597, Room No. 2808
Washington, D.C. 20250-1597
Attention: Mr. Ken B. Chandler
Fax: (202) 205-2921
Telephone (202) 720-0800

Exhibit 2.C

Section 5.8 of B40 Loan Agreement

RUS Project Designation:

TENNESSEE 1104-B40

BROADBAND INITIATIVES PROGRAM

LOAN/GRANT AND SECURITY AGREEMENT

dated as of September 30, 2010

between

HIGHLAND TELEPHONE COOPERATIVE, INC.

and

THE UNITED STATES OF AMERICA

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

Section 5.8 TIER

The Awardee will maintain the TIER required in the Prior RUS Loan Contract and, upon the termination of the obligation to maintain such TIER, will maintain a TIER of 1.0 until the Loan is repaid in full.

3. Provide Highland's TIER and debt service coverage ratio, as calculated by RUS, for the test year and the five preceding calendar years. Include the data used to calculate each ratio.

Highland's TIER and debt service coverage ratio ("DSCR") for the 2009 test year and the five preceding years, together with the data used to calculate each ratio, are set forth on the schedule attached as Exhibit 3.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

Exhibit 3

Highland's TIER and DSCR

Question 3 - Response

TIER Calculations for test year and five preceding years

Year	Financial information used to calculate TIER and Debt service coverage ratio	Amounts		TIER (a+b)/b	DSCR (a+b+c)/d
2004	Net income per audited financials	$ 2,595,216	a.		
	Fixed charges per financials	737,622	b.	4.52	3.81
	Depreciation per financials	5,295,337	c.		
	Annual payments per financials	2,262,245	d.		
2005	Net income per audited financials	$ 3,039,975	a.		
	Fixed charges per financials	644,491	b.	5.72	4.06
	Depreciation per financials	5,354,917	c.		
	Annual payments per financials	2,227,572	d.		
2006	Net income per audited financials	$ 4,206,035	a.		
	Fixed charges per financials	363,468	b.	12.57	4.56
	Depreciation per financials	5,583,214	c.		
	Annual payments per financials	2,228,013	d.		
2007	Net income per audited financials	$ 1,254,837	a.		
	Fixed charges per financials	130,381	b.	10.62	3.26
	Depreciation per financials	5,882,813	c.		
	Annual payments per financials	2,227,274	d.		
2008	Net income per audited financials	$ 345,026	a.		
	Fixed charges per financials	209,296	b.	2.65	2.38
	Depreciation per financials	4,743,994	c.		
	Annual payments per financials	2,227,122	d.		
2009	Net income per audited financials	$ (1,091,939)	a.		
	Fixed charges per financials	384,742	b.	(1.84)	1.89
	Depreciation per financials	4,919,736	c.		
	Annual payments per financials	2,226,750	d.		

4. Provide a TIER calculation for the test period with the proposed rate increase and a TIER calculation for the test period without the proposed rate increase.

These calculations are shown on the Historical Income Statement with Projected Rate Increases attached as Exhibit 4. The TIER for the test periods without the proposed rate increase would be (1.84) as shown in the column labeled Historical 2009. The TIER for the test period with the proposed rate increase would be 3.93 as shown in the column labeled With Increase 2009.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

Exhibit 4

Historical Income Statement with Projected Rate Increases

Highland Telephone Cooperative.Inc.

Historical Income Statement with projected rate increases

For the year ended December 31, 2009

	Historical 2009	Tennessee Rate increase Residential	Tennessee Rate increase Business	Kentucky Rate increase Residential	Kentucky Rate increase Business	Other Adjustments	With Increase 2009
Operating revenues:							
Local network services revenue	$ 6,253,462	$ 735,480	$ 356,928	$ 319,140	$ 99,936	$ 0	$ 7,764,946
Network access services revenue	8,276,451						8,276,452
Miscellaneous revenues	2,706,554						2,706,554
Less uncollectible revenue	(830)						(830)
TOTAL OPERATING REVENUES	$ 17,235,637	$ 735,480	$ 356,928	$ 319,140	$ 99,936	$ 0	$ 18,747,122
Operating expenses:							
Plant specific operations expense	$ 5,366,784	$ 0	$ 0	$ 0	$ 0		$ 5,366,784
Plant nonspecific operations expense	1,493,263						1,493,262
Provision for depreciation and amortization	4,919,736						4,919,736
Customer operations expense	2,003,596						2,003,595
Corporate operations expense	3,019,841						3,019,841
Operating taxes	323,599						323,599
TOTAL OPERATING EXPENSES	$ 17,126,819	$ 0	$ 0	$ 0	$ 0	$ 0	$ 17,126,817
OPERATING INCOME	$ 108,818	$ 735,480	$ 356,928	$ 319,140	$ 99,936		$ 1,620,305
Other income (expense):							
Interest income	$ 65,616	$ 0	$ 0	$ 0	$ 0		$ 65,616
Nonregulated loss	(24,989)						(24,989)
Loss on obsolete inventory	(706,485)					706,485	0
Income (loss) from subsidiaries	(193,488)						(193,488)
Income from investment	49,656						49,656
TOTAL OTHER INCOME (EXPENSE)	$ (809,690)	$ 0	$ 0	$ 0	$ 0	$ 706,485	$ (103,205)
Fixed charges:							
Interest on long-term debt	$ 451,232	$ 0	$ 0	$ 0	$ 0	$ 0	$ 451,231
Interest charged to construction - credit	(67,132)						(67,132)
Interest on customer deposits	642						642
TOTAL FIXED CHARGES	$ 384,742	$ 0	$ 0	$ 0	$ 0	$ 0	$ 384,742
INCOME (LOSS) BEFORE TAXES ON INCOME	$ (1,085,614)	$ 735,480	$ 356,928	$ 319,140	$ 99,936	$ 706,485	$ 1,132,358
Income tax expense (benefit)	6,325	0	0	0	0	0	6,325
NET INCOME (LOSS)	$ (1,091,939)	$ 735,480	$ 356,928	$ 319,140	$ 99,936	$ 706,485	$ 1,126,033

TIER Calculation

Net income(loss)	(1,091,939)	1,126,033
Plus Fixed charges	384,742	384,742
	(707,197)	1,510,775
Divided by Fixed charges	384,742	384,742
TIER	(1.84)	3.93

Other Adjustment:

During 2009 it was determined that various items of inventory had become obsolete. This resulted in a one time write down of inventory in the amount of $706,485

5. Has Highland increased rates for non-basic services, including custom-calling and directory listing services?

Yes, as explained below.

a. State, in detail, all increases employed by Highland for non-basic services from 2005 through the date of this request for information.

Highland increased its rate for inside wire maintenance on December 1, 2008.

b. For each non-basic service, state the previous charge for the service and the new, increased charge.

Highland's rate for inside wire maintenance was increased from 52¢ to $3.00.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

6. Provide Highland's equity management plan.

Highland's equity management plan is based on Article VII, Section 2 of its Bylaws, a copy of which is attached as Exhibit 6.A. These Bylaws were adopted on June 26, 1954.

a. Indicate when the current plan was adopted and identify any changes made in the plan since the year utilized as the test year in Highland's last rate case.

Pursuant to Article VII, Section 2 of its Bylaws, Highland initiated an equity repayment plan on March 18, 1991, by which it began paying capital credits to its membership annually and qualified estates as documentation was provided on the death of a member holding a certificate. On October 27, 2003 Highland approved accelerated payment of capital credits for all properly documented requests.

On October 27, 2008, the Board of Directors discontinued payment of all capital credits to the membership, including estate capital credits, based upon the financial condition of the Cooperative.

b. Provide a five-year analysis of the amount of capital credits refunded to members under the plan and indicate the amounts related to general retirements and special retirements (i.e., estate of deceased patrons).

A schedule of capital credits paid during the last five years is attached as Exhibit 6.B.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

Exhibit 6.A

Article VII, Section 2 of Highland's Bylaws

ARTICLE VII

NON-PROFIT OPERATION

SECTION 1. Interest or Dividends on Capital Prohibited The Co-op shall at all times be operated on a cooperative non-profit basis for the mutual benefit of its patrons. No interest or dividends shall be paid or payable by the Co-op on any capital furnished by itspatrons.

SECTION 2. Patronage Capital in Connection with Furnishing Telephone Service. In the furnishing of telephone service the Co-op's operations shall be so conducted that all patrons, members and non-members alike, will through their patronage furnish capital for the Co-op. In order to induce patronage and to assure that the Co-op will operate on a non-profit basis the Co-op is obligated to account on a patronage basis to all its patrons, members and non-members alike, for all amounts received and receivable from the furnishing of telephone service in excess of operating costs and expenses properly chargeable against the furnishing of telephone service. All such amounts in excess of operating costs and expenses at the moment of receipt by the Co-op are received with the understanding that they are furnished by the patrons, members and non-members alike, as capital. The Co-op is obligated to pay by credits to a capital account for each patron all such amounts in excess of operating costs and expenses. The books and records of the Co-op shall be set up and kept in such a manner that at the end of each fiscal year the amount of capital, if any, so furnished by each patron is clearly reflected and credited in an appropriate record to the capital account of each patron, and the Co-op shall within a reasonable time after the close of the fiscal year notify each patron of the amount of capital so credited to his account. All such amounts credited to the capital account of any patron shall have the same status as though they had been paid to the patron in cash in pursuance of a legal obligation to do so and the patron had then furnished the Co-op corresponding amounts for capital.

In the event of dissolution or liquidation of the Co-op, after all outstanding indebtedness of the Co-op shall have been paid, outstanding capital credits shall be retired without priority on a pro rata basis before any payments are made on account of property rights of members. If, at any time prior to dissolution or liquidation, the Board shall determine that the financial condition of the Co-op will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part. Any such retirements of capital shall be made in order of priority according to the year in which the capital was furnished and credited, the capital first received by the Co-op being first retired. In no event, however, may any such capital be retired unless, after the proposed retirement, the capital of the Co-op shall equal at least forty per centum (40%) of the total assets of the Co-op.

