

BY-LAWS
of
Runestone Telephone Association
(d.b.a. Runestone Telecom Association)

ARTICLE I
Membership

SECTION 1. Requirements for Membership: Any natural person or legal entity with the capacity to enter legally binding contracts will become a member and consents to being a member of Runestone Telephone Association (hereinafter called the “Cooperative”) upon procuring local, retail telephone services or retail Internet services from the Cooperative at a location within the Cooperative’s telephone franchise exchange territory, unless the person or legal entity notifies the Cooperative in writing within 60 days of first receiving service from the Cooperative that the person or legal entity does not consent to being a member. Members shall comply with the Articles of Incorporation, these By-Laws, and such policies, rules, and regulations as may be adopted by the Board of Directors.

For good cause, the Board of Directors may refuse a person membership in the Cooperative.

No member may hold more than one membership in the Cooperative, and no membership in the Cooperative shall be transferable, except as provided in these By-Laws.

Whenever used in the By-Laws, the neuter gender shall be deemed to include the masculine or feminine wherever necessary or appropriate, and the singular shall include the plural.

SECTION 2. Membership Record: The Cooperative shall maintain a record of current members. Invoices from the Cooperative to members shall reflect the membership as contained in the Cooperative’s membership record.

SECTION 3. Joint Membership: A husband and wife may request that their membership be held as a joint membership and, subject to their compliance with the requirements set forth in Section 1 of this Article, may be accepted for such membership. The term “member” as used in these By-Laws 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;
- 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 board member, 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 written request of the holder thereof and the agreement by such holder and his or her spouse to comply with the Articles of Incorporation, By-Laws, and rules and regulations adopted by the board.
- b. Upon the death of either spouse who is a party to the joint membership, such membership shall be held solely by the survivor, provided, however, that the estate of the deceased shall not be released from any debts due the Cooperative.

SECTION 5. Purchase of Services: Each member may take service from the Cooperative and shall pay therefore rates in accordance with established tariffs as fixed by the board. It is expressly understood that amounts paid for services in excess of costs are furnished by members as capital and each member shall be credited with the capital so furnished as provided in these By-Laws. Each member shall also pay all amounts owed by him to the Cooperative as and when the same shall become due and payable.

SECTION 6. 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 members of the board, expel any member who fails to comply with any of the provisions of the Articles of Incorporation, By-Laws, or rules and regulations adopted by the Board, but only if such member shall have been given written notice by the Cooperative 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.
- b. When a member ceases to purchase local, retail telephone services or retail Internet services from the Cooperative or upon the withdrawal, death, cessation of existence or expulsion of a member, the membership of such member shall thereupon terminate. Termination of membership in any manner shall not release a member or his estate from any debts due the Cooperative.

ARTICLE II

Rights and Liabilities of Members

SECTION 1. Property Interest of Members: Upon dissolution, after:

- a. All debts and liabilities of the Cooperative shall have been paid,
- b. All capital furnished through patronage shall have been retired as provided in these By-Laws, and
- c. The remaining property and assets of the Cooperative 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 members during the ten

years next preceding the date of certificate of dissolution, or, if the Cooperative shall not have been in existence for such period, during the period of its existence.

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

ARTICLE III Meetings of Members

SECTION 1. Annual Meeting: The annual meeting of the members shall be held on such date and at such time each year, as may be designated by the Board of Directors by Resolution, at any place in the area served by the Association as may be designated by the Board of Directors, for the purpose of electing directors, passing upon reports covering the fiscal year and transacting such other business as may come before the meeting. If the election of directors shall not be held on the day designated for the annual meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the members as soon thereafter as conveniently may be. Failure to hold the annual meeting at the designated time shall not work a forfeiture or dissolution of the Cooperative.

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 board members, by the president, or by ten per centum of all members, 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 in the area served by the Association as the board may provide by Resolution.

