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February 4, 2009

RECEIVED

FEB 04 2009

Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

2009-00048

PUBLIC SERVICE
COMMISSION

RE: Highland Telephone Cooperative, Inc.

Dear Sir or Madam:

Enclosed please find the original and ten copies of the Application and Exhibits for Highland Telephone Cooperative, Inc. for a certificate of public convenience and necessity and authority to issue evidences of indebtedness. Also enclosed are three additional copies that we would appreciate having stamped as filed and returned to the individual delivering the Application.

Please contact me if you have any questions regarding the Application.

Sincerely yours,

Jeffrey J. Yost

JJY/pom
Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

FEB 04 2009

Application of Highland Telephone)
Cooperative, Inc. for a Certificate of Public)
Convenience and Necessity and Authority to)
Issue Evidences of Indebtedness.)
)

PUBLIC SERVICE
COMMISSION

Case No. 2009-00048

APPLICATION

Highland Telephone Cooperative, Inc. ("Highland") hereby applies for a determination that its proposed installation of "fiber to the home" cable in McCreary County, Kentucky and issuance of a promissory note to finance the installation are exempt from regulation by the Commission or, in the alternative, for the grant of a certificate of public convenience and necessity for the installation and for authority to issue evidences of indebtedness to finance the installation. In support of this application, Highland respectfully states that:

1. Highland's full name and post office address are Highland Telephone Cooperative, Inc., 7840 Morgan County Road, Post Office Box 119, Sunbright, Tennessee 37872.

2. Highland is a cooperative, nonprofit membership corporation organized under the laws of the State of Tennessee for the purpose of furnishing telephone service in rural areas, and it is authorized to do business in the Commonwealth of Kentucky.

3. A certified copy of Highland's Charter of Incorporation, Bylaws and Amended Charter are attached as Exhibit A.

4. Highland is a rural telephone cooperative that provides telephone service in McCreary County, Kentucky and in adjoining areas of Tennessee.

Background Information

5. Highland proposes to expand and deploy "fiber to the home" to customers in its service area for the purpose of providing "broadband" service as defined in KRS 278.5461(1).

6. The "fiber to the home" will be installed by independent contractors who have not yet been selected.

7. Highland proposes to finance the installation of the “fiber to the home” by borrowing up to \$48,611,000 from the United States of America, acting through the Administrator of the Rural Utilities Service.

Certificate of Public Convenience and Necessity

8. The new installation is required by public convenience and necessity.

9. “Fiber to the home” will enable Highland to provide “broadband” service as defined in KRS 278.5461(1) to its customers.

10. For example, “fiber to the home” will allow Highland to provide access to the Internet that offers the capability to transmit information at a rate that is generally not less than two hundred (200) kilobits per second in at least one direction.

11. “Fiber to the home” will also enable Highland to offer service that combines computer processing, information storage and protocol conversion that enables users to access Internet content and services.

12. In addition, “fiber to the home” will enable Highland to deliver video to its customers.

13. Indeed, the General Assembly has found and determined, as set forth in KRS 278.546, that “(1) State-of-the-art telecommunications is an essential element to the Commonwealth's initiatives to improve the lives of Kentucky citizens, to create investment, jobs, economic growth, and to support the Kentucky Innovation Act of 2000;” and that “(4) Consumers benefit from market-based competition that offers consumers of telecommunications services the most innovative and economical services”

14. As a result, the General Assembly declared in KRS 278.5462(1) that “The provision of broadband services shall be market-based and not subject to state administrative regulation.”

15. The “fiber to the home” will be installed on existing poles owned by Highland or used jointly with Rural Electric Cooperative Corporation, Kentucky Utilities and Cumberland Valley Cooperative. No new routes will be constructed. Three sets of maps showing those routes accompany this original application as Exhibit B, but no maps are attached to the copies of this application.

16. The providing of broadband service is not likely to compete with any public utilities, as no other incumbent local exchange carrier and no competitive local exchange carriers serve McCreary County. It may compete with Access Cable, which provides CATV, and companies who provide satellite television service.

17. The costs of operating the “fiber to the home” system are estimated to be approximately the same as the costs of operating the existing copper cable system. The primary cost will be labor, but no need for additional employees is anticipated. In fact,

replacing copper cable ranging from 25 to 40 years old with new “fiber to the home” cable will hopefully reduce operational cost, but Highland is unable to quantify that at this time.

18. Highland expects that additional revenues from the new services it will be able to provide will offset the financing payments and any incremental operating costs and therefore no increase in its charges for basic local exchange service will be needed.

Issue of Evidences of Indebtedness

19. Highland proposes to finance the installation of the “fiber to the home” cable through a loan of \$48,611,000 to be made pursuant to a loan agreement between the United States of America, acting through the Administrator of the Rural Utilities Service, and Highland. A copy of the loan agreement is attached as Exhibit C.

20. A general description of Highland’s property and its original cost is contained in Highland’s balance sheet and Note F to its consolidated financial statements, which are attached as Exhibit D.

21. Highland desires to issue a promissory note payable to the United States of America, acting through the Administrator of the Rural Utilities Service, in the principal amount of \$48,611,000. The principal, together with interest at the “Cost of Money Interest Rate” determined for each advance in accordance with Section 305(d)(2)(A) of the Rural Electrification Act of 1936, as amended (7 U.S.C. 935(d)(2)(A)), shall be repayable over 19 years. The promissory note will be secured by a restated mortgage, security agreement and financing statement. Copies of the promissory note and restated mortgage, security agreement and financing statement are attached as Exhibits E and F, respectively.

22. The proceeds of the Note are to be used to expand and deploy the “fiber to the home” cable.

23. No contracts have been made for the installation of the “fiber to the home” cable.

24. The broadband services provided through “fiber to the home” service are “nonbasic services” under KRS 278.541(5), and KRS 278.544(4) provides that “The nonbasic services are exempt from action or review by the commission under KRS ... 278.300 and administrative regulations promulgated thereunder ...”

Request for Order

Based on the foregoing, Highland respectfully requests that the Commission issue an Order:

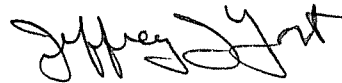
1. Confirming that Highland’s proposed expansion and deployment of “fiber to the home” is not subject to state administrative regulation according to KRS 278.5462 or, in the alternative, authorizing and granting Highland a Certificate of Public

Convenience and Necessity for the installation of "fiber to the home" cable in McCreary County, Kentucky pursuant to KRS 278.020.

2. Confirming that Highland's proposed issuance of its Promissory Note payable to the United States of America, acting through the Administrator of the Rural Utilities Service, for \$48,611,000 is exempted from action or review by the Commission according to KRS 278.544(4) or, in the alternative, approving Highland's issuance of the Promissory Note pursuant to KRS 278.300; and

3. Granting all other relief to which Highland may be entitled.

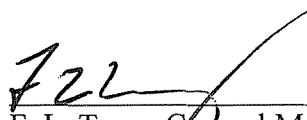
Respectfully submitted,



Jeffrey J. Yost
Elizabeth E. Nicholas
Jackson Kelly PLLC
175 E. Main Street, Ste. 500
P. O. Box 2150
Lexington, KY 40588-9945
Counsel for Highland Telephone
Cooperative, Inc.

VERIFICATION

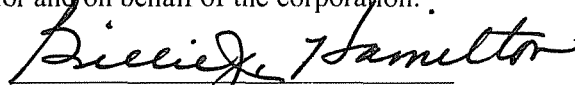
F. L. Terry, being duly sworn, hereby deposes and says that he is General Manager of Highland Telephone Cooperative, Inc., that he has personal knowledge of the matters set forth in the foregoing Application, and that the facts contained therein are true and correct to the best of his information, knowledge and belief.



F. L. Terry, General Manager

STATE OF TENNESSEE)
)
COUNTY OF SCOTT)

The foregoing verification was subscribed, sworn to and acknowledged before me this 3rd day of February, 2009, by F. L. Terry as General Manager of Highland Telephone Cooperative, Inc., a Tennessee corporation, for and on behalf of the corporation.



Notary Public

My Commission Expires:


5/19/2010

EXHIBIT A
CHARTER, BYLAWS
AND
AMENDED CHARTER

SECRETARY'S CERTIFICATE

I, CLARA TERRY, do hereby certify that: I am the Secretary of Highland Telephone Cooperative, Inc. (hereinafter called the "Corporation,"); the following are true and correct copies of the Charter of Highland Telephone Cooperative, Inc., the Bylaws, and Amended Charter duly adopted by the Board of Directors of the Corporation and entered in the minute book of the Corporation; and none of the documents identified herein have been rescinded or modified.

IN WITNESS WHEREOF I have hereunto set my hand and affixed the seal of the Corporation this 19th day of January, 2009.


Clara Terry, Secretary

(Corporate Seal)

HIGHLAND TELEPHONE COOPERATIVE, INC.

Meeting of Incorporators and Board
of Directors

The first meeting of the Incorporators of Highland Telephone Cooperative, Inc. met at the offices of Howard H. Baker, Jr. in Huntsville, Tennessee, at 10:00 A. M. on the 26th day of June, 1954. Present were: Taskel Welch, Charles Byrd, Maynard Terry, W. H. Swain, and Milford Thompson, being all of the Incorporators of Highland Telephone Cooperative, Inc.

The meeting was called to order by W. H. Swain, who acted as Chairman, and Taskel Welch was appointed Secretary of the meeting and kept the minutes thereof. The application for a Charter of Incorporation, dated the 3rd day of June, 1954, applying to the State of Tennessee for a Charter of Incorporation under the style "Highland Telephone Cooperative, Inc.," together with a certificate of the Secretary of State dated the 14th day of June, 1954, granting a Charter of Incorporation on which appeared filing and recordation data, was presented to the meeting, and on motion it was ordered that said Certificate of Incorporation be accepted and be entered on the first pages on the book of minutes.

"STATE OF TENNESSEE "

"Department of State"

"I, G. EDWARD FRIAR, Secretary of State of the State of Tennessee, do hereby certify that the annexed Instrument with Certificate of Acknowledgement was filed in my office and recorded on the 14th day of June, 1954, in Corporation Record Book Miscellaneous A-25, page 55.

"IN TESTIMONY WHEREOF, I have hereunto subscribed my Official Signature and by order of the Governor affixed the Great Seal of the State of Tennessee at the Department in the City of Nashville, this 14th day of June A. D. 1954.

(SEAL)

G. Edward Friar
Secretary of State "

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"CHARTER OR INCORPORATION"

"BE IT KNOWN, That W. H. Swain, Milford Thompson, Maynard Terry, Charles Byrd and Taskel Welch are hereby constituted a body politic and corporate, by the name of and style of Highland Telephone Cooperative, Inc. for the purpose of furnishing, improving and expanding telephone service to its members and other persons. The corporation shall be a nonprofit cooperative association within the purview of paragraph 10 of Section 4146 Williams Tennessee Code Ann. (1934), which provides that "nonprofit cooperative associations may be incorporated and organized." It shall have and may exercise all powers, rights and privileges granted by law to corporations organized for this purpose, including specifically, but not to the exclusion of other powers and purposes granted by statute, the following:

"To sue and be sued by the corporate name, to have and use a common seal, which it may alter at pleasure, to receive property, real, personal and mixed, by purchase, gift, demise or bequest, and to hold said property in its own name, to sell the same and apply the proceeds toward the promotion of the objects for which it is created, or to hold any such property and apply the income and profits toward such objects.

"To establish by-laws and make all rules and regulations not inconsistent with the laws and constitution deemed expedient for the management of corporate affairs. To appoint such subordinate officers and agents, in addition to a President and Secretary or Treasurer, as the business of the corporation may require.

"To borrow money to be used in payment for property bought by it and for erecting buildings, making improvements and for other purposes germane to the objects of its creation and to secure the repayment of the money thus borrowed by mortgage, pledge or deed of trust upon such property, real, personal or mixed, as may be owned by it, and in like manner to secure by mortgage, pledge or deed of trust any existing indebtedness which it may have lawfully contracted.

"The time of existence of this corporation shall be perpetual.

"The private property of the members and membership shall not be subject to the payment of corporate debts to any extent whatever.

"The property and business of this corporation shall be managed by its Board of Directors of not less than five (5) nor more than nine (9) in number.

"WE, THE UNDERSIGNED, THE INCORPORATORS ABOVE MENTIONED, HEREBY APPLY TO THE STATE OF TENNESSEE FOR A CHARTER OF INCORPORATION FOR THE PURPOSES DECLARED IN THE FOREGOING INSTRUMENT.

"Witness our hands this 3rd day of June, 1954.

Taskel Welch

Charles Byrd

Maynard Terry

W. H. Swain

Milford Thompson

"STATE OF TENNESSEE
SCOTT COUNTY

"Personally appeared before me, Taskel W. Welch, a Notary Public in and for said County and State, the within-named incorporator, W. H. SWAIN, with whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Taskel W. Welch
Notary Public

My Commission expires January 14, 1958.

"STATE OF TENNESSEE
SCOTT COUNTY

"Personally appeared before me, Taskel W. Welch, a Notary Public in and for said County and State, the within-named incorporator, Milford Thompson, with whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Taskel W. Welch
Notary Public

My Commission expires January 14, 1958.

"STATE OF TENNESSEE
SCOTT COUNTY

"Personally appeared before me, Taskel W. Welch, a Notary Public in and for said County and State, the within-named incorporator, MAYNARD TERRY, with whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Taskel W. Welch
Notary Public

My Commission expires January 14, 1958.

"STATE OF TENNESSEE
SCOTT COUNTY

"Personally appeared before me, Taskel W. Welch, a Notary Public in and for said County and State, the within-named incorporator, CHARLES BYRD, with whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Taskel W. Welch
Notary Public

My Commission expires January 14, 1958.

"STATE OF TENNESSEE
SCOTT COUNTY

Personally appeared before me, Howard H. Baker, Jr. a Notary Public in and for said County and State, the within-named incorporator, TASKEL WELCH, With whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Howard H. Baker, Jr.
Notary Public

My Commission expires December 16, 1957. "

Thereupon, a form of by-laws prepared by counsel was read and adopted and was ordered to be entered on the book of minutes immediately following the Certificate of Incorporation.

BYLAWS
of
HIGHLAND TELEPHONE COOPERATIVE, INC.

It shall be the aim of
HIGHLAND TELEPHONE COOPERATIVE, INC.
to provide dependable area-wide telephone
service on the cooperative plan and at the
lowest cost consistent with sound economy
and good management.

ARTICLE I

MEMBERSHIP

SECTION 1. Requirements for Membership. Any person, firm, association, corporation, or body politic or subdivision thereof may become a member of Highland Telephone Cooperative, Inc., (hereinafter called the "Co-op") by:

- (a) Making a written application for membership therein;
- (b) agreeing to purchase from the Co-op telephone service as hereinafter specified;
- (c) agreeing to comply with and be bound by the charter of incorporation and bylaws of the Co-op and any rules and regulations adopted by the board of directors (hereinafter called the "Board"); and
- (d) agreeing to pay the membership fee hereinafter specified on uniform terms and conditions established by the Board;

provided, however, that agreement to pay or payment of the membership fee in accordance with the provisions of these bylaws by a landlord on behalf of an applicant for membership who is a tenant occupying premises owned by such landlord and served by the Co-op shall constitute compliance by such applicant with subdivision (d) of this Section; and

provided, further, however, that no person, firm, association, corporation or body politic or subdivision thereof shall become a member unless and until he or it has been accepted for membership by the Board or the members. No member may hold more than one voting membership in the Co-op, and no membership shall be transferable, except as provided in these by-laws.

Beginning six months after the date of incorporation, all applications received more than thirty days prior to each meeting of the members which have not been accepted or which have been rejected by the Board shall be submitted by the Secretary to such meeting and, subject to compliance by the applicant with the requirements hereinabove set forth, any such application may be accepted by vote of the members. The Secretary shall give each such applicant at least ten days' written notice of the date of the members' meeting to which his application will be submitted and such applicant shall be entitled to be present and heard at the meeting.

SECTION 2. Membership Certificates. Membership in the Co-op shall be evidenced by a membership certificate which shall be in such form and shall contain such provisions as shall be determined by the Board. Such certificate shall be signed by the President and by the Secretary and the corporate seal shall be affixed thereto. No membership certificate shall be issued for less than the membership fee fixed in these bylaws, nor until such membership fee has been fully paid for. In case a certificate is lost, destroyed or mutilated a new certificate may be issued therefor upon such uniform terms and indemnity to the Co-op as the Board may prescribe.

SECTION 3. Joint Membership. A husband and wife may apply for a joint membership and, subject to their compliance with the requirements of Section 1 of this Article, may be accepted for such membership. The term "member" as used in these bylaws shall be deemed to include a husband and wife holding a joint membership and any provisions relating to the rights and liabilities of membership shall apply equally with respect to the holders of a joint membership. Without limiting the generality of the foregoing, the effect of the hereinafter specified actions by or in respect of the holders of a joint membership shall be as follows:

- (a) The presence at a meeting of either or both shall be regarded as the presence of one member and shall constitute a joint waiver of notice of the meeting;

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- (b) The vote of either separately or both jointly shall constitute one joint vote;
 - (c) A waiver of notice signed by either or both shall constitute a joint waiver;
 - (d) Notice to either shall constitute notice to both;
 - (e) Expulsion of either shall terminate the joint membership;
 - (f) Withdrawal of either shall terminate the joint membership;
 - (g) Either but not both may be elected or appointed as an officer or director, provided that both meet the qualifications for such office.

SECTION 4. Conversion of Membership. (a) A membership may be converted to a joint membership upon the written request of the holder thereof and the agreement by such holder and his or her spouse to comply with the charter of incorporation, bylaws, and any rules and regulations adopted by the Board. The outstanding membership certificate shall be surrendered, and shall be reissued by the Co-op in such manner as shall indicate the changed membership status.

(b) Upon the death of either spouse who is a party to the joint membership, such membership shall be held solely by the survivor. The outstanding membership certificate shall be surrendered, and shall be reissued in such manner as shall indicate the changed membership status, provided, however, that the estate of the deceased shall not be released from any debts due the Co-op.

SECTION 5. Membership and Service Connection Fees. The membership fee shall be _____ dollars, upon the payment of which a member shall be eligible for one service connection. Additional fees shall be paid for each additional connection, extension and other available service, in accordance with the rules and regulations prescribed by the Board.

SECTION 6. Purchase of Telephone Service. Each member shall, as soon as telephone service is available, take telephone service from the Co-op to be used on the premises specified in his application for membership, and shall pay therefor monthly at rates which shall from time to time be fixed by the Board; provided, however, that the Board may limit the amount of telephone service which the Co-op shall be required to furnish to any one member. It is expressly understood that amounts paid for telephone service in excess of the cost of service are furnished by members as capital and each member shall be credited with the capital so furnished as provided in these bylaws. Each member shall pay to the Co-op such minimum amount per month for telephone service as shall be fixed by the Board from time to time. Each member shall also pay all amounts owed by him to the Co-op as and when the same shall become due and payable.

SECTION 7. Termination of Membership. (a) Any member may withdraw from membership upon compliance with such uniform terms and conditions as the Board may prescribe. The Board may, by the affirmative vote of not less than two-thirds of all the directors, expel any member who fails to comply with any of the provisions of the charter of incorporation, bylaws, or any rules or regulations adopted by the Board, but only if such member shall have been given written notice by the Secretary that such failure makes him liable to expulsion and such failure shall have continued for at least ten days after such notice was given. Any expelled member may be reinstated by vote of the Board or by vote of the members at any annual or special meeting. The membership of a member who has not permitted the installation of service within thirty (30) days after he has been notified service is available to him, or of a member who has ceased to purchase telephone service from the Co-op, shall be cancelled by resolution of the Board.

(b) Upon the withdrawal, death, cessation of existence or expulsion of a member the membership of such member shall thereupon terminate, and the membership certificate of such member shall be surrendered forthwith to the Co-op. Termination of membership in any manner shall not release a member or his estate from any debts due the Co-op.

(c) If a membership fee has been paid by a landlord on behalf of his tenant, upon the removal of such tenant from the premises of the landlord, the membership of such tenant shall terminate.

(d) Upon termination of membership for any reason, the Co-op shall not repay to the member or to his landlord, in case the membership fee shall have been paid on behalf of the member by his landlord, the amount of the membership fee paid unless a successor in occupancy or ownership of the premises served by the Co-op shall have been accepted as a member and a membership fee shall have been paid by or on behalf of such successor in accordance with the provisions of these bylaws. Any refund of membership fees pursuant to this subsection shall be made in the order in which memberships shall have been terminated. Prior to the repayment of a membership fee paid by the member, the Co-op shall deduct from the amount of such membership fee the amount of any debts owing from the member to the Co-op.

ARTICLE II

RIGHTS AND LIABILITIES OF MEMBERS

SECTION 1. Property interest of members. Upon dissolution, after (a) all debts and liabilities of the Co-op

shall have been paid, (b) all capital furnished through patronage shall have been retired as provided in these bylaws, and (c) all membership fees shall have been repaid, the remaining property and assets of the Co-op shall be distributed among the members and former members in the proportion which the aggregate patronage of each member bears to the total patronage of all such members, unless otherwise provided by law.

SECTION 2. Non-liability for debts of the Co-op. The private property of the members shall be exempt from execution or other liability for the debts of the Co-op and no member shall be liable or responsible for any debts or liabilities of the Co-op.

ARTICLE III

MEETING OF MEMBERS

SECTION 1. Annual Meeting. The annual meeting of the members shall be held on the first Saturday in October of each year, beginning with the year 1955, at such place in the County of Morgan, State of Tennessee, as shall be designated in the notice of the meeting, for the purpose of electing directors, passing upon reports for the previous fiscal year and transacting such other business as may come before the meeting. It shall be the responsibility of the Board to make adequate plans and preparations for the annual meeting.

SECTION 2. Special Meetings. Special meetings of the members may be called by resolution of the Board, or upon a written request signed by any three directors, by the President, or by not less than 200 members or ten per centum of all the members, whichever shall be the lesser, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided. Special meetings of the members may be held at any place within the County of Morgan, State of Tennessee, specified in the notice of the special meetings.

SECTION 3. Notice of Members' Meetings. Written notice stating the place, day and hour of the meeting and, in case of a special meeting or an annual meeting at which business requiring special notice is to be transacted, the purpose or purposes for which the meeting is called, shall be delivered not less than ten days nor more than twenty days before the date of the meeting, either personally or by mail, by or at the direction of the Secretary, or upon a default in duty by the Secretary, by the persons calling the meeting, to each member. If mailed,

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such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the member at his address as it appears on the records of the Co-op, with postage thereon prepaid. The failure of any member to receive notice of an annual or special meeting of the members shall not invalidate any action which may be taken by the members at any such meeting.

SECTION 4. Quorum. As long as the total number of members does not exceed five hundred, ten per centum of the total number of members present in person shall constitute a quorum. In case the total number of members shall exceed five hundred, fifty members or two per centum of the members present in person, whichever shall be the larger, shall constitute a quorum. If less than a quorum is present at any meeting, a majority of those present in person may adjourn the meeting from time to time without further notice. The minutes of each meeting shall contain a list of the members present in person.

SECTION 5. Voting. Each member shall be entitled to only one vote upon each matter submitted to a vote at a meeting of the members. All questions shall be decided by a vote of a majority of the members voting thereon in person except as otherwise provided by law, the charter of incorporation or these bylaws.

SECTION 6. Proxies. A member may vote by proxy executed in writing by the member. Such proxy shall be filed with the Secretary before or at the time of the meeting. No proxy shall be valid after sixty days from the date of its execution. No proxy shall be valid unless it shall designate the particular meeting at which it is to be voted and no proxy shall be voted at any meeting other than the one so designated or any adjournment of such meeting. A member may give his proxy only to another member or to an adult relative living in the same home with such member, and no person may hold more than one proxy at any meeting. The presence of a member at a meeting shall revoke a proxy theretofore executed by him and such member shall be entitled to vote at such meeting in the same manner and with the same effect as if he had not executed a proxy.

SECTION 7. Order of Business. The order of business at the annual meeting of the members and, so far as possible, at all other meetings of the members, shall be essentially as follows, except as otherwise determined by the members at such meeting:

1. Report on the number of members present in person in order to determine the existence of a quorum.
2. Reading of the notice of the meeting and proof of the due publication or mailing thereof, or the waiver or waivers of notice of the meeting, as the case may be.
3. Reading of unapproved minutes of previous meetings of the members and the taking of necessary action thereon.
4. Presentation and consideration of reports of officers, directors and committees.
5. Election of directors.
6. Unfinished business.
7. New business.
8. Adjournment.

ARTICLE IV

DIRECTORS

SECTION 1. General Powers. The business and affairs of the Co-op shall be managed by a board of nine directors which shall exercise all of the powers of the Co-op except such as are by law, the charter of incorporation or these bylaws conferred upon or reserved to the members.

SECTION 2. Election and Tenure of Office. The persons named as incorporators in the charter of incorporation and those elected at the first meeting of the incorporators shall compose the Board of Directors until the first annual meeting or until their successors shall have been elected and shall have qualified. All Directors shall be elected by secret ballot at each annual meeting of the members beginning with the year 1955 by and from the members to serve until the next annual meeting of the members or until their successors shall have been elected and shall have qualified. If an election of directors shall not be held on the day designated herein for the annual meeting, or at any adjournment thereof, a special meeting of the members shall be held for the purpose of electing directors within a reasonable time thereafter.

SECTION 3. Qualifications. No person shall be eligible to become or remain a director of the Co-op who:

- (a) is not a member and is not presently residing in the area served or to be served by the Co-op; or
- (b) is in any way employed by or financially interested in a competing enterprise or a business engaged in selling telephone service or supplies, or constructing or maintaining telephone facilities, other than a business operating on a cooperative nonprofit basis for the purpose of furthering rural telephony.

Upon establishment of the fact that a director is holding office in violation of any of the foregoing provisions, the Board shall remove such director from office.

Nothing contained in this section shall affect in any manner whatsoever the validity of any action taken at any meeting of the Board.

SECTION 4. Nominations. It shall be the duty of the Board to appoint, not less than forty (40) nor more than seventy (70) days before the date of a meeting of the members at which directors are to be elected, a committee on nominations consisting of not less than five nor more than eleven members who shall be selected from different sections so as to insure equitable representation. No member of the Board may serve on such committee. The committee, keeping in mind the principle of geographical representation, shall prepare and post at the principal office of the cooperative at least thirty (30) days before the meeting a list of nominations for directors which shall include at least one candidate for each director to be elected. Any fifteen or more members acting together may make other nominations by petition not less than twenty (20) days prior to the meeting and the Secretary shall post such nominations at the same place where the list of nominations made by the committee is posted. The Secretary shall mail with the notice of the meeting or separately, but at least ten days before the date of the meeting, a statement of the number of directors to be elected and the names and addresses of the candidates, specifying separately the nominations made by the committee and the nominations made by petition, if any. The ballot to be used at the election shall list the names of the candidates nominated by the committee and the names of the candidates nominated by petition, if any. The chairman shall call for additional nominations from the floor and nominations shall not be closed until at least one minute has passed during which no additional nomination has been made. No member may nominate more than one candidate.