Capital credited to the account of each patron shall be assignable only on the books of the Co-op, pursuant to written instruction from the assignor and only to successors in interest or successors in occupancy in all or a part of such patron's premises served by the Co-op unless the Board, acting under policies of general application, shall determine otherwise.

Notwithstanding any other provision of these bylaws, the Board, at its discretion, shall have the power at any time upon the death of any patron, if the legal representatives of his estate shall request in writing that the capital credited to any such patron be retired prior to the time such capital would otherwise be retired under the provisions of these bylaws, to retire capital credited to any such patron immediately upon such terms and conditions as the Board, acting under policies of general application, and the legal representatives of such patron's estate shall agree upon; provided, however, that the financial condition of the Co-op will not be impaired thereby.

The patrons of the Co-op, by dealing with the Co-op, acknowledge that the terms and provisions of the charter of incorporation and bylaws shall constitute and be a contract between the Co-op and each patron, and both the Co-op and the patrons are bound by such contract, as fully as though each patron had individually signed a separate instrument containing such terms and provisions. The provisions of this article of the bylaws shall be called to the attention of each patron of the Co-op by posting in a conspicuous place in the Co-op's office.

Exhibit 6.B

Schedule of Capital Credits Paid
During Last Five Years

Question 6b. Response

Capital credits paid during last five years:

Year	General retirement	Estates	Total
2005	$ 201,079	$ 392,014	$ 593,093
2006	$ 339,983	$ 350,349	$ 690,332
2007	$ 352,077	$ 383,324	$ 735,401
2008	$ 257,049	$ 327,902	$ 584,951
2009	$ -	$ -	$ -

7. Identify the company's Annual Universal Fund support during the test period. Identify the account wherein this fund support is booked.

Highland's Annual Universal Fund support during the 2009 test period is shown on the chart attached as Exhibit 7. As noted on the chart, this fund support is booked in Account 5270.26000.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

Exhibit 7

Highland's Annual Universal Fund Chart

USAC

SPIN=Service Provider ID Number; HCL=High Cost Loop; HCM=High Cost Model; IAS=Interstate Access Support; ICLS=Interstate Common Line Support;
LSS=Local Switching Support; LTS=Long Term Support; SNA=Safety Net Additive Support; SVS=Safety Valve Support.

High Cost Disbursement Data (Spin = ALL , Sac = 290565 , San = ALL , Year = 2009 , Month = ALL , State = ALL)
This disbursement tool contains data from Jan 2003 through Oct 2010.

State	Spin	Study Area Code	Study Area Name	HCL	HCM	IAS	ICLS	LSS	LTS	SNA	SVS	Year	Month
TN	143001630	290565	HIGHLAND TEL COOP-TN	$0	$0	$0	$99,515	$27,555	$0	$0	$0	2009	Dec
TN	143001630	290565	HIGHLAND TEL COOP-TN	$0	$0	$0	$99,527	$27,555	$0	$0	$0	2009	Nov
TN	143001630	290565	HIGHLAND TEL COOP-TN	$0	$0	$0	$99,526	$27,555	$0	$0	$0	2009	Oct
TN	143001630	290565	HIGHLAND TEL COOP-TN	$0	$0	$0	$99,526	$27,555	$0	$0	$0	2009	Sep
TN	143001630	290565	HIGHLAND TEL COOP-TN	$0	$0	$0	$99,526	$27,555	$0	$0	$0	2009	Aug
TN	143001630	290565	HIGHLAND TEL COOP-TN	$0	$0	$0	$99,526	$27,555	$0	$0	$0	2009	Jul
TN	143001630	290565	HIGHLAND TEL COOP-TN	$0	$0	$0	$92,997	$27,555	$0	$0	$0	2009	Jun
TN	143001630	290565	HIGHLAND TEL COOP-TN	$0	$0	$0	$92,997	$27,555	$0	$0	$0	2009	May
TN	143001630	290565	HIGHLAND TEL COOP-TN	**($5,502)**	$0	$0	$92,997	$38,427	$0	$0	$0	2009	Apr
TN	143001630	290565	HIGHLAND TEL COOP-TN	$1,834	$0	$0	$92,997	$27,555	$0	$0	$0	2009	Mar
TN	143001630	290565	HIGHLAND TEL COOP-TN	$1,834	$0	$0	$92,997	$27,555	$0	$0	$0	2009	Feb
TN	143001630	290565	HIGHLAND TEL COOP-TN	$1,834	$0	$0	$92,997	$27,555	$0	$0	$0	2009	Jan
				$0	$0	$0	$1,155,128	$341,532					

Account 5270.26000

8. **Provide, in comparative form, a detailed income statement, a statement of cash flows, and a balance sheet for the test year and the 12-month period immediately preceding the test year.**

These financial statements are attached as Exhibit 8.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

Exhibit 8

Highland Financial Statements

BALANCE

HIGHLAND TELEPHONE

December 31, 2009

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash - general	$ 4,841,021	$ 5,553,711
Temporary investments	600,000	600,000
Securities available for sale	5,147,202	4,159,211
Telecommunications accounts receivable, less allowances of $214,777 in 2009 and $148,786 in 2008	988,260	995,092
Other accounts receivable	679,582	1,056,261
Materials and supplies	1,588,267	2,354,334
Prepayments	393,581	535,031
Due from affiliate	358,293	0
Refundable tax deposits	15,596	0
Other current assets	127,989	162,570
TOTAL CURRENT ASSETS	$ 14,739,791	$15,416,210
NONCURRENT ASSETS		
Investment in subsidiary	$ 7,504,199	$ 7,659,561
Other investment	950,489	845,274
Nonregulated investment	2,751,533	2,747,241
Deposits	2,573	2,573
TOTAL NONCURRENT ASSETS	$ 11,208,794	$11,254,649
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service	$ 99,009,166	$97,162,839
Telecommunications plant under construction	1,564,392	1,204,682
	$ 100,573,558	$98,367,521
Less accumulated depreciation	67,401,939	62,588,250
TOTAL PROPERTY, PLANT AND EQUIPMENT	$ 33,171,619	$35,779,271
	$ 59,120,204	$62,450,130

SHEETS

COOPERATIVE, INC.

and 2008

	2009	2008
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 775,276	$ 1,481,209
Advance billings and payments	730,463	710,554
Customer deposits	1,699	4,399
Current maturities on long-term debt	1,864,295	1,773,058
Accrued taxes	521,190	471,118
Accrued interest	23,946	28,412
Accrued rents	571,107	546,187
Accrued salaries and wages	156,825	145,329
Accrued compensated absences	1,240,384	1,341,621
Other current liabilities	279,607	230,313
TOTAL CURRENT LIABILITIES	$ 6,164,792	$ 6,732,200
LONG-TERM DEBT		
Rural Utilities Service - mortgage notes	6,252,539	8,119,294
OTHER LIABILITIES		
Postretirement benefits other than pension	3,995,335	3,890,066
TOTAL LIABILITIES	$16,412,665	$18,741,560
MEMBERS' EQUITY	42,707,538	43,708,570
	$59,120,204	$62,450,130

STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND PATRONAGE CAPITAL

HIGHLAND TELEPHONE COOPERATIVE, INC.

For the years ended December 31, 2009 and 2008

	2009	2008
Operating revenues:		
Local network services revenue	$ 6,253,462	$ 6,793,052
Network access services revenue	8,276,451	9,159,074
Miscellaneous revenues	2,706,554	2,261,493
Less uncollectible revenue	(830)	(75,191)
TOTAL OPERATING REVENUES	$17,235,636	$18,138,428
Operating expenses:		
Plant specific operations expense	$ 5,366,784	$ 5,797,716
Plant nonspecific operations expense	1,493,263	1,497,248
Provision for depreciation and amortization	4,919,736	4,743,994
Customer operations expense	2,003,595	2,025,663
Corporate operations expense	3,019,841	3,269,221
Operating taxes	323,599	380,930
TOTAL OPERATING EXPENSES	$17,126,819	$17,714,772
OPERATING INCOME	$ 108,818	$ 423,656
Other income (expense):		
Interest income	$ 65,616	$ 210,942
Nonregulated loss	(24,989)	(644,865)
Loss on obsolete inventory	(706,485)	0
Income (loss) from subsidiaries	(193,488)	533,039
Income from investment	49,657	24,696
TOTAL OTHER INCOME (EXPENSE)	$ (809,690)	$ 123,812
Fixed charges:		
Interest on long-term debt	$ 451,232	$ 538,494
Interest charged to construction - credit	(67,132)	(329,876)
Interest on customer deposits	642	678
TOTAL FIXED CHARGES	$ 384,742	$ 209,296
INCOME (LOSS) BEFORE TAXES ON INCOME	$ (1,085,615)	$ 338,172
Income tax expense (benefit)	6,325	(6,854)
NET INCOME (LOSS)	$ (1,091,940)	$ 345,026

STATEMENTS OF CASH FLOWS

HIGHLAND TELEPHONE COOPERATIVE CORPORATION

For the years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 17,619,148	$ 17,928,372
Cash paid to suppliers and employees	(12,503,755)	(13,452,491)
Interest received	65,616	210,942
Interest paid	(389,208)	(213,545)
Taxes paid	(21,921)	(9,881)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,769,879	$ 4,463,397
Cash flows from investing activities:		
Construction and acquisition of plant	$ (2,506,667)	$ 1,282,847
Investment in nonregulated CPE		
Plant removal costs	(923)	(1,013)
Salvage	16,731	0
Contributed capital to subsidiary	(638,127)	(5,043,612)
Dividend received from subsidiary	600,000	1,200,000
Purchase of investment	(55,558)	0
Securities available for sale	(987,991)	1,432,235
Decrease (Increase) in:		
Materials and supplies	59,582	625,920
Other investments	(4,292)	(325,335)
Advances to subsidiary	(358,293)	0
Deposits	0	(1,500)
Nonregulated loss	(24,989)	(644,865)
NET CASH USED BY INVESTING ACTIVITIES	$ (3,900,527)	$ (1,475,323)