SECTION 3. Notice of Members' Meetings: Written or published notice stating the place, day, and hour of the meeting and, in the 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 fifteen days nor more than forty-five 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, 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 Cooperative, with postage thereon prepaid. If published, the notice must be published in a legal newspaper or newspaper published or circulated in the counties where the Cooperative operates. 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: Fifty members present in person shall constitute a quorum for the transaction of business at all meetings of the members. 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. A list of the members present in person shall be kept.

SECTION 5. Establishment of a Quorum: The attendance of a sufficient number of members to constitute a quorum at any meeting of the members shall be established by a registration of the members present and voting by mail at such meeting, which registration shall be verified by the president and secretary and shall be reported with the minutes of such meeting. In case of a joint membership, registration of either husband and wife, or both, shall be regarded as the registration of one member.

SECTION 6. Voting: Each member shall be entitled to one (1) vote and no more upon each matter submitted to a vote at a meeting of the members. At all meetings of the members at which a quorum is present all questions shall be decided by a vote of a majority of the members voting thereon, at such meeting in person or by mail, except as otherwise provided by law, the Articles of Incorporation of the Cooperative or these By-Laws. If a husband and wife hold a joint membership they shall jointly be entitled to one (1) vote and no more upon each matter submitted to a vote at a meeting of the members.

SECTION 7. Voting by mail: Any member who is absent from any annual or special meeting of the members may vote by mail on the ballot herein prescribed, upon any motion, resolution or amendment to be acted upon at such meeting. The ballot shall be in the form prescribed by the Board of Directors of the Cooperative and shall contain the exact text of the proposed motion, resolution or amendment to be acted upon at such meeting and the date of the meeting; and shall also contain spaces opposite the text of such motion, resolution or amendment in which such member may indicate his affirmative or negative vote therein. Such member shall express his choice by making an "X" in the appropriate space upon such ballot. Such ballot shall be mailed or delivered to the Cooperative in a plain, sealed envelope inside another envelope bearing the member's name, and when received by the secretary of the Cooperative, shall be accepted and counted as the vote of the absent member at such meeting. If a husband and wife hold a joint membership and are absent from any annual or special meeting of the members they shall jointly be entitled to vote by mail as provided in this section. The failure of any such absent member to receive a copy of any such motion or resolution or ballot shall not invalidate any action which may be taken by the members at any such meeting.

SECTION 8. 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 members and the taking of necessary action there-on.
4. Report of the nominating committee.

5. Election of board members.
6. Presentation and consideration of reports of officers, trustees, and committees.
7. Unfinished business.
8. New business.
9. Adjournment.

SECTION 9. Postponement of Meeting of the Members: In the event of inclement weather or the occurrence of a catastrophic event, a meeting of the members may be postponed and rescheduled by the President, or in the President's absence, by the Executive Committee. Notice of the postponement and rescheduling shall be given by the Cooperative in any media of general circulation or broadcast serving the area.

ARTICLE IV Board Members

SECTION 1. General Powers: The business and affairs of the Cooperative shall be managed by a board of directors which shall exercise all of the powers of the Cooperative except such as are by law, the Articles of Incorporation, or these By-Laws conferred upon or reserved to the members.

SECTION 2. Election and Tenure of Directors: The Board of Directors is divided into three (3) classes, the first class consisting of two (2) members as follows: One (1) member from Lowry exchange, and one (1) member from the Donnelly, Norcross, Tintah, or Wendell exchanges. The second class to consist of two (2) members as follows: One (1) member from the Kensington exchange, and one (1) member from the Elbow Lake exchange. The third class to consist of three (3) members as follows: One (1) member from the Barrett exchange, one (1) member from the Hoffman exchange, and one (1) member from the Cyrus exchange.* Each class of directors shall serve for a term of three (3) years. At each annual meeting the class of directors whose term expires shall be elected to hold office until the third succeeding meeting. Election of directors shall be by ballot and each member shall be entitled to cast one (1) vote for each director to be elected, except as provided below for Uncontested Elections. No member shall be eligible to become or remain a director or to hold any position of trust in the Cooperative who is in any way employed by or financially interested in a competing enterprise. When a membership is held jointly by a husband or wife, either one, but not both, may be elected a director, provided, however, that neither one shall be eligible to become or remain a director or to hold a position of trust in the Cooperative unless both shall meet the qualifications herein above set forth. When a member of the Board of Directors no longer resides in the exchange area from which he was elected, his seat shall be

