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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended August 31, 2015**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 1-7102**

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**NATIONAL RURAL UTILITIES  
COOPERATIVE FINANCE CORPORATION**  
(Exact name of registrant as specified in its charter)

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**District of Columbia**

(State or other jurisdiction of incorporation or organization)

**52-0891669**

(I.R.S. employer identification no.)

**20701 Cooperative Way, Dulles, Virginia, 20166**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(703) 467-1800**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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## **PART I—FINANCIAL INFORMATION**

### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

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#### **FORWARD-LOOKING STATEMENTS**

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This Quarterly Report on Form 10-Q contains certain statements that are considered “forward-looking statements” within the Securities Act of 1933, as amended, and the Exchange Act of 1934, as amended. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identified by our use of words such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity” and similar expressions, whether in the negative or affirmative. All statements about future expectations or projections, including statements about loan volume, the appropriateness of the allowance for loan losses, operating income and expenses, leverage and debt-to-equity ratios, borrower financial performance, impaired loans, and sources and uses of liquidity, are forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, actual results and performance may differ materially from our forward-looking statements due to several factors. Factors that could cause future results to vary from our forward-looking statements include, but are not limited to, general economic conditions, legislative changes including those that could affect our tax status, governmental monetary and fiscal policies, demand for our loan products, lending competition, changes in the quality or composition of our loan portfolio, changes in our ability to access external financing, changes in the credit ratings on our debt, valuation of collateral supporting impaired loans, charges associated with our operation or disposition of foreclosed assets, regulatory and economic conditions in the rural electric industry, non-performance of counterparties to our derivative agreements, the costs and effects of legal or governmental proceedings involving National Rural Utilities Cooperative Finance Corporation (“CFC”) or its members and the factors listed and described under “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015 (“2015 Form 10-K”). Except as required by law, we undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date on which the statement is made.

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#### **INTRODUCTION**

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National Rural Utilities Cooperative Finance Corporation (“CFC”) is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC’s principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (“RUS”) of the United States Department of Agriculture (“USDA”). CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes. As a member-owned cooperative, CFC’s objective is not to maximize profit, but rather to offer its members cost-based financial products and services consistent with sound financial management.

Our financial statements include the consolidated accounts of CFC, Rural Telephone Finance Cooperative (“RTFC”), National Cooperative Services Corporation (“NCSC”) and certain entities created and controlled by CFC to hold foreclosed assets. RTFC was established to provide private financing for the rural telecommunications industry. NCSC was established to provide financing to members of CFC and the for-profit and nonprofit entities that are owned, operated or controlled by, or provide significant benefits to certain members of CFC. CFC controlled and held foreclosed assets in two entities, Caribbean Asset Holdings, LLC (“CAH”) and Denton Realty Partners, LP (“DRP”), during fiscal year 2015. DRP was dissolved during the fourth quarter of fiscal year 2015, subsequent to the sale of the remainder of its assets. CAH, which is the only entity in which we currently hold foreclosed assets, is a holding company for various U.S. Virgin Islands, British Virgin Islands and St. Maarten-based telecommunications operating entities that were transferred to CAH as a result of a loan default by a borrower and subsequent bankruptcy proceedings. These operating entities provide local, long-distance and wireless telephone, cable television and Internet services to residential and commercial customers. See “Item 1. Business—Overview” of our 2015 Form 10-K for additional information on the business activities of each of these entities. Unless stated otherwise, references to “we,” “our” or “us” relate to CFC and its consolidated entities. All references to members within this document include members, associates and affiliates of CFC and its consolidated entities.

Management monitors a variety of key indicators to evaluate our business performance. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by discussing the drivers of changes from period to period and the key measures used by management to evaluate performance, such as leverage ratios, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with our unaudited condensed consolidated financial statements and related notes in this Report, the more detailed information contained in 2015 Form 10-K, including the risk factors discussed under “Part I—Item 1A. Risk Factors” in our 2015 Form 10-K, and the risk factors under “Part II—Item 1A. Risk Factors” in this Report.

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## **SUMMARY OF SELECTED FINANCIAL DATA**

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Table 1 provides a summary of selected financial data for the three months ended August 31, 2015 and 2014, and as of August 31, 2015 and May 31, 2015. In addition to financial measures determined in accordance with generally accepted accounting principles in the United States (“GAAP”), management also evaluates performance based on certain non-GAAP measures, which we refer to as “adjusted” measures. Our key non-GAAP metrics consist of adjusted times interest earned ratio (“TIER”) and adjusted debt-to-equity ratio. The most comparable GAAP measures are TIER and debt-to-equity ratio, respectively. The primary adjustments we make to calculate these non-GAAP measures consist of (i) adjusting interest expense and net interest income to include the impact of net periodic derivative cash settlements; (ii) adjusting net income, senior debt and total equity to exclude the non-cash impact of the accounting for derivative financial instruments; (iii) adjusting senior debt to exclude the amount that funds CFC member loans guaranteed by the RUS, subordinated deferrable debt and members’ subordinated certificates; and (iv) adjusting total equity to include subordinated deferrable debt and members’ subordinated certificates. See “Non-GAAP Financial Measures” for a detailed reconciliation of these adjusted measures to the most comparable GAAP measures. We believe our adjusted non-GAAP metrics, which are not a substitute for GAAP and may not be consistent with similarly titled non-GAAP measures used by other companies, provide meaningful information and are useful to investors because the financial covenants in our revolving credit agreements and debt indentures are based on these adjusted metrics.