STATEMENTS OF CASH FLOWS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE CORPORATION

For the years ended December 31, 2009 and 2008

	2009	2008
Cash flows from financing activities:		
Payments on long-term borrowings	$ (1,775,519)	$ (1,688,628)
Memberships refunded	(6,060)	(5,485)
Retirement of capital credits	0	(584,951)
Postretirement benefits other than pension	202,237	230,605
Decrease in customer deposits	(2,700)	(4,200)
NET CASH USED BY FINANCING ACTIVITIES	$ (1,582,042)	$ (2,052,659)
NET INCREASE (DECREASE) IN CASH	$ (712,690)	$ 935,415
CASH AT BEGINNING OF YEAR	5,553,711	4,618,296
CASH AT END OF YEAR	$ 4,841,021	5,553,711

STATEMENTS OF CASH FLOWS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE CORPORATION

For the years ended December 31, 2009 and 2008

	2009	2008
Net income (loss)	$ (1,091,940)	$ 345,026
Nonregulated loss	24,989	644,865
Loss from obsolete inventory	706,485	0
(Income) loss from subsidiaries	193,488	(533,039)
Income from investment	(49,657)	(24,696)
Net income (loss) from regulated operations	$ (216,634)	$ 432,156
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	$ 5,098,512	$ 4,794,209
Decrease (Increase) in:		
Customer and other accounts receivable	383,511	(210,056)
Refundable tax deposit	(15,596)	0
Other current assets	34,581	61,102
Prepaid expenses	141,450	79,079
Increase (Decrease) in:		
Accounts payable	(705,933)	(182,554)
Advanced billings and payments	19,909	29,241
Accrued taxes	50,072	(151,632)
Accrued interest	(4,466)	(4,249)
Accrued rents	24,920	39,561
Accrued salaries and compensated absences	(89,741)	(296,891)
Accrued federal and state income taxes	0	(3,495)
Other current liabilities	49,294	(123,074)
TOTAL ADJUSTMENTS	$ 4,986,513	$ 4,031,241
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,769,879	$ 4,463,397

See the notes to financial statements.

9. Provide Highland's rate of return on net investment rate base for the test year and five preceding calendar years. Include the data used to calculate each return.

The Universal Service Administrative Company (USAC) in explaining its high cost program defines a price-cap carrier as a carrier not subject to rate-of-return regulation. A price-cap carrier is only able to raise its rates on a basis of a formula established by the FCC. It further defines a rate-of-return carrier as a carrier that is allowed to recover its revenue requirement by setting rates on its various services so that it earns no more than the rate-of-return authorized by the FCC. In addition to the USAC explanation, 47 CFR Parts 54 and 61 define both of these methods as well.

Highland Telephone Cooperative, Inc. is a telephone cooperative organized under the IRC Sec. 501(c)(12). As a cooperative, all revenues received in excess of operating costs (net margin) are allocated to the cooperative's member patrons. The allocation of the net margin to each member patron has the effect of reducing the cost of each member's service by the margin which in turn results in the cooperative operating at cost. Since the Cooperative is operating under this method, rate-of-return regulation is inapplicable. Therefore, Highland does not calculate a rate of return on net investment rate base.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

{L0525118.2}

10. Provide a list of depreciation expenses. List each account, the balance at the end of the test year, the depreciation rate, and the annual depreciation.

A list of depreciation expenses and a list of depreciation accounts are attached as Exhibits 10.A and 10.B respectively.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

Exhibit 10.A

Highland List of Depreciation Expenses

HIGHLAND TELEPHONE COOPERATIVE, INC.

ANNUAL DEPRECIATION 2009	Account	Beginning Balance	Ending Balance	Annual Depreciation	Depreciation Rate
Other radio Facilities – Towers Accumulated Depreciation	3100.223125	0.00	0.00	0.00	
Trunk Carrier - Digital	2232.1	228,781.99	228,781.99		
Trunk Carrier – Digital Accumulated Depreciation	3100.22321	(228,781.99)	(228,781.99)	0.00	11.60
Subscriber Carrier - Digital	2232.3	2,879,773.75	2,967,899.14		
Subscriber Carrier – Digital Accumulated Depreciation	3100.22323	(2,888,955.51)	(2,939,400.70)	50,445.19	11.60
Other Circuit Equipment	2232.6	864,886.91	846,507.88		
Other Circuit Equipment Accumulated Depreciation	3100.22326	(236,492.69)	(251,770.70)	83,540.78	9.60
Standby Generators	2233	561,637.42	555,637.42		
Standby Generators Accumulated Depreciation	3100.2233	(561,637.42)	(560,104.42)	0.00	9.60
Public Tele. Terminal Equip.	2351	14,192.41	14,192.41		
Public Tele. Terminal Equip. Accumulated Depreciation	3100.2351	(14,112.30)	(14,192.41)	80.11	7.70
Organization	2690.1	737.85	737.85		
Organization Accumulated Depreciation	3500.1	(737.85)	(737.85)	0.00	2.00
Franchises	2690.2	1,683.97	1,683.97		
Franchises Accumulated Depreciation	3500.2	(1,683.97)	(1,683.97)	0.00	2.00
Poles	2411	10,019,731.17	10,008,488.76		
Poles Accumulated Depreciation	3100.2411	(6,481,500.96)	(7,005,495.88)	561,277.28	5.60
Aerial Cable	2421	38,230,890.44	38,847,995.93		
Aerial Cable Accumulated Depreciation	3100.2421	(28,286,459.33)	(29,714,105.89)	1,596,992.62	6.10
Nids / Modulators / Power Equip	2421.5	1,033,718.99	1,250,615.07		
Nids / Modulators / Power Equip Accumulated Depreciation	2421.5	(30,447.58)	(99,018.29)	68,570.71	6.10
Underground Cable	2422	751,318.72	756,180.54		
Underground Cable Accumulated Depreciation	3100.2422	(468,480.14)	(503,036.96)	35,359.17	4.70
Buried Cable	2423	8,218,354.19	8,302,141.01		
Buried Cable Accumulated Depreciation	3100.2423	(592,950.10)	(1,021,545.56)	428,797.76	5.20
Aerial Wire	2431	0.00	0.00		
Aerial Wire Accumulated Depreciation	3100.2431	0.00	0.00	0.00	8.40
Conduit Systems	2441	453,631.04	454,547.40		
Conduit Systems Accumulated Depreciation	3100.2441	(100,784.50)	(108,949.90)	8,165.40	1.80
				5,361,472.67	
		Less Leased Accounts Accumulated Depreciation		(268,927.11)	
		Less Auto Depreciation (Spreads to Expense Accts.)		(168,276.80)	
		Less PSC 321 Allocations To Acct 6561.1000000		(4,532.91)	
				4,919,735.85	

HIGHLAND TELEPHONE COOPERATIVE, INC.
ANNUAL DEPRECIATION 2009

		Beginning Balance	Ending Balance	Annual Depreciation	Depreciation Rate
Telephones	1406.1	358,275.51	347,119.86		
Telephones Accumulated Depreciation	1406.1X	(144,818.75)	(148,680.75)	35,914.31	10.00
Key Systems	1406.2	1,594,911.86	1,578,238.23		
Key Systems Accumulated Depreciation	1406.2X	(706,605.21)	(690,101.77)	47,995.05	3.00
PABX	1406.3	599,424.93	600,143.08		
PABX Accumulated Depreciation	1406.3X	(599,424.93)	(600,143.08)	718.15	10.00
Guaranteed Paystations	1406.4	36,327.15	36,327.15		
Guaranteed Paystations Accumulated Depreciation	1406.4X	(36,327.15)	(36,327.15)	0.00	10.00
Bells, Horns, Etc.	1406.5	68,630.09	69,474.97		
Bells, Horns, Etc. Accumulated Depreciation	1406.5X	(68,158.82)	(69,474.97)	1,316.15	10.00
DSL Modems	1406.8	1,693,898.06	1,978,518.99		
DSL Modems Accumulated Depreciation	1406.8X	(308,431.14)	(491,414.59)	182,983.45	10.00
Motor Vehicles	2112	2,318,028.04	2,490,423.99		
Motor Vehicles Accumulated Depreciation	3100.2112	(2,318,028.04)	(2,484,957.01)	168,276.80	12.10
Other Work Equipment	2114	585,156.26	585,156.26		
Other Work Equipment Accumulated Depreciation	3100.2114	(441,034.66)	(479,072.14)	38,037.48	6.50
Buildings	2121	3,689,234.87	3,689,234.87		
Buildings Accumulated Depreciation	3100.2121	(1,608,978.85)	(1,708,588.21)	99,609.36	2.70
Buildings Accumulated Depreciation	3100.21211	(108,503.74)	(108,503.74)	0.00	
Furniture	2122	26,173.34	26,173.34		
Furniture Accumulated Depreciation	3100.2122	(25,163.93)	(26,173.34)	1,009.41	8.70
Office Support Equipment	2123.1	91,094.29	91,094.29		
Office Support Equipment Accumulated Depreciation	3100.21231	(51,819.95)	(57,832.19)	6,012.24	6.60
Company Common Equipment	2123.2	81,298.35	81,298.35		
Company Common Equipment Accumulated Depreciation	3100.21232	(81,298.35)	(81,298.35)	0.00	14.30
General Purpose Computers	2124	1,813,328.07	1,958,842.71		
General Purpose Computers Accumulated Depreciation	3100.2124	(1,813,328.07)	(1,874,222.31)	60,894.24	15.80
Computer Peripherals	2124.3	73,940.94	73,940.94		
Computer Peripherals Accumulated Depreciation	3100.21243	(73,940.94)	(73,940.94)	0.00	15.80
Digital Electronic Switching	2212	24,757,795.65	25,310,140.96		
Digital Electronic Switching Accumulated Depreciation	3100.2212	(15,965,185.15)	(17,850,662.16)	1,885,477.01	10.00
Maintenance Radio	2231.22	65,734.66	65,734.66		
Maintenance Radio Accumulated Depreciation	3100.223122	(65,734.66)	(65,734.66)	0.00	8.90
Mobiles and Pagers	2231.23	156,321.84	156,321.84		
Mobiles and Pagers Accumulated Depreciation	3100.223123	(156,321.84)	(156,321.84)	0.00	8.90
Other Radio Facilities - Towers	2231.25	0.00	0.00		