* Effective as of the 2012 Annual Meeting, the size of the board of directors will be reduced from 7 to 6 members. This board size reduction will be accomplished by not electing a director from the Cyrus exchange in 2012, but rather the Cyrus and Kensington exchanges will be represented by one director as of the 2014 director election. The members have approved revisions of the Articles and By-Laws (effective as of the 2012 annual meeting election) to make these changes.

automatically vacated and the vacancy shall be filled by the remaining members of the Board of Directors.

Uncontested Elections. If for any election there is only one nominee for a board position so that the nominee is running unopposed, ballots need not be mailed to the members, and the election shall be made by the chairperson of the meeting entertaining a motion to elect the single candidate by a voice vote.

Contested Elections. If for any election there is more than one (1) nominee for a director position (a "contested election"), then the election shall be by ballot and each member shall be entitled to cast one (1) vote for each director position. Any member who is absent from any annual or special meeting of the members may vote by mail on any contested election of directors on the ballot herein prescribed. The ballot shall be in the form prescribed by the Board of Directors and mailed to each member not less than 15 days nor more than 45 days prior to the meeting. The ballot shall be marked "Ballot for Directors" and shall contain the names of all the candidates in the contested election. The names of the candidates shall be arranged alphabetically on the ballot, and any incumbent director shall be so designated. Members may not vote for write-in candidates. The candidate with a plurality of votes cast shall be elected. In the case of a tie vote, the winner shall be determined by a flip of a coin. The members may, at any meeting at which a director or directors shall be removed, as hereinafter provided, elect a successor or successors thereto without compliance with the foregoing provisions with respect to balloting by mail.

Notwithstanding anything in this section contained, failure to comply with any of the provisions of this section shall not affect in any manner whatsoever the validity of any election of directors.

SECTION 3. Qualifications: No person shall be eligible to become or remain a director of the Cooperative, who:

- a. is not a member receiving local, retail telephone or retail Internet service, or both, from the Cooperative at his or her residence in the exchange that the director represents or would represent if elected;
- b. does not have his or her primary residence in the exchange from which he or she is elected or for which he or she is a candidate; (Establishment of primary residence shall include the requirement that the person physically occupy the location as his or her home for at least nine months each year.)
- c. is in any way employed by, an agent, officer, or director of, or substantially, financially interested in an enterprise substantially competing with the Cooperative or a business engaged in selling telephone service or supplies or construction or maintaining telephone facilities, other than a business operating on a cooperative non-profit basis for the purpose of furthering rural telephony.
- d. within five (5) years preceding a director candidate's nomination was or during service on the Board of Directors is adjudged to be guilty of a felony;
- e. within three (3) years preceding a director candidate's nomination or during service on the Board of Directors was an employee of the Cooperative;

- f. is a close relative of any existing director;
- g. is a close relative of an employee of the Cooperative;
- h. is or becomes a full-time employee or agent or, who is or becomes a full-time employer or principal of, another director;
- i. does not have the capacity to enter legally binding contracts;
- j. unless excused for good cause by the board, is absent from three or more regular meetings of the Board of Directors during any twelve month period. If a director participates in more than one regular meeting during any consecutive twelve month period by electronic communication, that director shall be considered absent from that meeting for purposes of this paragraph.

A “close relative” as used in these By-Laws is a person who:

- a. is by blood (including adoptive relations) a child, grandchild, parent, grandparent, or sibling; or
- b. is a spouse or resides in the same residence.

Any individual properly qualified and elected or appointed as a director does not become a close relative while serving as a director because of any marriage or legal action to which the individual was not a party.

If the Board of Directors determines that any director nominee or any existing director lacks eligibility under this Section, it shall be the duty of the board to disqualify any such nominee or to remove any such director from the Board of Directors, as the case may be.