Table 1: Summary of Selected Financial Data<sup>(1)</sup>

(Dollars in thousands)	Three Months Ended August 31,		
	2015	2014	Change
<b>Statement of operations</b>			
Interest income.....	\$ 246,116	\$ 237,291	4 %
Interest expense .....	(165,700)	(156,552)	6
Net interest income .....	80,416	80,739	—
Provision for loan losses .....	(4,562)	6,771	(167)
Fee and other income.....	4,701	4,357	8
Derivative losses <sup>(2)</sup> .....	(12,017)	(49,878)	(76)
Results of operations of foreclosed assets <sup>(3)</sup> .....	(1,921)	(2,699)	(29)
Operating expenses <sup>(4)</sup> .....	(22,835)	(18,543)	23
Other non-interest expense .....	(357)	61	(685)
Income before income taxes .....	43,425	20,808	109
Income tax expense.....	(330)	(196)	68
Net income .....	\$ 43,095	\$ 20,612	109 %
<b>Adjusted statement of operations</b>			
Adjusted interest expense <sup>(5)</sup> .....	\$ (185,856)	\$ (176,653)	5 %
Adjusted net interest income <sup>(5)</sup> .....	60,260	60,638	(1)
Adjusted net income <sup>(5)</sup> .....	34,956	50,389	(31)
<b>Ratios</b>			
Fixed-charge coverage ratio/TIER <sup>(6)</sup> .....	1.26	1.13	13 bps
Adjusted TIER <sup>(5)</sup> .....	1.19	1.29	(10)
<b>Balance sheet</b>			
Cash, investments and time deposits .....	\$ 835,115	\$ 818,308	2%
Loans to members <sup>(7)</sup> .....	22,094,387	21,469,017	3
Allowance for loan losses .....	(38,307)	(33,690)	14
Loans to members, net.....	22,056,080	21,435,327	3
Total assets.....	23,459,800	22,846,059	3
Short-term borrowings.....	3,208,704	3,127,754	3
Long-term debt .....	16,710,748	16,244,794	3
Subordinated deferrable debt .....	395,717	395,699	—
Members' subordinated certificates.....	1,485,933	1,505,420	(1)
Total debt outstanding <sup>(8)</sup> .....	21,801,102	21,273,667	2
Total liabilities .....	22,544,635	21,934,273	3
Total equity .....	915,165	911,786	—
Guarantees <sup>(9)</sup> .....	972,486	986,500	(1)
<b>Ratios</b>			
Leverage ratio <sup>(10)</sup> .....	25.70	25.14	56 bps
Adjusted leverage ratio <sup>(5)</sup> .....	6.83	6.58	25
Debt-to-equity ratio <sup>(11)</sup> .....	24.63	24.06	57
Adjusted debt-to-equity ratio <sup>(5)</sup> .....	6.52	6.26	26

— Change is less than one percent or not meaningful.

<sup>(1)</sup>In the first quarter of fiscal year 2016, we early-adopted the Financial Accounting Standards Board ("FASB") guidance that amends the presentation of debt issuance costs in the financial statements by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet

as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as an asset. We applied its provisions retrospectively, which resulted in the reclassification of unamortized debt issuance costs of \$47 million as of May 31, 2015, from total assets on our condensed consolidated balance sheet to total debt outstanding. Other than this reclassification, the adoption of the guidance did not impact our consolidated financial statements. See “Note 1—Summary of Significant Accounting Policies—Accounting Standards Adopted in Fiscal Year 2016” for additional information.

- <sup>(2)</sup> Consists of derivative cash settlements and derivative forward value amounts. Derivative cash settlement amounts represent net periodic contractual interest accruals related to derivatives not designated for hedge accounting. Derivative forward value amounts represent changes in fair value during the period, excluding net periodic contractual accruals, related to derivatives not designated for hedge accounting and expense amounts reclassified into income related to the cumulative transition loss recorded in accumulated other comprehensive income (“AOCI”) as of June 1, 2001, as a result of the adoption of the derivative accounting guidance that required derivatives to be reported at fair value on the balance sheet.
- <sup>(3)</sup> Includes CAH fair value loss of \$2 million for the three months ended August 31, 2015.
- <sup>(4)</sup> Consists of salaries and employee benefits and other general and administrative expenses.
- <sup>(5)</sup> See “Non-GAAP Financial Measures” for details on the calculation of these adjusted non-GAAP ratios and the reconciliation to the most comparable GAAP measures.
- <sup>(6)</sup> Calculated based on net income plus interest expense for the period divided by interest expense for the period. The fixed-charge coverage ratios and TIER were the same for the three months ended August 31, 2015 and 2014 because we did not have any capitalized interest during these periods.
- <sup>(7)</sup> Consists of outstanding principal balance of member loans and deferred loan origination costs of \$10 million as of both August 31, 2015 and May 31, 2015.
- <sup>(8)</sup> Includes debt issuance costs, which were previously classified as an asset on our consolidated balance sheets, of \$46 million and \$47 million as of August 31, 2015 and May 31, 2015, respectively.
- <sup>(9)</sup> Represents the total outstanding guarantee amount as of the end of the each period; however, the amount recorded on our condensed consolidated balance sheets for our guarantee obligations is significantly less than the outstanding guarantee total. See “Note 10—Guarantees” for additional information.
- <sup>(10)</sup> Calculated based on total liabilities and guarantees at period end divided by total equity at period end.
- <sup>(11)</sup> Calculated based on total liabilities at period end divided by total equity at period end.

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## EXECUTIVE SUMMARY

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Our primary objective as a member-owned cooperative lender is to provide cost-based financial products to our rural electric members while maintaining sound financial results required for investment-grade credit ratings on our debt instruments. Our objective is not to maximize net income; therefore, the rates we charge our member-borrowers reflect our adjusted interest expense plus a spread to cover our operating expenses, a provision for loan losses and earnings sufficient to achieve interest coverage to meet our financial objectives. Our goal is to earn an annual minimum adjusted TIER of 1.10 and to achieve and maintain an adjusted debt-to-equity ratio below 6.00-to-1.

### Financial Performance

#### *Reported Results*

We reported net income of \$43 million for the quarter ended August 31, 2015 (“current quarter”) and TIER of 1.26, compared with net income of \$21 million and TIER of 1.13 for the same prior year quarter. Our debt-to-equity ratio increased to 24.63-to-1 as of August 31, 2015, from 24.06-to-1 as of May 31, 2015. Our reported results for the current quarter reflect the impact of relatively flat net interest income and a significant reduction in net derivative losses of \$38 million, which was partially offset by a shift in the provision for loan losses of \$12 million, as we recorded a provision expense of \$5 million in the current quarter versus a negative provision of \$7 million in the same prior year quarter.

We expect volatility from period to period in our reported GAAP results due to changes in market conditions that result in periodic fluctuations in the estimated fair value of our derivative instruments, which we mark to market through earnings. As previously noted, we therefore use adjusted non-GAAP measures to evaluate our performance and for compliance with our debt covenants.

