

cash expenditures for operating purposes during the preceding twelve (12) months, or shall in no event be less than the amount borrowed by the Mortgagor from the Mortgagee for operating purposes, whichever is greater. The Mortgagor will, not less than ninety (90) days prior to the effective date of any proposed change in its rates, give to the holder or holders of the notes at the time outstanding written notice of such proposed change and a copy of a schedule showing the then existing rates and the proposed changes therein.

SECTION 17. The Mortgagor will not declare or pay any dividends or make and distribution to its members or stockholders or to subscribers except in the event and to the extent that there shall be surplus earnings of the Mortgagor remaining after payment of or provision for the items enumerated in section 16 of this article II, and unless there shall remain after such payment or distribution reserves in an aggregate amount at least equal to the total of interest and principal payments required to be made during the next following calendar year in respect of all notes which shall at the time be outstanding.

SECTION 18. In the event that the Mortgaged Property, or any part thereof, shall be taken under the power of eminent domain, all proceeds and avails therefrom, except to the extent that all noteholders shall consent to other use and application thereof by the Mortgagor, shall forthwith be applied by the Mortgagor: first, to the ratable payment of any indebtedness by this Mortgage secured other than principal of or interest on the notes; second, to the ratable payment of interest which shall have accrued on the notes and be unpaid; third, to the ratable payment of or on account of the unpaid principal of the notes; and, fourth, the balance shall be paid to whosoever shall be entitled thereto.

SECTION 19. The Mortgagor will well and truly observe and perform all of the covenants, agreements, terms and conditions contained in the Loan Contract, as from time to time amended, on its part to be observed and performed.

SECTION 20. The Mortgagor will not at any time employ, or enter into any contract for the employment of, any manager of its telephone properties, unless such employment or such contract shall first have been approved by the majority noteholders. If, during such periods as the Mortgagor shall be in default in the making of a payment or payments of principal of or interest on one or more of the notes, the majority noteholders shall give notice to the Mortgagor that in their opinion its telephone properties are not being efficiently operated, and shall request the termination of the employment of any such manager, the Mortgagor will terminate such employment within thirty (30) days after the date of such notice. All contracts in respect of the employment of such manager shall contain provisions to permit compliance with the foregoing covenants.

SECTION 21. Notwithstanding anything contained in the Loan Contract, as from time to time amended, or in the notes, the Mortgagor will set up such records and accounts and maintain such reserve funds as the majority noteholders may from time to time require in writing and, if such holder or holders shall so require, the Mortgagor shall apply revenues arising from the operation of the Mortgaged Property to the payment of or on account of the principal of or interest on any one or more of the notes designated by such holder or holders, either prior to the time or in excess of the amount provided for in any one or more of the notes in respect of which the payment is to be made; provided, however, that the Mortgagor shall not be obligated hereby to make payments on account of the principal of or interest on any of the notes during any one calendar year in excess of five per centum (5%) of the amount of the principal of such note or notes advanced and unpaid at the time such payment is required; and provided further: that, subject to the provisions of section 4 of article II hereof, the Mortgagor may at all times retain funds reasonably adequate for operating purposes for the current month, and in no event less than 1.5 times the average monthly amount of the Mortgagor's cash expenditure for operating purposes during the preceding twelve (12) months.