Exhibit 10.B

Highland List of Depreciation Accounts

PLANT ACCOUNT NO. & DESCRIPTION	DEPRECIATION ACCOUNT NO. & DESCRIPTION	ACCUMULATED DEPRECIATION ACCOUNT NO. & DESCRIPTION	DEPRECIATION RATE
2112- MOTOR VEHICLES	6112-6000000 MOTOR VEH DEPR EXP	3100-2112 ACCUM. DEPREC.-MOTOR VEHICLES	12.1000
2114- TOOLS AND OTHER WORK EQUIPMENT	6561- DEPRECIATION EXPENSE	3100-2114 ACCUM DEPREC OTHER WORK EQUIP	6.5000
2121- BUILDINGS	6561- DEPRECIATION EXPENSE	3100-2121 ACCUM. DEPREC.-BUILDINGS	2.7000
2122- FURNITURE	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-2122 ACCUM. DEPREC.-FURNITURE	8.7000
2123-1 OFFICE SUPPORT EQUIPMENT	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-21231 ACCUM. DEPREC.-OFFICE SUPPORT	6.6000
2123-2 COMPANY COMM EQUIP	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-21232 ACCUM. DEPREC.-COMPANY COMM EQ	14.3000
2124- GENERAL PURPOSE COMPUTERS	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-2124 ACCUM. DEPREC-GEN PURPOSE COMP	15.8000
2124-3 Computer Peripherals	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-21243 ACCUM DEP COMPUTER PERIPHERALS	15.8000
2211- ANALOG ELECTRONIC SWITCHING	6561- DEPRECIATION EXPENSE	3100-2211 ACCUM. DEPREC.-ANALOG SWITCHIN	8.8000
2212- DIGITAL ELECTRONIC SWITCHING	6561- DEPRECIATION EXPENSE	3100-2212 ACCUM. DEPREC-DIGITAL SWITCHIN	10.0000
2215-1 ELECTROMECH SWITCH-STEP BY STE	6561- DEPRECIATION EXPENSE	3100-22151 ACCUM. DEPREC-ELECTRO(STEP BY	15.0000
2231-21 OTHER RADIO FACILITIES-MICROWA	6561- DEPRECIATION EXPENSE	3100-223121 ACCUM DEPREC-MICROWAVE EQUIP	8.9000
2231-22 OTHER RADIO FAC-MAINTENANCE RA	6561- DEPRECIATION EXPENSE	3100-223122 ACCUM DEPREC-MAINTENANCE RADIO	8.9000
2231-23 OTHER RADIO FAC-MOBILE AND PAG	6561- DEPRECIATION EXPENSE	3100-223123 ACCUM DEPREC-MOBILE AND PAGERS	8.9000
2232-1 CIRC EQUIP-TRUNK CARRIER-DIGIT	6561- DEPRECIATION EXPENSE	3100-22321 ACCUM DEPREC-TRUNK CARRIER DI	11.6000
2232-2 CIRC EQUIP-TRUNK CARRIER-ANALO	6561- DEPRECIATION EXPENSE	3100-22322 ACCUM DEPREC-TRUNK CAR ANALOG	9.6000
2232-3 SUB CARRIER-DIGITAL	6561- DEPRECIATION EXPENSE	3100-22323 ACCUMULATED DEP-SUB CAR DIGITA	11.6000
2232-6 OTHER CIRCUIT EQUIPMENT	6561- DEPRECIATION EXPENSE	3100-22326 ACCUM. DEPREC-OTHER CIRCUIT EQ	9.6000
2233- CO EQUIPMENT-STANDBY GENERATOR	6561- DEPRECIATION EXPENSE	3100-2233 ACCUM DEPREC-GENERATORS	9.6000

PLANT ACCOUNT NO. & DESCRIPTION	DEPRECIATION ACCOUNT NO. & DESCRIPTION	ACCUMULATED DEPRECIATION ACCOUNT NO. & DESCRIPTION	DEPRECIATION RATE
2351- PUBLIC TELEPHONE TERMINAL EQUI	6561- DEPRECIATION EXPENSE	3100-2351 ACCUM DEPREC-PUBLIC TELE TERM	7.7000
2411- POLES	6561- DEPRECIATION EXPENSE	3100-2411 ACCUM DEPREC-POLES	5.6000
2421- AERIAL CABLE	6561- DEPRECIATION EXPENSE	3100-2421 ACCUM DEPREC-AERIAL CABLE	6.1000
2421-1 NONMETALIC FIBER OPTIC CABLE	6561- DEPRECIATION EXPENSE	3100-24211 ACCUM DEPREC-NONMET FIBER OPTI	4.9000
2421-5 NIDS/Modulators/Power Equip	6561- DEPRECIATION EXPENSE	3100-24215 ACCUM DEPREC-NIDS/MOD/POWER EQ	6.1000
2422- UNDERGROUND CABLE	6561- DEPRECIATION EXPENSE	3100-2422 ACCUM DEPREC-UNDERGROUND CABLE	4.7000
2423- BURIED CABLE	6561- DEPRECIATION EXPENSE	3100-2423 ACCUM DEPREC-BURIED CABLE	5.2000
2431- AERIAL WIRE	6561- DEPRECIATION EXPENSE	3100-2431 ACCUM DEPREC-AERIAL WIRE	8.4000
2441- CONDUIT SYSTEMS	6561- DEPRECIATION EXPENSE	3100-2441 ACCUM DEPREC-CONDUIT SYSTEMS	1.8000
2690-1 INTANGIBLES-ORGANIZATION	6561- DEPRECIATION EXPENSE	3500-1 ACCUM AMORT-ORGANIZATION	2.0000
2690-2 INTANGIBLES-FRANCHISES	6561- DEPRECIATION EXPENSE	3500-2 ACCUM AMORT-FRANCHISES	2.0000

11. Are the depreciation rates reflected in this filing identical to those most recently approved by the Commission?

In a letter dated October 2, 1997 the Public Service Commission presented a schedule of average depreciation rates. Per the Commission's letter, companies could use these rates or lower rates to compute their depreciation expense. It is our belief that Highland's current depreciation rates are in compliance with the average schedule rates approved by the Commission. A copy of this letter is attached as Exhibit 11.

a. If yes, identify the case in which they were approved.

Not applicable.

b. If no, provide the depreciation study that supports the rates reflected in this filing.

Not applicable.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

{L0525118 2}

Exhibit 11

PSC Letter dated October 2, 1997

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

October 2, 1997

TO: All Incumbent Local Exchange Telephone Utilities ("LEC") under the jurisdiction of the Public Service Commission of Kentucky who are eligible to consider the Commission's 1997 Average Depreciation Schedule.

RE: 1997 Average Depreciation Schedule

Gentlemen:

As you are aware, 807 KAR 5:064, Section 8, of the Commission's Regulations specifies that the Commission issue a proposed Average Depreciation Schedule for consideration by all LEC's who do not normally perform their own depreciation studies. Our records indicate that your utility is eligible to accept the 1997 Average Schedule which has been accepted by the Commission and is attached for your consideration.

This schedule is based upon utilizing the Straight-Line Method, Broad Group Procedure, and the Whole Life Technique to arrive at Average Service Life and Average Net Salvage Parameters. If your utility chooses to accept this schedule, the effective booking date will be January 1, 1998. If you choose to reject this schedule you have the option of either retaining your existing depreciation rates and waiting for the next average schedule to be issued, or conducting your own depreciation study according to the guidelines set out in the subject regulation.

For those LEC's choosing to accept this schedule, the depreciation rates for each account/subaccount will remain in effect for at least three years (e.g., you will only be allowed to accept a schedule one time in any three-year period). Moreover, no depreciation rate for any of your accounts/subaccounts may be higher than those specified in the schedule. You may, however, choose to use depreciation rates for individual accounts/subaccounts which are lower than those shown on the schedule. You are also required to separate your accounts/subaccounts to correspond to those indicated on the schedule.

Please notify this office, in writing, of your decision to either accept or reject the proposed schedule by November 14, 1997. Further, if you accept this schedule, you must provide a summary statement showing each of your plant accounts/subaccounts, the gross investment and reserve for each, and the resulting annual expense accrual for each category. Investments and reserve amounts should be based upon your most currently available information.

Should you have any questions relative to this matter, please contact Wayne Bates of our Engineering Division at (502) 564-3940, Ext. 416.

Sincerely,

Don Mills

Don Mills
Executive Director

Attachments

cc: ALLTEL Kentucky, Inc.
Ballard Rural Telephone Cooperative Corporation, Inc.
Brandenburg Telephone Company, Inc.
Duo County Telephone Cooperative Corporation, Inc.
Foothills Rural Telephone Cooperative Corporation, Inc.
Harold Telephone Company, Inc.
Highland Telephone Cooperative, Inc.
Leslie County Telephone Company, Inc.
Lewisport Telephone Company, Inc.
Logan Telephone Cooperative, Inc.
Mountain Rural Telephone Corporation
North Central Telephone Cooperative, Inc.
Peoples Rural Telephone Cooperative Corporation, Inc.
Salem Telephone Company
South Central Rural Telephone Cooperative Corporation, Inc.
Thacker-Grigsby Telephone Company, Inc.
West Kentucky Rural Telephone Cooperative Corporation, Inc.