SECTION 5. Removal of Directors by Members. Any member may bring charges against a director and, by filing with the Secretary such charges in writing together with a petition signed by at least ten per centum of the members, or two hundred members, whichever is the lesser, may request the removal of such director by reason thereof. Such director shall be informed in writing of the charges at least ten days prior to the meeting of the members at which the charges are to be considered and shall have an opportunity at the meeting to be heard in person or by counsel and to present evidence in respect of the charges; and the person or persons bringing the charges against him shall have the same opportunity. The question of the removal of such director shall be considered and voted upon at the meeting of the members and any vacancy created by such removal may be filled by vote of the members at such meeting without compliance with the foregoing provisions with respect to nominations.

SECTION 6. Vacancies. Subject to the provisions of these bylaws with respect to the filling of vacancies caused by the removal of directors by the members, a vacancy occurring in the Board shall be filled by the affirmative vote of a majority of the remaining directors for the unexpired portion of the term, provided, however, that in the event the vacancy is not filled by the Board within sixty (60) days after the vacancy occurs, the members shall have the right to fill such vacancy at a meeting of the members without compliance with the foregoing provisions in respect of nominations.

SECTION 7. Compensation. Directors shall not receive any salary for their services as directors, except that by resolution of the Board a fee of not to exceed five (5) dollars and actual expenses of attendance, if any, may be allowed for attendance at each meeting of the Board. No director shall receive compensation for serving the Co-op in any other capacity, nor shall any close relative of a director receive compensation for serving the Co-op, unless the payment and amount of compensation shall be specifically authorized by a vote of the members or the service by such director or close relative shall have been certified by the Board as an emergency measure.

ARTICLE V.

MEETINGS OF DIRECTORS

SECTION 1. Regular Meetings. A regular meeting of the Board shall be held without notice, immediately, after, and at the same place as, the annual meeting of the members. A regular

meeting of the Board shall also be held monthly at such time and place in Morgan County, Tennessee, as the Board may provide by resolution. Such regular monthly meeting may be held without notice other than such resolution fixing the time and place thereof.

SECTION 2. Special Meetings. Special meetings of the Board may be called by the President or by any three directors, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided. The President or the directors calling the meeting shall fix the time and place (which shall be in Morgan County, Tennessee) for the holding of the meeting.

SECTION 3. Notice of Directors' Meetings. Written notice of the time, place and purpose of any special meeting of the Board shall be delivered to each director not less than five days previous thereto either personally or by mail, by or at the direction of the Secretary, or upon a default in duty by the Secretary, by the President or the directors calling the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the director at his address as it appears on the records of the Co-op, with postage thereon prepaid.

SECTION 4. Quorum. A majority of the Board shall constitute a quorum, provided, that if less than such majority of the directors is present at said meeting, a majority of the directors present may adjourn the meeting from time to time; and provided further, that the Secretary shall notify any absent directors of the time and place of such adjourned meeting. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board.

ARTICLE VI.

OFFICERS

SECTION 1. Number. The officers of the Co-op shall be a President, Vice President, Secretary-Treasurer, and such other officers as may be determined by the Board from time to time. The offices of Secretary and of Treasurer may be held by the same person.

SECTION 2. Election and Term of Office. The officers shall be elected by ballot, annually by and from the Board at the meeting of the Board held immediately after the annual meeting of the members. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until the first meeting of the Board following the next succeeding annual meeting of the members or until his successor shall have been elected and shall have qualified. Except as otherwise provided in these bylaws, the vacancy in any office shall be filled by the Board for the unexpired portion of the term.

SECTION 3. Removal of Officers and Agents by Directors. Any officer or agent elected or appointed by the Board may be removed by the Board whenever in its judgment the best interests of the Co-op will be served thereby. In addition, any member of the Co-op may bring charges against an officer, and by filing with the Secretary such charges in writing together with a petition signed by ten per centum of the members, or two hundred members, whichever is the lesser, may request the removal of such officer. The officer against whom such charges have been brought shall be informed in writing of the charges at least ten days prior to the board meeting at which the charges are to be considered and shall have an opportunity at the meeting to be heard in person or by counsel and to present evidence in respect of the charges; and the person or persons bringing the charges against him shall have the same opportunity. In the event the board does not remove such officer, the question of his removal shall be considered and voted upon at the next meeting of the members.

SECTION 4. President. The President shall:

- (a) be the principal executive officer of the Co-op and, unless otherwise determined by the members or the Board, shall preside at all meetings of the members and the Board;
- (b) sign, with the Secretary, certificates of membership, the issue of which shall have been authorized by the Board or the members, and may sign any deeds, mortgages, deeds of trust, notes, bonds, contracts or other instruments authorized by the Board to be executed, except in cases in which the signing and execution thereof shall be expressly delegated by the Board or by these bylaws to some other officer or agent of the Co-op, or shall be required by law to be otherwise signed or executed; and
- (c) in general perform all duties incident to the office of President and such other duties as may be prescribed by the Board from time to time.

SECTION 5. Vice President. In the absence of the President, or in the event of his inability or refusal to act, the Vice President shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice President shall also perform such other duties as from time to time may be assigned to him by the Board.

SECTION 6. Secretary. The Secretary shall:

- (a) Keep the minutes of the meetings of the members and of the Board in one or more books provided for that purpose;
- (b) see that all notices are duly given in accordance with these bylaws or as required by laws;
- (c) be custodian of the corporate records and of the seal of the Co-op and affix the seal of the Co-op to all certificates of membership prior to the issue thereof and to all documents, the execution of which on behalf of the Co-op under its seal is duly authorized in accordance with the provisions of these bylaws;
- (d) keep a register of the names and post office addresses of all members;
- (e) sign, with the President, certificates of membership, the issue of which shall have been authorized by the Board or the members;
- (f) have general charge of the books of the Co-op;
- (g) keep on file at all times a complete copy of the charter of incorporation and bylaws of the Co-op containing all amendments thereto (which copy shall always be open to the inspection of any member) and at the expense of the Co-op, forward a copy of the bylaws and of all amendments thereto to each member; and
- (h) in general perform all duties incident to the Office of Secretary and such other duties as from time to time may be assigned to him by the Board.

SECTION 7. Treasurer. The Treasurer shall:

- (a) have charge and custody of and be responsible for all funds and securities of the Co-op;
- (b) be responsible for the receipt of and the issuance of receipts for all moneys due and payable to the Co-op and for the deposit of all such moneys in the name of the Co-op in such bank or banks as shall be selected in accordance with the provisions of these bylaws; and

- (c) in general perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board.

SECTION 8. Manager. The Board may appoint a manager who may be, but who shall not be required to be, a member of the Co-op. The manager shall perform such duties and shall exercise such authority as the Board may from time to time vest in him.

SECTION 9. Bonds of Officers. The Treasurer and any other officer or agent of the Co-op charged with responsibility for the custody of any of its funds or property shall give bond in such sum and with such surety as the Board shall determine. The Board in its discretion may also require any other officer, agent or employee of the Co-op to give bond in such amount and with such surety as it shall determine.

SECTION 10. Compensation. The powers, duties and compensation of officers, agents and employees shall be fixed by the Board, subject to the provisions of these bylaws with respect to compensation for directors and close relatives of directors.

SECTION 11. Reports. The officers of the Co-op shall submit at each annual meeting of the members reports covering the business of the Co-op for the previous fiscal year. Such reports shall set forth the condition of the Co-op at the close of such fiscal year.

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 its patrons.

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.

ARTICLE VIII

DISPOSITION OF PROPERTY

The Co-op may not sell, mortgage, lease or otherwise dispose of or encumber all or any substantial portion of its property unless such sale, mortgage, lease or other disposition or encumbrance is authorized at a meeting of the members thereof by the affirmative vote of not less than two-thirds of all of the members of the Co-op, and unless the notice of such proposed sale, mortgage, lease or other disposition or encumbrance shall have been contained in the notice of the meeting; provided, however, that notwithstanding anything herein contained, the Board, without authorization by the members thereof, shall have full power and authority to authorize the execution and delivery of a mortgage or mortgages or a deed or deeds of trust upon, or the pledging or encumbering of, any or all of the property, assets, rights, privileges, licenses, franchises and permits of the Co-op, whether acquired or to be acquired, and wherever situated, as well as the revenues and income therefrom, all upon such terms and conditions as the Board shall determine, to secure any indebtedness of the Co-op to United States of America or any instrumentality or agency thereof; provided further that the Board may upon the authorization of a majority of those members of the Co-op present at a meeting of the members thereof, sell, lease, or

otherwise dispose of all or a substantial portion of its property to another Co-op or foreign corporation doing business in this State pursuant to the Act under which this Co-op is incorporated.

ARTICLE IX

SEAL

The corporate seal of the Co-op shall be in the form of a circle and shall have inscribed thereon the name of the Co-op and the words "Corporate Seal Tennessee".

ARTICLE X

FINANCIAL TRANSACTIONS

SECTION 1. Contracts. Except as otherwise provided in these bylaws, the Board may authorize any officer or officers, agent or agents to enter into any contract or execute and deliver any instrument in the name and on behalf of the Co-op, and such authority may be general or confined to specific instances.

SECTION 2. Checks, Drafts, etc. All checks, drafts or other orders for the payment of money, all notes, bonds or other evidences of indebtedness issued in the name of the Co-op shall be signed by such officer or officers, agent or agents, employee or employees of the Co-op and in such manner as shall from time to time be determined by resolution of the Board.

SECTION 3. Deposits. All funds of the Co-op shall be deposited from time to time to the credit of the Co-op in such bank or banks as the Board may select.

SECTION 4. Change in Rates. Written notice shall be given to the Administrator of REA of the United States of America not less than ninety days prior to the date upon which any proposed change in the monthly rate charged by the Co-op for telephone service becomes effective.

SECTION 5. Fiscal Year. The fiscal year of the Co-op shall begin on the first day of January of each year and shall end on the thirty-first day of December of the same year.

ARTICLE XI

MISCELLANEOUS

SECTION 1. Membership in Other Organizations. The Co-op shall not become a member of or purchase stock in any other organization without an affirmative vote of the members at a duly held meeting, the notice of which shall specify that action is to be taken upon such proposed membership or stock purchases, provided, however, that the Co-op may upon the authorization of the Board, purchase stock in or become a member of any corporation or organization organized on a non-profit basis for the purpose of engaging in or furthering the cause of area-wide rural telephone service, or with the approval of the Administrator of REA, of any other corporation for the purpose of acquiring telephone facilities or assuring more adequate telephone service to its members.

SECTION 2. Waiver of Notice. Any member or director may waive in writing any notice of a meeting required to be given by these bylaws. The attendance of a member or director at any meeting shall constitute a waiver of notice of such meeting by such member or director, except in case a member or director shall attend a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

SECTION 3. Rules and Regulations. The Board shall have power to make and adopt such rules and regulations, not inconsistent with law, the charter of incorporation or these bylaws, as it may deem advisable for the management of the business and affairs of the Co-op.

SECTION 4. Accounting System and Reports. The Board shall cause to be established and maintained a complete accounting system which, among other things, and subject to applicable laws and rules and regulations of any regulatory body, shall conform to such accounting system as may from time to time be designated by the Administrator of REA of the United States of America. The Board shall also after the close of each fiscal year cause to be made a full and complete audit of the accounts, books and financial condition of the Co-op as of the end of such fiscal year. Such audit reports shall be submitted to the members at the next following annual meeting.

ARTICLE XIIAMENDMENTS

These bylaws may be altered, amended or repealed by the directors at any regular or special meeting, provided the notice of such meeting shall have contained a copy of the proposed alteration, amendment or repeal.

Thereupon, in conformity with the by-laws, the Incorporators, to-wit: Taskel Welch, Charles Byrd, Maynard Terry, W. H. Swain and Milford Thompson, and W. D. Human, O. C. Duncan, RALPH CARR and O. P. SCHUBERT were made Directors of the Corporation to serve until the next annual meeting.

The Chairman stated that the next order of business would be the election of officers as set out in the by-laws. Thereupon, the following persons were nominated to serve until their respective successors were elected and shall have qualified.

President: W. H. Swain

Vice President: W. D. Human

Secretary-Treasurer: Taskel Welch

There being no further nominations, the nominations were closed, and the Directors proceeded to vote on the nominations. The vote having been taken and counted, the Secretary reported that the above named nominees had received the unanimous vote of all the members of the Board of Directors. The Chairman thereupon declared W. H. Swain duly elected President, W. D. Human duly elected Vice President, and Taskel Welch duly elected Secretary-Treasurer, to serve until their successors shall have been elected and qualified.

The Chairman stated that the by-laws provided for the appointment of a manager or coordinator and that to name a coordinator at this time appeared to be essential. After a discussion of qualifications, availability, salary and other facts in connection with the coordinator the following resolution, upon motion duly made and seconded, was unanimously adopted.

RESOLVED: That Will Hall Sullivan is appointed Coordinator of the corporation who shall perform such duties and shall exercise such authority as the Board may, from time to time, vest in him; at a salary of \$350.00 per month, retroactive to April 1, 1954, for a period of one year or until the system shall have progressed to the point that a manager is employed.

The said Will Hall Sullivan accepted said appointment.

The Chairman stated that the selection of engineers to perform various engineering services for the corporation; and an attorney to perform the necessary legal work should be chosen. Whereupon, on motion duly made and seconded, the following resolutions were unanimously adopted.

RESOLVED: That Cottrell and House, Incorporated, Engineers located in Nashville, Tennessee, are selected as engineers for the preparation of the pre-allotment maps of the system and that the President and Secretary are authorized to execute a mapping contract with Cottrell and House, Inc., Engineers, on behalf of the corporation, the final selection and determination of the fees subject to the approval of the Administrator of the Rural Electrification Administration.

FURTHER RESOLVED: That John Moran, doing business as Communications Enterprises, Inc. of Cookeville, Tennessee, is selected as engineer for design and construction of the telephone system of the corporation in the area to be served by the corporation and that the President and Secretary are authorized to execute an engineering service contract with the said John Moran or Communications Enterprises, Inc., Engineers, on behalf of the corporation, the final selection and determination of the fees subject to the approval of the Administrator of the Rural Electrification Administration.

FURTHER RESOLVED: That Howard H. Baker, Jr. Attorney, is selected as the Project Attorney of the corporation subject to the approval of the Administrator of the Rural Electrification Administration.

The Chairman stated that the corporation would immediately be in need of a bookkeeper, whereupon, the following resolution was duly made, seconded and unanimously adopted.

RESOLVED: That Howard Smith is selected as bookkeeper of the corporation at a salary of \$200.00 per month retroactive to June 1, 1954, to serve until such time as the corporation shall be justified in hiring an accountant.

The Chairman stated that during organization and development of the corporation the Coordinator would be required to hire development men to handle the accumulation of map data, the solicitation of telephone subscribers and of necessary right-of-ways. Whereupon, on motion duly made and seconded, the following resolution was unanimously adopted.

RESOLVED: That the Coordinator, Will Hall Sullivan, be authorized to employ field personnel as needed in development work and to pay same at the rate of \$10.00 per day for work performed, \$6.00 per diem when their work necessitated their being away from home over night, and seven cents per mile for mileage of private automobiles used.

The Chairman stated that much of the preliminary work necessary prior to making application for funds to be used in the construction of the telephone system had been performed. That the formal application to Rural Electrification Administration for the funds with which to construct and operate should be made immediately. That the various maps, plans, specifications and engineering data necessary in the application are now ready for presentation. The Directors discussed ways and means of presenting the application and upon motion duly made and seconded the following resolution was unanimously adopted.

RESOLVED: That the Coordinator chosen at this meeting is authorized and directed to make application to the Rural Electrification Administration for sufficient funds to construct and operate the telephone system contemplated by the corporation, the drawings of which were made by the engineers selected herein. That he is granted authority and is instructed to proceed with the application immediately and to use his best judgment in presenting the application, all to be done in the name of the corporation.

The Chairman stated that the Twin Lakes Telephone Cooperative Corporation of Gainesboro, Tennessee, at the request of R. E. A. field personnel had proceeded with the development work of Scott and Morgan Counties and in so doing had incurred various expenses of development personnel, travel and per diem

expense, which expenses had been kept segregated on the books of Twin Lakes Telephone Cooperative and that the Highland Telephone Cooperative, Inc. should go on record as being agreeable and willing to reimburse the Twin Lakes Telephone Cooperative for these expenses when funds are available to cover same. Thereupon, on motion duly made and seconded, the following resolution was unanimously adopted.

RESOLVED: That Highland Telephone Cooperative, Inc. of Sunbright, Tennessee, will pay to the Twin Lakes Telephone Cooperative Corporation of Gainesboro, Tennessee, a sum covering a certified and audited total of expenses incurred by the Twin Lakes Telephone Cooperative in development work in Scott and Morgan Counties when funds are made available to pay accounts of this type.

The Chairman stated that it was necessary that the Board designate officials to sign checks, financial requirement statements and expenditure reports and that R. E. A. be so notified on Form F1-282. Whereupon, on motion duly made and seconded, the following resolution was unanimously adopted.

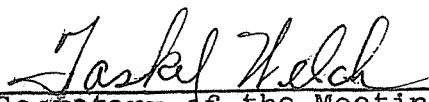
RESOLVED: That the Coordinator, Will Hall Sullivan, be authorized to sign all checks or drafts of the cooperative and that the Secretary-Treasurer or President be authorized to countersign same.

BE IT FURTHER RESOLVED: That Will Hall Sullivan, Coordinator, W. H. Swain, President, and Taskel Welch, Secretary-Treasurer, be certified to R. E. A. to sign financial requirement statements and expenditure reports.


Having discussed the proposed operations of the corporation, motion was duly made, seconded and unanimously passed as follows.

RESOLVED: That the headquarters of this corporation be and the same are hereby designated as Sunbright, Morgan County, Tennessee.

There being no further business to come before the meeting, on motion duly made, seconded and unanimously carried, the meeting adjourned.


Secretary of the Meeting

APPROVED:


President

We, the undersigned Incorporators, Directors and members of Highland Telephone Cooperative, Inc., do hereby approve, ratify and confirm in all respects the above and foregoing minutes of the first meeting of the Incorporators and Directors of said corporation held on the 26th day of June, 1954, and each and every step and act performed thereat.

M. K. Duwan

Jaskel Welch

Milford Thompson

Waynard Terry

Charles Byrd

O. G. Duncan

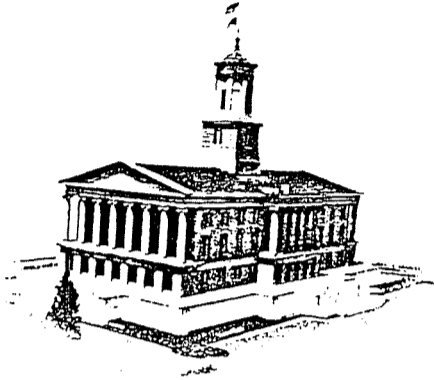
Det. C. Schubert

W. H. Hummer

R. L. Carr

being all of the Incorporators and Directors of Highland Telephone Cooperative, Inc.

State of Tennessee

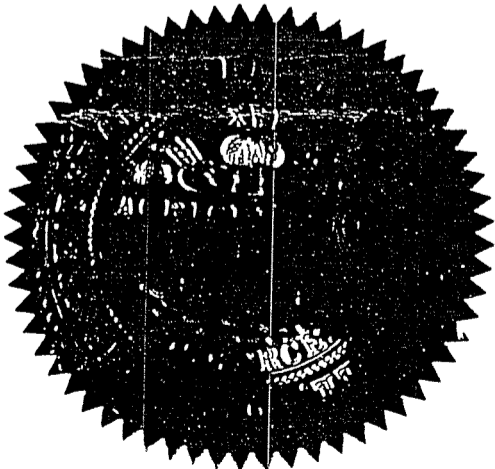


Department of State

CERTIFICATE

The undersigned, as Secretary of State of the State of Tennessee, hereby certifies that the attached document was received for filing on behalf of HIGHLAND TELEPHONE COOPERATIVE, INC.,
(Name of Corporation) Code Annotated 65-2901 through 65-2932
was duly executed in accordance with the Tennessee General Corporation Act, was found to conform to law and was filed by the undersigned, as Secretary of State, on the date noted on the document.

THEREFORE, the undersigned, as Secretary of State, and by virtue of the authority vested in him by law, hereby issues this certificate and attaches hereto the document which was duly filed on June Fourteenth, 1973.



Secretary of State

ARTICLES OF CONVERSION
OF
HIGHLAND TELEPHONE COOPERATIVE, INC.

Executed Pursuant to Chapter 29, Title 65,
TENNESSEE CODE ANNOTATED, as amended.

Highland Telephone Cooperative, Inc., for the purpose of becoming converted into a cooperative, non-profit membership corporation pursuant to the "Telephone Cooperative Act", Tennessee Public Acts of 1961, Chapter 330, Tennessee Code Annotated 65-2901 through 65-2932, hereby certifies and states as follows:

1. The name of the corporation prior to this conversion into a cooperative under Chapter 29, Title 65, of Tennessee Code Annotated, as amended, is HIGHLAND TELEPHONE COOPERATIVE, INC.

2. The address of the principal office of the corporation is SUNBRIGHT, TENNESSEE.

3. The date of the filing of the Articles of Incorporation of Highland Telephone Cooperative, Inc. in the office of the Secretary of State was June 14, 1954.

4. The corporation was organized pursuant to Chapter 11, of Title 48 of Tennessee Code Annotated.

5. The name assumed by the corporation is HIGHLAND TELEPHONE COOPERATIVE, INC.

6. The corporation elects to become a cooperative, non-profit, general welfare, membership corporation subject to and operate under the Telephone Cooperative Act, Tennessee Code Annotated 65-2901 and 65-2932 inclusive, and any and all amendments thereto.

Received for record the 16th day of Oct., 1971 at 10⁰⁰ o'clock A.M.

JAMES W. JONES, Register
MORGAN COUNTY

7. The manner and basis of converting membership and/or memberships of the corporation into membership and/or memberships in the converted corporation is that each member of the corporation shall be and become a member of the converted corporation, whether individually held, jointly held, or held by a partnership, corporation, or association, without the necessity of any affirmative action upon the part of such member, or upon written application by an individual member or an individual member's spouse, such member and such member's spouse shall jointly become a member therein and a certificate evidencing such individual or joint membership in the converted corporation shall be issued to such member or to such member and such member's spouse as the case may be.

8. (a) The Cooperative, upon conversion, shall be governed by a board of eleven directors, which Board of Directors shall be divided into classes serving staggered terms of from one to three years, as permitted by the current By-Laws of the Cooperative being converted. Additionally, the Directors shall be apportioned among the geographic areas served by the Cooperative by exchanges. The Class A Directors shall be as follows: (1) One director who shall reside either in the Deer Lodge or Sunbright Exchange; (2) One director who shall reside in the Whitley City portion of the Stearns-Whitley City Exchange, which portion is defined to be the area North of the line created by the junction of U. S. Highway 27 and Kentucky State Highway 478, continuing Westerly along Highway 478 to its junction with Kentucky State Highway 92 and then continuing Westerly to the McCreary-Wayne County line and a point on U. S. Highway 27, at approximately the same location as the junction of U. S. Highway 27 and Kentucky State Highway 478 and continuing Eastwardly along the most Westwardly branch of Bridge Fork Creek; (3) One director who shall

reside inside the city limits of the Town of Oneida; (4) One director who shall reside in the Oakdale Exchange. The Class B Directors shall be as follows: (1) One director who shall reside in the Pine Knot Exchange; (2) One director who shall reside in the Huntsville Exchange; (3) One director who shall reside in the Robbins Exchange; (4) One director who shall reside in the Petros Exchange. The Class C Directors shall be as follows: (1) One director who shall reside in the Wartburg Exchange; (2) One director who shall reside in the Oneida Exchange, outside the city limits; (3) One director who must reside in the Stearns portion of the Stearns-Whitley City Exchange, south of the above described line separating the Whitley City Exchange from the Stearns portion. The Class A Directors, as hereinafter designated, shall serve a three year term, or until their successors are duly elected and qualified. The Class B Directors shall serve a two year term, or until their successors are duly elected and qualified. The Class C Directors shall serve a one year term, or until their successors are duly elected and qualified. The following are hereby named and designated as the First Board of Directors of the Cooperative as converted: The Class A Directors shall be: Deer Lodge and Sunbright Exchange - O. C. Duncan; Whitley City or northern portion of the Stearns-Whitley City Exchange as above defined - Clifford Sutton; Oneida Exchange, residing inside the Town of Oneida - Fred H. Duncan; Oakdale Exchange - Wiley Summers. The Class B Directors shall be: Pine Knot Exchange - Herbert Gilreath; Huntsville Exchange - C. E. Byrd; Robbins Exchange - Taskel W. Welch; Petros Exchange - C. A. Haynes. The Class C Directors shall be: Wartburg Exchange - Gene Buxton; Oneida Exchange, residing outside the Town of Oneida - Clendon Blakley; Stearns portion of the Stearns-Whitley City Exchange as above defined - Bennie Chestnut.

8. (b) The Board of Directors shall adopt the first By-Laws after conversion. Thereafter, By-Laws shall be adopted,

amended or repealed by the members, as provided by the Telephone Cooperative Act.

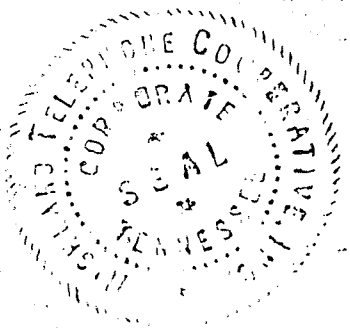
8. (c) At the time of conversion, all assets of the corporation shall become the assets of the converted corporation and all liabilities and indebtedness of the current corporation shall become the liabilities and indebtedness of the converted corporation, the policies of the current corporation shall become the policies of the converted corporation, the rules, regulations, tariffs of the current corporation shall become those of the converted corporation, all contractual, employee, management, or other obligations shall become the obligations of the converted corporation and all property of the current corporation shall become the property of the converted corporation. The patronage capital of the corporation shall be and become patronage capital of the converted corporation, subject to all the rules and regulations and provisions of the converted corporation relating to patronage capital.

IN WITNESS WHEREOF, Highland Telephone Cooperative, Inc. has caused these Articles of Conversion to be executed in its name by its President, and its corporate seal to be hereto affixed and attested by its Secretary, this the 11th day of June, 1973.

HIGHLAND TELEPHONE COOPERATIVE, INC.

By [Signature]
President

ATTEST:
[Signature]
Secretary



STATE OF TENNESSEE)
COUNTY OF MORGAN }

Before me, Marilyn Hough, a Notary Public in and for said County and State, appeared O. C. DUNCAN, with whom I am personally acquainted and who upon oath acknowledged himself to be the President of HIGHLAND TELEPHONE COOPERATIVE, INC., a corporation, the within named bargainor, and that he as such President, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as President.

WITNESS my hand and official seal this 11th day of June, 1973.