#### *Adjusted Non-GAAP Results*

Our adjusted net income totaled \$35 million and our adjusted TIER was 1.19 for the current quarter, compared with adjusted net income of \$50 million and adjusted TIER of 1.29 for the same prior year quarter. Our adjusted debt-to-equity ratio increased to 6.52-to-1 as of August 31, 2015, from 6.26-to-1 as of May 31, 2015. Our adjusted net income for the current quarter reflected a slight decline in net interest income and the unfavorable impact of the \$12 million shift in our provision for loan losses.



## **Lending Activity**

Total loans outstanding, which consists of the unpaid principal balance and excludes deferred loan origination costs, was \$22,085 million as of August 31, 2015, an increase of \$625 million, or 3%, from May 31, 2015. The increase was primarily due to an increase in CFC distribution and power supply loans of \$480 million and \$163 million, respectively, which was attributable to members refinancing with us loans made by other lenders and member advances for capital investments. This increase was partially offset by a decrease in NCSC loans of \$6 million and a decrease in RTFC loans of \$7 million.

CFC had long-term fixed-rate loans totaling \$206 million that repriced during the three months ended August 31, 2015. Of this total, \$199 million repriced to a new long-term fixed rate; \$6 million repriced to a long-term variable rate; and \$1 million were repaid in full.

## **Funding Activity**

Our outstanding debt volume generally increases and decreases in response to member loan demand. As outstanding loan balances increased during the three months ended August 31, 2015, our debt volume also increased. Total debt outstanding was \$21,801 million as of August 31, 2015, an increase of \$527 million, or 2%, from May 31, 2015. The increase was primarily attributable to the issuance of notes payable of \$250 million under the Guaranteed Underwriter Program of the United States Department of Agriculture and \$180 million under the note purchase agreement with the Federal Agricultural Mortgage Corporation ("Farmer Mac"). On July 31, 2015, we entered into a new revolving note purchase agreement with Farmer Mac for \$300 million.

## **Outlook for the Next 12 Months**

We expect the amount of new long-term loan advances to exceed scheduled loan repayments over the next 12 months. We anticipate a continued increase in earnings from our core lending operations over the next 12 months based on our expectation of an increase in long-term loans outstanding.

We had \$1,932 million of long-term debt as of August 31, 2015, scheduled to mature over the next 12 months. We believe we have sufficient liquidity from the combination of existing cash and time deposits, member loan repayments, committed loan facilities and our ability to issue debt in the capital markets, to our members and in private placements, to meet the demand for member loan advances and satisfy our obligations to repay long-term debt maturing over the next 12 months. We had \$751 million in cash and time deposits, up to \$500 million available under committed loan facilities from the Federal Financing Bank, \$3,419 million available under committed revolving lines of credit with a syndicate of banks, up to \$300 million available under a new note purchase agreement with Farmer Mac and, subject to market conditions, up to \$2,419 million available under the existing revolving note purchase agreement with Farmer Mac as of August 31, 2015. On September 28, 2015, we received a commitment from RUS to guarantee a loan of \$250 million from the Federal Financing Bank of the USDA pursuant to the Guaranteed Underwriter Program. Upon closing of the commitment, we will have an additional \$250 million available under the Guaranteed Underwriter Program with a 20-year maturity repayment period during the three-year period following the date of closing. We also have the ability to issue collateral trust bonds and medium-term notes in the capital markets and medium-term notes to members.

We believe we can continue to roll over the member outstanding short-term debt of \$2,294 million as of August 31, 2015, based on our expectation that our members will continue to reinvest their excess cash in our commercial paper, daily liquidity fund and select notes. We believe we can also continue to roll over our outstanding dealer commercial paper of \$915 million as of August 31, 2015. We intend to manage our short-term wholesale funding risk by maintaining our dealer commercial paper within an approximate range between \$1,000 million and \$1,250 million for the foreseeable future. We expect to continue to be in compliance with the covenants under our revolving credit agreements, which will allow us to mitigate our roll-over risk as we can draw on these facilities to repay dealer or member commercial paper that cannot be rolled over due to potential adverse changes in market conditions.

Our goal is to maintain the adjusted debt-to-equity ratio at or below 6.00-to-1. However, because of the increase in outstanding loan balances during the first quarter of fiscal 2016 and the expected further increase during the remainder of the fiscal year, we anticipate additional borrowings to support our loan growth. As a result, our adjusted debt-to-equity ratio will likely continue to be higher than 6.00-to-1 in the near term.

As part of our strategy to manage our credit risk exposure, we entered into a long-term standby purchase commitment agreement with Farmer Mac on August 31, 2015. Under this agreement, we may designate certain loans, as approved by Farmer Mac, and in the event any such loan later goes into material default for at least 90 days, upon request by us, Farmer Mac must purchase such loan at par value. We have designated and Farmer Mac has approved an initial tranche of loans of \$520 million as of August 31, 2015. We expect to designate an additional tranche of loans in the second quarter of fiscal year 2016.

On September 30, 2015, CFC entered into a Purchase Agreement (the “Purchase Agreement”) with CAH, ATN VI Holdings, LLC (“Atlantic”) and Atlantic Tele-Network, Inc., the parent corporation of Atlantic, to sell all of the issued and outstanding membership interests of CAH to Atlantic for a purchase price of \$145 million, subject to certain adjustments. We expect to complete the transaction during the second half of calendar year 2016, subject to the satisfaction or waiver of various closing conditions under the Purchase Agreement, including, among other things, the receipt of required communications regulatory approvals in the United States, United States Virgin Islands, British Virgin Islands and St. Maarten, the expiration or termination of applicable waiting periods under applicable competition laws, and the absence of a material adverse effect or material adverse regulatory event. See “Consolidated Results of Operations—Results of Foreclosed Assets” below and “Note 4—Foreclosed Assets” for additional information related to CAH.

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## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management's judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a discussion of our significant accounting policies under “Note 1—Summary of Significant Accounting Policies” in our 2015 Form 10-K.