Notwithstanding anything contained in this Section, failure to comply with any of the provisions of this Section shall not affect in any manner whatsoever the validity of any election of directors or any action taken by them.

SECTION 4. Nominations:

a. Member Petition Nominations. A person shall be nominated as a director for the exchange(s) in his or her director class scheduled for election when nominated through petition by any ten (10) or more members. Such nominating petition shall be in writing, signed by said members and shall contain their printed names, addresses, phone numbers, and dates of each signature. Each petition shall be delivered to the General Manager at the main office of the Cooperative at least 120 days but not earlier than 180 days before the date of a meeting of the members at which directors are to be elected (the “Election Day”). After verifying that the member petition complies with this by-law, the Cooperative shall post such nominations in the main office of the Cooperative.

b. Nominating Committee Nominations. If the members fail to nominate a nominee (or nominees) by petition as above provided, or even if there is a nominee or nominees, the Board in its discretion, may appoint, not less than 60 days nor more than 119 days before the Election Day, a nominating committee consisting of not less than three (3) nor more than six (6) members who shall be elected by the Board. The Nominating Committee shall include at least one (1) member residing in each of the exchange(s) in which a vacancy will occur on the Board of Directors at the meeting of the members at which directors are to be elected. No member of the Board, close relative of a board member, or Cooperative employee may serve on such committee. At least fifty (50) days prior to the Election Day, the Nominating Committee shall nominate one or more persons for said director’s position who reside in the exchange(s) in the director

class scheduled for election. Upon completion of the nominating process, the Cooperative shall prepare and post at the main office of the Cooperative a list of all nominees. The Nominating Committee may be reasonably compensated and be reimbursed for expenses as determined by the Board of Directors.

c. Nominee Vacancy. If, before the scheduled election, a nominee dies, becomes incapacitated, or ceases to be qualified to be a director, then the Nominating Committee may nominate another individual.

d. Nomination Limitations. No member may be elected as a director unless nominated in the manner provided in this section. No write-in ballots shall be accepted. No nominations may be made from the floor at the meeting. All nominees must be eligible pursuant to Article IV, Section 2 and Section 3 of these By-Laws.

SECTION 5. Removal of Board Member by Members: Any member may bring charges against a board member relating to his or her duties. By filing with the secretary such charges in writing together with a petition signed by at least ten per centum of the members, the member may request the removal of such board member by reason thereof. Such board member 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 to the charges; and the person or persons bringing the charges against him shall have the same opportunity. The question of the removal of such board member 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. They do not have to comply with the foregoing provisions with respect to nominations except the provisions of Article IV, Section 2 of these By-Laws.

SECTION 6. Vacancies: Except as provided in Section 5, a vacancy occurring in the board shall be filled by the affirmative vote of a majority of the remaining board members; 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 to nominations except the provisions of Article III, Section 1 of these By-Laws. Any person elected to fill any such vacancy shall hold office until the next annual meeting of the members and until his successor shall have been elected and shall have qualified. A vacancy created by removal of a board member shall be filled under the procedures of Section 5.

SECTION 7. Compensation: Board members shall not receive any salary for their services as such, except that the Board of the Cooperative may by resolution authorize a fixed sum for each day or portion thereof spent on cooperative business, such as attendance at meetings, conferences, and training programs or performing committee assignments when authorized by the board. If authorized by the board, board members may also be reimbursed for expenses actually and necessarily incurred in carrying out such cooperative business and granted a reasonable per diem allowance by the board. Board members who elect to participate, may be extended various forms of liability and

accident insurance as well as participation in benefits provided to employees except benefits based on salary. No board member shall receive compensation for serving the cooperative in any other capacity, nor shall any close relative of a board member receive compensation for serving the Cooperative, unless specifically authorized by the board as an emergency measure.