Marilyn Hough
Notary Public

My Commission expires: 3-18-77

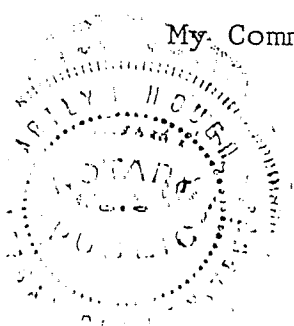
STATE OF TENNESSEE)
COUNTY OF MORGAN }

Before me, Marilyn Hough, a Notary Public in and for said County and State, appeared TASKEL W. WELCH, with whom I am personally acquainted and who upon his oath acknowledged himself to be the Secretary of HIGHLAND TELEPHONE COOPERATIVE, INC. and that he as such Secretary, being authorized to do so, attested the execution of the foregoing Articles of Conversion as such Secretary for the purposes therein contained.

WITNESS my hand and official seal this 11th day of June, 1973.


Marilyn Hough
Notary Public

My Commission expires: 3-18-77



STATE OF TENNESSEE)
COUNTY OF MORGAN)

I, O. C. DUNCAN, make oath in due form of law that I am the President of Highland Telephone Cooperative, Inc. and that I acknowledged the execution of the Articles of Conversion hereinabove set out; that said execution and acknowledgment were made after the provisions of Section 65-2917 with respect to the approval of Highland Telephone Cooperative, Inc.'s directors and its members of the proposition for the conversion of such corporation into a cooperative and such Articles of Conversion were duly complied with; that the approval of the Board of Directors of Highland Telephone Cooperative, Inc. of the Articles of Conversion was duly adopted by resolution at a special meeting held May 21, 1973, and after the affirmative action of the members approving the Articles of Conversion at a special meeting held on the 4th day of June, 1973.


O. C. Duncan, President

Sworn to and subscribed before me
this 11th day of June, 1973.

Marilyn Hough
Notary Public

My Commission expires: 3-18-77

STATE OF TENNESSEE, MORGAN COUNTY

The foregoing instrument and certificate were noted in
State Book 4, Page 199 At 10⁰⁰ O'clock P.M. 10-16-71
and recorded in Book #, Series 50 Page 720
County Tax Paid \$ 1.00 Fee - Recording Fee 2.00 Total \$ 3.00

Witness My Hand.

Receipt No. 20678

JAMES W. JONES
Register

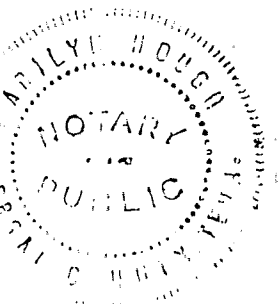


EXHIBIT B

MAPS

Three sets of the route maps accompany the original application, but they could not be legibly reduced for inclusion in the copies of the application.

EXHIBIT C
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

LOAN AGREEMENT

THIS LOAN AGREEMENT (the "Agreement,") dated as of September 23, 2008, is between **HIGHLAND TELEPHONE COOPERATIVE, INC.** (hereinafter the "Borrower,") a cooperative organized and existing under the laws of Tennessee, and the **UNITED STATES OF AMERICA**, (hereinafter the "Government") acting through the Administrator of the Rural Utilities Service ("RUS.")

The Borrower has applied to RUS, requesting financial assistance (hereinafter the "Application") to provide telecommunications and/or broadband services in rural areas.

RUS is willing to extend financial assistance, in the form of loans or loan guarantees to the Borrower, pursuant to the Rural Electrification Act of 1936 (7 U.S.C. 901 *et seq.*)(the "Act.") and all applicable federal regulations, on the terms and conditions stated herein.

THEREFORE, in consideration of the promises and mutual covenants herein contained, the parties agree and bind themselves as follows:

ARTICLE I – DEFINITIONS

The terms defined herein include both the plural and the singular. Unless otherwise specifically provided, all accounting terms not otherwise defined herein shall have the meanings assigned to them, and all determinations and computations herein provided for shall be made in accordance with Accounting Requirements.

"Accounting Requirements" shall mean the system of accounting prescribed by RUS in RUS Regulations.

"Advance" or "Advances" shall mean an advance or advances made or approved by RUS under its respective Note(s).

"Affiliate" or "Affiliated Company" of any specified person or entity means any other person or entity directly or indirectly controlling of, controlled by, under direct or indirect common control with, or related to, such specified person or entity. For the purpose of this definition, "control" of any specified person or entity means the power to direct the management and policies of such specified person or entity, directly or indirectly, whether through the ownership of stock, by contract, or otherwise.

"Application" shall have the meaning as defined above in the second paragraph hereof.

"Broadband Loan" shall mean the broadband loan described in Section 3.1.

"Broadband Loan Expiration Date" shall have the meaning as defined in Paragraph (a)(ii) of Section 3.1.

"Business Day" shall mean any day that RUS and the Department of Treasury are both open for business.

"Construction Fund Account" shall have the meaning as defined in Paragraph (d) of Section 5.4.

"Distributions" shall have the meaning as defined in Section 6.9.

"Event of Default" shall have the meaning as defined in Article VIII.

"Interest Expense" shall have the meaning as defined in Attachment 3.

“Laws” shall have the meaning as defined in paragraph (e) of Article II.

“Loan(s)” shall mean, collectively, the loans described in Section 3.1.

“Loan Documents” shall mean, collectively, this Agreement, Security Documents, and the Note(s).

“Material Adverse Effect” shall mean a material adverse effect on, or change in, the condition, financial or otherwise, operations, properties, business or prospects of the Borrower or on the ability of the Borrower to perform its obligations under the Loan Documents as determined by RUS.

“Net Income” or “Net Margins” shall have the meaning as defined in Attachment 3.

“Net Worth” shall have the meaning as defined in Attachment 3.

“Note(s)” shall have the meaning as defined in Paragraph (a) of Section 3.2.

“Permitted Encumbrances” shall have the meaning as defined in the Security Documents.

“Pledged Deposit Account” shall have the meaning as defined in Section 5.4.

“Prior Telephone Loan Contracts” shall mean all telephone loan agreements previously entered into by RUS and the Borrower.

“Project” shall have the meaning as defined in Paragraph (a) of Section 3.4.

“RUS Regulations” shall mean the rules, regulations and bulletins of general applicability published by RUS from time to time, as such rules, regulations and bulletins exist at the date of applicability thereof, and shall also include any rule and regulations of other Federal entities which RUS is required by law to implement. Any reference to specific RUS Regulations shall mean the version of and cite to such regulation effective at the date of applicability thereof.

“Security Documents” shall mean, collectively, any mortgage, security agreement, financing statement, deposit account control agreement or other document providing collateral for the Loan(s).

“Subsidiaries” shall mean the subsidiaries listed in Schedule 1.

“Telecommunications Loan” shall mean the telecommunications loan described in Section 3.1.

“Telecommunications Loan Expiration Date” shall have the meaning as defined in Paragraph (b)(ii) of Section 3.1.

“Telecommunications Loan Guarantee” shall mean the telecommunications loan guarantee described in Section 3.1.

“TIER” shall mean the Borrower’s total Net Income or Net Margins plus Interest Expense payable for such year divided by Interest Expense payable for such year, as determined in Schedule 1 hereto.

“TIER Commencement Date” shall have the meaning as defined in Section 5.12.

“Total Assets” shall have the meaning as defined in Attachment 3.

ARTICLE II - REPRESENTATIONS AND WARRANTIES

Recognizing that RUS is relying hereon, the Borrower represents and warrants, as of the date of this Agreement, the following:

- (a) *Organization, Power, Etc.* The Borrower: (i) is the type of organization specified in the first paragraph hereof, duly organized, validly existing, and in good standing under the laws of the State identified in the first paragraph hereof; (ii) is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business make such qualification necessary; (iii) has legal power to own and operate its assets and to carry on its business and to enter into and perform its obligations under the Loan Documents; (iv) has duly and lawfully obtained and maintained all material licenses, certificates, permits, authorizations, and approvals necessary to conduct its business or required by applicable Laws; and (v) is eligible to obtain the financial assistance from RUS contemplated by this Agreement.
- (b) *Authority.* The execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents and the performance of the transactions contemplated hereby and thereby have been duly authorized by all necessary actions and do not violate any provision of law or any charter, articles of incorporation, organization documents or bylaws of the Borrower or result in a breach of, or constitute a default under, any agreement, security agreement, note or other instrument to which the Borrower is a party or by which it may be bound. The Borrower has not received any notice from any other party to any of the foregoing that a default has occurred or that any event or condition exists that with the giving of notice or lapse of time or both would constitute such a default.
- (c) *Consents.* No consent, approval, authorization, order, filing, qualification, license, or permit of any governmental authority is necessary in connection with the execution, delivery, performance, or enforcement of the Loan Documents, except such as have been obtained and are in full force and effect.
- (d) *Binding Agreement.* Each of the Loan Documents is, or when executed and delivered will be, the legal, valid, and binding obligation of the Borrower, enforceable in accordance with its terms, subject only to limitations on enforceability imposed in equity or by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.
- (e) *Compliance with Laws.* The Borrower is in compliance in all material respects with all federal, state and local laws, rules, regulations, ordinances, codes and orders (collectively, "Laws.")
- (f) *Litigation.* There are no pending or threatened legal, arbitration or governmental actions or proceedings to which the Borrower is a party or to which any of its property is subject which, if adversely determined, could have a Material Adverse Effect.
- (g) *Information Submitted with Application.* All information, reports, and other documents and data submitted to RUS in connection with the Application were, at the time the same were furnished, complete, and correct in all material respects. Any financial statements or data submitted to RUS in connection with the Application present fairly, in all material respects, the financial position of the Borrower and the results of its operations in conformity with Accounting Requirements. Since the date thereof, there has been no material adverse change in the financial condition or operations of the Borrower.

- (h) *Location of Properties.* All real property and interests therein of the Borrower are located in the states, counties, or parishes identified in the Security Documents.
- (i) *Principal Place of Business.* The principal place of business and chief executive office of the Borrower is at the address of the Borrower specified in Schedule 1 hereto.
- (j) *Organization Number.* The Borrower's organization number is correctly identified in Schedule 1 hereto.
- (k) *Subsidiaries and Parent.* Any subsidiaries or parent of the Borrower are disclosed on the attached Schedule 1.
- (l) *Defaults Under Other Agreements.* No default by the Borrower has occurred under any agreement or instrument to which the Borrower is a party, or to which any of its property is subject, that could have a Material Adverse Effect.
- (m) *Title to Property.* Except as disclosed in writing in the opinion of counsel, the Borrower holds good and marketable title to all of the collateral securing the Loan(s), free and clear of any liens, security interests, or other encumbrances except for Permitted Encumbrances.

ARTICLE III – THE LOANS

Section 3.1 Loans

- (a) *Broadband Loan.* RUS agrees to make and the Borrower agrees to accept, on the terms and conditions stated in this Agreement, a Broadband Loan, in the amount specified in Schedule 1 hereto.
 - (i) *Interest Rate.* The portion of the Broadband Loan specified in Schedule 1 hereto will bear interest at the comparable Treasury rate for comparable maturities, as determined by RUS, and the portion of the Loan specified in Schedule 1 hereto will bear interest at the rate of four percent (4%) per annum.
 - (ii) *Broadband Loan Expiration Date.* The obligation of RUS to advance the Broadband Loan or any portion thereof shall expire on a date (“Broadband Loan Expiration Date”) five years from the date of the Note(s). No portion of the Broadband Loan will be advanced by RUS to the Borrower after the Broadband Loan Expiration Date. RUS, in its sole discretion, may approve an extension of the Broadband Loan Expiration Date, provided that the Borrower notifies RUS, in writing at least ten days prior to the Broadband Loan Expiration Date, of the reasons and need for an extension, together with a suggested revised Broadband Loan Expiration Date.
- (b) *Telecommunications Loan.* RUS agrees to make and the Borrower agrees to accept, on the terms and conditions stated in this Agreement, a Telecommunications Loan, in the amount specified in Schedule 1 hereto.
 - (i) *Interest Rate.* The portion of the Telecommunications Loan specified in Schedule 1 hereto will bear interest at the Cost-of-Money Interest Rate determined by the Government pursuant to 7 U.S.C. 935(d)(2)(A) of the Act and its implementing regulations, as amended from time to time (7

C.F.R. 1735.31(c) and the portion of the Telecommunications Loan specified in Schedule 1 hereto will bear interest at the rate of five percent (5%) per annum.

- (ii) *Telecommunications Loan Expiration Date.* The obligation of RUS to advance the Telecommunications Loan or any portion thereof shall expire on a date ("Telecommunications Loan Expiration Date") five (5) years from the date of the Note(s). No portion of the Telecommunications Loan will be advanced by RUS to the Borrower after the Telecommunications Loan Expiration Date. RUS, in its sole discretion, may approve an extension of the Telecommunications Loan Expiration Date, provided that the Borrower notifies RUS, in writing at least ten (10) days prior to the Telecommunications Loan Expiration Date, of the reasons and need for an extension, together with a suggested revised Telecommunications Loan Expiration Date.
- (c) *Telecommunications Loan Guarantee.* RUS agrees to guarantee the loan identified in Schedule 1 hereto and the Borrower agrees to accept such guarantee, on the terms and conditions stated in this Agreement.
 - (i) *Interest Rate.* Each Advance of funds subject to the Telecommunications Loan Guarantee shall bear interest at the rate established by FFB at the time such Advance is made on the basis of the determination made by the Secretary of the Treasury pursuant to 12 U.S.C. 2285(b) of the Federal Financing Bank Act of 1973, as amended.
 - (ii) *Telecommunications Loan Guarantee Expiration Date.* The obligation of RUS to approve requests for Advances made under the Telecommunications Loan Guarantee or any portion thereof shall expire on the Last Advance Date as specified in the applicable guaranteed Note.

Section 3.2 Loan Documents

- (a) The debt created by the Loan(s) will be evidenced by a note(s) ("Note(s)") executed by the Borrower and payable, as applicable, to the United States of America or, in the case of a loan guarantee, to the guaranteed lender. The Borrower shall repay the Loan(s) in accordance with the Note(s) which shall be payable and bear interest in accordance with its (their) terms.
- (b) The Borrower shall execute the Security Documents covering all of the Borrower's property, in form and substance satisfactory to RUS and such other security instruments as required by RUS.

Section 3.3 Payment

Except as otherwise prescribed by RUS, if any, the Borrower shall make all payments on the Note(s) utilizing electronic funds transfer procedures as specified by RUS.

Section 3.4 Project

- (a) *Loan Purpose.* The Loan has been made solely to finance the project specifically described in the Application to furnish or improve telecommunications and/or broadband services in rural areas (the "Project.")

- (b) *Changes to Project.* The Borrower shall obtain the prior written approval of RUS regarding any material change to the scope, loan design, construction, delivery of services, or objectives of the Project.

ARTICLE IV – CONDITIONS OF LENDING

Section 4.1 General Conditions

In connection with the execution and delivery of this Agreement, each of the following conditions shall be satisfied (all documents, certificates, and other evidence of such conditions are to be satisfactory to RUS in its discretion):

- (a) *Legal Matters.* All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for RUS;
- (b) *Loan Documents.* RUS shall receive duly executed originals of the Loan Documents;
- (c) *Filed and Recorded Security Documents.* RUS shall have received the following documents securing the Loan(s): (i) executed, filed, and indexed financing statements covering all of the personal property and fixtures of the Borrower and (ii) executed, filed, and recorded counterparts of a mortgage covering all of the Borrower's real property;
- (d) *Articles of Incorporation, Charter, Bylaws, and Organizational Documents.* With respect to corporate and cooperative Borrowers, RUS shall have received copies of the Borrower's articles of incorporation, charter, and bylaws. With respect to limited liability companies or similar organizations, RUS shall have received copies of the Borrower's organizational documents containing provisions reflecting the obligations of the Borrower in paragraphs (c) and (d) of Section 6.3.
- (e) *Authorizations.* RUS shall have received satisfactory evidence that all Loan Documents and proceedings of the Borrower necessary for duly authorizing the execution, delivery, and performance of the Loan Documents have been obtained and are in full force and effect;
- (f) *Approvals.* RUS shall have received satisfactory evidence that the Borrower has duly registered as required by law with all state, federal, and other public authorities and regulatory bodies and has obtained all authorizations, certificates, permits, licenses, franchises and approvals necessary for, or required as a condition of, the validity and enforceability of each of the Loan Documents and for the construction and operation of the Project;
- (g) *Title Evidence.* RUS shall have received satisfactory evidence that the Borrower has good and marketable title to its property, including the Project, and holds such franchises, permits, leases, easements, rights, privileges, licenses, or right-of-way instruments, reasonably adequate in form and substance, as may be required by law for the continued maintenance and operation of its existing facilities and the Project;
- (h) *Tariff Evidence.* RUS shall receive evidence from each Borrower with rates imposed by tariff, that it has duly adopted a tariff, which (1) will provide for such grades of telephone service as RUS may approve, (2) does not include mileage or zone charges on any telephone service provided by the Project, and (3) is designed with a view to (i) paying and discharging all taxes, maintenance expenses, and operating expenses of the Borrower's system, (ii) making all payments in respect of principal and interest on the Note(s) when and as the same shall become due, (iii)

providing and maintaining reasonable working capital of the Borrower, and (iv) producing and maintaining the TIER, specified in Schedule I hereto;

- (i) *Broadband Rate Evidence.* For Broadband loans, RUS shall receive evidence that the Borrower has duly adopted rates which are designed with a view to (i) paying and discharging all taxes, maintenance expenses, and operating expenses of the Borrower's system. (ii) making all payments in respect of principal and interest on the Note(s) when and as the same shall become due. (iii) providing and maintaining reasonable working capital of the Borrower, and (iv) producing and maintaining the TIER, specified in Schedule I hereto.
- (j) *Opinion of Counsel.* RUS shall receive an opinion of counsel for the Borrower (who shall be acceptable to RUS) in form and content acceptable to RUS;

Section 4.2 Conditions to Advances

The obligations of RUS to make any Advances under its Loan(s) or approve any requests for Advances under its Loan Guarantee(s) are subject to the satisfaction of each of the following conditions precedent on or before the date of such Advance (all documents, certificates and other evidence of such conditions precedent are to be satisfactory to RUS in its discretion):

- (a) *Continuing Representations and Warranties.* That the representations and warranties of the Borrower contained in this Agreement be true and correct on and as of the date of such Advance as though made on and as of such date;
- (b) *Material Adverse Effect.* That no event has occurred which has had or could have a Material Adverse Effect;
- (c) *Event of Default.* That no Event of Default and no event which with the passage of time or giving of notice, or both, would constitute an Event of Default shall have occurred and be continuing, or shall have occurred after giving effect to such Advance on the books of the Borrower;
- (d) *Requisitions and Supporting Documentation*
 - (1) *Broadband Loans.* That RUS shall have received a requisition for Broadband loan funds, not more frequently than once a month, and supporting documentation from the Borrower in accordance with Rural Utilities Service RUS Bulletin 1738-2, *Rural Broadband Access Loan and Loan Guarantee Advance and Construction Procedures Guide*, as amended and supplemented from time to time (hereinafter "RUS Bulletin 1738-2.") attached hereto as Attachment 1 or available at <http://www.usda.gov/rus/telecom/broadband/rus-bulletin-1738-web2-6-03.doc>;
 - (2) *Telecommunications Loan and Loan Guarantee.* That RUS shall have received a requisition for Telecommunications Loan funds and Loan Guarantee funds not more frequently than once a month, and supporting documentation from the Borrower in accordance with RUS Regulations;
- (e) *Flood Insurance.* That for any Advance used in whole or in part to finance the construction or acquisition of any building in any area identified by the Secretary of Housing and Urban Development pursuant to the Flood Disaster Protection Act of 1973 (the "Flood Insurance Act") or any rules, regulations or orders issued to implement the Flood Insurance Act as any area having special flood hazards, or to finance any facilities or materials to be located in any such building, or in any

building owned or occupied by the Borrower and located in such a flood hazard area, the Borrower shall have submitted evidence, in form and substance satisfactory to RUS or RUS has otherwise determined, that (i) the community in which such area is located is then participating in the national flood insurance program, as required by the Flood Insurance Act and any related regulations, and (ii) the Borrower has obtained flood insurance coverage with respect to such building and contents as may then be required pursuant to the Flood Insurance Act and any related regulations;

- (f) *Current Financial Information and Certification of Authority.* That RUS has received from the Borrower (i) its current, updated balance sheet, statement of cash flow, and income statement and (ii) a duly authorized and executed certification, Form 675, "Certification of Authority," designating an officer, employee, or agent of the Borrower as the person or persons authorized to execute and submit, on behalf of the Borrower, REA Form 481, "Financial Requirement Statement;"
- (g) *Fidelity Bond or Theft Insurance Coverage.* That RUS has received from the Borrower, except Borrowers which are units of government, evidence, that the Borrower has obtained fidelity bond or theft insurance coverage in accordance with RUS Regulations;
- (h) *Pledged Deposit Account.* That, in connection with Broadband Loans (or with respect to Telecommunications Loans and Loan Guarantees when required on Schedule 1, or otherwise directed in writing by RUS), the Borrower has opened a Pledged Deposit Account under terms satisfactory to RUS;
- (i) *Compliance with Deposit Requirements for Broadband Loans.* That, in connection with Broadband Loans, RUS has received from the Borrower, evidence that the Borrower has maintained on deposit in account, funds in the amount specified in Schedule 1 to cover operating expenses, in accordance with 7 C.F.R. Section 1738.20(b), and has provided RUS with an advance schedule for such funds;
- (j) *Compliance with Loan Documents.* That the Borrower is in material compliance with the Loan Documents;
- (k) *RUS Loan Guarantee Requirements.* In connection with the Telecommunications Loan Guarantee:
 - (1) That RUS and the FFB have entered into a contract and that the FFB has agreed to make the loan to the Borrower, which will be guaranteed by RUS;
 - (2) That RUS has received evidence that any conditions in the contract referred to above in subparagraph (1) have been satisfied; and
 - (3) That RUS has received a promissory note payable to FFB in the amount to be guaranteed by RUS and a reimbursement note payable to the order of the Government, both duly authorized, executed and delivered by the Borrower, within the time period prescribed by RUS;
- (l) *Additional Documents.* The Borrower agrees to provide RUS with such additional documents as RUS may request; and
- (m) *Additional Conditions.* The Borrower has met all additional conditions specified in Schedule 1 hereto.

Section 4.3 First Advance to Pay Off Interim Construction Financing; Restrictions on Subsequent Advances

Loan funds to pay off RUS approved interim construction financing, if any, will be included in the first loan advance. Thereafter no further advances will be made unless and until the Borrower has furnished evidence, in form and content satisfactory to RUS, that such interim construction financing has been paid in full and any associated liens have been duly discharged from record.

ARTICLE V – AFFIRMATIVE COVENANTS

Section 5.1 Generally

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, the Borrower shall duly observe each of the affirmative covenants contained in this Article V.

Section 5.2 Use of Advances

The Borrower shall apply the proceeds of Advances in accordance with its Application with such modifications as may be mutually agreed to in writing by RUS and the Borrower.

Section 5.3 Unused and Disallowed Advances

- (a) The Borrower shall return forthwith to RUS any and all advanced portions of the Loan(s) or Loan Guarantee(s) not disbursed by the Borrower for the Project or not needed to complete the Project with any interest earned thereon when deposited in the Pledged Deposit Account or other account approved by RUS.
- (b) The Borrower shall reimburse RUS for any advanced funds whose original expenditure has been disallowed by a RUS loan audit. Disallowances shall be satisfied, as directed by RUS, by either administrative offset against requests for Advances or repaying the disallowed amount directly to the United States Treasury. Such disallowed amounts shall accrue interest payable to RUS from the date RUS delivers to the Borrower a written demand for payment. Interest shall accrue at the lesser of the following: the interest rate of the disallowed Advance or the then current United States Treasury rate as prescribed by the Secretary of the Treasury in the Federal Register and the Treasury Fiscal Requirements Manual Bulletin. Closeout of the Loan will not affect such right to disallow expenditures and recover, in full, any amount on the basis of a subsequent audit, or other review or the Borrower's obligation to return any disallowed expenditures.

Section 5.4 Deposit of Advances into Pledged Deposit Account and Construction Fund Account

- (a) *Broadband Loans.* The Borrower of Broadband Loans shall open and maintain a deposit account pledged to RUS ("Pledged Deposit Account.") in a bank or depository whose deposits are insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS and shall be designated by the RUS name of the Borrower followed by the words "Pledged Deposit Account." The Borrower shall promptly deposit proceeds from all Advances of the Broadband Loan, including previously advanced funds whose original expenditure has been disallowed by a RUS loan audit, and other funds described on Schedule 1 hereto (hereinafter "Additional Funds") into the Pledged Deposit Account. Moneys in the Pledged Deposit Account shall be used solely for the purposes for which the Advance was made, for the purposes as set forth in Schedule 1 hereto (hereinafter "Additional Purposes.") or for such other purposes as may be approved by RUS. Deposits and disbursements from the Pledged Deposit Account shall be made and recorded in accordance with Attachment 1 hereto, RUS Bulletin 1738-2, as amended and supplemented from time to time.

- (b) *Telecommunications Loans and Loan Guarantees and Bank Loans.* The Borrower of Telecommunications Loans and/or Loan Guarantees, when required on Schedule 1 or otherwise directed in writing by RUS, shall open and maintain a deposit account pledged to RUS for Telecommunications Loans and Loan Guarantees. Such account shall be in a bank or depository whose deposits are insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS, and shall be designated by the corporate name of the Borrower followed by the words "Pledged Deposit Account." The Borrower shall promptly deposit proceeds from Loan Advances, including previously advanced funds whose original expenditure has been disallowed by a RUS loan fund audit, and any Additional Funds into the Pledged Deposit Account. Moneys in the Pledged Deposit Account shall be used solely for the purposes approved by RUS or other Additional Purposes and shall be withdrawn from time to time only as permitted by RUS.
- (c) *First Lien on Pledged Deposit Account.* The Borrower shall establish and maintain the Pledged Deposit Account as a deposit account and perfect a first and prior lien in such account for RUS, (pursuant to a deposit account agreement or similar agreement or mechanism for perfecting as provided by applicable law) in form acceptable to RUS.
- (d) *Construction Fund Account.* The Borrower shall promptly deposit Loan Advances not required to be deposited in a Pledged Deposit Account, including previously advanced Loan funds whose original expenditure has been disallowed by a RUS loan fund audit, in a bank or depository whose deposits are insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS. Such account (hereinafter called the Construction Fund Account) shall be designated by the corporate name of the Borrower followed by the words "Construction Fund Account." Moneys in the Construction Fund Account shall be used solely for the purposes approved by RUS and shall be withdrawn from time to time only as permitted by RUS.

Section 5.5 Use of Operating Funds Required in Connection with Broadband Loans

The Borrower shall expend the operating funds required by 7 C.F.R. Section 1738.20(b), as approved by RUS.

Section 5.6 Financial Books

The Borrower shall maintain, at its premises, such books, documents, papers, or other records and supporting documents, including, but not limited to, invoices, receipts, and bills of sale, adequate to identify the purposes for which and the manner in which Loan and other funds were expended on the Project. The Borrower shall at all times keep and safely preserve proper books, records, and accounts in which full and true entries shall be made of all dealings, business, and affairs of the Borrower and its Subsidiaries (as listed in Schedule 1 hereto,) in accordance with any applicable Accounting Requirements. The Borrower shall maintain copies of all documents submitted to RUS in connection with the Loan until the Loan has been paid in full and all audits have been completed.