We have identified certain accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our results of operations or financial condition. Our most critical accounting policies and estimates involve the determination of the allowance for loan losses and fair value. We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. There were no material changes in the assumptions used in our critical accounting policies and estimates during the current quarter. Management has discussed significant judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. We provide information on the methodologies and key assumptions used in our critical accounting policies and estimates under “MD&A—Critical Accounting Policies and Estimates” in our 2015 Form 10-K. See “Item 1A. Risk Factors” for a discussion of the risks associated with management’s judgments and estimates in applying our accounting policies and methods in our 2015 Form 10-K.

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## **ACCOUNTING CHANGES AND DEVELOPMENTS**

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See “Note 1—Summary of Significant Accounting Policies” for information on accounting standards adopted during the three months ended August 31, 2015, as well as recently issued accounting standards not yet required to be adopted and the expected impact of these accounting standards. To the extent we believe the adoption of new accounting standards has had or will have a material impact on our results of operations, financial condition or liquidity, we discuss the impacts in the applicable section(s) of MD&A.

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## CONSOLIDATED RESULTS OF OPERATIONS

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The section below provides a comparative discussion of our condensed consolidated results of operations between the three months ended August 31, 2015 and the three months ended August 31, 2014. Following this section, we provide a comparative analysis of our condensed consolidated balance sheets as of August 31, 2015 and May 31, 2015. You should read these sections together with our “Executive Summary—Outlook for the Next 12 Months” where we discuss trends and other factors that we expect will affect our future results of operations.

### **Net Interest Income**

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which include loans and investment securities, and the interest expense on our interest-bearing liabilities. Our net interest yield represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities plus the impact from non-interest bearing funding. We expect net interest income and our net interest yield to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities. We do not fund each individual loan with specific debt. Rather, we attempt to minimize costs and maximize efficiency by funding large aggregated amounts of loans.

Table 2 presents our average balance sheets for the three months ended August 31, 2015 and 2014, and for each major category of our interest-earning assets and interest-bearing liabilities, the interest income earned or interest expense incurred, and the average yield or cost. Table 2 also presents non-GAAP adjusted interest expense, adjusted net interest income and adjusted net interest yield, which reflect the inclusion of net periodic derivative cash settlements in interest expense. We provide reconciliations of our non-GAAP adjusted measures to the most comparable GAAP measures under “Non-GAAP Financial Measures.”

**Table 2: Average Balances, Interest Income/Interest Expense and Average Yield/Cost**

(Dollars in thousands)	Three Months Ended August 31,					
	2015			2014		
	Average Balance	Interest Income/Expense	Average Yield/Cost	Average Balance	Interest Income/Expense	Average Yield/Cost
<b>Assets:</b>						
Long-term fixed-rate loans <sup>(1)</sup>	\$ 19,914,082	\$ 232,202	4.64%	\$ 18,458,181	\$ 222,328	4.78%
Long-term variable-rate loans	685,897	5,020	2.91	754,707	5,360	2.82
Line of credit loans	1,040,028	6,198	2.37	1,156,811	6,942	2.38
Restructured loans	11,407	—	—	7,585	—	—
Nonperforming loans	—	—	—	2,071	—	—
Interest-based fee income <sup>(2)</sup>	—	71	—	—	89	—
Total loans	21,651,414	243,491	4.47	20,379,355	234,719	4.57
Cash, investments and time deposits	722,391	2,625	1.45	995,975	2,572	1.02
<b>Total interest-earning assets</b>	<b>\$ 22,373,805</b>	<b>\$ 246,116</b>	<b>4.38%</b>	<b>\$ 21,375,330</b>	<b>\$ 237,291</b>	<b>4.40%</b>
Other assets, less allowance for loan losses	873,048			900,480		
Total assets	\$ 23,246,853			\$ 22,275,810		
<b>Liabilities:</b>						
Short-term debt	\$ 2,799,166	\$ 2,542	0.36%	\$ 3,799,388	\$ 3,141	0.33%
Medium-term notes	3,361,129	20,153	2.39	2,760,202	17,159	2.47
Collateral trust bonds	6,782,214	82,831	4.86	6,017,423	76,182	5.02
Subordinated deferrable debt	400,000	4,783	4.76	400,000	4,767	4.73
Subordinated certificates	1,497,706	15,306	4.07	1,542,924	16,746	4.31
Long-term notes payable	6,550,307	40,085	2.43	5,859,435	38,557	2.61
<b>Total interest-bearing liabilities</b>	<b>\$ 21,390,522</b>	<b>\$ 165,700</b>	<b>3.08%</b>	<b>\$ 20,379,372</b>	<b>\$ 156,552</b>	<b>3.05%</b>
Other liabilities	941,094			929,881		
Total liabilities	22,331,616			21,309,253		
Total equity	915,237			966,557		
Total liabilities and equity	\$ 23,246,853			\$ 22,275,810		
Net interest spread <sup>(3)</sup>			1.30%			1.35%
Impact of non-interest bearing funding <sup>(4)</sup>			0.14			0.16
Net interest income/net interest yield <sup>(5)</sup>		\$ 80,416	1.44%		\$ 80,739	1.51%
<b>Adjusted net interest income/adjusted net interest yield:</b>						
Interest income		\$ 246,116	4.38%		\$ 237,291	4.40%
Interest expense		165,700	3.08		156,552	3.05
Add: Net derivative cash settlement cost <sup>(6)</sup>		20,156	0.82		20,101	0.94
Adjusted interest expense/adjusted average cost <sup>(7)</sup>		\$ 185,856	3.46%		\$ 176,653	3.43%
Adjusted net interest spread <sup>(4)</sup>			0.92%			0.97%
Impact of non-interest bearing funding			0.15			0.16
Adjusted net interest income/adjusted net interest yield <sup>(8)</sup>		\$ 60,260	1.07%		\$ 60,638	1.13%

<sup>(1)</sup> Includes loan conversion fees, which are deferred and recognized in interest income using the effective interest method. Also includes a small portion of conversion fees, which are intended to cover the administrative costs related to the conversion and are recognized into income immediately at conversion.

<sup>(2)</sup> Primarily related to loan origination and late loan payment fees.