SECTION 8. Executive Committee: The Board of Directors may, by unanimous affirmative action of the entire board, designate two or more of its members to constitute an Executive Committee, which, to the extent directed by unanimous affirmative action of the entire board, shall have and exercise the authority of the Board in the management of the business of the Cooperative. Any such Executive Committee shall act only in the interval between meetings of the Board, and shall be subject at all times to the control and direction of the Board.

ARTICLE V

Meetings of the Board

SECTION 1. Regular Meetings: A regular meeting of the board shall be held monthly at such time and place within one of the counties served by the Cooperative as designated by the board, except not more than two meetings each year may be held at locations outside of the counties of the counties served by the Cooperative. 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 board members, 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 board members calling the meeting shall fix the time and place for the holding of the meeting.

SECTION 3. Notice of Board Meetings: Notice of the time, place, and purpose of any special meeting of the board shall be delivered to each board member either personally or by mail or telephone, by or at the direction of the secretary, or upon a default in duty by the secretary, by the president or one of the board members calling the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States Mail addressed to the board member at his address as it appears on the records of the Cooperative, with postage thereon paid, at least five (5) days before the date set for the meeting. If in person or by telephone, such notice shall be made a least twenty-four (24) hours before the time set for the meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except in case a director shall attend a meeting for the express purpose of objecting to the transaction of any business because the meeting shall not have been lawfully called or convened.

SECTION 4. Quorum: A majority of the board shall constitute a quorum, provided, that if less than such majority of the board is present at said meeting, a majority of the board present may adjourn the meeting from time to time; and provided further, that the

secretary shall notify any absent board members of the time and place of such adjourned meeting. The act of a majority of the board members present at a meeting at which a quorum is present shall be the act of the board, except as otherwise provided by these By-laws.

SECTION 5. Participation by Electronic Communications. A director may participate in a Board meeting by any means of communication through which the director, other directors so participating, and all directors physically present at the meeting may simultaneously hear and communicate with each other during the meeting. A director so participating shall be deemed present in person at the meeting.

ARTICLE VI

Officers

SECTION 1. Number: The officers of the Cooperative 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 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 of Directors at the first meeting of the Board of Directors held after each annual meeting of the members; Provided, when there is only one nominee for any office, then, if there is no objection, written balloting may be dispensed with and voting may be conducted in any other proper manner. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. 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. A 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 the Board: 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 Cooperative will be served thereby. In addition, any member of the Cooperative may bring charges against an officer relating to his or her duties as an officer. By filing with the secretary such charges in writing together with a petition signed by ten per centum of the members, the member 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 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 to the charges; and the person or persons bringing the charges against him shall have the same opportunity. The question of the removal of such officer shall be considered and voted upon at the meeting of the members, and any vacancy created by such a removal may be filled by the members electing an officer to fill the vacancy from the Board of Directors.

SECTION 4. President: The President shall:

a. be the principal executive officer of the Cooperative and, unless otherwise determined by the members of the board, shall preside at all meetings of the members and the board;

b. sign, with the secretary, 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 By-Laws to some other officer or agent of the Cooperative, or shall be required by law to be otherwise signed or executed, and

c. in general perform all duties incidental 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 be responsible for:

a. keeping the minutes of the meetings of the members and of the board in books provided for that purpose;

b. seeing that all notices are duly given in accordance with these By-Laws or as required by law;

c. the safekeeping of the corporate books and records and the seal of the Cooperative and affixing the seal of the Cooperative to all documents, the execution of which on behalf of the Cooperative under its seal is duly authorized in accordance with the provisions of these By-Laws;

d. keeping a register of the names and post office addresses of all members;

e. keeping on file at all times a complete copy of the Articles of Incorporation and the By-Laws of the Cooperative containing all amendments thereto (which copy shall always be open to the inspection of any member) and at the expense of the Cooperative, furnishing a copy of the By-Laws and all amendments thereto to each member, and

f. in general performing 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 be responsible for:

a. custody of all funds and securities of the Cooperative;

b. the receipt of and the issuance of receipts for all monies due and payable to the Cooperative and for the deposit of all such monies in the name of the Cooperative in such bank or banks as shall be selected in accordance with the provisions of these By-Laws; and

c. the general performance of all 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 Cooperative. 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 treasure and any other officers, agents, and employees of the Cooperative charged with responsibility for the custody of any of its funds or property shall be bonded 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 Cooperative to be bonded 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 By-Laws with respect to compensation for a board member and close relatives of a board member.