1997 AVERAGE DEPRECIATION SCHEDULE

Account Number	Plant Category	Average Service Life (Years)	Average Net Salvage (%)	Depreciation Rate (%)
2112.0	Motor Vehicles			
2112.1	Motor Vehicles - Light	7.0	15.0	12.1
2112.2	Motor Vehicles - Heavy	8.4	15.0	10.1
2116.0	Special Vehicles and Other Work Equipment	13.0	3.0	7.5
2121.0	Buildings	38.0	-1.0	2.7
2122.0	Furniture	10.8	6.0	8.7
2123.0	Office Equipment			
2123.1	Office Support Equipment	12.0	10.0	7.5
2123.2	Official Communications Equipment	6.0	10.0	15.0
2124.0	General Purpose Computers	5.9	7.0	15.8
2211.0	Analog Electronic Switching	8.1	5.0	11.7
2212.0	Digital Electronic Switching	13.0	3.0	7.5
2215.0	Electromechanical Switching			
2215.1	Step By Step	7.0	-10.0	15.7
2215.2	Crossbar	5.0	-10.0	22.0

1997 AVERAGE DEPRECIATION SCHEDULE

Account Number	Plant Category	Average Service Life (Years)	Average Net Salvage (%)	Depreciation Rate (%)
2220.0	Operator Systems	9.8	4.0	9.8
2231.0	Radio Systems	11.0	0.0	9.1
2232.0	Circuit Equipment			
2232.1	Analog	10.0	0.0	10.0
2232.2	Digital	8.0	5.0	11.9
2311.0	Station Apparatus	6.4	4.0	15.0
2341.0	Large PBX	6.0	-3.0	17.2
2351.0	Public Telephone	0.0	0.0	0.0
2362.0	Other Terminal Equipment	6.0	5.0	15.8
2411.0	Poles	26.0	-45.0	5.6
2421.0	Aerial Cable			
2421.1	Metallic	17.0	-13.0	6.6
2421.2	Fiber	22.0	-13.0	5.1
2422.0	Underground Cable			
2422.1	Metallic	25.0	-25.0	5.0
2422.2	Fiber	22.0	-10.0	5.0
2423.0	Buried Cable			

1997 AVERAGE DEPRECIATION SCHEDULE

Account Number	Plant Category	Average Service Life (Years)	Average Net Salvage (%)	Depreciation Rate (%)
2423.1	Metallic	20.0	-10.0	5.5
2423.2	Fiber	20.0	-2.0	5.1
2424.0	Submarine Cable	27.0	-1.0	3.7
2426.0	Intra-Building Network Cable			
2426.1	Metallic	20.0	-1.0	5.1
2426.2	Fiber	20.0	-1.0	5.1
2431.0	Aerial Wire	14.0	-31.0	9.4
2441.0	Conduit Systems	50.0	-8.0	2.2

Rates accepted by the Public Service Commission of Kentucky for use on and after January 1, 1998.

12. Provide separate schedules for the test year and the year preceding the test year, including the following information regarding Highland's investments in subsidiaries and joint ventures:

a. Name of subsidiary or joint venture;

Highland Telephone Cooperative, Inc. has two wholly owned subsidiaries: Highland Communications Corporation and Highland Media Corporation. Both of these subsidiaries are for-profit corporations in which the cooperative purchased common stock.

b. Date of initial investment;

The initial investment in Highland Communications Corporation was made when the corporation was organized on May 8, 1996, and the initial investment in Highland Media Corporation was made when the corporation was organized on January 1, 2006.

c. Amount and type of investment;

The initial investment in each subsidiary was the purchase of the common stock of the corporation, and the amounts were:

Name of Subsidiary	Amount of Investment
Highland Communications, Inc.	$1,387,409
Highland Media Corporation	$ 200,000

d. Balance sheet and income statement. Where only internal statements are prepared, furnish copies of these; and

Financial statements for Highland Communications Corporation and Highland Media Corporation are attached as Exhibits 12.A and 12.B respectively.

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e. **Names of officers of each of the subsidiaries or joint ventures, each officer's annual compensation, and the portion of the compensation charged to the subsidiary or joint venture. Indicate the position that each officer holds with Highland and the compensation received from Highland.**

Officers of Highland Communications Corporation for 2010 are:

Sam L. Strunk	-	President
Shelva Jo Jones	-	Vice President
Clara Terry	-	Secretary/Treasurer

Officers of Highland Media Corporation for 2010 are:

Jerry Williams	-	President
John Tate	-	Vice President
JoAn Haynes	-	Secretary/Treasurer

All of the individuals identified as officers of the subsidiaries receive only a meeting fee and expenses of attendance to meetings. These individuals also serve as elected directors of Highland Telephone Cooperative, Inc., and receive as directors of Highland only a meeting fee and expenses of attendance to meetings.

JoAn Haynes, Secretary/Treasurer of Highland Media Corporation, is also the Vice President of Highland Telephone Cooperative, Inc. No additional compensation is paid to this individual other than as stated above.

Clara Terry, Secretary/Treasurer of Highland Communications Corporation, is also the Secretary/Treasurer of Highland Telephone Cooperative, Inc. No additional compensation is paid to this individual other than as stated above.

Sam L. Strunk President of Highland Communications Corporation, was also the President of Highland Telephone Cooperative, Inc. for 2010. No additional compensation is paid to this individual other than as stated above.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

Exhibit 12.A

Highland Communications Corporation
Financial Statements

HIGHLAND COMMUNICATIONS CORPORATION

BALANCE SHEETS

As of December 31,	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,510,462	$ 1,317,171
Investments - Certificates of Deposit and Money Market Accounts	378,350	373,149
Accounts Receivable	322,297	338,227
Prepaid Income Taxes	47,690	0
Other Prepaid Assets	0	3,097
Interest Receivable	0	3,415
Total Current Assets	2,258,799	2,035,059
FURNITURE AND EQUIPMENT		
Land	194,289	194,289
Land Improvements	15,579	15,579
Building and Improvements	746,549	746,549
Furniture	23,042	23,042
Vehicles	101,564	95,121
Equipment	735,425	711,054
	1,816,448	1,785,634
Less Accumulated Depreciation	718,657	646,770
Total Furniture and Equipment	1,097,791	1,138,864
OTHER ASSETS		
Utility Deposits and Memberships	1,200	1,200
TOTAL ASSETS	$ 3,357,790	$ 3,175,123
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade Accounts Payable	$ 84,067	$ 101,948
Accrued Taxes	20,088	18,414
Income Taxes Payable	0	12,982
Total Current Liabilities	104,155	133,344
DEFERRED INCOME TAXES	55,676	60,084
TOTAL LIABILITIES	159,831	193,428
SHAREHOLDER'S EQUITY		
Common Stock (No Par Value) 1,000 Shares Authorized and Issued	1,387,409	1,387,409
Additional Paid in Capital	604,435	604,435
Retained Earnings	1,206,115	989,851
Total Shareholder's Equity	3,197,959	2,981,695
TOTAL LIABILITIES AND EQUITY	$ 3,357,790	$ 3,175,123

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

HIGHLAND COMMUNICATIONS CORPORATION

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Years Ended December 31,	2009	2008
OPERATING REVENUES		
Toll Revenue	$ 1,223,596	$ 1,372,923
Internet Revenue	4,310,378	3,978,014
Key Systems Revenue	8,592	12,344
Copy Center Revenue	2,496	2,622
Media Revenue	0	4,645
	5,545,062	5,370,548
Less Direct Write-Offs	59,938	54,260
Total Operating Revenues	5,485,124	5,316,288
OPERATING EXPENSES		
Billing and Collection	275,947	267,483
Access	2,435,980	2,155,767
Universal Service Fund	38,045	54,625
Operator Services	0	1,305
Total Operating Expenses	2,749,972	2,479,180
GENERAL, SELLING, AND ADMINISTRATIVE EXPENSES	1,423,538	1,239,730
TOTAL OPERATING INCOME	1,311,614	1,597,378
OTHER INCOME (EXPENSE)		
Investment Income	9,194	41,864
Gain on Disposal of Assets	3,500	0
Total Other Income (Expense)	12,694	41,864
INCOME BEFORE INCOME TAXES	1,324,308	1,639,242
INCOME TAXES		
Current	512,452	583,213
Deferred (Benefit)	(4,408)	42,943
Total Income Taxes	508,044	626,156
NET INCOME	816,264	1,013,086
OTHER COMPREHENSIVE INCOME (LOSS)		
Reclassification Adjustment for Gains Included in Net Income	0	(864)
COMPREHENSIVE INCOME	$ 816,264	$ 1,012,222

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

Exhibit 12.B

Highland Media Corporation
Financial Statements

BALANCE

HIGHLAND MEDIA

September 30,

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash	$ 83,786	$ 100,449
Accounts receivable	22,691	21,674
TOTAL CURRENT ASSETS	$ 106,477	$ 122,123
PROPERTY AND EQUIPMENT		
Land	$ 54,250	$ 54,250
Buildings	762,960	762,960
Motor vehicles	21,645	21,645
Furniture and equipment	173452	173,453
Tools and other equipment	12,210	12,210
Video equipment	4,259,736	3,556,672
Testing equipment	21,040	21,040
	$ 5,305,293	$ 4,602,230
Less accumulated depreciation	823,548	198,683
TOTAL PROPERTY AND EQUIPMENT	$ 4,481,745	$ 4,403,547
OTHER ASSETS		
Deposits	$ 400	$ 400
	$ 4,588,622	$ 4,526,070

See the notes to the financial statements.