- (3) Net interest spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing funding. Adjusted net interest spread represents the difference between the average yield on interest-earning assets and the adjusted average cost of interest-bearing funding.
- (4) Includes other liabilities and equity.
- (5) Net interest yield is calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.
- (6) Represents the impact of net periodic derivative cash settlements during the period, which is added to interest expense to derive non-GAAP adjusted interest expense. The average (benefit)/cost associated with derivatives is calculated based on the annualized net periodic cash settlements during the period divided by the average outstanding notional amount of derivatives during the period. The average outstanding notional amount of derivatives was \$9,788 million and \$8,484 million for the three months ended August 31, 2015 and 2014, respectively.
- (7) Adjusted average cost is calculated based on annualized adjusted interest expense for the period divided by average interest-bearing funding during the period.
- (8) Adjusted net interest yield is calculated based on annualized adjusted net interest income for the period divided by average interest-earning assets for the period.

Table 3 displays the change in our net interest income between periods and the extent to which the variance is attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities. The table also presents the change in adjusted net interest income between periods.

**Table 3: Rate/Volume Analysis of Changes in Interest Income/Interest Expense**

	Three Months Ended August 31, 2015 versus 2014		
		Variance due to: <sup>(1)</sup>	
(Dollars in thousands)	Total Variance	Volume	Rate
<b>Interest income:</b>			
Long-term fixed-rate loans.....	\$ 9,874	\$ 16,881	\$ (7,007)
Long-term variable-rate loans.....	(340)	(502)	162
Line of credit loans.....	(744)	(718)	(26)
Fee income.....	(18)	—	(18)
Total loans.....	8,772	15,661	(6,889)
Cash, investments and time deposits.....	53	(712)	765
Interest income.....	8,825	14,949	(6,124)
<b>Interest expense:</b>			
Short-term debt.....	(599)	(833)	234
Medium-term notes.....	2,994	3,679	(685)
Collateral trust bonds.....	6,649	9,448	(2,799)
Subordinated deferrable debt.....	16	(13)	29
Subordinated certificates.....	(1,440)	(535)	(905)
Long-term notes payable.....	1,528	4,428	(2,900)
Interest expense.....	9,148	16,174	(7,026)
Net interest income.....	\$ (323)	\$ (1,225)	\$ 902
<b>Adjusted net interest income:</b>			
Interest income.....	\$ 8,825	\$ 14,949	\$ (6,124)
Interest expense.....	9,148	16,174	(7,026)
Derivative cash settlements <sup>(2)</sup> .....	55	3,026	(2,971)
Adjusted interest expense <sup>(3)</sup> .....	9,203	19,200	(9,997)
Adjusted net interest income.....	\$ (378)	\$ (4,251)	\$ 3,873

- (1) The changes for each category of interest income and interest expense are divided between the portion of change attributable to the variance in volume and the portion of change attributable to the variance in rate for that category. The amount attributable to the combined impact of volume and rate has been allocated to each category based on the proportionate absolute dollar amount of change for that category.
- (2) For derivative cash settlements, variance due to average volume represents the change in derivative cash settlements that resulted from the change in the average notional amount of derivative contracts outstanding. Variance due to average rate represents the change in derivative cash settlements that resulted from the net difference between the average rate paid and the average rate received for interest rate swaps during the period.
- (3) See “Non-GAAP Financial Measures” for additional information on the our adjusted non-GAAP measures.

Net interest income of \$80 million for the current quarter decreased slightly from the same prior year quarter, driven by a decrease in net interest yield of 5% (7 basis points) to 1.44%, which was largely offset by an increase in average interest-earning assets of 5%.

- *Average Interest-Earning Assets:* The increase in average interest-earning assets reflected loan advances that exceeded loan payments as members refinanced with us loans made by other lenders and obtained advances to fund capital investments.
- *Net Interest Yield:* The decrease in the net interest yield was attributable to the combined impact of an increase in our average cost of funds and a decline in the average yield on interest-earning assets. Our average cost of funds increased by 3 basis points to 3.08% during the three months ended August 31, 2015, largely due to our decision in the third quarter of fiscal year 2015 to significantly reduce our outstanding dealer commercial paper balance, which has a much lower cost. The decrease in the average yield on interest-earning assets of 2 basis points to 4.38% during the three months ended August 31, 2015 was largely attributable to reduced rates on fixed-rate loans, reflecting the repricing of higher rate loans to lower interest rates and lower interest rates on new loan originations as a result of the overall low interest rate environment. As a cost-based lender, our fixed interest rates for loans are intended to reflect our cost of borrowing plus a spread to cover our cost of operations and provision for loan losses and to provide earnings sufficient to achieve interest coverage to meet financial objectives. As benchmark treasury rates remained low and our credit spread tightened over the past few years, there was a continued reduction in the rates we had to pay to obtain funding in the capital markets. We therefore lowered the long-term fixed rates on our new loans.

Adjusted net interest income of \$60 million for the current quarter also decreased slightly from the same prior year quarter, driven by a decrease in the adjusted net interest yield of 5% (6 basis points) to 1.07%, offset by the 5% increase in average interest-earning assets.

Our adjusted net interest income and adjusted net interest yield include the impact of net periodic derivative cash settlements during the period. We recorded net periodic derivative cash settlement expense of \$20 million for the three months ended August 31, 2015 and 2014. See “Non-GAAP Financial Measures” for additional information on our adjusted measures.

### **Provision for Loan Losses**

Our provision for loan losses in each period is primarily driven by the level of allowance that we determine is necessary for probable incurred loan losses inherent in our loan portfolio as of each balance sheet date.

We recorded a provision for loan losses of \$5 million for the three months ended August 31, 2015, compared with a benefit for loan losses of \$7 million for the same prior year period. The shift in the provision was attributable to the increase in loan balances and a slight deterioration in the overall credit risk profile of our loan portfolio. Specifically, certain loans experienced negative migration through our internal risk rating process. As a result, our allowance for loan losses increased to \$38 million as of August 31, 2015, from \$34 million as of May 31, 2015. The benefit for loan losses recorded in the prior year period was due to modest improvement in the credit quality and overall credit risk profile of our loan portfolio and relatively flat loan balances. We provide additional information on our allowance for loan losses under “Credit Risk—Allowance for Loan Losses” and “Note 3—Loans and Commitments” of this Report. For information on our allowance methodology, see “MD&A—Critical Accounting Policies and Estimates” and “Note 1—Summary” in our 2015 Form 10-K.