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

ARTICLE VII Non-Profit Operation

SECTION 1. Interest or Dividends on Capital Prohibited: The Association shall at all times be operated on a cooperative non-profit basis for the mutual benefit of its patrons, members and non-members alike. No interest or dividends shall be paid or payable by the Cooperative on any capital furnished by its patrons.

SECTION 2. Patronage Capital in Connection with Furnishing Telephone and Other Communications Services:

a. In the furnishing of telephone and other communications services, the Cooperative's operations shall be so conducted that all patrons, members and non-members alike, will, through their patronage, furnish capital for the Cooperative. In order to induce patronage and to assure that the Cooperative will operate on a non-profit basis, the Cooperative 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 and other communications services in excess of the operating costs and expenses properly chargeable against the furnishing of such telephone and other communications services; provided that no patronage shall be due with respect to the purchase of any communications service from the Cooperative that is resold by the purchaser or combined with other elements for use in providing a communications service to another person or entity. All such amounts are understood to be furnished by the patrons, members and non-members alike, as capital which the Cooperative is obligated to pay by credits to a capital account for each patron. The books and records of the Cooperative 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 Cooperative 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 Cooperative such corresponding amounts for capital. The Board of Directors, at its discretion, shall have the power to separately classify certain Association functions, or groups of patrons so as to more properly account for costs of service and patronage margins supplied by them. The Board of Directors, in making any such separate classifications, may consider a variety of relevant factors, such as the cost of rendering service, the terms and conditions of certain types of service, the terms of agreement with patrons, and the obligations of the parties involved. Accordingly, patronage capital credits may accrue at a different rate for certain classifications of patrons or for different types of service, resulting in some classifications producing no margins for allocation while other classifications producing allocable margins.

b. Any and all amounts of non-patronage income received by the Cooperative, other than from furnishing telephone or other communications services, including, but not limited to, amounts of non-patronage income received as interest, dividends, capital gains and other miscellaneous income, in excess of related costs and expenses, shall insofar as permitted by law, and at the discretion of the Board of Directors:

(i) Be credited to the capital accounts of each patron on a patronage basis as provided for in Section 2(a) of this Article VII of these By-Laws; and/or

(ii) Be reserved as retained earnings which shall not be allocated to the patrons of the Cooperative on a patronage basis; and/or

(iii) Be used for such purpose or purposes as the Board of Directors may from time to time determine.

c. In the event of dissolution or liquidation of the Cooperative, after all outstanding indebtedness of the Cooperative shall have been paid, outstanding capital credits shall be retired without priority on a prorata basis.

d. If, at any time prior to the dissolution or liquidation, the Board of Directors shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part. The Board of Directors shall determine the method, basis, priority and order of any such retirements.

e. Capital credited to the account of each patron shall be assignable only on the books of the Cooperative pursuant to written instructions 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 Cooperative unless the Board of Directors, acting under policies of general application, shall determine otherwise.

f. The Board of Directors, at its discretion, shall have the power at any time upon the death of any patron, if the legal representative 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 By-Laws, to retire capital credited to any such patron immediately upon such terms and conditions as the Board of Directors, 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 Cooperative will not be impaired thereby.

g. The patrons of the Cooperative, by dealing with the Cooperative, acknowledge that the terms and provisions of the Articles of Incorporation and By-Laws shall

constitute and be a contract between the Cooperative and each patron and both the Cooperative 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 By-Laws shall be called to the attention of each patron of the Cooperative by posting in a conspicuous place in the Cooperative's office.

h. The losses, if any, incurred during any fiscal year from the furnishing of telephone or other communications services shall be allocated to the patrons, members and nonmembers alike, on a patronage basis, and any amount so allocated shall be included in the determination of the capital credited to the accounts of patrons as herein provided.