Section 5.7 Rights of Inspection

The Borrower shall afford RUS, the Office of Inspector General of USDA and the General Accounting Office, through their representatives, reasonable opportunity, at all times during business hours and upon prior notice, to access and inspect the Project, any other property encumbered by the Security Documents, and any and all books, records, accounts, including electronic books, records, accounts, and electronic mail messages, regardless of the physical form or characteristics, invoices, contracts, leases, payrolls, canceled checks, statements, other documents, and papers of every kind belonging to or in any

way pertaining to its property or business, including its Subsidiaries, if any, and to make copies or extracts therefrom.

Section 5.8 Annual and Special Financial Reports

- (a) One hundred twenty (120) days from the end of the Borrower's fiscal year in which the first Advance is made and, thereafter, one hundred twenty (120) days from the close of each fiscal year of the Borrower, the Borrower shall cause to be prepared and furnished to RUS a full and complete annual report of its financial condition and of its operations in form and substance satisfactory to RUS, and as provided in 7 C.F.R. 1773, which is audited and certified by an independent certified public accountant satisfactory to RUS, and accompanied by a report of such audit in form and substance satisfactory to RUS.
- (b) The Borrower shall also furnish to RUS fifteen (15) Business Days after March 31st of each year, and on such additional date(s) as specified in Schedule 1 (hereinafter "Additional Reporting Dates.") or as otherwise requested in writing by RUS, balance sheets, income statements, statements of cash flow, or such other reports concerning the financial condition or operations of the Borrower, including its Subsidiaries, as RUS may request or RUS Regulations require.

Section 5.9 Annual Compliance Certificate

Commencing forty-five (45) days from the date hereof, and thereafter within forty-five (45) days after the close of each calendar year, or sooner if required in writing by RUS, the Borrower shall deliver to RUS, a written statement signed by its general manager, managing member, or equivalent corporate official satisfactory to RUS, stating that, during such year the Borrower has fulfilled its obligations under the Loan Documents in all material respects or, if there has been a material default in the fulfillment of such obligations, specifying each such default known to such official and the nature and status thereof.

Section 5.10 Miscellaneous Reports and Notices

The Borrower shall furnish to RUS:

- (a) *Notice of Default.* Promptly after becoming aware thereof, notice of the occurrence of any default under the Loan Documents or the receipt of any notice with respect to the occurrence of any event which with the giving of notice or the passage of time, or both, could become an *Event of Default* hereunder or under the other Loan Documents.
- (b) *Notice of Litigation.* Promptly after the commencement thereof, notice of the commencement of all actions, suits or proceedings before any court, arbitrator, or governmental department, commission, board, bureau, agency, or instrumentality affecting the Borrower or any Affiliate which, if adversely determined, could have a *Material Adverse Effect* on the Borrower.
- (c) *Regulatory and Other Notices.* Promptly after receipt thereof, copies of any notices or other communications received from any governmental authority with respect to any matter or proceeding which could have a *Material Adverse Effect* on the Borrower.
- (d) *Material Adverse Effect.* Promptly after becoming aware thereof, notice of any matter which has resulted or may result in a *Material Adverse Effect* on the Borrower.

- (e) *Corporate Document Changes.* Thirty (30) days prior to their effectiveness, any amendments, supplements or modifications to the Borrower's Articles of Incorporation, Charter, Bylaws, Operating Agreement, Members Agreements or other Organizational Documents.
- (f) *Other Information.* Such other information regarding the condition, financial or otherwise, or operations of the Borrower as RUS may, from time to time, reasonably request.

Section 5.11 Tariff and Rate Design

- (a) *Tariff Requirements for Telecommunications Loan and Telecommunications Loan Guarantee Borrowers* are as follows:
 - (1) *Regulatory Approval Necessary.* If regulatory approval is required to effectuate its telephone service tariff, the Borrower shall seek and use its diligent best efforts to obtain all regulatory body approvals necessary to place in effect and thereafter to maintain in effect a tariff for telephone service which (A) provides for such grades of service as RUS shall approve, (B) does not include mileage or zone charges for any telephone service provided by the Project, and (C) is designed with a view to (1) paying and discharging all taxes, maintenance expenses, and operating expenses of the Borrower's system, (2) making all payments in respect of principal of and interest on the Note(s) when and as the same shall become due, (3) providing and maintaining reasonable working capital for the Borrower, and (4) producing and maintaining the TIER specified on Schedule I hereto. The Borrower shall place such tariff into effect as soon as permitted by applicable laws and regulations and shall use its diligent best efforts to obtain all necessary regulatory body approvals of such revisions of its tariff as may be necessary from time to time to satisfy the requirements of this provision.
 - (2) *Regulatory Approval Not Required.* If regulatory approval is not required to effectuate its telephone service tariff, the Borrower shall design, charge and maintain in effect a tariff for telephone service which (A) provides for such grades of service as RUS shall approve, (B) does not include mileage or zone charges for any telephone service provided by the Project, and (1) pays and discharges all taxes, maintenance expenses, and operating expenses of the Borrower's system, (2) makes all payments in respect of principal of and interest on the Note(s) when and as the same shall become due, (3) provides and maintains reasonable working capital for the Borrower, and (4) produces and maintains the TIER specified on Schedule I hereto.
- (b) *Rate Requirement for Broadband Service.* The Borrower shall design, charge, and maintain in effect rates for Broadband service which (i) pay and discharge all taxes, maintenance expenses and operating expenses of its system, (ii) make all payments in respect of principal of and interest on the Note(s) when and as the same shall become due, (iii) provide and maintain reasonable working capital for the Borrower, and (iv) produce and maintain the TIER specified on Schedule I hereto.

Section 5.12 TIER Requirement

From the date of this Agreement until the date specified in Schedule I, the Borrower will maintain a TIER of at least 1.0. Thereafter, starting on the date specified in Schedule I (hereinafter called

the "TIER Commencement Date") the Borrower shall maintain the TIER level(s) as specified in Schedule 1.

Section 5.13 Corrective Action

Within thirty (30) days of (i) sending the financial reports required by Section 5.8 hereof that shows the TIER specified by Section 5.12 was not achieved for the reported fiscal year or (ii) being notified by RUS that the TIER specified in Section 5.12 was not achieved for the reported fiscal year, whichever is earlier, the Borrower, in consultation with RUS, shall provide a written plan satisfactory to RUS setting forth the actions that shall be taken to achieve the specified TIER on a timely basis and shall promptly implement said plan.

Section 5.14 Obligations with Respect to the Construction, Operation and Maintenance of the Project Funded by the Broadband Loan

- (a) *Project Management and Operation.* The Borrower shall be responsible for managing the day to day operations of the Project and will operate the Project in an efficient and economic manner as well as maintaining the Project in good repair.
- (b) *Design Standards, Construction Standards, and Lists of Materials.* The Borrower shall use design standards, construction standards, and lists of acceptable materials in accordance with Attachment 1 hereto, RUS Bulletin 1738-2, as amended and supplemented from time to time.
- (c) *Plans and Specifications.* The Borrower shall submit plans and specifications for construction to RUS for review and approval in accordance with Attachment 1 hereto, RUS Bulletin 1738-2, as amended and supplemented from time to time.
- (d) *Standard Forms of Purchase Contracts, Installation Contracts, Construction Contracts, and Engineering and Architectural Service Contracts.* The Borrower shall use the standard forms of contracts promulgated by RUS for construction, procurement, engineering services, and architectural services in accordance with Attachment 1 hereto, RUS Bulletin 1738-2, as amended and supplemented from time to time, and shall submit to RUS such contracts for review and approval in accordance with such Attachment 1.
- (e) *Contract Bidding Requirements.* The Borrower shall follow RUS bidding procedures when contracting for construction or procurement in accordance with Attachment 1 hereto, RUS Bulletin 1738-2, as amended and supplemented from time to time.
- (f) *Construction in Accordance with Loan Design.* The Borrower shall cause the Project to be constructed and completed in accordance with the loan design submitted with the Application.
- (g) *General Insurance Requirements.* The Borrower shall take out and maintain insurance on the Project and any other property acquired with the Loan in accordance with 7 CFR Section 1788 as well as maintaining the fidelity bond or theft insurance coverage required in Section 4.2 paragraph (g) hereof.

Section 5.15 Obligations with Respect to the Construction, Operation and Maintenance of the Project Funded by the Telecommunications Loan and Telecommunications Loan Guarantee

- (a) *Project Management and Operation.* The Borrower shall be responsible for managing the day to day operations of the Project and will operate the Project in an efficient and economic manner as well as maintaining the Project in good repair.
- (b) *Design Standards, Construction Standards and List of Material.* The Borrower shall use design standards, construction standards, and lists of acceptable materials in accordance with RUS Regulations.
- (c) *Plans and Specifications.* The Borrower shall submit plans and specifications for construction to RUS for review and approval in accordance with RUS Regulations.
- (d) *Standard Forms of Purchase Contracts, Installation Contracts, Construction Contracts, and Engineering and Architectural Service Contracts.* The Borrower shall use the standard forms of contracts promulgated by RUS for construction, procurement, engineering services, and architectural services in accordance with RUS Regulations and shall submit to RUS such contracts for review and approval in accordance with RUS Regulations.
- (e) *Contracts for Toll Traffic, Operator Assistance Services, and Extended Area Service.* The Borrower shall submit contracts for toll traffic, operator assistance services and contracts for extended area service to RUS for review and approval in accordance with RUS Regulations.
- (f) *Contract Bidding Requirements.* The Borrower shall follow RUS bidding procedures when contracting for construction or procurement in accordance with RUS Regulations.
- (g) *Construction in Accordance with Loan Design.* The Borrower shall cause the Project to be constructed and completed in accordance with the loan design submitted with the Application.
- (h) *General Insurance Requirements.* The Borrower shall take out and maintain insurance on the Project and any other property acquired with the Loan as well as maintaining fidelity bond or theft insurance coverage in accordance with RUS Regulations.

Section 5.16 Obligations Applicable to Telecommunications Loan and Telecommunications Loan Guarantee Borrowers with Respect to Area Coverage of Telephone Service

The Borrower shall furnish adequate telephone service to the widest practicable number of rural users in the Borrower's telephone service area, as such area is shown on the map which is a part of the Borrower's application for the Telecommunications Loan or Telecommunications Loan Guarantee and which map, as revised by agreement between the Borrower and RUS, is incorporated herein by reference thereto. In the performance of this obligation, the Borrower shall:

- (a) furnish service to all applicants for telephone service included in the Project funded by the Telecommunications Loan, or Telecommunications Loan Guarantee, without payment by such applicants of any extra charge as a contribution to the cost of construction of facilities to provide such service; and
- (b) take all action that may be required to enable it to extend service, without payment to the Borrower of any extra charge as a contribution to construction of facilities to provide such service, to every unserved rural applicant for service in its telephone service area if the cost of constructing the required line extension for such applicant will not exceed seven times the estimated annual local service revenues from such applicant. Such service shall be furnished with the use of such funds as may from

time to time be available to the Borrower, either from surplus earnings, increased equity capital, additional loans made by lenders other than the Government, or otherwise as the Borrower may elect, pursuant to terms and conditions set forth in the Borrower's tariff, as duly filed with or approved by regulatory bodies having jurisdiction in the premises, or in the absence of any such regulatory body, as adopted by the Borrower; provided that the Borrower shall not file with or submit for approval of appropriate regulatory bodies or adopt any proposed tariff, or continue in effect any existing tariff not required to be continued by any regulatory body, unless under such tariff the Borrower will be obligated to serve unserved rural applicants as provided herein.

Section 5.17 Preservation of Existence and Rights

The Borrower shall, until the Loan is repaid in full, take or cause to be taken all such actions as from time to time may be necessary to preserve its existence and to preserve and renew all franchises, contracts, rights of way, easements, permits, and licenses now or hereafter to be granted or conferred upon it, with respect to the Project, the loss of which would have a Material Adverse Effect on the Borrower.

Section 5.18 Compliance with Laws

The Borrower shall operate and maintain the Project and its properties in compliance in all material respects with all applicable Laws.

Section 5.19 Nondiscrimination

- (a) *Equal Opportunity Provisions in Construction Contracts.* The Borrower shall incorporate or cause to be incorporated into any construction contract, as defined in Executive Order 11246 of September 24, 1965 and implementing regulations, which is paid for in whole or in part with funds obtained from RUS, or borrowed on the credit of the United States pursuant to a grant, contract, loan, insurance or guarantee, or undertaken pursuant to any RUS program involving such grant, contract, loan, insurance or guarantee, the equal opportunity provisions set forth in Attachment 2 hereto, entitled Equal Opportunity Contract Provisions.
- (b) *Equal Opportunity Contract Provisions Also Bind the Borrower.* The Borrower further agrees that it shall be bound by such equal opportunity clause in any federally assisted construction work which it performs itself other than through the permanent work force directly employed by an agency of government.
- (c) *Sanctions and Penalties.* The Borrower agrees that it shall cooperate actively with RUS and the Secretary of Labor in obtaining the compliance of contractors and subcontractors with the equal opportunity clause and the rules, regulations and relevant orders of the Secretary of Labor, that it shall furnish RUS and the Secretary of Labor such information as they may require for the supervision of such compliance, and that it shall otherwise assist the administering agency in the discharge of RUS' primary responsibility for securing compliance. The Borrower further agrees that it shall refrain from entering into any contract or contract modification subject to Executive Order 11246 with a contractor debarred from, or who has not demonstrated eligibility for, Government contracts and federally assisted construction contracts pursuant to Part II, Subpart D of Executive Order 11246 and shall carry out such sanctions and penalties for violation of the equal opportunity clause as may be imposed upon contractors and subcontractors by RUS or the Secretary of Labor pursuant to Part II, Subpart D of Executive Order 11246. In addition, the Borrower agrees that if it fails or refuses to comply with these undertakings RUS may cancel, terminate or suspend in whole or in part this Agreement, may refrain from extending any further assistance under any of its

programs subject to Executive Order 11246 until satisfactory assurance of future compliance has been received from the Borrower, or may refer the case to the Department of Justice for appropriate legal proceedings.

Section 5.20 Buy American

The Borrower shall use or cause to be used in connection with the expenditures of funds if such funds were obtained in whole or in part by a loan being made or guaranteed by RUS only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States or any eligible country, and only such manufactured articles, material, and supplies as have been manufactured in the United States or any eligible country substantially all from articles, material, and supplies mined, produced or manufactured, as the case may be, in the United States or any eligible country, except to the extent RUS shall determine that such use shall be impracticable or that the cost thereof shall be unreasonable. For purposes of this section, an "eligible country" is any country that has with respect to the United States an agreement ensuring reciprocal access for United States products and services and United States suppliers to the markets of that Country, as determined by the United States Trade Representative.

Section 5.21 Additional Affirmative Covenants

The Borrower shall comply with the additional affirmative covenants set forth in Schedule I hereto.

ARTICLE VI – NEGATIVE COVENANTS

Section 6.1 General

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, the Borrower shall duly observe each of the negative covenants set forth in this Article VI.

Section 6.2 Merger, Consolidation and Transfer of Property

The Borrower shall not, without the prior written consent of RUS, take or suffer to be taken any steps to reorganize, consolidate with, or merge into any other corporation, or to sell, lease or transfer (or make any agreement therefor) all or any part of its property, including, without limitation, the Project.

Section 6.3 Covenants for Limited Liability Companies and Similar Borrowers

Borrowers which are limited liability companies or similar organizations agree that:

- (a) The death, retirement, resignation, expulsion, termination, bankruptcy, or dissolution of any member or the occurrence of any other event that terminates the continued membership of any member shall not cause the Borrower to be dissolved or its affairs to be wound up;
- (b) Prior to the date on which any and all obligations owed to RUS or the guaranteed lender with respect to Telecommunications Loan Guarantees, including the note evidencing the Loan, are discharged in full, the Borrower shall not be dissolved or terminated;
- (c) The organizational documents of the Borrower shall contain provisions reflecting the obligations of the Borrower in paragraphs (a) and (b) immediately above and such provisions shall not be amended without the prior written consent of RUS; and

- (d) No direct or indirect addition, issuance, or transfer of any membership units (or any other ownership interest) in the Borrower may be made by the Borrower or its members without the prior written consent of RUS.

Section 6.4 Additional Indebtedness

The Borrower shall not, without the prior written consent of RUS, incur additional indebtedness in the event:

- (a) The Borrower is not maintaining a TIER of 1.0 or if the additional indebtedness will cause the Borrower's TIER to fall below 1.0; or
- (b) An Event of Default as defined in Section 8.1(b) hereof has occurred and is continuing.

Section 6.5 Negative Pledge

The Borrower shall not create, incur, or suffer any lien, mortgage, pledge, assignment, or other encumbrance on, or security interest in its property, other than Permitted Encumbrances.

Section 6.6 Contracts

The Borrower shall not, without the prior written consent of RUS, enter into any contract or contracts for the operation or maintenance of all or any part of its property, including, without limitation, the Project, and shall not enter into any contract for the use by others of all or any part of its property, including, without limitation, the Project.

Section 6.7 Salaries

Salaries, wages and other compensation paid by the Borrower for services, and directors', members', managers' or trustees' fees, shall be reasonable and in conformity with the usual practice of entities of the size and nature of the Borrower.

Section 6.8 Extension of Credit

Except as specifically authorized in writing in advance by RUS, the Borrower will make no advance payments or loans, or in any manner otherwise extend its credit, either directly or indirectly, with or without interest, to any of its directors, trustees, officers, employees, stockholders, members, managers, Affiliates or Affiliated Companies; provided, however, the Borrower may make an investment for any purpose described in section 607(c)(2) of the Rural Development Act of 1972 (including any investment in, or extension of credit, guarantee or advance made to an Affiliated Company that is used by such Affiliate for such purpose) to the extent that, immediately after such investment, (1) the aggregate of such investments does not exceed one-third of the Net Worth and (2) the Borrower's Net Worth is at least twenty percent (20%) of its Total Assets.

Section 6.9 Distributions or Withdrawals

- (a) *Corporations and Cooperatives* Corporate or cooperative Borrowers shall not, without the prior written approval of RUS, make any dividend, stock, capital, or other distribution in the nature of an investment, guarantee, extension of credit, advance, or loan, nor make a capital credit distribution (all such distributions being hereinafter collectively called "Distributions;") provided, however, Distributions may be made in each calendar year as follows:

- (1) Aggregate, annual Distributions not to exceed twenty-five percent (25%) of prior calendar year's Net Income or Margins may be made if, after such aggregate annual Distributions, the Borrower's net worth is at least one percent (1%) of its Total Assets;
 - (2) Aggregate annual Distributions not to exceed fifty percent (50%) of the prior calendar year's Net Income or Margins may be made if, after such aggregate annual Distributions, the Borrower's Net Worth is at least twenty percent (20%) of its Total Assets;
 - (3) Aggregate annual Distributions not to exceed seventy-five percent (75%) of the prior calendar year's Net Income or Margins may be made if, after such aggregate annual Distributions, the Borrower's Net Worth is at least thirty percent (30%) of its Total Assets; or
 - (4) There is no limit on aggregate, annual Distributions if, after making such aggregate, annual Distributions, the Borrower's Net Worth is at least forty percent (40%) of its Total Assets.
- (b) *Limited Liability Companies.* Borrowers which are limited liability companies shall not, without the prior written approval of RUS, make any membership withdrawals, unit redemptions, or other type of profit allocation to its members and shall not, without the prior written approval of RUS, make capital distributions in the nature of an investment, guarantee, extension of credit, advance, or loan (all such actions being hereinafter collectively called "Distributions;") *provided, however,* Distributions may be made in each calendar year as follows:
- (1) Aggregate, annual Distributions not to exceed twenty-five percent (25%) of the prior calendar year's Net Income or Margins may be made if, after such aggregate annual Distributions, the Borrower's Net Worth is at least one percent (1%) of its Total Assets;
 - (2) Aggregate annual Distributions not to exceed fifty percent (50%) of the prior calendar year's Net Income or margins may be made if, after such aggregate annual Distributions, the Borrower's Net Worth is at least twenty percent (20%) of its Total Assets;
 - (3) Aggregate annual Distributions not to exceed seventy-five percent (75%) of the prior calendar year's Net Income or Margins may be made if, after such aggregate annual Distributions, the Borrower's Net Worth is at least thirty percent (30%) of its Total Assets; or
 - (4) There is no limit on aggregate, annual Distributions if, after making such aggregate, annual Distributions, the Borrower's net worth is at least forty percent forty percent (40%) of its Total Assets.
- (c) In addition to the Distributions authorized under the immediately, preceding subsections, the Borrower may make any Distribution or investment as provided in 7 CFR 1744 Subpart E.

Section 6.10 Changing Principal Place of Business, Place of Conducting Business, or Type of Organization

The Borrower shall not change its principal place of business, place of conducting business, or type of organization without the prior consent of RUS.

Section 6.11 Changing Name or Place of Incorporation or Organization

The Borrower shall not change its legal name or place of incorporation or organization without giving RUS sixty (60) days prior written notice.

Section 6.12 Changing Rates or Tariffs

The Borrower shall not file for or change its rates or tariffs without prior written approval by RUS.

Section 6.13 Historic Preservation

The Borrower shall not, without the prior written consent of RUS, use any Advance(s) to construct any facility which shall involve any district, site, building, structure or object which is included in, or eligible for inclusion in, the National Register of Historic Places maintained by the Secretary of the Interior pursuant to the Historic Sites Act of 1935 and the National Historic Preservation Act of 1966.

Section 6.14 Limitations on Using non-FDIC Insured Depositories.

Without the prior written approval of RUS, the Borrower shall not place the proceeds of the Loans or any loan which has been made or guaranteed by RUS, in the custody of any bank or other depository that is not insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS.

Section 6.15 Affiliated Transactions

The Borrower shall not enter into any transaction, contract, or dealing with an Affiliate of the Borrower or with the Borrower's or Affiliate's directors, trustees, officers, managers, members (if the Borrower is a limited liability company), or other corporate officials, without the prior written consent of RUS.

Section 6.16 Obligations with Respect to Nonduplication of Facilities for Telecommunications Loan and Telecommunications Loan Guarantee Loan Borrowers

If the Borrower has outstanding Telecommunications Loan(s) or Telecommunications Loan Guarantee(s) and provides telephone service in any state in which there is no state regulatory body with authority to regulate telephone service and to require certificates of convenience and necessity to the Borrower, the Borrower shall not use any portion of such Loan(s) for the construction of telephone facilities to furnish or improve service to persons located in such state receiving telephone service from any other telephone company at the time the Borrower proposes to furnish or improve service to such persons, except that the Borrower may provide or improve service to persons receiving service through facilities acquired or to be acquired by the Borrower, and except to the extent RUS, on the basis of evidence submitted to it by the Borrower, shall have determined that service by the Borrower to such persons will not result in duplication of lines, facilities or systems providing reasonably adequate service.

Section 6.17 Additional Negative Covenants

The Borrower shall comply with the additional negative covenants set forth in Schedule 1 hereto.

ARTICLE VII - LENDER'S RIGHTS

Section 7.1 Termination of Loan Offer

RUS, in its sole discretion, may terminate the offer to make the Loan(s) if Loan Documents, duly executed on behalf of the Borrower, are not received and all other conditions in Section 4.1 hereof are not satisfied within one hundred twenty (120) days from the date hereof.

Section 7.2 Audits and Compliance Reviews

After giving prior notification to the Borrower, RUS has the right to conduct compliance reviews and audits of the Borrower to assure compliance with the Loan Documents and RUS Regulations.

Section 7.3 Disallowed Expenditures

Upon a determination by RUS that the Borrower did not utilize the Loan in the manner and exclusively for the Project as approved by RUS, RUS may, in its sole discretion:

- (a) Disallow all or a part of the expenditures and disbursements of the Loan and require the Borrower to deposit such funds in the Construction Fund Account or in the Pledged Deposit Account, to be applied toward other approved Project purposes or to reimburse the Government, as provided in Section 5.3 hereof;
- (b) Suspend making Advances; and/or
- (c) Take any other action RUS determines to be necessary including, without limitation, exercising any right or remedy available under the Loan Documents or at law.

Section 7.4 Suspension of Advances

RUS may, in its absolute discretion, suspend making or approving Advances hereunder, if RUS determines that an event has occurred that is likely to have a Material Adverse Effect on the Borrower.

Section 7.5 Payment Extensions

RUS may, at any time or times in succession without notice to, or the consent of, the Borrower and upon such terms as RUS may prescribe, grant to any person, firm or entity who shall have become obligated to pay all or any part of the principal of or interest on any Note held by, or indebtedness owed to, RUS or who may be affected by the lien created by the Loan Documents, an extension of the time for the payment of such principal or interest. After any such extension the Borrower will remain liable for the payment of such Note or indebtedness to the same extent as though it had at the time of such extension consented thereto in writing.

ARTICLE VIII - EVENTS OF DEFAULT

Section 8.1. Events of Default

The following shall be Events of Default under this Agreement:

- (a) Representations and Warranties. Any representation or warranty made by the Borrower in the Loan Documents or in the Application, any certificate furnished to RUS thereunder, shall prove to have been incorrect in any material respect at the time made;

- (b) Non-Payment. The nonpayment of any required and due installment of interest on, or principal of, any Note, whether by acceleration or otherwise, which continues for five (5) Business Days, as such term is herein defined;
- (c) Corrective Actions. Default by the Borrower in the observance or performance of Section 5.13;
- (d) Limited Liability Companies. Default by the Borrower or its members in the observance or performance of Section 6.3;
- (e) Other Covenants. Default by the Borrower in the observance or performance of any other covenant or agreement contained in any of the Loan Documents, which shall remain unremedied for thirty (30) calendar days, after written notice thereof had been given to the Borrower by RUS;
- (f) Adverse Effects. The Borrower shall forfeit or otherwise be deprived of its charter, articles of organization, franchises, permits, easements, consents, or licenses required to carry on any material portion of its business, or the Borrower files for, or an event occurs, which can reasonably be expected to result in its dissolution or termination;
- (g) Other Obligations. Default by the Borrower in the payment of any obligation, whether direct or contingent, for borrowed money in excess of ten thousand dollars (\$10,000.00) or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation which default shall have resulted in such obligation becoming or being declared due and payable prior to the date on which it would otherwise be due and payable;
- (h) Bankruptcy. A court having jurisdiction in the premises shall enter a decree or order for relief with respect to the Borrower in an involuntary case under any applicable bankruptcy, insolvency, or other similar law now or hereafter in effect: (1) appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator, or similar official, or (2) ordering the winding up or liquidation of its affairs; or the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian or trustee, of a substantial part of its property, or make any general assignment for the benefit of creditors;
- (i) Dissolution or Liquidation. Other than as provided in the immediately preceding subsection, the dissolution or liquidation of the Borrower, or the filing of such by the Borrower;
- (j) Impaired Business. The failure by the Borrower to promptly forestall or remove any execution, garnishment or attachment of such consequence as shall impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within thirty (30) days; or
- (k) Payment of Final Judgment. A final judgment in an amount of ten thousand dollars (\$10,000.00) or more shall be entered against the Borrower and shall remain unsatisfied or without a stay in respect thereof for a period of thirty (30) days.