### **Non-Interest Income**

Non-interest income consists of fee and other income, gains and losses on derivatives not accounted for in hedge accounting relationships and results of operations of foreclosed assets.

We recorded losses from non-interest income of \$9 million and \$48 million for the three months ended August 31, 2015 and 2014, respectively. The decrease in losses of \$39 million was primarily attributable to a reduction in derivative losses of \$38 million during the three months ended August 31, 2015.

### ***Derivative Gains (Losses)***

Our derivative instruments are an integral part of our interest rate risk management strategy. Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. The derivative instruments we use primarily include interest rate swaps, which we typically hold to maturity. The primary factors affecting the fair value of our derivatives and derivative gains (losses) recorded in our results of operations include changes in interest rates, yield curves and implied interest rate volatility and the composition and balance of instrument types in our derivative portfolio. We generally do not designate interest rate swaps, which represent the substantial majority of our derivatives, for hedge accounting. Accordingly, changes in the fair value of interest rate swaps are reported in our consolidated statements of operations under derivative gains (losses). We did not have any derivatives designated as accounting hedges as of August 31, 2015 or May 31, 2015.

We recorded derivative losses of \$12 million and \$50 million for the three months ended August 31, 2015 and 2014, respectively. Table 4 presents the components of net derivative gains (losses) recorded in our condensed consolidated results of operations for the three months ended August 31, 2015 and 2014. The derivative gains (losses) relate to interest rate swap agreements. Derivative cash settlements represent net contractual interest expense accruals on interest rate swaps during the period. The derivative forward value represents the change in fair value of our interest rate swaps during the reporting period due to changes in expected future interest rates over the remaining life of our derivative contracts.

**Table 4: Derivative Gains (Losses)**

(Dollars in thousands)	Three Months Ended August 31,	
	2015	2014
Derivative gains (losses) attributable to:		
Derivative cash settlements.....	\$ (20,156)	\$ (20,101)
Derivative forward value .....	8,139	(29,777)
Derivative losses .....	<u>\$ (12,017)</u>	<u>\$ (49,878)</u>

We currently use two types of interest rate swap agreements: (i) we pay a fixed rate and receive a variable rate (“pay-fixed swaps”) and (ii) we pay a variable rate and receive a fixed rate (“receive-fixed swaps”). Pay-fixed swaps generally decrease in value as interest rates decline and increase in value as interest rates rise. In contrast, receive-fixed swaps generally increase in value as interest rates decline and decrease in value as interest rates rise. The composition of our pay-fixed and receive-fixed swaps varies across the swap yield curve. As a result, the overall fair value gains and losses of our derivatives also are sensitive to flattening and steepening of the swap yield curve. See “Note 12—Fair Value of Financial Instruments” for information on how we estimate the fair value of our derivative instruments.

Table 5 displays the average notional amount outstanding, by swap agreement type, and the weighted-average interest rate paid and received for derivative cash settlements during the three months ended August 31, 2015 and 2014. As indicated in Table 5, our derivative portfolio currently consists of a higher proportion of pay-fixed swaps than receive-fixed swaps, which is subject to change based on changes in market conditions and actions taken to manage our interest rate risk.

**Table 5: Derivative Average Notional Balances and Average Interest Rates**

(Dollars in thousands)	Three Months Ended August 31,					
	2015			2014		
	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received	Average Notional Balance	Weighted-Average Rate Paid	Weighted-Average Rate Received
Pay-fixed swaps.....	\$ 5,939,394	3.13%	0.29%	\$ 5,419,383	3.32%	0.24%
Receive-fixed swaps.....	3,849,000	0.80	3.09	3,065,033	0.86	3.62
Total.....	<u>\$ 9,788,394</u>	<u>2.21%</u>	<u>1.39%</u>	<u>\$ 8,484,416</u>	<u>2.42%</u>	<u>1.48%</u>

The derivative losses of \$12 million recognized during the three months ended August 31, 2015 reflected the combined impact of net derivative forward value gains of \$8 million, which was offset by a net loss related to the periodic cash settlements as we were a net payer on our interest-rate swaps based on the terms of the instruments. The net derivative forward value gains of \$8 million were primarily attributable to a net increase in the fair value of our pay-fixed swaps during the period due to a steepening of the swap yield curve resulting from a gradual increase in interest rates across the curve.

Of the total derivative losses of \$50 million recorded for the three months ended August 31, 2014, \$30 million related to derivative forward value losses and the remainder related to the net periodic contractual interest settlements. The derivative forward value losses were primarily attributable to a flattening of the swap yield curve during the period, with rates on the shorter end of the yield curve increasing and rates on the longer end of the yield curve declining. Due to the overall composition of our derivative portfolio, we experienced an overall decline in the fair value of both our pay-fixed and receive-fixed swaps during the quarter.

See “Note 8—Derivative Financial Instruments” for additional information on our derivative instruments.

### ***Results of Operations of Foreclosed Assets***

The financial operating results of entities controlled by CFC that hold foreclosed assets are reported in our consolidated statements of operations under results of operations of foreclosed assets. We previously had two entities, CAH and DRP, that held foreclosed assets. We dissolved DRP during the fourth quarter of fiscal 2015, following the sale of DRP’s remaining assets.

We recorded losses from the results of operations of foreclosed assets of \$2 million for the three months ended August 31, 2015, compared with losses of \$3 million for the same prior year period. The losses recorded during the three months ended August 31, 2015 were primarily attributable to valuation adjustments related to CAH, while the losses recorded during the same prior year period related to CAH’s results of operations.

As discussed above under “Executive Summary,” on September 30, 2015, CFC entered into a Purchase Agreement with Atlantic and Atlantic Tele-Network, Inc., the parent corporation of Atlantic, to sell all of the issued and outstanding membership interests of CAH to Atlantic for a purchase price of \$145 million, subject to certain adjustments. The amount recorded on our condensed consolidated balance sheet for CAH of \$114 million as of August 31, 2015 reflects the expected net proceeds, including estimated adjustments to the selling price and selling costs, from the completion of the CAH sales transaction.

We expect to complete the transaction during the second half of calendar year 2016, subject to the satisfaction or waiver of various closing conditions under the Purchase Agreement, including, among other things, the receipt of required communications regulatory approvals in the United States, United States Virgin Islands, British Virgin Islands and St. Maarten, the expiration or termination of applicable waiting periods under applicable competition laws, and the absence of a material adverse effect or material adverse regulatory event.