ARTICLE VIII

Disposition of Property

The Cooperative may not sell, mortgage, lease, or otherwise dispose of or encumber all or any substantial portion of its property; merge with or consolidate into another entity that is not a rural telephone cooperative association having fewer than 25,000 members or rural electric cooperative association having fewer than 25,000 members; dissolve the Cooperative; or file for bankruptcy with the United States Bankruptcy Court unless such act 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 Cooperative, and unless the notice of such proposed act shall have been contained in the notice of the meeting; provided, however, that notwithstanding anything herein contained, the board of the Cooperative, 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 Cooperative 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 Cooperative. Provided further that the board may, upon the authorization of two-thirds of those members of the Cooperative present at a meeting of the members thereof, sell, lease, or otherwise dispose of all or a substantial portion of its property to or merge with or consolidate into another rural telephone cooperative association having fewer than 25,000 members or rural electric cooperative association having fewer than 25,000 members. Other provisions of the Articles of Incorporation or By-Laws notwithstanding, any repeal, amendment, or alteration of this Article that would result in a change in the member approval requirements for acts described herein, must be approved by a 2/3 vote of all members of the Cooperative.

ARTICLE IX

Seal

The corporate seal of the Cooperative shall have inscribed thereon the name of the Cooperative and the words "Corporate Seal Minnesota".

ARTICLE X

Financial Transactions

SECTION 1. Contracts: Except as otherwise provided in these By-Laws, 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 Cooperative, 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, and all notes, bonds, or other evidences of indebtedness issued in the name of the Cooperative shall be signed by such officer or officers, agent or agents, employee or employees of the Cooperative and in such manner as shall from time to time be determined by resolution of the board.

SECTION 3. Deposits: All funds except petty cash of the Cooperative shall be deposited from time to time to the credit of the Cooperative in such bank or banks as the board may select.

SECTION 4. Change in Rates: Written notice shall be given to any state or federal agency as required by any governing contract, mortgage, regulation, or law prior to the date upon which the proposed change in the rates charged by the Cooperative for telephone service becomes effective.

SECTION 5. Fiscal Year: The fiscal year of the Cooperative 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 Cooperative may, upon the authorization of the board, purchase stock in or become a member of any corporation or organization deemed necessary for the successful operation of the association.

SECTION 2. Waiver of Notice: Any member or board member may waive in writing any notice of a meeting required to be given by these By-Laws. The attendance of a member or board member at any meeting shall constitute a waiver of notice of such meeting by such member or board member, except in case a member or board member 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. Policies, Rules, and Regulations: The board shall have power to make and adopt such policies, rules, and regulations, not inconsistent with law, the Articles of Incorporation, or these By-Laws, as it may deem advisable for the management of the business and affairs of the Cooperative.

SECTION 4. Accounting Systems 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 any lender. The board

shall also cause to be made by a certified public accountant a full and complete annual audit of the accounts, books, and financial condition of the Cooperative. The results of such audit shall be reported to the members at the next following annual meeting.

SECTION 5. Area Coverage: The board shall make diligent effort to see that communication service is extended to all unserved persons within the Cooperative service area who (a) desire such service, and (b) meet all reasonable requirements established by the Cooperative as a condition of such service.

ARTICLE XII

Security Interest In Patronage Capital

As security for the full and prompt payment and performance when due of any and all obligations or indebtedness that may be owed by a patron (member or non-member) to the Cooperative, the Cooperative shall have a continuing security interest in and recoupment claim against the patronage capital allocated to a patron. Each patron authorizes the Cooperative to perfect that security interest by any filing required under the Uniform Commercial Code.

ARTICLE XIII

Amendments

These By-Laws may be altered, amended, or repealed by the members at any regular or special meeting, provided the notice of such meeting shall have contained a copy of the proposed alteration, amendment or repeal, by the affirmative vote of 55% of all votes cast, in person or by mail, at said meeting.