SHEETS

CORPORATION

2009 and 2008

		2009		2008
LIABILITIES AND CAPITAL				
CURRENT LIABILITIES				
Accounts payable	$	14,259	$	3,880
Advanced billings		6,008		0
Accrued Tennessee franchise tax		5,204		11,010
Accrued property taxes		21,795		0
Advance from parent company		227,727		0
Other current liabilities		7,389		679
TOTAL CURRENT LIABILITIES	$	282,382	$	15,569
CAPITAL				
Common stock - No Par value; 1,000 shares authorized and outstanding	$	200,000	$	200,000
Paid in capital		5,681,739		5,043,612
Retained earnings (deficit)		(1,575,499)		(733,111)
TOTAL CAPITAL	$	4,306,240	$	4,510,501
	$	4,588,622	$	4,526,070

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

HIGHLAND MEDIA CORPORATION

Year ended September 30, 2009 and 2008

	2009	2008
Operating revenue		
Video revenue	$ 169,179	$ 20,015
Rent revenue	8,775	1,524
Miscellaneous revenue	11,106	560
GROSS REVENUE	$ 189,060	$ 22,099
Operating expenses:		
Vehicle expenses	$ 165	$ 1,829
Bad debt expense	6,309	0
Programming expense	150,963	26,965
Land & building expense	28,140	24,921
Freight	203	31,820
Engineering expense	74,945	172,891
Depreciation and amortization	624,866	205,284
Repairs and maintenance	62,706	2,000
Billing and collecting	12,067	5,030
Advertising	10,362	1,122
Office expense	10,916	10,396
Professional fees	13,426	0
Employee benefits	0	6,867
Other taxes	34,565	11,032
Supplies	0	300
Miscellaneous	1,815	826
TOTAL OPERATING EXPENSES	$ 1,031,448	$ 501,283
NET LOSS	$ (842,388)	$ (479,184)

See the notes to the financial statements.

13. Provide separate schedules showing all dividends or any type of income received by Highland from its subsidiaries or joint ventures for the test year and the three years preceding the test year. Indicate how this income is reflected in the reports filed with the Commission and in any reports to Highland's member-customers.

Highland Telephone Cooperative, Inc. has two wholly owned subsidiaries. These subsidiaries are included in the financial statements of Highland Telephone Cooperative, Inc. on a consolidated basis. All financial reports filed with the Commission and with the members of the Cooperative are on a consolidated basis. The schedule below details the income or loss from each of these subsidiaries as well as any dividends paid to the Cooperative.

	Highland Communications, Inc.	
Year	Net Income(Loss)	Dividends paid
2006	$ 846,301	$ 500,000
2007	$ 782,413	$ 900,000
2008	$1,013,086	$1,200,000
2009	$ 816,264	$ 600,000
	Highland Media Corporation	
2007	$ (86,562)	$ 0
2008	$ (646,549)	$ 0
2009	$ (842,388)	$ 0

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

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14. **Concerning non-regulated activities:**

a. **Is Highland engaged in any non-regulated activities? If yes, provide a detailed description of each non-regulated activity.**

Yes, Highland is engaged in the following non-regulated activities:

i. Phone Features (call waiting, Caller Id, etc)
ii. Paystation (pay phone revenues)
iii. Customer premises phone equipment (Caller ID rental, phone rental, etc)
iv. Keysystems rental/sales
v. Inside wire maintenance
vi. DSL modem rent/sales

b. **Is Highland engaged in any non-regulated activities through an affiliate? If yes, provide the name of each affiliate and the non-regulated activity in which it is engaged.**

Yes, Highland's affiliates are engaged in the following non-regulated activities:

i. Highland Communications Corporation
   A. Long Distance
   B. Internet/DSL sales
ii. Highland Media Corporation
   A. Video

c. **Identify each service agreement with each affiliate and indicate whether the service agreement is on file with the Commission. Provide a copy of each service agreement not already on file with the Commission.**

Highland has entered into the following service agreements with its affiliate Highland Communications Corporation:

i. Agreement for the Provision of Billing and Collection Services.

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ii. DSL Service Contract
iii. Management Agreement
iv. Marketing Agreement

Copies of these service agreements are attached as Exhibits 14.A, 14.B, 14.C, and 14.D respectively.

There are no service agreements between Highland and Highland Media Corporation.

d. Has Highland loaned any money or property to any affiliate? If yes, describe in detail what was loaned, the terms of the loan, and the name of the affiliate.

Highland Telephone Cooperative, Inc. has made advances to its wholly owned subsidiary, Highland Media Corporation, through the test period in the amount of $358,293. This amount is both cash advanced and assets purchased by the Cooperative for the benefit of the subsidiary. The advances in the form of assets consist of inventory items and labor reimbursements due the Cooperative. These amounts are for construction in progress and are anticipated to be repaid from the operations of Highland Media Corporation.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

Exhibit 14.A

Highland Communications Corporation
Agreement for the Provision of
Billing and Collection Services

Agreement for the Provision of Billing and Collection Services

This agreement is made by and between Highland Telephone Cooperartive, Inc., a local exchange carrier (hereinafter referred to as "LEC"), and Highland Communications Corporation (hereinafter referred to as "HCC") effective as of the 27 day of March 1997.

Whereas, LEC is willing to perform billing and collection services for HCC pursuant to this agreement, and HCC desires to obtain said services from LEC;

Now, therefore, in consideration of the mutual promises and the terms and conditions contained herein, LEC and HCC hereby covenant and mutually agree as follows:

I. SCOPE

This agreement specifies the rights and obligations of each party hereto with respect to the provision, by LEC, of customer billing and collection for interexchange services provided by HCC primarily to LEC patrons and customers of HCC.

II. PRODUCT DESCRIPTION AND COMPENSATION

LEC shall perform the following billing and collection services at the rates listed below:

Function:
- Recording
- Rating
- Bill Processing
- Data Transmission
- Bill Rendering
- Record Keeping

The rate will be equal to five per cent 5% of the Purchase of Accounts Receivable by the LEC.

These functions will be performed in accordance with generally accepted telephone company standards.

Total HCC charges will be presented and included in the invoice total along with all other charges being billed by LEC. Taxes (defined in Section V hereof) will be calculated by LEC as specified herein.

LEC understands that HCC's requirements in connection with these services may change over time and agrees to cooperate with HCC to develop modified or additional services on mutually agreeable basis.

In the event of loss, damage, or destruction of data by LEC, estimated volumes will be developed as follows:

Estimating Volumes- From message and minutes volume reports for the entity experiencing the loss, LEC shall secure message/minutes counts for the four (4) corresponding days of the weeks preceding that in which the loss occurred and compute an average of these volumes. Messages and associated minutes shall be separated among Interstate, Intrastate and International. For LDS messages, LEC shall apply the appropriate Average Revenue Per Message ("ARPM") to the estimated message volume to arrive at the estimated lost revenue. For WATS messages, the appropriate revenue should be calculated on an individual case basis.

A. If the day of loss is not a holiday but one (or more) of the preceding corresponding days is a holiday, use additional preceding weeks in order to procure volumes for four

(4) nonholidays in the previous weeks that correspond to the day of the week that is the day of the loss.

B. If the loss occurs on a weekday that is a holiday (except Christmas), LEC shall use volumes from the four (4) preceding Sundays.

C. If the loss occurs on Mother's Day or Christmas, LEC shall use volume from that day in the preceding year (if available).

LEC shall determine HCC's actual realized bad debt uncollectibles on final account for each period. This amount shall be added to LEC for outstanding amounts. Payment or previously reported uncollectible will be deducted from these amounts.

Customer adjustments will be handled by HCC.

III. TERM OF AGREEMENT

The term of this agreement shall commence with the effective date of this agreement and shall continue for a period of five (5) years. The agreement may be terminated at any time prior to the termination date by an agreement in writing signed by both parties.

IV. METHOD OF OPERATION

The procedures for ordering and receiving the services provided hereunder and the performance obligations of the parties will be developed on mutually agreeable basis prior to provision of the services and shall be part of the generally accepted telephone company standards. These standards may include the following:

A. Transmission or Tape Delivery Procedures
B. Invoice Formats
C. Settlements and Payment Procedures
D. Provisions or Uncollectibles
E. Audit and Examination Procedures
F. Ordering Procedures
G. Provision of Management Reports
H. Tax Reporting Procedures

The standards are subject to change only upon the mutual agreement of the LEC and HCC.

V. TAXES

The parties' responsibilities for the computation, billing and collection applicable federal, state or local sales, use, excise or other taxes or tax-like charges imposed on or with respect to HCC's services to LEC's customers collectively the "Tax(es)" shall be governed by Attachment 1 hereof which may be changed by HCC from time to time by reasonable prior notice of such change to LEC.

VI. PERFORMANCE STANDARDS

LEC will maintain a performance level with respect to the billing and collection of HCC charges which is consistent with LEC's service measurement criteria applied to bill and collect its own charges.

VII. DENIAL OF SERVICE AUTHORIZATION

HCC hereby authorized LEC to disconnect service of LEC's customers for nonpayment in accordance with LEC's established procedures and as may be permitted by law.

VIII. GENERAL TERMS AND CONDITIONS

A. DATA RETENTION. All data associated with the performance of services hereunder shall be maintained by LEC for the longer of the following periods: the retention time required by law for maintaining Tax information, the time required by law or regulation to substantiate or reconstruct LEC's customers' invoices, or the retention time currently used by LEC for its own billing information in compliance with legal or regulatory rulings.

B. SEVERABILITY. In the event that any part of the provisions contained herein shall, for any reasons, be held to be unenforceable in any respect, such unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if the unenforceable provision had not been contained herein.

C. RELATION OF PARTIES. The parties declare and agree that each party hereto is engaged in a separate and distinct business which is independent from that of the other party and that each party shall perform its obligations hereunder as an independent contractor and not as the agent, employee, or servant of the other party.

D. ENTIRE AGREEMENT. This Agreement constitutes the entire Agreement between the parties, supersedes all prior oral and written agreements, representations, undertakings or proposals with respect to the subject matter hereof. Moreover, this Agreement may be amended only by written agreement signed by authorized representatives of both parties.