## **Non-Interest Expense**

Non-interest expense consists of salaries and employee benefit expense, general and administrative expenses, provision for guarantee liability, losses on early extinguishment of debt and other miscellaneous expenses.

We recorded non-interest expense of \$23 million for the three months ended August 31, 2015, an increase of \$5 million, or, 25% from the same prior year period was primarily due to an increase in other general and administrative expenses related to system infrastructure enhancements and legal fees.

## **Net Income (Loss) Attributable to Noncontrolling Interests**

Net income (loss) attributable to noncontrolling interests represents 100% of the results of operations of RTFC and NCSC, as the members of RTFC and NCSC own or control 100% of the interest in their respective companies.

We recorded a net loss attributable to noncontrolling interests of less than \$1 million for the three months ended August 31, 2015, and net income of less than \$1 million during the three months ended August 31, 2014. The fluctuations in net income (loss) attributable to noncontrolling interests are primarily due to fluctuations in the fair value of NCSC's derivative instruments.

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## **CONSOLIDATED BALANCE SHEET ANALYSIS**

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Total assets of \$23,460 million as of August 31, 2015 increased by \$614 million, or 3%, from May 31, 2015, primarily due to growth in our loan portfolio. Total liabilities of \$22,545 million as of August 31, 2015 increased by \$610 million, or 3%, from May 31, 2015, primarily due to debt issuances to fund the growth in our loan portfolio. Total equity increased by \$3 million to \$915 million as of August 31, 2015. The increase in total equity was primarily attributable to our net income of \$43 million for the three months ended August 31, 2015, which was partially offset by the patronage capital retirement of \$39 million authorized by our Board of Directors in July 2015.

Following is a discussion of changes in the major components of our assets and liabilities during the three months ended August 31, 2015. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to manage liquidity requirements for the company and our customers and our market risk exposure in accordance with our risk appetite.

### **Loan Portfolio**

We offer long-term fixed- and variable-rate loans and line of credit variable-rate loans. Borrowers may choose a fixed or variable interest rate for periods of one to 35 years. When a selected fixed-rate term expires, the borrower may select either another fixed-rate term or a variable rate or elect to repay the loan in full.

Table 6 summarizes loans outstanding by type and by member class as of August 31, 2015 and May 31, 2015.

**Table 6: Loans Outstanding by Type and Member Class**

(Dollars in thousands)	August 31, 2015		May 31, 2015		Increase/ (Decrease)
	Amount	% of Total	Amount	% of Total	
Loans by type:					
Long-term loans:					
Long-term fixed-rate loans.....	\$ 20,017,697	91%	\$ 19,543,274	91%	\$ 474,423
Long-term variable-rate loans....	711,437	3	698,495	3	12,942
Loans guaranteed by RUS.....	177,840	1	179,241	1	(1,401)
Total long-term loans.....	20,906,974	95	20,421,010	95	485,964
Line of credit loans.....	1,177,577	5	1,038,210	5	139,367
Total loans outstanding <sup>(1)</sup> .	<u>\$ 22,084,551</u>	<u>100%</u>	<u>\$ 21,459,220</u>	<u>100%</u>	<u>\$ 625,331</u>
Loans by member class:					
CFC:					
Distribution .....	\$ 16,575,202	75%	\$ 16,095,043	75%	\$ 480,159
Power supply .....	4,344,867	20	4,181,481	20	163,386
Statewide and associate.....	60,377	—	65,466	—	(5,089)
CFC total.....	20,980,446	95	20,341,990	95	638,456
RTFC .....	379,033	2	385,709	2	(6,676)
NCSC .....	725,072	3	731,521	3	(6,449)
Total loans outstanding <sup>(1)</sup> .	<u>\$ 22,084,551</u>	<u>100%</u>	<u>\$ 21,459,220</u>	<u>100%</u>	<u>\$ 625,331</u>

<sup>(1)</sup>Excludes deferred loan origination costs of \$10 million as of August 31, 2015 and May 31, 2015.

The balance of loans outstanding of \$22,085 million as of August 31, 2015 increased by \$625 million from May 31, 2015. The increase was primarily due to the increase in CFC distribution and power supply loans of \$480 million and \$163 million, respectively, which was partially offset by a decrease in NCSC loans of \$6 million and a decrease in RTFC loans of \$7 million. The increase in CFC distribution and power supply loans was attributable to members refinancing with us loans made by other lenders and member advances for capital investments. We provide additional information on loans in “Note 3 —Loans and Commitments.” See also “Liquidity Risk” for information on unencumbered loans.

Table 7 displays our historical retention rate for long-term fixed-rate loans that repriced during the quarterly period ended August 31, 2015 and the year ended May 31, 2015. Table 7 also displays the percentage of borrowers that select another fixed-rate term or a variable rate. The retention rate is calculated based on the election made by the borrower at the repricing date.

**Table 7: Historical Retention Rate and Repricing Selection**

(Dollars in thousands)	August 31, 2015		May 31, 2015	
	Amount	%	Amount	%
Loans retained:				
Long-term fixed rate selected .....	\$ 198,576	97%	\$ 991,279	81%
Long-term variable rate selected.....	6,133	3	154,946	13
Loans repriced and sold by CFC.....	—	—	3,904	—
Total loans retained.....	204,709	100	1,150,129	94
Total loans repaid .....	849	—	76,380	6
Total loans repriced .....	<u>\$ 205,558</u>	<u>100%</u>	<u>\$ 1,226,509</u>	<u>100%</u>

## Debt

Table 8 displays the composition of our debt outstanding, by debt product type, by interest rate type and by original contractual maturity, as of August 31, 2015 and May 31, 2015.