ARTICLE IX - REMEDIES

Section 9.1 Generally

Upon the occurrence of an Event of Default, RUS may pursue all rights and remedies that are contemplated by the Loan Documents in the manner, upon the conditions, and with the effect provided in the Loan Documents, including, but not limited to, a suit for specific performance, injunctive relief, or damages. Nothing herein shall limit the rights of RUS to pursue, jointly or severally, all rights and remedies available to a creditor following the occurrence of an Event of Default listed in Article VIII hereof. Each right, power, and remedy of RUS shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.

Section 9.2 Remedies

In addition to the remedies referred to in Section 9.1 hereof, upon the occurrence of an Event of Default RUS may:

- (a) Refuse to make any Advance or further Advance on account of the Loan(s), but any Advance thereafter made by RUS shall not constitute a waiver of such default; or
- (b) Declare all unpaid principal of and all interest accrued on the Note(s) to be immediately due and payable and upon such declaration all such principal and interest shall become immediately due and payable.

ARTICLE X - MISCELLANEOUS

Section 10.1 Notices

All notices, requests, and other communications provided for herein including, without limitation, any modifications, waivers, requests, or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered to the intended recipient at the "Address for Notices" specified below; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as provided for herein. The Addresses for Notices of the respective parties are as follows:

<u>RUS</u> Rural Utilities Service United States Department of Agriculture 1400 Independence Avenue, S.W. Washington, D.C.20250-1500 Attention: Administrator Fax: (202) 720-1725	<u>Borrower</u> See Schedule I
<u>With a copy to:</u> See Schedule I	<u>With a copy to:</u> See Schedule I

Section 10.2 Expenses

To the extent allowed by law, the Borrower shall pay all costs and expenses of RUS, including reasonable fees of counsel, incurred in connection with the enforcement of the Loan Documents or with the preparation for such enforcement if RUS has reasonable grounds to believe that such enforcement may be necessary.

Section 10.3 Late Payments

If payment of any amount due hereunder is not received at the United States Treasury in Washington, DC or such other location as RUS may designate to the Borrower within five (5) Business Days after the due date thereof, or such other time period as RUS may prescribe from time to time in its policies of general application in connection with any late payment charge (such unpaid amount being herein called the "delinquent amount", and the period beginning after such due date until payment of the delinquent amount being herein called the "late-payment period,") the Borrower shall pay to RUS in addition to all other amounts due under the terms of the Notes, the Security Documents and this Agreement, any late payment charge as may be fixed by RUS Regulations from time to time on the delinquent amount for the late-payment period.

Section 10.4 Filing Fees

To the extent permitted by law, the Borrower agrees to pay all expenses of RUS (including the fees and expenses of its counsel) in connection with the filing or recordation of all financing statements and instruments as may be required by RUS in connection with this Agreement, including, without limitation, all documentary stamps, recordation, transfer taxes, and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower agrees to save harmless and indemnify RUS from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by RUS in connection with this Agreement. The provisions of this section shall survive the execution and delivery of this Agreement and the payment of all other amounts due hereunder or due on the Notes.

Section 10.5 No Waiver

No failure on the part of RUS to exercise, nor any delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by RUS of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

Section 10.6 Governing Law

This Agreement shall be governed by and construed in accordance with applicable federal law and, in the absence of controlling federal law, by the laws of the State identified in the first paragraph herein, except those that would render such choice of law ineffective.

Section 10.7 Holiday Payments

If any payment to be made by the Borrower hereunder shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

Section 10.8 Rescission

The Borrower may elect not to borrow the Loan, in which event RUS shall release the Borrower from its obligations hereunder, provided the Borrower complies with such terms and conditions as RUS may impose for such release.

Section 10.9 Successors and Assigns

- (a) This Agreement shall be binding upon and inure to the benefit of the Borrower and RUS, and their respective successors and assigns, except that the Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of RUS.
- (b) Pursuant to federal claims collection laws, RUS' claims hereunder may be transferred to other agencies of the United States of America; in the event of such a

transfer, all rights and remedies hereby granted or conferred on RUS shall pass to and inure to the benefit of any such successor agency.

Section 10.10 Complete Agreement; Waivers and Amendments

Subject to RUS Regulations, this Agreement and the other Loan Documents are intended by the parties to be a complete and final expression of their agreement. However, RUS reserve the right to waive its rights to compliance with any provision of this Agreement and the other Loan Documents. No amendment, modification, or waiver of any provision hereof or thereof, and no consent to any departure of the Borrower herefrom or therefrom, shall be effective unless approved in writing by RUS in the form of either a RUS Regulation or other writing signed by or on behalf of RUS, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 10.11 Prior Telephone Loan Contracts

With respect to all Prior Telephone Loan Contracts, the Borrower shall, commencing on the delivery date hereof, prospectively meet the affirmative and negative covenants as set forth in this Agreement rather than those set forth in the Prior Telephone Loan Contracts. In addition, any remaining obligation of RUS to make or approve additional advances on promissory notes of the Borrower that have been previously delivered to RUS under Prior Telephone Loan Contracts shall, after the date hereof, be subject to the conditions set forth in this Agreement. In the event of any conflict between any provision set forth in a Prior Telephone Loan Contract and any provision in this Agreement, the requirements as set forth in this Agreement shall apply. Nothing in this section shall, however, eliminate or modify (i) any special condition, special affirmative covenant or special negative covenant, if any, set forth in any Prior Telephone Loan Contract or (ii) alter the repayment terms of any promissory notes which the Borrower has delivered under any Prior Telephone Loan Contract, except, in either case, as RUS may have specifically agreed to in writing.

Section 10.12 Headings

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

Section 10.13 Severability

If any term, provision, condition, or any part thereof, of this Agreement, Note(s) or the Security Documents shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision, or condition nor any other term, provision, or condition, and this Agreement, the Note(s), and the Security Documents shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

Section 10.14 Right of Setoff

Upon the occurrence and during the continuance of any Event of Default, RUS is hereby authorized at any time, without prior notice to the Borrower, to exercise rights of setoff or recoupment and apply any and all amounts held or hereafter held, by RUS, owed to the Borrower, or for the credit or account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing hereunder or under the Note(s). RUS agrees to notify the Borrower promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of RUS under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which RUS may have. Borrower waives all rights of setoff, deduction, recoupment, or counterclaim.

Section 10.15 Schedules and Attachments

Each Schedule and Attachment attached hereto and referred to herein is each an integral part of this Agreement.

Section 10.16 Authority of Representatives of RUS

In the case of any consent, approval, or waiver from RUS that is required under this Agreement or any other Loan Document, such consent, approval, or waiver must be in writing and signed by an authorized RUS representative to be effective. As used in this section, "authorized RUS representative" means the Administrator of RUS or any person to whom the Administrator has officially delegated specific or general authority to take the action in question.

Section 10.17 Amendment of Laws and RUS Regulations

Nothing contained herein shall restrict in any way RUS' right to amend, rescind, or supplement any of the RUS Regulations or to seek such changes to existing Laws.

Section 10.18 Term

This Agreement shall remain in effect until one of the following two events has occurred:

- (a) The Borrower and RUS replace this Agreement with another written agreement;
- (b) All of the Borrower's obligations under this Agreement have been discharged and paid.

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

HIGHLAND TELEPHONE COOPERATIVE, INC.

by _____
Name:
Title:

(Seal)

Attested to by: _____
Secretary

THE UNITED STATES OF AMERICA

by _____
as Administrator
of the Rural Utilities Service

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 D
FINANCIAL STATEMENTS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 554
HIGHLAND TELEPHONE COOPERATIVE, INC.
AND SUBSIDIARIES
SUNBRIGHT, TENNESSEE

December 31, 2007 and 2006

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TIN 62-0693408

Certified Public Accountants

2355 South Chancery Street
McMinnville, Tennessee 37110

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Highland Telephone Cooperative, Inc.
Sunbright, Tennessee

We have audited the accompanying consolidated balance sheets of Highland Telephone Cooperative, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in member's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Highland Communications Corporation, a wholly owned subsidiary, which statements reflect total assets of \$3,350,121 and \$4,131,854 as of December 31, 2007 and 2006, respectively and total revenues of \$4,597,175 and \$4,292,649, respectively for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Highland Communications Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Highland Telephone Cooperative, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONT'D)

Board of Directors
Highland Telephone Cooperative, Inc.
Sunbright, Tennessee

In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2008 on our consideration of Highland Telephone Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Jonathan Hale Welch, P.C.
Certified Public Accountants

McMinnville, Tennessee
April 17, 2008

CONSOLIDATED

HIGHLAND TELEPHONE COOPERATIVE,

December 31, 2007

	2007	2006
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 5,505,653	\$ 8,371,277
Temporary investments	600,000	600,000
Securities held to maturity	0	1,649,263
Securities available for sale	6,637,651	8,490,456
Telecommunications accounts receivable, less allowances of \$191,531 in 2007 and \$191,531 in 2006	1,013,051	1,038,774
Other accounts receivable	836,181	882,036
Materials and supplies	2,980,254	1,756,546
Prepayments	617,209	513,458
Other current assets	247,520	383,348
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	\$ 18,437,519	\$ 23,685,158
 <u>NONCURRENT ASSETS</u>		
Other investments	\$ 3,242,484	\$ 4,433,734
Deposits	2,673	2,273
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	\$ 3,245,157	\$ 4,436,007
 <u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 89,213,613	\$ 82,062,308
Telecommunications plant under construction	12,363,898	10,399,350
	<hr/>	<hr/>
	\$ 101,577,511	\$ 92,461,658
Less accumulated depreciation	58,534,493	53,860,006
	<hr/>	<hr/>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 43,043,018	\$ 38,601,652
	<hr/>	<hr/>
	\$ 64,725,694	\$ 66,722,817
	<hr/>	<hr/>

See the notes to financial statements.

BALANCE SHEETS

INC. AND SUBSIDIARIES

and 2006

	2007	2006
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,459,157	\$ 2,221,200
Advance billings and payments	681,313	658,897
Customer deposits	8,599	11,840
Current maturities on long-term debt	1,687,387	1,605,008
Accrued taxes	641,605	769,538
Accrued interest	32,661	36,704
Accrued rents	506,626	465,834
Accrued salaries and wages	281,801	244,674
Accrued compensated absences	1,502,040	1,316,806
Accrued federal and state income taxes	51,536	700,462
Other current liabilities	353,709	283,465
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	\$ 7,206,434	\$ 8,314,428
 <u>LONG-TERM DEBT</u>		
Rural Utilities Service - mortgage notes	9,893,593	11,583,006
 <u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension	4,022,819	2,356,776
Deferred taxes	17,141	20,127
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 21,139,987	\$ 22,274,337
 <u>MEMBERS' EQUITY</u>		
	43,585,707	44,448,480
	<hr/>	<hr/>
	<u>\$ 64,725,694</u>	<u>\$ 66,722,817</u>

CONSOLIDATED STATEMENTS OF INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2007 and 2006

	2007	2006
Operating revenues:		
Local network services revenue	\$ 7,883,012	\$ 7,367,537
Network access services revenue	8,802,768	9,341,388
Miscellaneous revenues	3,109,226	3,223,441
Less uncollectible revenue	<u>(64,615)</u>	<u>(80,006)</u>
TOTAL OPERATING REVENUES	\$ 19,730,391	\$ 19,852,360
Operating expenses:		
Plant specific operations expense	\$ 5,637,238	\$ 5,246,972
Plant nonspecific operations expense	1,884,476	1,732,809
Provision for depreciation	5,946,368	5,653,217
Customer operations expense	2,484,358	2,433,455
Corporate operations expense	3,745,643	3,521,092
Operating taxes	<u>449,509</u>	<u>551,741</u>
TOTAL OPERATING EXPENSES	<u>\$ 20,147,592</u>	<u>\$ 19,139,286</u>
OPERATING INCOME	\$ (417,201)	\$ 713,074
Other income (expense):		
Interest income	\$ 617,960	\$ 709,715
Nonregulated income	1,394,670	1,133,341
Income from investment	158,690	157,168
Gain from sale of fixed asset	8,467	0
Gain from sale of investment	<u>95,949</u>	<u>2,636,888</u>
TOTAL OTHER INCOME	\$ 2,275,736	\$ 4,637,112

CONSOLIDATED STATEMENTS OF INCOME (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2007 and 2006

	2007	2006
Fixed charges:		
Interest on long-term debt	\$ 620,240	\$ 699,433
Interest charged to construction - credit	(490,744)	(336,465)
Interest on customer deposits	<u>888</u>	<u>1,026</u>
TOTAL FIXED CHARGES	<u>\$ 130,384</u>	<u>\$ 363,994</u>
INCOME BEFORE TAXES ON INCOME	\$ 1,728,151	\$ 4,986,192
Taxes on income	<u>475,120</u>	<u>779,214</u>
NET INCOME	\$ 1,253,031	\$ 4,206,978
Other Comprehensive income (loss):		
Unrealized gain on investment of securities available for sale (net of related tax (benefit) of \$1,130 in 2007 and (\$590) in 2006)	<u>20,090</u>	<u>26,244</u>
COMPREHENSIVE INCOME	<u><u>\$ 1,273,121</u></u>	<u><u>\$ 4,233,222</u></u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

Years ended December 31, 2007 and 2006

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2005	\$ 275,032	\$ 40,666,851	\$ (37,798)	\$ 40,904,085
Net income for 2006	0	4,206,978	0	4,206,978
Capital credits paid and applied	0	(690,332)	0	(690,332)
Reserve for market valuation of securities	0	0	26,244	26,244
Memberships received	<u>1,505</u>	<u>0</u>	<u>0</u>	<u>1,505</u>
Balance at December 31, 2006	\$ 276,537	\$ 44,183,497	\$ (11,554)	\$ 44,448,480
Net income for 2007	0	1,253,031	0	1,253,031
Capital credits paid and applied	0	(735,401)	0	(735,401)
Other comprehensive income	0	0	20,090	20,090
Memberships refunded	(2,550)	0	0	(2,550)
Adjustment to initially apply FASB statement No. 158	<u>0</u>	<u>0</u>	<u>(1,397,943)</u>	<u>(1,397,943)</u>
Balance at December 31, 2007	<u>\$ 273,987</u>	<u>\$ 44,701,127</u>	<u>\$ (1,389,407)</u>	<u>\$ 43,585,707</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from customers	\$ 19,824,385	\$ 20,251,347
Cash paid to suppliers and employees	(14,040,376)	(12,074,047)
Interest and dividends received	654,566	706,727
Interest paid	(134,427)	(367,840)
Taxes paid	(1,704,474)	(798,898)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,599,674</u>	<u>\$ 7,717,289</u>
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (10,580,924)	\$ (11,043,294)
Plant removal cost	(1,021)	(657)
Salvage	18,069	0
Proceeds from sale of fixed asset	40,095	0
Investment in nonregulated assets	1,349,940	(2,209,451)
Securities held to maturity	1,649,263	4,238,818
Securities available for sale	1,852,805	(2,182,960)
Proceeds from sale of partnership interest	85,476	1,548,451
Proceeds from sale of equity investment	10,473	2,358,152
Decrease (Increase) in reserve for market valuation of securities	20,090	26,244
Decrease (Increase) in:		
Materials and supplies	(1,223,708)	(642,835)
Deposits	(400)	0
Nonregulated income	1,394,670	1,133,341
NET CASH USED BY INVESTING ACTIVITIES	<u>\$ (5,385,172)</u>	<u>\$ (6,774,191)</u>
Cash flows from financing activities:		
Payments on long-term borrowings	\$ (1,607,034)	\$ (1,528,580)
Retirement and application of capital credits	(735,401)	(690,332)
Postretirement benefits other than pension	268,100	255,480
Increase (Decrease) in:		
Customer deposits	(3,241)	(3,660)
Memberships	(2,550)	1,505
NET CASH USED BY FINANCING ACTIVITIES	<u>\$ (2,080,126)</u>	<u>\$ (1,965,587)</u>
NET DECREASE IN CASH	<u>\$ (2,865,624)</u>	<u>\$ (1,022,489)</u>
CASH AT BEGINNING OF YEAR	<u>8,371,277</u>	<u>9,393,766</u>
CASH AT END OF YEAR	<u><u>\$ 5,505,653</u></u>	<u><u>\$ 8,371,277</u></u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2007 and 2006

	2007	2006
Net income	\$ 1,253,031	\$ 4,206,978
Nonregulated income (loss)	(1,394,670)	(1,133,341)
Income from investment	(158,690)	(157,168)
Gain from sale of fixed asset	(8,467)	0
Gain from sale of investments	(95,949)	(2,636,888)
Deferred tax expense (benefit)	(2,986)	(122,786)
Net income from regulated operations	\$ (407,731)	\$ 156,795
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	\$ 6,090,882	\$ 5,673,562
Decrease (Increase) in:		
Customer and other accounts receivable	71,578	351,107
Current and accrued assets - other	135,828	18,195
Prepaid expenses	(103,751)	(212,173)
Increase (Decrease) in:		
Accounts payable	(762,043)	831,521
Advance billings and payments	22,416	47,880
Accrued taxes	(127,933)	153,198
Accrued interest	(4,043)	(3,846)
Accrued rents	40,792	35,971
Accrued salaries and employee benefits	222,361	74,505
Accrued federal and state income taxes	(648,926)	624,431
Other current liabilities	70,244	(33,857)
TOTAL ADJUSTMENTS	<u>\$ 5,007,405</u>	<u>\$ 7,560,494</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,599,674</u>	<u>\$ 7,717,289</u>

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note A – Highland Telephone Cooperative, Inc. provides telecommunications services to customers in Morgan County and Scott County, Tennessee and McCreary County, Kentucky. The Cooperative has adopted the following accounting policies:

- (1) Principles of Consolidation:
Highland Telephone Cooperative, Inc. (Cooperative) owns 100% of the outstanding common stock of Highland Communications Corporation and Highland Media Corporation. Highland Communications Corporation was formed on May 8, 1996 for the purpose of providing long distance telephone services, internet and other telecommunications services. Highland Media Corporation was formed to provide cable television services. The consolidated financial statements include the accounts of Highland Communications Corporation and Highland Media Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.
- (2) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (3) Certificates of deposit and United States treasury bills with original maturities over 90 days are classified as temporary investments.
- (4) Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. No interest is charged on accounts receivable balances that are past due. Past due accounts receivable are based upon contractual terms as defined on customer invoices. Accounts receivable past due 90 days or more amounted to \$37,284 at December 31, 2007.

The allowance for doubtful accounts is based upon a credit review of the accounts receivable, past bad debt experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance represents an estimate based upon these and other factors and, it is at least reasonably possible that a change in the estimate will occur in the near term.

Telecommunications services are provided to the Cooperative's customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note A (Cont'd) -

- (5) Materials and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts. The lower of cost (first-in, first-out) or market method has been used in determining the inventory value at year-end for the subsidiaries.
- (6) Revenue is recorded upon the billing of telecommunications services net of sales tax.
- (7) Expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation.
- (8) Employee vacation pay is accrued as the benefits are earned according to an established policy.
- (9) Advertising costs are expensed as incurred and included in customer operations. Advertising expense amounted to \$186,108 in 2007 and \$208,622 in 2006.
- (10) Various amounts have been reclassified for comparative purposes.

Note B - Substantially all assets are pledged as security for the long-term debt to RUS.

Note C - The Cooperative maintains its cash accounts in several commercial banks located within its trade area. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments held in commercial bank	\$6,144,452
Portion insured by FDIC	<u>1,148,105</u>
Uninsured cash balances	<u>\$4,996,347</u>

The Cooperative has an agreement with Regions Bank whereby \$127,276 of the uninsured cash is collateralized by United States Treasury Bills.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note D – Investments in Debt and Equity Securities:

Investments in debt and equity securities consist of the following:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
December 31, 2007:				
Available for sale:				
U.S. Gov't Bonds	\$ 525,709	\$ 1,404	\$ 0	\$ 527,113
U.S. Treasury Notes	5,578,856	7,673	0	5,586,529
Money market	<u>524,009</u>	<u>0</u>	<u>0</u>	<u>524,009</u>
Total Available for Sale	<u>\$ 6,628,574</u>	<u>\$ 9,077</u>	<u>\$ 0</u>	<u>\$ 6,637,651</u>
December 31, 2006:				
Available for sale:				
U.S. Gov't Bonds	\$ 2,021,442	\$ 177	\$ (1,710)	\$ 2,019,909
U.S. Treasury Notes	6,480,497	0	(10,611)	6,469,886
Money market	<u>661</u>	<u>0</u>	<u>0</u>	<u>661</u>
Total Available for Sale	\$ 8,502,600	\$ 177	\$(12,321)	\$ 8,490,456
Held to maturity:				
U.S. Treasury Notes	<u>1,649,263</u>	<u>0</u>	<u>(2,970)</u>	<u>1,646,293</u>
Total Investment	<u>\$10,151,863</u>	<u>\$ 177</u>	<u>\$(15,291)</u>	<u>\$10,136,749</u>
Less than 12 months				
Description of Securities	<u>Fair Value</u>	<u>Unrealized Loss</u>		
U.S. Gov't Bonds	\$ 527,113	\$ 1,404		
U.S. Treasury Notes	<u>5,586,529</u>	<u>7,673</u>		
	<u>\$ 6,113,642</u>	<u>\$ 9,077</u>		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note D – (Cont'd):

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the intent and ability of the Cooperative to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery. At December 31, 2007, management believes there are no other-than-temporary impairments in the debt and equity securities.

The amortized cost and estimated market value of debt securities at December 31, 2007, by contractual maturities, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
Securities available for sale:		
Due in one year or less	<u>\$6,628,574</u>	<u>\$6,637,651</u>

Proceeds from the sale of investments in debt securities, gross realized gains and gross realized losses were as follows:

	<u>2007</u>	<u>2006</u>
Proceeds from sales and redemptions	<u>\$12,509,805</u>	<u>\$9,164,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note E – Other Investments:

	<u>2007</u>	<u>2006</u>
Nonregulated customer premises equipment, paystations, and key systems	\$4,219,195	\$5,561,110
Less accumulated depreciation	<u>(1,856,595)</u>	<u>(1,847,020)</u>
Net nonregulated customer premises equipment, paystations, and key systems	\$2,362,600	\$3,714,090
Nonregulated materials and supplies	59,306	57,756
Tennessee Independent Telecommunications Group, LLC (IRIS Networks) (10%)	<u>820,578</u>	<u>661,888</u>
TOTAL OTHER INVESTMENTS	<u>\$3,242,484</u>	<u>\$4,433,734</u>

On April 21, 2006 Highland Communications Corporation sold 100% of its equity investment in the Tennessee RSA No.3 Partnership for which the Highland Communications Corporation recognized a gain of \$640,202. In 2007, Highland Communications Corporation received an additional amount of proceeds that was held in escrow until all expenses were settled on the sale. The amount included in net income for the additional proceeds was \$85,476.

Note F – Investment in Telecommunications Plant in Service:

Telecommunications plant in service and under construction is stated at cost. Listed below are the major classes of the telecommunications plant in the accounts of the Cooperative as of December 31:

	<u>2007</u>	<u>2006</u>
Land	\$ 259,586	\$ 206,586
Buildings	3,680,019	3,234,219
Central office equipment	28,028,052	25,780,757
Poles, cables, and wire	50,425,322	47,042,881
Furniture and office equipment	2,150,388	1,902,904
Vehicles and other work equipment	2,903,184	2,966,613
Intangibles	<u>2,422</u>	<u>2,422</u>
TELECOMMUNICATIONS PLANT IN SERVICE	<u>\$87,448,973</u>	<u>\$81,136,382</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note F – Investment in Telecommunications Plant in Service (Cont'd):

The Cooperative provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its estimated useful life. Such provision, as a percentage of the average balance of telecommunications plant in service, was 7.15% in 2007 and 7.05% in 2006. Individual depreciation rates are as follows:

Buildings	2.7%
Central office	8.9 – 11.6%
Poles, cables and wire	5.2%
Furniture and office equipment	6.6 – 15.8%
Vehicles and other work equipment	6.5 – 12.1%

Investment in property and equipment included in the accounts of Highland Communications:

	<u>2007</u>	<u>2006</u>
Land	\$ 194,289	\$225,917
Land improvements	15,579	0
Buildings and improvements	736,607	0
Furniture	23,042	39,559
Vehicles	69,037	69,037
Equipment	<u>682,697</u>	<u>591,413</u>
TOTAL	<u>\$1,721,251</u>	<u>\$925,926</u>

Investment in property and equipment included in the accounts of Highland Media:

	<u>2007</u>	<u>2006</u>
Furniture	\$ 704	\$ 0
Vehicles	21,645	0
Equipment	<u>21,040</u>	<u>0</u>
TOTAL	<u>\$ 43,389</u>	<u>\$ 0</u>

Highland Communications and Highland Media provide for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its useful life. Depreciation charged to expense on Highland Communication's records amounted to \$62,100 in 2007 and \$70,003 in 2006. Depreciation charged to expense on the records of Highland Media amounted to \$1,455 for 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note G – Mortgage Notes:

Long-term debt is represented by mortgage notes payable to the United States of America. Following is a summary of outstanding long-term debt:

	<u>2007</u>	<u>2006</u>
5% Rural Utilities Service	\$11,580,980	\$13,188,014
Less current maturities	<u>1,687,387</u>	<u>1,605,008</u>
TOTAL	<u>\$ 9,893,593</u>	<u>\$11,583,006</u>

Principal and interest installments on the above notes are due periodically. The maturities of long-term debt for each of the five years succeeding the balance sheet date are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 1,687,387
2009	1,771,756
2010	1,860,343
2011	1,953,361
2012	2,051,029
Beyond five years	<u>2,257,104</u>
TOTAL	<u>\$11,580,980</u>

Note H – The Cooperative has adopted Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions”. Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative’s obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health and life insurance benefits for retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Cooperative elected to amortize the cost for the initial obligation over twenty years in level payments of principal.

Substantially all of the Cooperative’s employees are covered under postretirement health and life insurance plans. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note H – (cont'd):

The following table sets forth the plan's funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31:

	<u>2007</u>	<u>2006</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$ 939,768	\$1,084,836
Current active plan participants	<u>3,083,051</u>	<u>2,774,502</u>
Total accumulated postretirement benefit obligation	\$4,022,819	\$3,859,338
Fair value of plan assets	<u> 0</u>	<u> 0</u>
Net unfunded status	\$4,022,819	\$3,859,338
Unrecognized net gains	0	(1,424,815)
Unamortized prior service cost	<u> 0</u>	<u> (77,747)</u>
Accrued postretirement benefit other than pension	<u>\$4,022,819</u>	<u>\$2,356,776</u>
Amounts recognized in other comprehensive income:		
Unrecognized net gains	\$1,344,901	\$ 0
Unamortized prior service cost	<u> 53,042</u>	<u> 0</u>
Total included in other comprehensive income	<u>\$1,397,943</u>	<u>\$ 0</u>

Postretirement benefit cost is composed of the following for the year ended December 31:

	<u>2007</u>	<u>2006</u>
Benefits earned during the year	\$119,248	\$110,941
Interest on accumulated postretirement benefit obligation	231,560	221,493
Net amortization and deferral	<u>104,619</u>	<u>110,770</u>
Postretirement benefit cost	<u>\$455,427</u>	<u>\$455,427</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note H – (cont'd):

The Medicare and Prescription Drug, Improvement and Modernization Act of 2003 provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the benefit established by the law. Currently, for the plan, the Medicare Part D Subsidy is a reduction to premiums paid for by participants that are at least 65 years old. For 2007, premiums for this group of participants were approximately \$50 less than it would have been without the adjustment.