E. GOVERNING LAW. This Agreement shall be deemed to be a contract made under the laws of the State of Tennessee.

F. FORCE MAJEURE. Neither party shall be held liable for any delay or failure in performance of any part of this Agreement from any cause beyond its control and without its fault or negligence, including but not limited to acts of God, acts of civil or military authority, government regulations, insurrection, fires, explosions, earthquakes, floods, strikes, power blackouts, unusually severe weather conditions, inability to procure products or services of other persons or transportation facilities.

G. LIMITATION OF LIABILITY. Neither HCC nor LEC shall be liable to the other for any special, incidental or consequential damages of any nature or for any reason, even if advised of the possibility of such damages. In any event, the extent of LEC's liability shall be limited to amounts due LEC from HCC for the month preceding the month in which the cause of action arose. In any event, the extent of LEC's liability for damages shall be limited to the granting of a corresponding credit adjustment to HCC's amount due.

H. INDEMNIFICATION. To the extent not prohibited by law, and except as other \wise provided herein, each party shall indemnify and howl harmless the other party from and against any loss, cost, claims, injury, or liability brought by a person not a party hereto or an affiliate under this Agreement which relates to or arises out of the negligent or intentional acts or omissions of the indemnifying party or its employees, agents, or independent contractors in connection with the actions taken under this Agreement.

I. WAIVERS. No waiver of any provisions of this agreement and no consent to any default under this agreement shall be effective unless the same shall be in writing and signed by or on behalf of the party against whom such waiver or consent is claimed. No course of dealing or failure of any party to strictly enforce any term, right or condition of this agreement shall be construed as a waiver of such term, right, or condition.

J. HEADINGS. The headings and numbering of sections and paragraphs in this agreement are for convenience only shall not be construed to define or limit any of the terms herein or affect meaning or interpretation of this agreement.

K. This agreement may be executed concurrently in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This agreement may also be executed by a party hereto signing the signature page hereto (the "Signature Page") or several counterparts thereof, either simultaneously or at different times. If the Signature Page is executed in counterparts, such counterparts together with the other pages hereof shall constitute one and the same instrument.

In witness whereof, the parties have caused this agreement to be executed for them and on their behalf through their authorized representatives, as of the 27th day of March, 1997.

Highland Telephone Cooperative, Inc.

By: F L T

Title: General Mgr

Date: 3/27/97

Highland Communications Corporation

By: G. M. Patterson

Title: Manager

Date: March 27, 1997

ATTACHMENT I
TO
AGREEMENT FOR THE PROVISION OF BILLING AND COLLECTION SERVICES

Until changed pursuant to Section V of the AGREEMENT FOR THE PROVISION OF BILLING AND COLLECTION SERVICES (the "Agreement"), the following shall be the parties' agreement concerning Taxes:

LEC shall compute, bill, and collect applicable taxes.

LEC shall file tax returns with the appropriate taxing authority and hold HCC harmless from any liability resulting and from the TAX audit, proceedings, protests, or legal challenges, except in such cases where LEC has acted fully in accordance with authorized instructions and/or certifications from HCC, and provided further, that LEC shall hold HCC harmless if LEC, in following such authorized instructions and/or certifications from HCC has caused such liability by its own negligence or willful misconduct.

LEC shall be entitled to retain or receive from HCC any statutory fee or share of taxes to which the person collecting such taxes is entitled under applicable law.

HCC shall give LEC reasonable notice of any tax billing change HCC desires LEC to make and LEC shall make every reasonable effort to implement such changes in a timely manner.

HCC shall hold LEC harmless from any liability arising out of LEC's implementation of tax billing changes while such changes are implemented, except liability which arises from the negligence or willful misconduct of LEC.

HCC agrees to indemnify and hold LEC harmless from and against any liability or loss resulting from tax, penalties, interest, additions to tax, or other charges payable by LEC as a result of (I) willful or negligent delay or failure of HCC to pay and tax or file any return or other information as required by law or the Agreement; (II) LEC complying with any determination or direction by or advice of HCC or correctly using information provided by HCC in performing any tax-related service hereunder; or, (III) LEC failing to take any action with respect to any tax in the absence of any direction by HCC in the agreement or otherwise, unless such inaction constitutes willful misconduct or negligence on the part of LEC constitutes willful misconduct or negligence on the part of LEC such indemnity shall be provided to LEC on an after tax basis.

Such indemnity is conditioned upon LEC providing HCC with timely notification of any proposed assessment of any additional taxes, penalty, or interest upon LEC to enable HCC the opportunity to seek appropriated relief as the applicability of s any such additional taxes, penalty, or interest.

LEC agrees to indemnify and hold HCC harmless from any liability or loss resulting from tax penalties, interest, or other charges payable to HCC as a result of (I) the willful or negligent failure of LEC to provide HCC accurate and complete information with which to file tax returns or (II) the willful or negligent failure of LEC to accurately calculate and bill appropriate taxes.

LEC shall, when required by law, or if by mutual agreement of the parties, cooperate or participate with HCC in any proceeding, protest, legal challenge, or tax audit with respect to taxes remitted or allegedly failed to be remitted by HCC. LEC agrees to provide HCC such information as may be required by HCC to prepare and file tax returns pursuant to this attachment.

The parties have indicated their agreement to this Attachment I by signing it below:

Highland Telephone Cooperative, Inc.

By: F L T

Title: General Mgr

Date: 3-27/97

Highland Communications Corporation

By: G. M. Patterson

Title: Manager

Date: March 27, 1997

ATTACHMENT 2
TO
AGREEMENT FOR THE PROVISION OF BILLING AND COLLECTION SERVICES

MARKETING

Additionally, HCC desires LEC to provide information to be used to issue and maintain customer calling cards.

The information shall be provided at the following rates:

New Cards	$1.00 per access line
Account Maintenance:	
Number Change	.50 per occurrence
Account Suspension	.50 per occurrence
Account Disconnect	.50 per occurrence
Name Change	.50 per occurrence
Tax Status Change	.50 per occurrence
Address Change	.50 per occurrence

The information provided should follow telephone industry guidelines.

During the initial transition of calling cards (the first 90 days of equal access), the charge will be at a reduced rate of .25 cents per card to provide for training.

In witness whereof, the parties have caused this agreement to be executed for them and on their behalf through their authorized representatives, as of the 27 Th day of March, 1997.

Highland Telephone Cooperative, Inc.

By: [signature]

Title: General Mgr

Date: 3/27/97

Highland Communications Corporation

By: G. M. Patterson

Title: Manager

Date: March 27 th, 1997

Exhibit 14.B

Highland Communications Corporation
DSL Service Contract

HIGHLAND TELEPHONE COOPERATIVE
DSL SERVICE CONTRACT

Highland Communications Corporation (HCC) hereby agrees to purchase DSL access service from Highland Telephone Cooperative (HTC) at the 3-year Term Plan, Pricing Option B of the *Wholesale Pricing Plan*, as defined in Section 8 and Section 17 of National Exchange Carrier Association's (NECA) Tariff 5.

Obligation provisions are those listed in the underlying DSL Services' sections of NECA's Tariff 5, as well as those stated in NECA's Access Charge Handbook, Section 11.

HCC will pay HTC an ADSL Line Charge per local exchange service line at the current monthly tariff rate. As of July 1, 2010 these rates are $11.85 for the Voice-Data option and $41.83 for the Data-Only option for maximum speeds of 512 kbps upstream and 6 mbps downstream. The maximum speeds may not be available at all locations. The non-recurring installation charge of $185.00 will be waived in accordance with the provisions of NECA's Tariff No. 5, Section 8.1.5(E). HCC will also pay HTC a term plan charge of $526.64 per month per host wire center. HCC will receive a volume discount of 15% as long as DSL counts remain in excess of 5,000 lines.

HCC will pay HTC all appropriate OC3 recurring and non-recurring interstate special access charges, including (but not limited to) OC3 channel terminations and DSL access service connections. HCC will pay for the OC3 services at the current NECA access rates listed in NECA Tariff 5, Section 17.3.8.

Payment will be due by the 15th day of each month. The contract will begin the 1st day of November, 2010 and end the 31st day of October 2013.

Either party may give the other party written notice to terminate the contract. (Termination rules and penalties as described in the NECA Tariff No. 5 sec. 8.3.2 will apply).

10-26-2010	10-26-2010
DATE	DATE
G. Mark Patterson	F. L. Terry
Highland Communications Corporation	Highland Telephone Cooperative

Exhibit 14.C

Highland Communications Corporation
Management Agreement

MANAGEMENT AGREEMENT

This MANAGEMENT AGREEMENT is made and entered into as of the 1st day of June, 2003, by and between HIGHLAND TELEPHONE COOPERATIVE, INC. 7840 Morgan County Highway, P. O. Drawer 119, Sunbright, TN 37872 (hereinafter referred to as the "Manager") and HIGHLAND COMMUNICATIONS CORPORATION 950 Main Street, Suite D, Wartburg, TN 37887 (hereinafter referred to as the "Managed Company").

RECITALS

A. Manager is a non-profit telephone cooperative operating in the states of Tennessee and Kentucky for the purposes of providing telecommunications services to its members.

B. The Managed Company is a for-profit subsidiary of the Manager and has requested that Manager provide its management, technical, and operational expertise in the establishment and operation of a DSL system for the Managed Company.

AGREEMENTS

NOW, THEREFORE, for good and valuable consideration and mutual covenants and conditions contained herein, the parties agree as follows:

1. **Management**. Manager shall make available its General Manager, F.L. Terry, to provide his technical, management, and administrative services to the Managed Company for the implementation of a DSL system. Such services shall include, but not be limited to, the following:

a. General Management. Manager shall provide general executive management and direction to the Managed Company and shall provide its executive management and staff to oversee and direct the planning, development, and operations for the Managed Company in the establishment of its DSL system.

b. Professional Services. Manager shall contract for and manage the technical and professional services required by the Managed Company from time to time.

c Insurance. Manager shall procure and maintain liability or other insurance as required or deemed advisable, in his discretion, for the Managed Company from time to time, either by contract or policy to further the establishment and operation of the DSL system and network.

d. Improvements and Capital Expenditures. Manager shall give direction and shall make recommendations to the Managed Company for the establishment and operation of the DSL network and improvement of facilities, including the purchase and/or repair of capital items, to assure the continued efficient operation of the DSL system.

e. Contracts. Manager shall negotiate and execute on behalf of, and in the name of, the Managed Company such contracts, from time to time, as Manager deems reasonable to properly direct and manage the DSL system on behalf of the Managed Company; provided, however, Manager shall obtain the prior approval of any contract the expense for which exceeds a budgeted amount and will materially affect the financial position of such Managed Company.

f. Applicable Laws; Licenses; Fees. Manager shall direct that the Managed Company shall comply with all applicable federal, state, and local laws in its respective operations, including, but not limited to, those laws that are employment related and those that govern interstate commerce and the establishment of the DSL network for the Managed Company.

g. Intangibles. Manager shall direct and provide long term planning and development for the Managed Company with respect to the establishment and operation of a DSL system. Long term planning and development shall include, but not be limited to, the coordination of activities between the Manager and the Managed Company, and such other intangible activities as Manager shall deem advisable and beneficial to the Managed Company from time to time.

h. Equipment. Manager shall make available from time to time for use by the Managed Company certain technical and other related equipment. Nothing in this subparagraph shall be construed to require Manager to purchase any such equipment in its name for use by any of the Managed Company.

i. Revenues. Manager shall negotiate revenue agreements, contracts for and on behalf of the Managed Company, on terms favorable to the Managed Company and in compliance with any guidelines or policies adopted by the Managed Company from time to time.

j. Other. Manager shall perform such other reasonable management duties as assigned to it from time to time by a Managed Company or the Managed Company.

Management under this paragraph does not include Amicro@ or day to day management, for which the Managed Company shall be responsible. The Managed Company shall oversee and manage its own employees, and shall cooperate with Manager, as directed or requested from time to time by Manager, to help Manager coordinate and perform its management, duties under this Agreement.

2. **Payment.**

a. The Managed Company shall pay to Manager a Management Fee for its management and planning services provided pursuant to this Agreement. The Management Fee shall be calculated from time to time, not more frequently than quarterly, and agreed upon by the Managed Company (such agreement need not be in writing). The basis for the Management Fee shall be the budgeted cost to Manager for providing its management, technical, and administrative services under this Agreement.

b. Extraordinary Expenditures. The Managed Company shall pay for extraordinary expenditures made by Manager on its behalf, including those made pursuant to subparagraph 1(f) above, provided that Manager shall notify the Managed Company in advance of making such expenditures to give such Managed Company a right to reject Manager=s plan to make such expenditure.

c. Capital Expenditures. In the event that Manager believes it to be in the best interest of the Managed Company for such Managed Company to purchase capital equipment, execute a long-term or capital lease, or to make any other capital expenditure the impact to the Managed Company of which, in the present value, exceeds five Thousand ($5000.00), Manager shall obtain the prior approval of the Managed Company.

d. Payment Dates. The Management Fee is an annual fee, but it may be paid by each of the Managed Company from time to time during the year.

3. **Term**. The term of this Agreement shall be for a period of Three (3) year, beginning on June 1st, 2003. This term shall be renewed automatically each year without further action by any party. The Managed Company may avert renewal and terminate this Agreement by providing Manager, and Manager may likewise terminate by providing the Managed Company, either written or oral notice of its intent to cancel on ninety (90) days written notice.

4. **Miscellaneous**.

a. Assigns. The Managed Company may not assign its rights or responsibilities under this Agreement without the written consent of Manager, which Manager may arbitrarily withhold. Manager may not assign its rights or responsibilities under this Agreement without the prior written consent of each of the Managed Company.

b. Notices. All written notices required under this Agreement shall be provided to the appropriate party at the address first listed above or at such address provided to all parties in writing from time to time.

c. Governing Law; Venue; Jurisdiction. The laws of the State of Tennessee shall govern the interpretation, validity, performance, and enforceability of this Agreement. The parties expressly agree that Scott County is an appropriate venue for filing actions to enforce a claim under this Agreement, and the parties further agree to submit to the jurisdiction of the state court located in Scott County, Tennessee.

d. Headings. The headings and captions contained in this Agreement are solely for convenience and reference, and are not intended to, and do not in any way, limit, construe, or modify the terms and conditions of this Agreement.

e. Waiver. The failure of either party to exercise any of its rights under this Agreement shall not constitute or be deemed a waiver of that party=s rights thereafter to exercise any rights under this Agreement and to enforce each and every term and condition hereof. The consent or approval by any party to or of any act by any other party requiring such approval shall not be deemed to waive or render unnecessary consent to or approval of any subsequent or similar act.

f. Entire Agreement; Amendment. This Agreement sets forth the entire understanding between the parties with respect to the subject matter hereof, and supersedes all prior agreements or undertakings between the parties, oral or written, with respect to such subject matter. Except as set out in this Agreement, no agreement shall be effective to change, modify or terminate this Agreement, in whole or in part, unless it is in writing and duly authorized and executed by the party against which such enforcement of such change, modification, or termination is sought.

WHEREFORE, this Agreement is executed as of the day and year first written above.

MANAGER:

By: ____________________

Title: ____________________

MANAGED COMPANY

By: G. M. Patton

Title: Manager

Exhibit 14.D

Highland Communications Corporation
Marketing Agreement

Marketing Agreement

This agreement is made by and between Highland Telephone Cooperative, Inc., hereinafter referred to as "Telco," and Highland Communications Corporation, hereinafter referred to as "LD."

Whereas, LD desires to obtain marketing services from Telco and Telco is willing to perform such services;

Now, therefore, in consideration of the terms and conditions contained herein, Telco and LD hereby convenant and mutually agree as follows:

I.

Services to provided under the terms of this Agreement include: product display; responding to questions on information contained in the LD Product & Service Guide; referring customers to LD for questions Telco cannot answer by calling the 1-800 or local telephone number and having the customer talk directly with LD; and, accepting requests for LD Traveler's Card.

II.

The term of this Agreement shall commence 3/1/97, and shall continue for a period of eighteen (18) months. Thereafter, the term shall automatically be extended for additional terms of one (1) year each, unless terminated by either party by written notice given not less than ninety (90) days prior to the expiration of any term. Revision to the provisions of this Agreement may be made at any time upon mutual agreement of the parties.

III.

Compensation of Telco's service shall be due monthly at the rate of $100.00 per month. Invoice statement hereunder will be rendered on a monthly basis and payment in full will be due within thirty (30) days of the invoice date.

IV.

In the absence of willful misconduct, Telco assumes no liability to LD or any other person or entity for its action or the conduct of its employees in performing the function provided under this Agreement.

V.

If the party shall default in the payment of any amounts due hereunder or violate any other provision of this Agreement; and, if such default or violation shall continue for thirty (30) days after written notice thereof, the other party may then and at any time thereafter terminate this Agreement forthwith by written notice.

VI.

This Agreement shall be governed by the laws of the State of Tennessee.

VII.

Neither party may assign this Agreement without the express written consent of the other party. If such consent is given this Agreement shall extend to and be binding upon the parties hereto, their successors or assigns.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on their behalf through their authorized representative, as of the 21 day of February, 1997, but effective as of the 1 day of March, 19997

Highland Telephone Cooperative, Inc.

By: ______________________
Name

____
Title

Highland Communications Corporation

By: D. M. Patterson
Name

Manager
Title

15. Refer to the testimony of Steve Armes as included in the rate application. In answer 13, Mr. Armes states that Highland implemented residential and commercial rate increases for Tennessee customers in May 2010.

a. Explain the rationale for implementing rate increases at different times within the Kentucky and Tennessee territories.

Highland sustained a net operating loss in 2009 as a result of declining revenues and increasing costs. After an extensive review of its anticipated revenues and potential revenue short fall for 2010, the Board of Directors on February 22, 2010 initiated a local rate increase. The rate increases were made effective for Tennessee customers beginning with the April 2010 billings.

Highland did not make a determination to implement the rate increase at a different time for Kentucky. The difference in the timing of the increase occurred because no regulatory approval is required by the Tennessee Regulatory Agency. Rather than delay the implementation of the rate increase in Tennessee until approval by this Commission, Highland proceeded with the increase in its local service rates for its Tennessee customers to supplement revenues.

b. Explain whether or not the projected revenue increase incorporates the time differences between Kentucky and Tennessee territories for the implementation of the new rates.

No, the projected rate increase shows the amount of additional revenue that would be received if the proposed rate increase were in effect in both Tennessee and Kentucky for the full year.

c. **In answer 16, Mr. Armes states that the last time Highland increased its basic rate was on June 26, 1983. State whether the rate increase was implemented for both Kentucky and Tennessee on that date. If the rate increases were implemented on different dates, explain the basis for the differences.**

First, we need to correct the June 26, 1983 date in answer 16 of Mr. Armes' testimony. Further review of Highland's records reveals that the last time it increased the basic rate for Kentucky customers was on November 20, 1984. Highland submitted its notification of the rate increase to the Commission on April 13, 1984, and approval was granted on November 20, 1984. The rate increase was not implemented for Tennessee customers on that same date; it had been implemented there on an earlier. The basis for the timing difference was that the increase was implemented in Tennessee when the need for an increase was determined as no regulatory approval was required from the Tennessee Regulatory Authority. The increase was not implemented in Kentucky until approval was obtained from the Commission.

The witnesses responsible for responding to questions related to the information provided in this Response are Steve Armes, Accounting Manager of Highland, and Gentry Underhill, Jr., CPA, of Totherow, Haile & Welch, PLLC.

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