Weighted average assumptions to determine benefit obligations and net periodic cost for the years ended December 31:

	<u>2007</u>	<u>2006</u>
Discount rate	6.00%	6.00%
Expected return on plan assets	0.00%	0.00%

The Company's expected rate of return on plan assets is determined by the plan's historical long-term investment performance, current asset allocation, and estimates of future long-term return by asset class. To date the Company has chosen not to fund the liability.

The medical cost trend rate in 2007 was approximately 11.0% grading down to an ultimate rate in 2024 of 6.50%. A one percentage point increase in the assumed medical cost trend rates for each future year would have increased the aggregate of the service and the interest components of the 2007 net periodic postretirement benefit cost by \$51,811 and would have increased the postretirement benefit obligation as of December 31, 2006 by \$435,383.

The plan attempts to mitigate investment risks by balancing between equity and debt classes of investments. Currently, the plan is invested in mutual funds that are diversified into approximately 65% stocks and 35% high quality bonds. Although changes in interest rates may affect the fair value of a portion of the investments portfolio and cause unrealized gains and losses, such gains and losses would not be realized unless the investments are sold. In addition, no plan assets are expected to be returned to the Company in 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note H – (cont'd)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the plan:

<u>Year</u>	<u>Amount</u>
2008	\$ 192,946
2009	198,735
2010	204,697
2011	210,838
2012	217,163
Years 2013 – 2017	<u>1,187,536</u>
TOTAL	<u>\$2,211,915</u>

The Company generally does not make an annual contribution to the plan and a contribution is not anticipated in 2008.

Note I – The Cooperative has adopted the recognition provisions of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and other Postretirement Plans.” The standard requires disclosure of the incremental effect on its application on the individual line items of the balance sheet. The table below shows the effect on the individual line items of the balance sheet as of December 31, 2007:

	Before application of <u>SFAS 158</u>	<u>Adjustments</u>	After application of <u>SFAS 158</u>
Postretirement benefits other than pension	\$ 2,624,876	\$ 1,397,943	\$ 4,022,819
Total liabilities	19,742,044	1,397,943	21,139,987
Accumulated other comprehensive income	8,536	(1,397,943)	(1,389,407)
Members’ equity	44,983,650	(1,397,943)	43,585,707

The Cooperative will implement the measurement provisions of SFAS 158 during 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note J – Pension Plan:

The Cooperative has a defined contribution pension plan covering substantially all eligible employees. Contributions to the plan are made at the discretion of the Board of Directors. For 2007 and 2006, the amount of pension expense was \$463,571 and \$581,760, respectively, based on 10% of compensation.

Highland Communications established a 401(k) plan effective May 19, 1997. The plan covers all full time employees. Employees have the option to contribute up to 10% of their pay up to a maximum of \$15,500 for 2007 and \$15,000 for 2006. The Company matches 100% of employee plan contributions. Retirement expense related to this plan amounted to \$26,867 in 2007 and \$25,071 in 2006.

Note K – Lease Commitments:

Highland Communications has a one-year lease for its office spaces. The monthly rental expense for each office space is \$2,700 and \$919. One of the leases can be renewed for one additional year. During 2007, Highland Communications moved its corporate operations to a building that it had built and did not renew that lease. Rent expense was \$44,576 in 2007 and \$44,274 in 2006.

Note L – Income Taxes:

The Cooperative is currently exempt from both federal and state taxes on income, except for directory advertising which has been determined to be unrelated income subject to federal and state income taxes.

Highland Communications and Highland Media are subject to state and federal corporation income taxes. Deferred income taxes are as follows on the books of Highland Communications:

	<u>2007</u>	<u>2006</u>
Net deferred tax liability	<u>\$17,141</u>	<u>\$20,127</u>

The deferred long-term tax liability results from timing differences in depreciation and unrealized gains from investments. The difference between the income tax provisions reflected in the income statement and the provision resulting from applying the federal and state statutory rates to income or loss before income taxes results primarily from redetermination of prior year income tax liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2007 and 2006

Note M – Labor Force:

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A five-year agreement was negotiated and approved for the period October 1, 2003 to September 30, 2008 between the Cooperative and the Communications Workers of America.

Note N – Commitments and Contingencies:

The Cooperative is a guarantor for loans in the amount of approximately \$1,100,000. These loans are the obligation of TN Independent Telecommunications Group d/b/a Iris Networks, a related party.

*550,000
to be reduced*

Note O - Related Party Transactions:

Highland Telephone Cooperative, Inc. (Cooperative) provides billing and collection services for Highland Communications Corporation and remits revenues as billed net of collection service fee and other adjustments including any uncollectible revenues from previous billings.

CONSOLIDATING INFORMATION

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
Highland Telephone Cooperative, Inc.
Sunbright, Tennessee

Our report on our audit of the consolidated financial statements of Highland Telephone Cooperative, Inc. and Subsidiaries as of December 31, 2007, and for the year then ended, appears on pages three and four. That audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 26 through 29 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements. In our opinion, which insofar as it relates to Highland Communications Corporation, is based on the report of other auditors, such information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch, PLLC
Certified Public Accountants

McMinnville, Tennessee
April 17, 2008

CONSOLIDATING

HIGHLAND TELEPHONE COOPERATIVE,

December 31,

	Highland Telephone Cooperative, Inc.	Highland Communications Corporation	Highland Media Corporation	Eliminations	Total
<u>ASSETS</u>					
<u>CURRENT ASSETS</u>					
Cash - general	\$ 4,618,296	\$ 809,986	\$ 77,371	\$ 0	\$ 5,505,653
Temporary investments	600,000	0	0	0	600,000
Securities held to maturity	0	0	0	0	0
Securities available for sale	5,586,529	1,051,122	0	0	6,637,651
Telecommunications accounts receivable	1,005,116	315,097	0	(307,162)	1,013,051
Other accounts receivable	836,181	0	0	0	836,181
Materials and supplies	2,980,254	0	0	0	2,980,254
Prepayments	614,110	3,099	0	0	617,209
Other current assets	223,672	23,848	0	0	247,520
TOTAL CURRENT ASSETS	\$ 16,464,158	\$ 2,203,152	\$ 77,371	\$ (307,162)	\$ 18,437,519
<u>NONCURRENT ASSETS</u>					
Investment in subsidiaries	\$ 3,282,911	\$ 0	\$ 0	\$ (3,282,911)	\$ 0
Other investments	3,242,484	0	0	0	3,242,484
Deposits	1,073	1,200	400	0	2,673
TOTAL NONCURRENT ASSETS	\$ 6,526,468	\$ 1,200	\$ 400	\$ (3,282,911)	\$ 3,245,157
<u>PROPERTY, PLANT AND EQUIPMENT</u>					
Telecommunications plant in service	\$ 87,448,973	\$ 1,721,251	\$ 43,389	\$ 0	\$ 89,213,613
Telecommunications plant under construction	12,363,898	0	0	0	12,363,898
	\$ 99,812,871	\$ 1,721,251	\$ 43,389	\$ 0	\$ 101,577,511
Less accumulated depreciation	57,957,556	575,482	1,455	0	58,534,493
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 41,855,315	\$ 1,145,769	\$ 41,934	\$ 0	\$ 43,043,018
	<u>\$ 64,845,941</u>	<u>\$ 3,350,121</u>	<u>\$ 119,705</u>	<u>\$ (3,590,073)</u>	<u>\$ 64,725,694</u>

BALANCE SHEETS

INC. AND SUBSIDIARIES

2007

	Highland Telephone Cooperative, Inc.	Highland Communications Corporation	Highland Media Corporation	Eliminations	Total
<u>LIABILITIES AND MEMBERS' EQUITY</u>					
<u>CURRENT LIABILITIES</u>					
Accounts payable	\$ 1,663,763	\$ 97,852	\$ 4,704	\$ (307,162)	\$ 1,459,157
Advance billings and payments	681,313	0	0	0	681,313
Customer deposits	8,599	0	0	0	8,599
Current maturities on long-term debt	1,687,387	0	0	0	1,687,387
Accrued taxes	622,750	17,902	953	0	641,605
Accrued interest	32,661	0	0	0	32,661
Accrued rent	506,626	0	0	0	506,626
Accrued salaries and wages	281,801	0	0	0	281,801
Accrued compensated absences	1,502,040	0	0	0	1,502,040
Accrued federal and state income taxes	3,495	47,753	288	0	51,536
Other current liabilities	353,387	0	322	0	353,709
TOTAL CURRENT LIABILITIES	\$ 7,343,822	\$ 163,507	\$ 6,267	\$ (307,162)	\$ 7,206,434
<u>LONG-TERM DEBT</u>					
Rural Utilities Service	9,893,593	0	0	0	9,893,593
<u>OTHER LIABILITIES</u>					
Postretirement benefits other than pension	4,022,819	0	0	0	4,022,819
Deferred taxes	0	17,141	0	0	17,141
TOTAL LIABILITIES	\$ 21,260,234	\$ 180,648	\$ 6,267	\$ (307,162)	\$ 21,139,987
<u>MEMBERS' EQUITY</u>					
Memberships	\$ 273,987	\$ 0	\$ 0	\$ 0	\$ 273,987
Patronage capital	44,701,991	0	0	(864)	44,701,127
Accumulated other comprehensive income	(1,390,271)	864	0	0	(1,389,407)
Capital stock	0	1,387,409	200,000	(1,587,409)	0
Paid-in capital	0	604,435	0	(604,435)	0
Retained earnings	0	1,176,765	(86,562)	(1,090,203)	0
TOTAL MEMBERS' EQUITY	\$ 43,585,707	\$ 3,169,473	\$ 113,438	\$ (3,282,911)	\$ 43,585,707
	\$ 64,845,941	\$ 3,350,121	\$ 119,705	\$ (3,590,073)	\$ 64,725,694

CONSOLIDATING STATEMENTS OF INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

Year ended December 31, 2007

	Highland Telephone Cooperative, Inc.	Highland Communications Corporation	Highland Media Corporation	Eliminations	Total
Operating revenues:					
Local network services revenue	\$ 7,883,012	\$ 0	\$ 0	\$ 0	\$ 7,883,012
Network access services revenue	9,563,981	1,587,029	0	(2,348,242)	8,802,768
Miscellaneous revenues	2,019,346	3,074,033	0	(1,984,153)	3,109,226
Less uncollectible revenue	<u>(728)</u>	<u>(63,887)</u>	<u>0</u>	<u>0</u>	<u>(64,615)</u>
TOTAL OPERATING REVENUES	\$ 19,465,611	\$ 4,597,175	\$ 0	\$ (4,332,395)	\$ 19,730,391
Operating expenses:					
Plant specific operations expense	\$ 5,579,349	\$ 44,836	\$ 13,053	\$ 0	\$ 5,637,238
Plant nonspecific operations expense	1,804,376	18,669	61,431	0	1,884,476
Provision for depreciation	5,882,813	62,100	1,455	0	5,946,368
Customer operations expense	1,843,597	3,115,003	0	(2,474,242)	2,484,358
Corporate operations expense	3,362,274	270,736	10,623	102,010	3,745,643
Operating taxes	<u>404,328</u>	<u>45,181</u>	<u>0</u>	<u>0</u>	<u>449,509</u>
TOTAL OPERATING EXPENSES	\$ 18,876,737	\$ 3,556,525	\$ 86,562	\$ (2,372,232)	\$ 20,147,592
OPERATING INCOME	\$ 588,874	\$ 1,040,650	\$ (86,562)	\$ (1,960,163)	\$ (417,201)
Other income (expense):					
Interest income	\$ 490,051	\$ 127,909	\$ 0	\$ 0	\$ 617,960
Nonregulated income (loss)	(565,493)	0	0	1,960,163	1,394,670
Income from subsidiaries	697,657	0	0	(697,657)	0
Income from investment	158,690	0	0	0	158,690
Gain from sale of fixed asset	0	8,467	0	0	8,467
Gain from sale of investments	<u>10,473</u>	<u>85,476</u>	<u>0</u>	<u>0</u>	<u>95,949</u>
TOTAL OTHER INCOME	\$ 791,378	\$ 221,852	\$ 0	\$ 1,262,506	\$ 2,275,736

CONSOLIDATING STATEMENTS OF INCOME (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

Year ended December 31, 2007

	Highland Telephone Cooperative, Inc.	Highland Communications Corporation	Highland Media Corporation	Eliminations	Total
Fixed charges:					
Interest on long-term debt	\$ 620,237	\$ 3	\$ 0	\$ 0	\$ 620,240
Interest charged to construction - credit	(490,744)	0	0	0	(490,744)
Interest on customer deposits	888	0	0	0	888
TOTAL FIXED CHARGES	<u>\$ 130,381</u>	<u>\$ 3</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 130,384</u>
INCOME (LOSS) BEFORE TAXES ON INCOME	<u>\$ 1,249,871</u>	<u>\$ 1,262,499</u>	<u>\$ (86,562)</u>	<u>\$ (697,657)</u>	<u>\$ 1,728,151</u>
Taxes on income	(4,966)	480,086	0	0	475,120
NET INCOME (LOSS)	<u>\$ 1,254,837</u>	<u>\$ 782,413</u>	<u>\$ (86,562)</u>	<u>\$ (697,657)</u>	<u>\$ 1,253,031</u>
Other Comprehensive Income:					
Unrealized gain on investment securities available for sale (net of realted tax of \$1,130)	18,284	1,806	0	0	20,090
COMPREHENSIVE INCOME	<u><u>\$ 1,273,121</u></u>	<u><u>\$ 784,219</u></u>	<u><u>\$ (86,562)</u></u>	<u><u>\$ (697,657)</u></u>	<u><u>\$ 1,273,121</u></u>

EXHIBIT E
PROMISSORY NOTE

PROMISSORY NOTE

Tennessee 554-V42 Highland
Sunbright, Tennessee

THIS PROMISSORY NOTE (hereinafter the "Note.") dated as of September 23, 2008, is made by **HIGHLAND TELEPHONE COOPERATIVE, INC.** (hereinafter the "Borrower.") a cooperative, duly organized and existing under the laws of the State of Tennessee, and the **UNITED STATES OF AMERICA**, (hereinafter the "Government,") acting through the Administrator of the Rural Utilities Service. For value received, the Borrower promises to pay to the order of the Government, at the United States Treasury, Washington, D.C., Forty Eight Million Six Hundred Eleven Thousand Dollars (\$48,611,000), with interest payable, from the date of each advance, on the amount advanced by the Government (hereinafter the "Advance,") pursuant to a certain Loan Agreement, dated as of the same date as this Note (hereinafter the "Loan Agreement,") made by and between the Borrower and the Government and remaining unpaid from time to time, in the time and manner herein provided:

1. *Interest Rate.* Interest on each Advance shall be at rate(s), per annum (the "Cost of Money Interest Rate.") determined for each Advance in accordance with Section 305(d)(2)(A) of the Rural Electrification Act of 1936, as amended (7 U.S.C. 935 (d)(2)(A)) and the implementing regulations, as amended from time to time (7 C.F.R. 1735.31(c)).

2. *Maturity Date.* On a date nineteen (19) years after the date hereof, the principal hereof advanced pursuant to the Loan Agreement and remaining unpaid, if any, and interest thereon, shall be due and payable (hereinafter the "Maturity Date.")

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

4. *Payments on Advances.*

- (a) *Made Within Two (2) Years.* Interest on Advances made during the first two (2) years from the date of the first Advance hereunder, and remaining unpaid, shall be payable on the last day of each month (hereinafter the "Monthly Payment Date,") beginning on the last day of the month following the month of each Advance for the period ending two (2) years from the date of the first Advance hereunder. Thereafter, to and including the Maturity Date, the Borrower shall make a payment every Monthly Payment Date on each Advance which shall be: (i) substantially equal to all subsequent monthly payments and (ii) in an amount that

will pay all principal and interest due on each Advance no later than the Maturity Date.

- (b) *Made After Two (2) Years.* Interest and principal payments on Advances made more than two (2) years after the date of the first Advance hereunder shall be repaid in installments beginning with the Monthly Payment Date of the month following each Advance and ending on the Maturity Date. The first such payment on an Advance shall be increased by the amount of interest accruing between the date of the Advance and the first day of the next month. Thereafter, to and including the Maturity Date, the Borrower shall make a payment every Monthly Payment Date on each such Advance (i) substantially equal to every other monthly payment on such Advance, and (ii) in an amount that will pay all principal and interest of such Advance no later than the Maturity Date. This payment shall be in addition to the payment on the Advances made within two (2) years from the date of the first Advance hereunder and remaining unpaid.

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

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

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

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

9. *Noteholder.* This Note evidences indebtedness created by a loan made under the Rural Electrification Act (7 U.S.C. § 901 *et seq.*). The Government shall be, and shall have all rights as, holder of this Note. If the Government shall at any time assign this Note and insure the payment hereof, the Borrower shall continue to make payments hereunder to the Government as

collection agent for the insured holder, and for purposes of the Mortgage, the Government, and not such insured holder, shall be considered to be, and shall have the rights of, the noteholder.

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

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

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

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

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

HIGHLAND TELEPHONE
COOPERATIVE, INC.

by _____

Name:

Title:

(SEAL)

Attested to by: _____
Secretary

SECRETARY'S CERTIFICATE

I, CLARA TERRY, do hereby certify that: I am the secretary of Highland Telephone Cooperative, Inc. (hereinafter called the "Corporation,") the following are true and correct copies of resolutions duly adopted by the Board of Directors of the Corporation at the regular meeting held December 22, 2008, and entered in the minute book of the Corporation; the meeting was duly and regularly called and held in accordance with the Bylaws of the Corporation: the executed Loan Agreement, Note(s) and security instrument(s) are true and exact copies of the forms thereof authorized and approved by the Board of Directors to be executed, and none of the following resolutions has been rescinded or modified:

RESOLUTIONS

1. RESOLVED that the Corporation borrow from the United States of America (the "Government,") acting through the Administrator of the Rural Utilities Service ("RUS,") an amount not to exceed \$48,611,000.00. ("Loan") to be used for such purposes as approved by RUS, and

2. RESOLVED that the President is authorized on behalf of the Corporation to execute and deliver under its corporate seal which the secretary is directed to affix and attest. as many counterparts, respectively, as shall be deemed advisable of loan documents, including a loan agreement, note(s), mortgage, security agreements, deposit account control agreement and financing statements, as required by RUS; and

3. RESOLVED that the officers of the Corporation be, and each of them is authorized in the name and on behalf of the Corporation, to execute all such instruments. make all such payments and do all such other acts as in the opinion of the officer or officers acting may be necessary or appropriate in order to carry out the purposes and intent of the foregoing resolutions; and

I FURTHER CERTIFY THAT each member of the Board of Directors of the Corporation was furnished with notice of said meeting in compliance with the bylaws of the Corporation.

I FURTHER CERTIFY THAT the date of actual execution of the loan documents is December 22, 2008.

I FURTHER CERTIFY THAT the following are the names and signatures, respectively, of the officers of the Corporation identified below who validly held and occupied their respective positions on said date of actual execution of the documents.

Office	Name	Signature
President	Sam L. Strunk	_____
Vice President	JoAn Haynes	_____
Secretary/Treasurer	Clara Terry	_____

IN WITNESS WHEREOF I have hereunto set my hand and affixed the seal of the Corporation this 22nd day of December, 2008.

Clara Terry, Secretary

(Corporate Seal)

EXHIBIT F

**RESTATED MORTGAGE, SECURITY AGREEMENT
AND
FINANCING STATEMENT**

RUS DESIGNATION:
Tennessee 554-V42 Highland

RESTATED MORTGAGE,
SECURITY AGREEMENT
AND
FINANCING STATEMENT

made by and between

HIGHLAND TELEPHONE COOPERATIVE, INC.,
7840 Morgan County Highway
Sunbright, Tennessee 37872

as Mortgagor and Debtor,

THE UNITED STATES OF AMERICA,
Rural Utilities Service
Washington, D.C. 20250-1500,

as Mortgagee and secured party.

**THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.
THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY,
AFTER-ACQUIRED PROPERTY, FIXTURES, PROCEEDS, FUTURE ADVANCES AND FUTURE
OBLIGATIONS.
THIS INSTRUMENT WAS DRAFTED BY THE RURAL UTILITIES DIVISION, OFFICE OF
THE GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C. 20250-
1400.
MORTGAGOR'S ORGANIZATION NUMBER: 0119210.**

No. 6

THIS RESTATED MORTGAGE, SECURITY AGREEMENT AND FINANCING STATEMENT (hereinafter this "Restated Mortgage.") dated as of September 23, 2008, made by and between **HIGHLAND TELEPHONE COOPERATIVE, INC.** (hereinafter the "Mortgagor,") a cooperative existing under the laws of the State of Tennessee, as Mortgagor and Debtor, and **THE UNITED STATES OF AMERICA** (hereinafter the "Government,") acting through the Administrator of the Rural Utilities Service ("RUS") as Mortgagee and secured party.

WHEREAS, the Mortgagor and Mortgagee are parties to certain prior telephone loan contracts (the "Prior Telephone Loan Contracts;")

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

WHEREAS, the Outstanding RUS Notes are secured by the security instruments identified in Schedule A hereto, (hereinafter the "Prior Mortgages") made by the Mortgagor to the Government;

WHEREAS, the Mortgagor has determined at this time to borrow funds, or to obtain a loan guarantee, from the Government pursuant to the Rural Electrification Act of 1936 (7 U.S.C. § 901 *et seq*) (hereinafter the "Act") and the Loan Agreement identified in Schedule A, and accordingly the Mortgagor has duly authorized, executed, and delivered to the Government, its mortgage note(s) identified in Schedule A (hereinafter the "Current RUS Note(s),") which are to be secured by this Restated Mortgage of the property hereinafter described:

WHEREAS, it is contemplated that the Outstanding RUS Notes and the Current RUS Note shall be secured by this Restated Mortgage, as may be additional funding and notes, and/or renewal and substitute notes (hereinafter collectively the "Additional Notes,") which may from time to time be executed and delivered by the Mortgagor to the Government, or notes which otherwise obligate the Mortgagor to the Government, as hereinafter provided, (the Outstanding RUS Notes, Current RUS Note, and the Additional Notes are hereinafter collectively called the "Notes;")

WHEREAS, the Mortgagor now owns or leases the facilities (hereinafter the "Existing Facilities") identified in Schedule B;

WHEREAS, to the extent that any of the property described or referred to in this Restated Mortgage is governed by the provisions of the Uniform Commercial Code of any State (hereinafter the "UCC,") the parties hereto desire that this Restated Mortgage be regarded as a "security agreement" under the UCC, and

WHEREAS, all acts necessary to make this Restated Mortgage a valid and binding legal instrument for the security of the Notes and other obligations of the Mortgagor have been, in all respects, duly authorized.

NOW, THEREFORE, this Restated Mortgage

WITNESSETH:

That the instruments constituting the Prior Mortgages are hereby amended, supplemented, and consolidated to read in their entirety from and after the date of execution of this Restated Mortgage as follows:

GRANTING CLAUSE

NOW, THEREFORE, THIS RESTATED MORTGAGE WITNESSETH: That to secure the payment of the principal, interest, and premium, if any, on the Outstanding RUS Notes, Current RUS Note, and all Notes issued hereunder according to their tenor and effect, and to secure the performance of all provisions therein, herein, in the Prior Telephone Loan Contracts, and the Loan Agreement, and in consideration of the covenants herein contained and other good and valuable consideration, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, set over and confirm, pledge, and grant unto the Mortgagee, for the purposes herein expressed, a continuing security interest and lien in all property, assets, rights, privileges, licenses and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein, or any other kind or nature now owned or hereafter acquired or arising by the Mortgagor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including without limitation all or in part the following (hereinafter the "Mortgaged Property.")

I

All right, title, and interest of the Mortgagor in and to the Existing Facilities, buildings, plants, works, improvements, structures, estates, grants, franchises, easements, rights, privileges and properties, whether real, personal, or mixed, tangible or intangible, of every kind or description, now or hereafter owned, leased, constructed, or acquired by the Mortgagor, wherever located, and in and to all extensions, improvements, and additions thereto, including but not limited to all buildings, plants, works, structures, towers, antennas, fixtures, apparatus, materials, supplies, machinery, tools, implements, poles, posts, crossarms, conduits, ducts, lines, wires, cables, whether underground, overhead, or otherwise, exchanges, switches, including, without limitation, host and remote switches, desks, testboards, frames, racks, motors, generators, batteries, and other items of central office equipment, pay stations, protectors, instruments, connections and appliances, office furniture, equipment, and any and all other property of every kind, nature, and description, used, useful, or acquired for use by the Mortgagor in connection therewith, and including, without limitation, the following property:

- (a) The Existing Facilities located in the Counties listed in Schedule B in the States identified in Schedule B;
- (b) The real estate described on Schedule B, and by this reference made a part hereof, as if fully set forth at length at this point;
- (c) If the real estate described in Schedule B is by reference to deeds, grantor(s), grantee, etc., then the description of each of the properties conveyed by and through such deeds is, by reference, made a part of Schedule B as though fully set forth at length therein; and
- (d) The real estate described in Schedule B shall also include all plants, works, structures, erections, reservoirs, dams, buildings, fixtures, towers, antennas, and improvements now or hereafter located on such real estate, and all tenements, hereditaments, and appurtenances now or hereafter belonging, or in any way appertaining, thereunto.

II

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

III

All right, title, and interest of the Mortgagor in, to, and under any and all licenses and permits (including without limitation those granted by the FCC), franchises, ordinances, and privileges, whether heretofore or hereafter granted, issued, or executed, to it or to its assignors by the Government, or by any state, county, township, municipality, village, or other political subdivision thereof, or by any agency, board, commission, or department of any of the foregoing, authorizing the construction, acquisition, or operation of the Mortgagor's properties, facilities, systems, or businesses, insofar as the same may by law be assigned, granted, bargained, sold, conveyed, transferred, mortgaged, or pledged;

IV

All right, title, and interest of the Mortgagor in, to, and under all personal property and fixtures of every kind and nature, including without limitation all goods (such as inventory, equipment and any accessions thereto,) instruments (such as promissory notes or chattel paper, electronic or otherwise), documents, accounts (such as deposit accounts or trust accounts pursuant hereto or to a loan agreement), letter-of-credit rights, investment property (such as certificated and uncertificated securities or security entitlements and accounts), software, general intangibles (such as payment intangibles), supporting obligations, contract rights or rights to the payment of money, insurance claims, and proceeds (as such terms are presently and hereafter defined in the UCC; provided, however, that the term "instrument" shall be such term as defined in Article 9 of the UCC rather than Article 3);

V

All right, title, and interest of the Mortgagor in, to, and under any and all agreements, leases or contracts heretofore or hereafter executed by and between the Mortgagor and any person, firm, corporation, or other corporate entity relating to the Mortgaged Property (including contracts for the lease, occupancy, or sale of the Mortgage Property, or any portion thereof);

VI

All right, title, and interest of the Mortgagor in, to, and under any and all books, records and correspondence relating to the Mortgage Property, including, but not limited to, all records, ledgers, leases, computer and automatic machinery, software, programs, databases, disc or tape files, print-outs, batches, runs, and other electronically-prepared information indicating, summarizing, evidencing, or otherwise necessary or helpful in the collection or realization on the Mortgaged Property;

VII

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

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

Provided, however, that except as provided in section 2.12 of Article II herein, no automobiles, trucks, trailers, tractors or other vehicles (including without limitation aircraft or ships, if any) owned or used by the Mortgagor shall be included in the Mortgaged Property.

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

ARTICLE I

ADDITIONAL NOTES

SECTION 1.1 Additional Notes

- (a) The Mortgagor, when authorized by resolution(s) of its board of directors, members, or other relevant governing body, may from time to time execute and deliver to the Government one or more Additional Notes: (1) to evidence loans made or guaranteed by the Government to the Mortgagor pursuant to the Act, or to evidence indebtedness of the Mortgagor incurred by the assumption by the Mortgagor of the indebtedness of a third party, or parties to the Government, created by a loan or loans theretofore made or guaranteed by the Government to such third party or parties pursuant to the Act, and/or (2) to refund any Note(s) at the time outstanding secured hereby, or in renewal of, or in substitution for, any such Note(s) then outstanding.
- (b) Additional Notes shall contain such provisions and shall be executed and delivered upon such terms and conditions as the Government and the board of directors, members, or other relevant governing body of the Mortgagor authorizing the execution and delivery thereof, shall prescribe; provided, however, that the outstanding principal balances owing on the Notes shall not at any one time exceed the Mortgage Debt Limit set forth in Schedule A, and no Note shall mature more than fifty (50) years after the date hereof. Additional Notes, when and as executed and delivered, shall be secured by this Mortgage, equally and ratably with all other Notes then outstanding, without preference, priority, or distinction of any Note over any other Note by reason of the priority of the time of the execution, delivery, maturity, assignment, or negotiation thereof. As used in this Restated Mortgage, the term "directors" includes trustees.

SECTION 1.2 Supplemental Mortgage

The Mortgagor, when authorized by resolution(s) of its board of directors, members, or other relevant governing body, may from time to time execute, acknowledge, deliver, record, and file mortgages supplemental to this Restated Mortgage which thereafter shall form a part hereof, for the purpose of formally confirming this Restated Mortgage as security for the Notes.

ARTICLE II

PARTICULAR COVENANTS OF THE MORTGAGOR

The Mortgagor covenants with the Mortgagee and the holders of Notes secured hereby (hereinafter collectively the "Noteholders") as follows:

SECTION 2.1 Authority to Execute and Deliver Notes, Prior Telephone Loan Contracts, the Loan Agreement and Mortgage; All Action Taken; Enforceable Obligations

The Mortgagor has all requisite corporate and legal power to enter into and perform its obligations under the Outstanding RUS Notes, Current RUS Note, Prior Telephone Loan Contracts, the Loan Agreement and this Restated Mortgage and to execute and deliver Additional Notes; and all official action on its part for the execution and delivery of the Outstanding RUS Notes, Current RUS Note, the Prior Telephone Loan Contracts, the Loan Agreement and this Restated Mortgage has been duly and effectively taken; and the Outstanding RUS Notes, Current RUS Note, the Prior Telephone Loan Contracts, the Loan Agreement and this Restated Mortgage are, or when executed and delivered will be, the valid and enforceable obligations of the Mortgagor in accordance with their respective terms

SECTION 2.2 Warranty of Title

- (a) Except as disclosed in writing in the opinion of counsel, at the time of execution and delivery of this instrument, the Mortgagor has good and marketable title in fee simple to the Mortgaged Property, free and clear of any deed of trust, mortgage, lien, charge, or encumbrance thereon or affecting the title thereto, except for the following Permitted Encumbrances:
- (i) as to the Mortgaged Property that is real property, restrictions, exceptions, reservations, conditions, limitations, interests, and other matters which are set forth or referred to in deeds or other conveyance documents, and each of which fits one or more of the clauses of this definition; provided however, that such matters do not in the aggregate materially detract from the value of the Mortgaged Property taken as a whole and do not materially impair the use of such property for the purposes for which it is held by the Mortgagor;
 - (ii) liens for taxes, assessments, and other governmental charges which are not delinquent;
 - (iii) liens for taxes, assessments, and other governmental charges already delinquent which are currently being contested in good faith by appropriate proceedings; provided, the Mortgagor shall have set aside on its books adequate reserves with respect thereto;
 - (iv) mechanics', workmen's, repairmen's, materialmen's, warehousemen's and carriers' liens and other similar liens arising in the ordinary course of business for charges which are not delinquent, or which are being contested in good faith and have not proceeded to judgment; provided, the Mortgagor shall have set aside on its books adequate reserves with respect thereto;
 - (v) liens in respect of judgments or awards with respect to which the Mortgagor shall in good faith currently be prosecuting an appeal or proceedings for review and with respect to which the Mortgagor shall

have secured a stay of execution pending such appeal or proceedings for review; provided, the Mortgagor shall have set aside on its books adequate reserves with respect thereto.

- (vi) easements and similar rights granted by the Mortgagor over, or in respect of, any Mortgaged Property, provided that in the opinion of the Mortgagor's board, members, other relevant governing body, or official acceptable to RUS, such grant will not impair the usefulness of such property in the conduct of the Mortgagor's business and will not be prejudicial to the interests of the Mortgagee, and similar rights granted by any predecessor in title of the Mortgagor;
- (vii) easements, leases, reservations, or other rights of others in any property of the Mortgagor for streets, roads, bridges, pipes, pipe lines, railroads, electric transmission and distribution lines, telegraph and telephone lines, the removal of oil, gas, coal or other minerals and other similar purposes, flood rights, river control and development rights, sewage and drainage rights, restrictions against pollution and zoning laws and minor defects and irregularities in the record of title; provided, that the above do not materially affect the marketability of title to such property and do not in the aggregate materially impair the use of the Mortgaged Property taken as a whole for the purposes for which it is held by the Mortgagor;
- (viii) liens upon lands over which easements or rights of way are acquired by the Mortgagor for any of the purposes specified in Clause (vii) of this definition, securing indebtedness neither created, assumed, nor guaranteed by the Mortgagor, nor on account of which it customarily pays interest, which liens do not materially impair the use of such easements or rights of way for the purposes for which they are held by the Mortgagor;
- (ix) leases existing at the date of this instrument affecting property owned by the Mortgagor at said date which have been previously disclosed to the Mortgagee in writing, and leases for a term of not more than two years (including any extensions or renewals) affecting property acquired by the Mortgagor after said date;
- (x) terminable or short term leases or permits for occupancy which expressly grant to the Mortgagor the right to terminate at any time on not more than six months' notice and which occupancy does not interfere with the operation of the business of the Mortgagor;
- (xi) any lien or privilege vested in any lessor, licensor, or permittor for rent or other obligations or acts to be performed, the payment or performance of which other obligations or acts is required under leases, subleases, licenses or permits, so long as the payment of such rent or the performance of such other obligations or acts is not delinquent;
- (xii) liens or privileges of any employees of the Mortgagor for salary or wages earned but not yet payable;
- (xiii) the burdens of any law, governmental regulation, or permit requiring the Mortgagor to maintain certain facilities or to perform certain acts as

a condition of the Mortgagor's occupancy of certain real estate, or prohibiting the interference with any public lands or any river or stream or navigable waters;

- (xiv) any irregularities in or deficiencies of title to any rights-of-way for pipe lines, telephone lines, telegraph lines, power lines or appurtenances thereto, or other improvements thereon, and to any real estate used or to be used primarily for right-of-way purposes; provided, that in the opinion of counsel for the Mortgagor; (1) the Mortgagor shall have obtained from the apparent owner of the lands or estates therein covered by any such right-of-way, a sufficient right, by the terms of the instrument granting such right-of-way, to the use thereof for the construction, operation, or maintenance of the lines, appurtenances, or improvements for which the same are used or to be used; or (2) the Mortgagor has power under eminent domain, or similar statutes, to remove such irregularities or deficiencies;
- (xv) rights reserved to, or vested in, any municipal, governmental, or other public authority to control or regulate any property of the Mortgagor, or to use such property in any manner, which rights do not materially impair the use of such property, for the purposes it is held by the Mortgagor;
- (xvi) any obligations or duties affecting the property of the Mortgagor, to any municipal, governmental, or other public authority with respect to any franchise, grant, license or permit;
- (xvii) any right which any municipal, governmental, or other public authority may have by virtue of any franchise, license, contract or statute (1) to purchase, (2) to designate a purchaser of, or (3) to order the sale of, any property of the Mortgagor upon payment of cash or reasonable compensation therefor, or to terminate any franchise, license or other rights; or to regulate the property and business of the Mortgagor; provided however, that nothing in this clause is intended to waive any claim or rights that the Government may otherwise have under federal laws;
- (xviii) any lien required by law or government regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Mortgagor to maintain self-insurance or to participate in any fund established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions, or other social security, or to share in the privileges or benefits required for companies participating in such arrangements; provided however, that nothing in this clause is intended to waive any claim or rights that the Government may otherwise have under federal laws;
- (xix) liens arising out of any defeased mortgage or indenture of the Mortgagor;
- (xx) the undivided interest of other owners, and liens on such undivided interests, in property owned jointly with the Mortgagor, as well as the

rights of such owners to such property pursuant to the ownership contracts;

- (xxi) this Restated Mortgage and any Underlying Mortgages identified therein.
- (b) The Mortgagor warrants that it has good right and lawful authority to mortgage the Mortgaged Property for the purposes herein expressed
- (c) At the time of execution and delivery of this Restated Mortgage, the Mortgagor lawfully owns and is possessed of the personal property described in the Granting Clauses herein, free and clear of any deed of trust, mortgage, lien, charge, or encumbrance thereon or affecting the title thereto, except Permitted Encumbrances.

SECTION 2.3 Maintain Superior Lien of Mortgage, After-Acquired Property, Further Assurances, Recording

- (a) The Mortgagor will, so long as any of the Notes shall be outstanding, maintain and preserve the lien of this Restated Mortgage superior to all other liens affecting the Mortgaged Property, and will execute, file and/or record such financing statements, continuation statements, mortgages or other security instruments as necessary to maintain such superior lien and will forever warrant and defend the title to said property against any and all claims and demands whatsoever.
- (b) All property of every kind acquired by the Mortgagor after the date hereof, shall, immediately upon the acquisition thereof by the Mortgagor, and without any further mortgage, conveyance, or assignment, become subject to the lien of this Restated Mortgage. Nevertheless, the Mortgagor will do, execute, acknowledge and deliver any and all such further acts, conveyances, mortgages, security agreements, financing statements, and assurances as the Mortgagee shall require for accomplishing the purposes of this Restated Mortgage.
- (c) The Mortgagor will cause this Restated Mortgage and all supplemental mortgages and other instruments of further assurance, including all financing statements covering security interests in personal property, to be promptly recorded, registered and filed, and will execute and file such financing statements and cause to be issued and filed such continuation statements, all in such manner and place as may be required by law, or requested by the Mortgagee, fully to preserve and protect the rights of the Mortgagee and Noteholders hereunder to the Mortgaged Property.

SECTION 2.4 Negative Pledge

The Mortgagor shall not create, incur, or suffer any lien, mortgage, pledge, assignment, or other encumbrance on, or security interest in, the Mortgaged Property, other than the Permitted Encumbrances.

SECTION 2.5 Payment of Taxes

The Mortgagor will promptly pay or discharge any and all obligations for which, or on account of which, any lien, claim, or charge against the Mortgagor's property might exist or could be created, and for any and all lawful taxes, rates, levies, or assessments imposed upon, or accruing upon, any of the Mortgagor's property (whether taxed to the Mortgagor or to any Noteholder), franchises, earnings, or businesses, as and when the same shall become due and payable; and whenever called upon to do so, the Mortgagor will furnish to the Mortgagee or to any Noteholder adequate proof of such payment or discharge.

SECTION 2.6 Payment of Notes and Secured Obligations

The Mortgagor will duly and punctually pay the principal and interest on the Notes, at the time, place, and manner provided therein, according to the true intent and meaning thereof, as well as all other sums becoming due hereunder.

SECTION 2.7 Restrictions on Transfers of Property

Except as provided in Section 2.8 below, the Mortgagor shall not sell, lease or transfer any Mortgaged Property to any other person or entity (including any subsidiary or affiliate of the Mortgagor) without the prior written consent of the Mortgagee.

SECTION 2.8 Disposal of Obsolete or Damaged Mortgaged Property

So long as the Mortgagor is not in default hereunder, the Mortgagor may, without obtaining the consent of the Mortgagee or Noteholders, sell or otherwise dispose of, free from the lien hereof, any of its property which is neither necessary to, nor useful for, the operation of the Mortgagor's business, or which has become obsolete, worn out, damaged, or otherwise unsuitable for the purposes of the Mortgagor; provided, however, that the Mortgagor shall to the extent necessary: (1) replace the same with other property of the same kind and nature, or substitute thereof, which shall be subject to the lien hereof, free and clear of all prior liens, and apply the proceeds, if any, derived from the sale or disposition of such property, which are not needed for the replacement thereof, to the prepayment of the indebtedness on the outstanding Notes, and shall be applied to such notes and installments thereof as may be designated by the respective Noteholders at the time of any such receipt; (2) immediately upon the receipt of the proceeds of any sale or disposition of said property, apply the entire amount of such proceeds to the prepayment of the indebtedness evidenced by the Notes; or (3) deposit all or such part of the proceeds derived from the sale or disposition of said property into such bank accounts as the Mortgagee shall specify, and shall use the same only for such additions to, or improvements in, the Mortgaged Property, on such terms and conditions as the Mortgagee shall specify.

SECTION 2.9 Maintenance, Preservation and Operation of Mortgaged Property

- (a) At all times the Mortgagor will maintain and preserve the Mortgaged Property in good repair, working order, and condition, and will, subject to contingencies beyond its reasonable control, keep its plant and properties in continuous operation, and from time to time make all needed and proper repairs, renewals, replacements, useful and proper alterations, additions, betterments and improvements, and use all reasonable diligence to furnish the subscribers served by it through the Mortgaged Property with adequate telecommunications and broadband telephone service.
- (b) If in the sole judgment of the Mortgagee, the Mortgaged Property is not being maintained and repaired in accordance with paragraph (a) of this section, the Mortgagee may send the Mortgagor a written report of needed improvements, upon receipt of which the Mortgagor will promptly undertake to accomplish such improvements.

SECTION 2.10 Mortgaged Property to be Purchased Free of Encumbrances

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

SECTION 2.11 Insurance Requirements; Application of Insurance Proceeds

- (a) The Mortgagor shall take out and maintain insurance on the property acquired with the Loan in accordance with 7 C.F.R. Part 1788.
- (b) Sums recovered under any policy or fidelity bond by the Mortgagor or any Noteholder for a loss of funds advanced under the Notes or for any loss under such policy or bond shall, unless applied as provided in 7 C.F.R. Part 1788, be used to finance construction of utility plant secured or to be secured by this Restated Mortgage, or, unless otherwise directed by the Mortgagee, be applied to the prepayment of the Notes then outstanding, and shall be applied to such Notes and installments thereof as may be designated by the respective Noteholders at the time of receipt. At the request of the Mortgagee, the Mortgagor shall exercise such rights and remedies under such policy or fidelity bond as designated by the Mortgagee, and the Mortgagor hereby irrevocably appoints the Mortgagee as its agent to exercise such rights and remedies under such policy or bond as the Mortgagee may choose, and the Mortgagor shall pay all costs and reasonable expenses incurred by the Mortgagee in connection with such exercise.

SECTION 2.12 When Mortgage Lien Attaches to Vehicles, Ships, Etc.

In the event the Mortgagor has or suffers a deficit in Net Income or Net Margins, as such terms are defined in the Loan Agreement, during any fiscal year while any of the Notes are outstanding, the Mortgagor will at any time, upon written demand of the Mortgagee, make, execute, acknowledge and deliver or cause to be made, executed, acknowledged, and delivered all such further and supplemental indentures of mortgages, security agreements, financing statements, instruments, and conveyances, and take or cause to be taken all such further action, as may be requested by the Mortgagee, in order to attach to this Restated Mortgage, as Mortgaged Property, and to subject to all the terms and conditions of this Restated Mortgage, all right, title, and interest of the Mortgagor in and to, all or in part, the automobiles, trucks, tractors, trailers, railcars, aircraft, ships, boats and other vehicles then or thereafter owned or acquired by the Mortgagor. Upon the making of such written demand by the Mortgagee, such vehicles shall be deemed part of the Mortgaged Property for all purposes hereof.

SECTION 2.13 Application of Proceeds from Eminent Domain

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

SECTION 2.14 Compliance with Loan Agreement and Prior Telephone Loan Contracts

The Mortgagor will well and truly observe and perform all applicable covenants, agreements, terms, and conditions contained in the Prior Telephone Loan Contracts and the Loan Agreement.

SECTION 2.15 Government to be Noteholder

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

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

SECTION 2.16 Mortgagee Right to Expend Money to Protect Mortgaged Property

If in any respect the Mortgagor fails to comply with the covenants and conditions herein contained regarding the procuring of insurance, the payment of taxes, assessments, and other charges, the keeping of the Mortgaged Property in repair and free of liens and other claims, or to comply with any other covenant contained in this Restated Mortgage or the Loan Agreement, the Mortgagee shall have the right, without prejudice to any other remedies arising by reason of such default: (1) to advance or expend moneys for the purpose of procuring such insurance, or for the payment of insurance premiums, taxes, assessments or other charges; (2) to save the Mortgaged Property from sale or forfeiture for any unpaid tax, assessment, or otherwise; (3) to redeem the same from any tax or other sale; (4) to purchase any tax title thereon; (5) to remove or purchase any mechanics' liens or other encumbrance thereon; (6) to make repairs thereon; (7) to comply with any other covenant herein contained; (8) to prosecute and defend any suit in relation to the Mortgaged Property; or (9) in any manner, to protect the Mortgaged Property and the title thereto. All sums so advanced for any of the aforesaid purposes with interest thereon at the highest legal rate, but not in excess of twelve percent (12%) per annum, shall be deemed a charge upon the Mortgaged Property in the same manner as the Notes are secured and shall be forthwith paid to the Mortgagee upon demand. It shall not be obligatory for the Mortgagee in making any such advances or expenditures to inquire into the validity of any such title, tax, assessment, sale, mechanics' lien, or other encumbrance thereof.

ARTICLE III

REMEDIES OF THE MORTGAGEE AND NOTEHOLDERS

SECTION 3.1 Events of Default:

Each of the following shall be an "Event of Default" under this Restated Mortgage:

- (a) Representations and Warranties. Any representation or warranty made by the Mortgagor in the Loan Documents, as such term is defined in the Loan Agreement or in the Application, or any certificate furnished to RUS thereunder, as such term is defined in the Loan Agreement, shall prove to have been incorrect in any material respect at the time made;
- (b) Non-Payment. The nonpayment of any required and due installment of interest on, or principal of, any Note, whether by acceleration or otherwise, which continues for five (5) Business Days, as such term is defined in the Loan Agreement;
- (c) Corrective Actions. Default by the Mortgagor in the observance or performance of Section 5.13 of the Loan Agreement;
- (d) Limited Liability Companies. Default by the Mortgagor or its members in the observance or performance of Section 6.3 of the Loan Agreement;
- (e) Other Covenants. Default by the Mortgagor in the observance or performance of any other covenant or agreement contained in any of the Loan Documents, which shall remain unremedied for thirty (30) calendar days, after written notice thereof had been given to the Mortgagor by RUS;

- (f) Adverse Effects. The Mortgagor shall forfeit or otherwise be deprived of its charter, articles of organization, franchises, permits, easements, consents, or licenses required to carry on any material portion of its business, or the Mortgagor files for, or an event occurs, which can reasonably be expected to result in its dissolution or termination;
- (g) Other Obligations. Default by the Mortgagor in the payment of any obligation, whether direct or contingent, for borrowed money in excess of ten thousand dollars (\$10,000.00) or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation which default shall have resulted in such obligation becoming or being declared due and payable prior to the date on which it would otherwise be due and payable;
- (h) Bankruptcy. A court having jurisdiction in the premises shall enter a decree or order for relief with respect to the Mortgagor in an involuntary case under any applicable bankruptcy, insolvency, or other similar law now or hereafter in effect: (1) appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator, or similar official, or (2) ordering the winding up or liquidation of its affairs; or the Mortgagor shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian or trustee, of a substantial part of its property, or make any general assignment for the benefit of creditors;
- (i) Dissolution or Liquidation. Other than as provided in the immediately preceding subsection, the dissolution or liquidation of the Mortgagor, or the filing of such by the Mortgagor;
- (j) Impaired Business. The failure by the Mortgagor to promptly forestall or remove any execution, garnishment or attachment of such consequence as shall impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within thirty (30) days; and
- (k) Payment of Final Judgment. A final judgment in an amount of ten thousand dollars (\$10,000.00) or more shall be entered against the Mortgagor and shall remain unsatisfied or without a stay in respect thereof for a period of thirty (30) days

SECTION 3.2 Acceleration of Maturity; Annulment of Acceleration

- (a) If any Event of Default has occurred and is continuing, the Mortgagee, and/or the Noteholders, may, by notice in writing to the Mortgagor and delivery of a copy thereof to the other Noteholders, if any, declare all unpaid principal and accrued interest on any or all of their respective Notes to be due and payable immediately; and upon any such declaration, all such unpaid principal and accrued interest shall immediately become due and payable, notwithstanding anything contained herein or in any Note to the contrary
- (b) If after the unpaid principal and accrued interest on any of the Notes shall have been so declared to be due and payable, all payments in respect of principal and interest which have become due and payable by the terms of such Note(s) shall be paid to the respective Noteholders, and all other defaults hereunder and under the Notes shall have been made good or secured to the satisfaction of all of the Noteholders, the Noteholders which have declared the principal and interest on the Notes held by such Noteholders to be due and payable may, by written notice to the Mortgagor and delivery of a copy thereof to the other Noteholders, annul such declaration or declarations and waive such default(s) and consequences thereof, with such waiver not extending to or affecting any subsequent default or impairing any right consequent thereon.

SECTION 3.3 Remedies of Mortgagee

If any Event of Default shall occur and continues, the Mortgagee, for itself, and as the agent of the other Noteholders, personally or by attorney, in its or their discretion, may, insofar as not prohibited by law:

- (a) (i) take immediate possession of the Mortgaged Property, (ii) collect and receive all credits, outstanding accounts, bills, receivables, rents, income, revenues, and profits of the Mortgagor, pertaining to or arising from the Mortgaged Property, or any part thereof, and issue binding receipts therefor; and (iii) manage, control, and/or operate the Mortgaged Property as fully as the Mortgagor might do if in possession thereof, including, without limitation, the making of all repairs or replacements deemed necessary or advisable;
- (b) Mortgagee, or any employee or agent of it, is hereby constituted and appointed as true and lawful attorney-in-fact of the Mortgagor with full power to (i) notify or require the Mortgagor to notify any and all customers that the Mortgaged Property has been assigned to Mortgagee and/or that Mortgagee has a security interest in the Mortgaged Property; (ii) sign and endorse the name of the Mortgagor upon any notes, checks, acceptances, drafts, money orders, or other instruments of payment (including payments made under any policy of insurance) that may come into possession of Mortgagee, or upon any invoice, freight or express bill, bill of lading, storage or warehouse receipt, assignment, verification, or notice in connection with receivables, all in full or part payment of any amount owing to any Noteholder; (iii) send requests for verifications of Mortgaged Property to customers or account debtors; (iv) sell, assign, sue for, collect, or compromise payment of all or any part of the Mortgaged Property in the name of the Mortgagor or in its own name, or make any other disposition of Mortgaged Property, or any part thereof, for cash, credit, or any combination thereof; and Mortgagee may purchase all or any part of the Mortgaged Property at public or, if permitted by law, private sale, and in lieu of actual payment of such purchase price may set off the amount of such price against amounts owing to said Mortgagee; Mortgagee, is hereby granted, as the attorney-in-fact of the Mortgagor, full power of substitution and full power to do any and all things necessary to be done in and about the premises fully and effectually as the Mortgagor might or could do but for this appointment, and hereby ratifying all that said attorney-in-fact shall lawfully do or cause to be done by virtue hereof. The Mortgagee, its employees, or agents shall not be liable for any act, omission, error of judgment, or mistake of fact or law in its capacity as attorney-in-fact. This power of attorney is coupled with an interest and shall be irrevocable during the term of this Restated Mortgage so long as any Notes shall remain outstanding;
- (c) proceed to protect and enforce the rights of the Mortgagee and the rights of the Noteholder(s) under this Restated Mortgage by suits or actions in equity or at law in any court of competent jurisdiction, whether for specific performance of any covenant or any agreement contained herein, for aid of execution of any power herein granted, for foreclosure hereunder, for sale of the Mortgaged Property, or any part thereof, for collection of debts hereby secured, or for enforcement of other appropriate legal or equitable remedies as may be deemed most effectual to protect and enforce the rights and remedies herein granted or conferred; and in the event any such action or suit is instituted, the Mortgagee or Noteholder(s) instituting such action or suit shall have the right to have appointed a receiver of the Mortgaged Property and of all rents, income, revenues, and profits pertaining thereto, or arising, derived, received, or had therefrom, from the commencement of such suit or action. Such receiver shall have all the usual powers and duties of receivers, in like and similar cases, to the fullest extent permitted by law; and if application shall be made for the appointment of a receiver, the Mortgagor

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

- (d) sell or cause to be sold the Mortgaged Property, all or in part, and all right, title, interest, claim, and demand of the Mortgagor therein or thereto, at public auction in any county in which the property to be sold is located, at such time, place, and manner as may be specified in the notice of sale, containing a brief general description of the property to be sold, giving a copy thereof to the Mortgagor by mail at least fifteen (15) days prior to the date fixed for such sale, and publishing the same once in each week for two successive calendar weeks prior to the date of such sale in a newspaper of general circulation published in said county, or if no such newspaper is published in such county, in a newspaper of general circulation in such county, the first such publication to be not less than fifteen (15) days nor more than thirty (30) days prior to the date fixed for such sale. Any sale made under this subparagraph may be adjourned from time to time by announcement, at the time and place appointed for such sale or adjourned sale(s), and without further notice or publication the sale may be had at the time and place to which the same shall be adjourned; provided, however, that in the event another or different notice of sale or another or different manner of conducting the same shall be required by law, the notice of sale shall be given or the sale shall be conducted, as the case may be, in accordance with the applicable provisions of law. The expenses incurred by the Mortgagee, including but not limited to receiver's fees, attorneys' fees, cost of advertisement, and agents' compensation, in the exercise of any of the remedies provided in this Restated Mortgage shall be secured by this Restated Mortgage;
- (e) Mortgagee shall have the right to enter and/or remain upon the premises of the Mortgagor without any obligation to pay rent to the Mortgagor or others, or any other place(s) where any of the Mortgaged Property is located and kept, and: (i) remove the Mortgaged Property therefrom in order to maintain, collect, sell, and/or liquidate the Mortgaged Property or, (ii) use such premises, together with materials, supplies, books, and records of the Mortgagor, to maintain possession and/or the condition of the Mortgaged Property, and to prepare the Mortgaged Property for sale, liquidation, or collection. Mortgagee may require the Mortgagor to assemble the Mortgaged Property and make it available to Mortgagee at a place to be designated by Mortgagee;
- (f) Mortgagee shall have the right, without prior notice to the Mortgagor, to exercise rights of setoff, recoupment, or any counterclaim and apply any and all amounts held or hereafter held by Mortgagee, owed to the Mortgagor, or for the credit of the Mortgagor, against any and all of the Notes. Mortgagee agrees to notify the Mortgagor promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. Mortgagor waives all rights of setoff, deduction, recoupment, or counterclaim; and/or
- (g) Mortgagee shall have, in addition to any other rights and remedies contained in this Restated Mortgage, and in any other agreements, guarantees, notes, mortgages, instruments, and documents heretofore, now, or at any time hereafter executed by the Mortgagor and delivered to Mortgagee, all of the rights and remedies of a secured party under the UCC in force in the state identified in the first paragraph hereof as of the date hereof and any other jurisdiction where the Mortgaged Property is located, all of which rights and remedies shall be cumulative, and nonexclusive.

SECTION 3.4 Right to Purchase Mortgaged Property

At any sale hereunder any Noteholder(s) shall have the right to bid for and purchase the Mortgaged Property, or such part thereof as shall be offered for sale, and any Noteholder(s) may, in lieu of actual

payment of the purchase price, set off against the purchase price the amount owing to said Noteholder secured hereunder and such set off amount shall be credited as a payment on account of principal and interest on the Note(s) held by such Noteholder(s).

SECTION 3.5 Application of Proceeds from Remedial Actions

Any proceeds or funds arising from the exercise of any rights or the enforcement of any remedies herein provided after the payment, or provision for the payment, of any and all costs and expenses in connection with the exercise of such rights or the enforcement of such remedies shall be applied: First, to the payment of indebtedness hereby secured other than the principal or interest on the Notes; Second, to the ratable payment of interest which shall have accrued on the Notes and which shall be unpaid; Third, to the ratable payment of, or on account of, the unpaid principal of the Notes, and the balance, if any, shall be paid to whomsoever shall be entitled thereto

SECTION 3.6 Notice of Default

The Mortgagor covenants that it will give immediate written notice to the Mortgagee and to all Noteholders of the occurrence of an Event of Default, or in the event that any right or remedy described in Sections 3.2, 3.3, 3.4, or 3.5 of this Article III is exercised or enforced, of any action taken to exercise or enforce any such right or remedy.

SECTION 3.7 Remedies Cumulative, No Election

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

SECTION 3.8 Waiver of Appraisal Rights, Marshaling of Assets Not Required

The Mortgagor, for itself and for all who may claim through or under it, covenants that it will not at any time insist upon or plead, or in any manner whatsoever, claim or take the benefit or advantage of, any appraisal, valuation, stay, extension, or redemption laws, now or hereafter in force in any locality where any of the Mortgaged Property may be situated, in order to prevent, delay or hinder the enforcement or foreclosure of this Restated Mortgage, or the absolute sale of the Mortgaged Property, or any part thereof, or the final and absolute putting into possession thereof, immediately after such sale, of the purchaser(s) thereat, and the Mortgagor, for itself and for all who may claim through or under it, hereby waives the benefit of all such laws, unless such waiver shall be forbidden by law. Under no circumstance shall there be any marshaling of assets upon any foreclosure or other enforcement of this Restated Mortgage.

Section 3.9 Federal Communications Commission Matters

Notwithstanding any other provision of this Restated Mortgage, the following provisions shall be applicable in the event that the Mortgaged Property includes (to the extent such property can be included under the applicable law) licenses, permits, or similar rights granted by the Federal Communications Commission (hereinafter referred to as the "FCC") to the Mortgagor (such licenses, permits or similar rights hereinafter referred to as "FCC Licenses:")

- (a) Any loss, revocation, foreclosure on, sale, transfer, or other disposition of FCC Licenses by the Mortgagee shall be pursuant to Section 310(d) of the Communications Act of 1934, as amended, and applicable rules and regulations thereunder, and, if and to the extent required thereby, subject to the prior approval or notice to and non-opposition of the FCC.

- (b) If an Event of Default shall have occurred and be continuing, the Mortgagor shall take any action which the Mortgagee may request in order to transfer and assign to the Mortgagee, or to such one or more third parties as the Mortgagee may designate, or to a combination of the foregoing, each FCC License held by the Mortgagor. The Mortgagee is empowered, to the extent permitted by applicable law, to request the appointment of a receiver from any court of competent jurisdiction. Such receiver may be instructed by the Mortgagee to seek from the FCC an involuntary transfer of control of each such FCC License for the purpose of seeking a bona fide purchaser to whom control will ultimately be transferred. The Mortgagor hereby agrees to authorize such an involuntary transfer of control upon the request of the receiver so appointed and, if the Mortgagor shall refuse to authorize the transfer, its approval may be required by the court. Upon the occurrence and during the continuance of an Event of Default, the Mortgagor shall further use its best efforts to assist in obtaining approval of the FCC and any state regulatory bodies, if required, for any action contemplated by this Restated Mortgage, including, without limitation, the preparation, execution and filing with the FCC and any state regulatory bodies of the assignor's or transferor's portion of any application or applications for consent to the assignment of any FCC license or transfer of control necessary or appropriate under the rules and regulations of the FCC or any state regulatory body for approval or non-opposition of the transfer or assignment of any portion of the Mortgaged Property, including, without limitation any FCC License.
- (c) The Mortgagor acknowledges that the assignment, transfer, loss, or revocation of any FCC License is integral to the Mortgagee's realization of the value of the Mortgaged Property, that there is no adequate remedy at law for failure by the Mortgagor to comply with the provisions of this Section and that such failure would not be adequately compensable in damages, and therefore agrees, without limiting the rights of the Mortgagee to seek and obtain specific performance of other obligations of the Mortgagor contained in this Restated Mortgage, that the agreements contained in this Section may be specifically enforced.
- (d) In accordance with the requirements of 47 C.F.R. Section 22.937, or any successor provision thereto, the Mortgagee shall notify the Mortgagor and the FCC in writing at least ten (10) days prior to the date on which the Mortgagee intends to exercise its rights under this Restated Mortgage or any other document or instrument relating to the Notes, by foreclosing on, or otherwise disposing of any Mortgaged Property in connection with which such notice is required pursuant to 47 C.F.R. Section 22.937 or any successor provision thereto.

ARTICLE IV

POSSESSION UNTIL DEFAULT-DEFEASANCE CLAUSE

SECTION 4.1 Possession until Default

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

SECTION 4.2 Defeasance

If the Mortgagor shall pay or cause to be paid the whole amount of the principal and interest on the Notes at the time and manner therein provided, according to the true intent and meaning thereof, and shall also

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

ARTICLE V

MISCELLANEOUS

SECTION 5.1 Mortgage to Bind and Benefit Successors and Assigns

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

SECTION 5.2 Headings

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

SECTION 5.3 Notices

All demands, notices, reports, approvals, designations, or directions required or permitted to be given hereunder shall be given or made in writing (including, without limitation, by telecopy) and delivered to the intended recipient at the "Address for Notices" specified in Schedule "A," or, as to any party, at such other address as shall be designated by such party in a notice to each other party. All such communications shall be deemed to have been duly given when transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as provided for herein. The Addresses for Notice of the respective parties are set forth in Schedule "A."

SECTION 5.4 Mortgage Deemed Security Agreement

To the extent that any of the property described or referred to in this Restated Mortgage is governed by the provisions of the UCC, this Restated Mortgage is hereby deemed a "security agreement" under the UCC. The mailing address of the Mortgagor, as debtor, and of the Mortgagee, as secured party, are as set forth in Schedule "A."

SECTION 5.5 Mortgagee Right to File Financing Statements

Mortgagee shall have the right to file such financing statements and continuation statements on behalf of itself, as secured party, and Mortgagor, as Debtor, as Mortgagee deems necessary to perfect a first lien on the Mortgaged Property and to maintain and preserve such perfected first lien as long as any Note remains outstanding. Mortgagor shall reimburse the Mortgagee for any expenses incurred in the exercise of this right.

SECTION 5.6 Severability Cause

If any provision of this Restated Mortgage shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the validity, legality, and enforceability of the remainder of such provision nor any other provision thereof and this Restated Mortgage shall survive and be construed as if such invalid or unenforceable provision had not been contained therein.

SECTION 5.7 Indemnification by Mortgagor of Mortgagee

The Mortgagor agrees to indemnify the Mortgagee against any liability or damages which it may incur or sustain in the exercise and performance of its rightful powers and duties hereunder. For such reimbursement and indemnity, the Mortgagee shall be secured under this Restated Mortgage in the same manner as the Notes and all such reimbursements for expense or damage shall be paid to the Mortgagee with interest at the rate specified in Section 2.16 hereof. The Mortgagor's obligation to indemnify the Mortgagee under this section shall survive the satisfaction of the Notes, the reconveyance or foreclosure of this Restated Mortgage, the acceptance of a deed in lieu of foreclosure, or any transfer or abandonment of the Mortgaged Property.

IN WITNESS WHEREOF, HIGHLAND TELEPHONE COOPERATIVE, INC. has caused this Restated Mortgage to be signed in its name and its seal, if any, to be hereunto affixed and attested by its duly authorized officer and the UNITED STATES OF AMERICA, as Mortgagee and secured party, has caused this Restated Mortgage to be duly executed on its behalf, all as of the day and year first above written.

HIGHLAND TELEPHONE COOPERATIVE, INC.

by _____

Name:

Title:

(Seal)

Attested to by: _____

Secretary

Executed by the Mortgagor

in the presence of:

Name:

Name:

THE UNITED STATES OF AMERICA

by James M. Andrew

James M. Andrew.

as Administrator of the Rural Utilities Service

Executed by the Mortgagee

In the presence of:

Ellen James
Name:

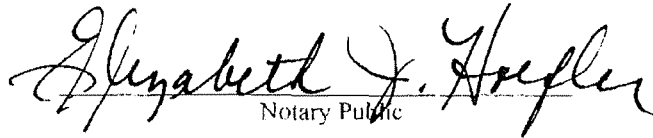
Mary Deed
Name:

DISTRICT OF COLUMBIA

)

SS

This instrument was acknowledged before me on September 23, 2008 by
James M. Andrew, Administrator of the Rural Utilities Service of the United States of America.


Notary Public

(Notary Seal)

My commission expires: 8-1-2012

STATE OF TENNESSEE)
) SS
COUNTY OF)

I certify that on this ____ day of _____, 2____, the foregoing instrument was acknowledged before me, _____, a Notary Public in and for the above-named County and State, and that _____, to me personally known and the person whose name is signed to the foregoing instrument, did personally appear before me, who being duly sworn and deposed according to law, did make proof to my satisfaction and say that he/she was, at the time of execution thereof, the _____ [Position] of Highland Telephone Cooperative, Inc., a Tennessee cooperative, that he/she knows the corporate seal of said entity, if one exists, and that the foregoing instrument, whose contents are known to him/her, was signed, sealed, and delivered on behalf of said entity by authority and/or Resolution of its board of directors, manager, or members, and furthermore acknowledged the instrument to be his/her free and voluntary act and deed, as well as that of the entity, for the purposes and uses therein set forth.

IN WITNESS WHEREOF, sworn and subscribed before me, I have hereunto set my hand and official seal.

Notary Public

(Notarial Seal)

My Commission expires:

SCHEDULE A

1. The Outstanding RUS Notes referred to in the Recitals are:

<u>Note Designation</u>	<u>Note Date</u>	<u>Stated Principal Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
N4	10/15/1976	\$2,095,000	10/15/2011	5%
P8	11/04/1977	\$2,858,000	11/04/2012	5%
R8	10/28/1981	\$5,900,000	10/28/2016	5%
S8	03/31/1986	\$6,384,000	03/31/2014	5%
T8	08/26/1991	\$13,415,000	08/26/2013	5%
U12	03/02/1998	\$9,259,000	03/02/2015	Variable

2. The Prior Mortgages referred to in the Recitals are: **Restated Mortgage, Security Agreement Dated as of March 2, 1998, made by and among the Borrower, the Government and the Rural Telephone Bank.**
3. The Loan Agreement referred to in the Recitals is the Loan Agreement, dated the same date as this Restated Mortgage between the Mortgagor and the Mortgagee.
4. The Current RUS Note(s), made by the Mortgagor to the Government, dated the same date as this Restated Mortgage and referred to in the Recitals are:

RUS Designation: **Tennessee 554-V42 Highland**
 Stated Principal Amount: **\$48,611,000**
 Interest Rate: **Variable**
 Maturity Date: **September 23, 2027**

5. The "Mortgage Debt Limit" referred to in section 1.1 is: **\$150,000,000**
6. The following addresses are for purposes of providing notice pursuant to section 5.4:

Mortgagee: **Rural Utilities Service
 United States Department of Agriculture
 1400 Independence Avenue, S.W.
 Washington, D.C. 20250-1500
 Attention: Administrator
 Fax: (202) 720-1725**

With a copy to: **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) 720-0080**

Mortgagor: **Highland Telephone Cooperative, Inc.**
Mr. James E. Terry, President
7840 Morgan County Highway
P.O. Box 119
Sunbright, Tennessee 37872
Telephone: (423) 628-2121
Fax: (423) 628-2409

With a copy to: **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

SCHEDULE B

1. The "Existing Facilities" referred to in Granting Clause I are located in the counties of McCREARY, MORGAN and SCOTT in the State of Tennessee.
2. The real estate mortgaged and pledged hereunder includes the following:

McCREARY COUNTY, KENTUCKY

1. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain deed dated April 24, 1969, executed and delivered by Maude Chitwood, as Grantor, to the Mortgagor, as Grantee, recorded on April 24, 1969, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 64, at Page 214, such property being more fully described therein.

2. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain deed dated January 21, 1969, executed and delivered by Maude Chitwood, as Grantor, to the Mortgagor, as Grantee, recorded on January 22, 1969, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 64, at page 87, such property being more fully described therein.

3. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain deed dated August 14, 1959, executed and delivered by Maude Chitwood, as Grantor, to the Mortgagor, as Grantee, recorded on September 18, 1959, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 54, at Page 372, such property being more fully described therein.

4. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain deed dated December 13, 1958, executed and delivered by Pine Knot Telephone Company, Inc., as Grantor, to the Mortgagor, as Grantee, recorded on December 31, 1958, in the Office of the County Court Clerk of the County of McCreary in the State of

Kentucky in Book 53 at Page 621, such property being more fully described therein.

5. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain deed dated December 1, 1958, executed and delivered by General Telephone Company, as Grantor, to the Mortgagor, as Grantee, recorded on December 13, 1958, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 53, at Page 597, such property being more fully described therein.

6. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain deed dated November 10, 1958, executed and delivered by Anthony Neal and Fannie Neal, his wife, as Grantors to the Mortgagor, as Grantee, recorded on November 11, 1958, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 53, at Page 546, such property being more fully described therein.

7. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain deed dated February 20, 1958, executed and delivered by Stearns Coal & Lumber Company, a corporation, as Grantor to the Mortgagor, as Grantee, recorded on February 21, 1958, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 53, at Page 147, such property being more fully described therein.

8. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain deed dated July 23, 1974, executed and delivered by Herbert Gilreath and wife, Lois Gilreath, as Grantors to the Mortgagor, as Grantee, recorded on July 29, 1974, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 75, at Page 515, such property being more fully described therein.

9. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain deed dated November 19, 1982, executed and delivered by Mary Bryant,

widow, as Grantor to the Mortgagor, as Grantee, recorded on November 19, 1982, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 97, at Page 333, such property being more fully described therein.

10. A certain tract of land situated McCreary County, in the State of Kentucky, described in a certain easement dated May 3, 1984, executed and delivered by Beulah Mountain Children's Home as Grantor to the Mortgagor, as Grantee, recorded on May 3, 1984, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 100 at Page 677, such property being more fully described therein.

11. A certain tract of land situated in McCreary County, in the State of Kentucky, described in a certain deed dated April 6, 1992, executed and delivered by D. H. Campbell, Inc., D. H. Campbell and wife, Joan Campbell, and DKMJ Enterprises, Inc. as Grantors to the Mortgagor, as Grantee, recorded on April 8, 1992, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 123 at Page 73, such property being more fully described therein.

12. A certain tract of land situated in McCreary County, in the State of Kentucky, described in a certain deed dated January 3, 1997, executed and delivered by Dallas H. Watters and Sandra E. Watters as Grantors to the Mortgagor, as Grantee, recorded on January 10, 1997, in the Office of the County Court Clerk of the County of McCreary in the State of Kentucky in Book 140 at Page 289, such property being more fully described therein.

MORGAN COUNTY, TENNESSEE

1. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated November 3, 1970, executed and delivered by Trustees of the Church of God of Prophecy, as Grantor, to the Mortgagor, as Grantee, recorded on February 9, 1971, in the Office of the Register of the County of Morgan in the State of Tennessee in Book F-6, at Page 54, such property being more fully described therein.

2. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated September 14, 1964, executed and delivered by Elmo Lyons, as Grantor, to the Mortgagor, as Grantee, recorded on September 17, 1964, in the Office of the Register of the County of Morgan in the State of Tennessee in Book T-5, at Page 370, such property being more fully described therein.

3. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated June 20, 1964, executed and delivered by Ethel Kreis, a widow, H. M. Shannon, Jr., and his wife, Edna Shannon, as Grantors, to the Mortgagor, as Grantee, recorded on June 20, 1964, in the Office of the Register of the County of Morgan in the State of Tennessee in Book T-5, at Page 200, such property being more fully described therein.

4. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated March 16, 1964, executed and delivered by Brisco Justice and wife, Agnes Justice, as Grantors, to the Mortgagor, as Grantee, recorded on April 2, 1964, in the Office of the Register of the County of Morgan in the State of Tennessee in Book T-5, at Page 53 such property being more fully described therein.

5. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated June 21, 1962, executed and delivered by James E. Patching, Jr., Sgt. George Edwin Patching, Marjorie Patching Langley, Elizabeth Patching Wilson and Helen Patching Stevenson, less and except that portion thereof conveyed by the Mortgagor, as grantor, to

Floyd Leathers, as grantee, by deed dated April 26, 1965, and recorded in the Office of the Register of Morgan County in Deed Book U-5, page 741, as Grantor, to the Mortgagor, as Grantee, recorded on June 22, 1962, in the Office of the Register of the County of Morgan in the State of Tennessee in Book Q-5, at Page 583 such property being more fully described therein.

6. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated March 23, 1962, executed and delivered by J. Ernest Summers, as Grantor, to the Mortgagor, as Grantee, recorded on March 28, 1962, in the Office of the Register of the County of Morgan in the State of Tennessee in Book Q-5, at Page 308 such property being more fully described therein.

7. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated April 23, 1956, executed and delivered by O. C. Duncan and Roxie C. Duncan, his wife, as Grantors, to the Mortgagor, as Grantee, recorded on April 23, 1956, in the Office of the Register of the County of Morgan in the State of Tennessee in Book H-5, at Page 124, such property being more fully described therein.

8. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated December 31, 1956, executed and delivered by State of Tennessee, as Grantor, to the Mortgagor, as Grantee, recorded on January 15, 1957, in the Office of the Register of the County of Morgan in the State of Tennessee in Book I-5, at Page 262, such property being more fully described therein.

9. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated February 29, 1956, executed and delivered by Fred A. Kreis and wife, Ethel Kreis, as Grantors, to the Mortgagor, as Grantee, recorded on February 29, 1956, in the Office of the Register of the County of Morgan in the State of Tennessee in Book G-5, at Page 496 such property being more fully described therein.

10. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated September 30, 1964, executed and delivered by the State of Tennessee, as Grantor, to the Mortgagor, as Grantee, recorded on October 15, 1964, in the Office of the Register of the County of Morgan in the State of Tennessee in Book T-5 at Page 407 such property being more fully described therein.

11. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated August 15, 1955, executed and delivered by Southern Continental Telephone Co., as Grantor, to the Mortgagor, as Grantee, recorded on August 16, 1955, in the Office of the Register of the County of Morgan in the State of Tennessee in Book F-5, at Page 540 such property being more fully described therein.

12. A certain tract of land situated Morgan County, in the State of Tennessee, described in a certain deed dated February 4, 1974, executed and delivered by David L. Garrett and his wife, Mae A. Garrett, Harold C. Walker and his wife, Wilda J. Walker, as Grantors, to the Mortgagor, as Grantee, recorded on February 5, 1974, in the Office of the Register of the County of Morgan in the State of Tennessee in Book L-6 at Page 894 such property being more fully described therein.

13. A certain tract of land situated in Morgan County, in State of Tennessee, described in a certain deed dated January 27, 2006, executed and delivered by Charles Richard Davis, as Grantor, to the Mortgagor, as Grantee, recorded on January 27, 2006, in the Office of the Register of the County of Morgan in the State of Tennessee in Book 48 at Page 92 such property being more fully described therein.

14. A certain tract of land situated in Morgan County, in State of Tennessee, described in a certain deed dated January 27, 2006, executed and delivered by Wiladean Joan Davis, as Grantor, to the Mortgagor, as Grantee, recorded on January 27, 2006, in the Office of the Register of the County of Morgan in the State of Tennessee in Book 48 at Page 96 such property being more fully described therein.

SCOTT COUNTY, TENNESSEE

1. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated May 21, 1962, executed and delivered by W. H. Keeton and wife, Lela Keeton, as Grantors, to the Mortgagor, as Grantee, recorded on May 22, 1962, in the Office of the Register of the County of Scott in the State of Tennessee in Book 93 at Page 327 such property being more fully described therein.

2. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated July 17, 1961, executed and delivered by Eva Cross Massey, as Grantor, to the Mortgagor, as Grantee, recorded on July 29, 1961, in the Office of the Register of the County of Scott in the State of Tennessee in Book 92, at Page 58 such property being more fully described therein.

3. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated January 24, 1961, executed and delivered by Cal Carlie Ellis and wife, Laura Ellis, as Grantors, to the Mortgagor, as Grantee, recorded on February 4, 1961, in the Office of the Register of the County of Scott in the State of Tennessee in Book 91, at Page 295 such property being more fully described therein.

4. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated December 12, 1956, executed and delivered by Eva Cross Massey, as Grantor, to the Mortgagor, as Grantee, recorded on December 13, 1956, in the Office of the Register of the County of Scott in the State of Tennessee in Book 87, at Page 102 such property being more fully described therein.

5. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated December 28, 1955, executed and delivered by Cal Carlie Ellis and wife, Laura Ellis, as Grantors, to the Mortgagor, as Grantee, recorded on January 3, 1955, in the Office of the Register of

the County of Scott in the State of Tennessee in Book 86 at Page 197 such property being more fully described therein.

6. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated December 30, 1955, executed and delivered by Russell Murley, Mike Robbins, William Allen, W. H. Carson and Ortel Woodward as and constituting the Scott County Board of Education, Mrs. Ora S. Robbins, Scott County Superintendent of Schools, and Scott County, Tennessee, as Grantors, to the Mortgagor, as Grantee, recorded on January 4, 1955, in the Office of the Register of the County of Scott in the State of Tennessee in Book 86, at Page 199 such property being more fully described therein.

7. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated January 4, 1974, executed and delivered by Fred Sexton and wife, Glaria E. Sexton, as Grantors, to the Mortgagor, as Grantee, recorded on January 23, 1974, in the Office of the Register of the County of Scott in the State of Tennessee in Book 132, at Page 261 such property being more fully described therein.

8. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated October 12, 1978, executed and delivered by Ernest Rector and wife, Reeda Rector, as Grantors, to the Mortgagor, as Grantee, recorded on October 13, 1978, in the Office of the Register of the County of Scott in the State of Tennessee in Book 151 at Page 642 such property being more fully described therein.

9. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated October 12, 1978, executed and delivered by Pershing Chitwood and wife, Prillie Chitwood, as Grantors, to the Mortgagor, as Grantee, recorded on October 13, 1978, in the Office of the Register of the County of Scott in the State of Tennessee in Book 151 at Page 646 such property being more fully described therein.

10. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated November 22, 1978, executed and delivered by McKinley Lay, as Grantor,

to the Mortgagor, as Grantee, recorded on November 22, 1978, in the Office of the Register of the County of Scott in the State of Tennessee in Book 152, at Page 255 such property being more fully described therein.

11. A certain tract of land situated Scott County, in the State of Tennessee, described in a certain deed dated May 23, 1990, executed and delivered by Renfro Webb and wife, Lottie Webb, as Grantor, to the Mortgagor, as Grantee, recorded on May 23, 1990, in the Office of the Register of the County of Scott in the State of Tennessee in Book 187 at Page 667 such property being more fully described therein.

12. A certain tract of land situated in Scott County, in the State of Tennessee, described in a certain deed dated May 29, 1992, executed and delivered by Ola Q. Byrd and wife, Duval Byrd, as Grantors, to the Mortgagor, as Grantee, recorded on May 29, 1992, in the Office of the Register of the County of Scott in the State of Tennessee in Book 195 at Page 508 such property being more fully described therein.

13. A certain tract of land situated in Scott County, in the State of Tennessee, described in a certain deed dated July 14, 1992, executed and delivered by Paul Griffith d/b/a Power Oil Co., Inc. and Power Oil Co., Inc., as Grantor, to the Mortgagor, as Grantee, recorded on July 16, 1992, in the Office of the Register of the County of Scott in the State of Tennessee in Book 196 at Page 86 such property being more fully described therein.

14. A certain tract of land situated in Scott County, in the State of Tennessee, described in a certain deed dated September 21, 1993, executed and delivered by Bill Ray, as Grantor, to the Mortgagor, as Grantee, recorded on September 21, 1993, in the Office of the Register of the County of Scott in the State of Tennessee in Book 200 at Page 387 such property being more fully described therein.

15. A certain tract of land situated in Scott County, in the State of Tennessee, described in a certain deed dated August, 2004, executed and delivered by Chester A. Stanfill and Sonja Stanfill, as Grantors, to the Mortgagor, as Grantee, recorded on August 18, 2004, in the Office of the Register of the County of Scott in the State of Tennessee in Book 247 at Page 595 such property being more fully described therein.

16. A certain tract of land situated in Scott County, in the State of Tennessee, described in a certain deed dated 13th day of June, 2007, executed and delivered by Thomas Scott Thompson and wife, Cynthia F. Thompson, as Grantors, to the Mortgagor, as Grantee, recorded on June 14, 2007, in the Register's Office for Scott County, Tennessee, in Warranty Deed Book 260 at page 167 such property being more fully described therein.