**Table 8: Total Debt Outstanding**

(Dollars in thousands)	August 31, 2015	May 31, 2015	Increase/ (Decrease)
Debt product type:			
Commercial paper sold through dealers, net of discounts.....	\$ 914,954	\$ 984,954	\$ (70,000)
Commercial paper sold directly to members, at par.....	838,180	736,162	102,018
Select notes.....	667,669	671,635	(3,966)
Daily liquidity fund notes.....	592,654	509,131	83,523
Collateral trust bonds.....	6,758,598	6,755,067	3,531
Guaranteed Underwriter Program notes payable.....	4,651,481	4,406,465	245,016
Farmer Mac notes payable.....	2,081,398	1,910,688	170,710
Medium-term notes.....	3,368,028	3,352,023	16,005
Other notes payable <sup>(3)</sup> .....	46,490	46,423	67
Subordinated deferrable debt.....	395,717	395,699	18
Membership certificates.....	629,821	645,035	(15,214)
Loan and guarantee certificates.....	636,116	640,889	(4,773)
Member capital securities.....	219,996	219,496	500
Total debt outstanding.....	<u>\$ 21,801,102</u>	<u>\$ 21,273,667</u>	<u>\$ 527,435</u>
Interest rate type:			
Fixed-rate debt <sup>(1)</sup> .....	82%	81%	
Variable-rate debt <sup>(2)</sup> .....	18	19	
Total.....	<u>100%</u>	<u>100%</u>	
Original contractual maturity:			
Long-term debt.....	85%	85%	
Short-term debt.....	15	15	
Total.....	<u>100%</u>	<u>100%</u>	

<sup>(1)</sup> Includes variable-rate debt that has been swapped to a fixed rate net of any fixed-rate debt that has been swapped to a variable rate.

<sup>(2)</sup> Includes fixed-rate debt that has been swapped to a variable rate net of any variable-rate debt that has been swapped to a fixed rate. Also includes commercial paper notes, which generally have maturities of less than 90 days. The interest rate on commercial paper notes does not change once the note has been issued; however, the rates on new commercial paper notes change daily.

<sup>(3)</sup> Other notes payable included unsecured and secured Clean Renewable Energy Bonds. We are required to pledge eligible mortgage notes from distribution and power supply system borrowers in an amount at least equal to the outstanding principal amount under the Clean Renewable Energy Bonds Series 2009A note purchase agreement. The remaining other notes payable relate to unsecured notes payable issued by NCSC.

Total debt outstanding was \$21,801 million as of August 31, 2015, an increase of \$527 million, or 2%, from May 31, 2015. The increase primarily reflected the issuance of notes payable during the three months ended August 31, 2015 totaling \$250 million under the Guaranteed Underwriter Program and \$180 million under a note purchase agreement with Farmer Mac. On July 31, 2015, we entered into a new revolving note purchase agreement with Farmer Mac for an additional \$300 million.

## **Equity**

Total equity increased by \$3 million to \$915 million as of August 31, 2015 from May 31, 2015. The increase in total equity was primarily attributable to our net income of \$43 million for the three months ended August 31, 2015, partially offset by the board authorized patronage capital retirement of \$39 million.

In July 2015, the CFC Board of Directors authorized additional allocations of fiscal year 2015 net earnings that included \$1 million to the Cooperative Educational Fund, \$16 million to the members' capital reserve and \$78 million to members in the form of patronage capital. In July 2015, the CFC Board of Directors also authorized the retirement of allocated net earnings totaling \$39 million, which represented 50% of the fiscal year 2015 allocation. This amount was returned to members in cash in September 2015.

Future allocations and retirements of net earnings may be made annually as determined by the CFC Board of Directors taking into consideration CFC's financial condition. The CFC Board of Directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable cooperative law. The NCSC Board of Directors has the authority to determine if and when net earnings will be allocated and retired. Likewise, the RTFC Board of Directors has the authority to determine if and when net earnings will be allocated and retired.

The amount of patronage capital allocated each year by CFC's Board of Directors is based on non-GAAP adjusted net income, which excludes the impact of derivative forward value gains (losses). See "Non-GAAP Financial Measures" for information on adjusted net income.

## **Debt Ratio Analysis**

### ***Leverage Ratio***

The leverage ratio is calculated by dividing the sum of total liabilities and guarantees outstanding by total equity. Based on this formula, the leverage ratio was 25.70-to-1 as of August 31, 2015, an increase from 25.14-to-1 as of May 31, 2015. The increase in the leverage ratio was due to the increase of \$610 million in total liabilities, partially offset by the increase of \$3 million in total equity and by the decrease of \$14 million in total guarantees.

For covenant compliance under our revolving credit agreements and for internal management purposes, the leverage ratio calculation is adjusted to exclude derivative liabilities, debt used to fund loans guaranteed by RUS, subordinated deferrable debt and subordinated certificates from liabilities; uses members' equity rather than total equity; and adds subordinated deferrable debt and subordinated certificates to calculate adjusted equity.

The adjusted leverage ratio was 6.83-to-1 and 6.58-to-1 as of August 31, 2015 and May 31, 2015, respectively. The increase in the adjusted leverage ratio was due to the increase of \$647 million in adjusted liabilities and the decrease of \$24 million in adjusted equity, partially offset by the decrease of \$14 million in guarantees as discussed under "Off-Balance Sheet Arrangements." See "Non-GAAP Financial Measures" for further explanation and a reconciliation of the adjustments we make to our leverage ratio calculation to derive the adjusted leverage ratio.

### ***Debt-to-Equity Ratio***

The debt-to-equity ratio is calculated by dividing the sum of total liabilities outstanding by total equity. The debt-to-equity ratio was 24.63-to-1 as of August 31, 2015, an increase from 24.06-to-1 as of May 31, 2015. The increase in the debt-to-equity ratio is due to the increase of \$610 million in total liabilities, partially offset by the increase of \$3 million in total equity.

We adjust the components of the debt-to-equity ratio to calculate an adjusted debt-to-equity ratio that is used for internal management analysis purposes. The adjusted debt-to-equity ratio was 6.52-to-1 and 6.26-to-1 as of August 31, 2015 and May 31, 2015, respectively. The increase in the adjusted debt-to-equity ratio was due to the increase of \$647 million in adjusted liabilities and decrease of \$24 million in adjusted equity. See "Non-GAAP Financial Measures" for further explanation and a reconciliation of the adjustments made to the debt-to-equity ratio calculation to derive the adjusted debt-to-equity ratio.

## OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in financial transactions that are not presented on our condensed consolidated balance sheets, or may be recorded on our condensed consolidated balance sheets in amounts that are different from the full contract or notional amount of the transaction. Our off-balance sheet arrangements consist primarily of guarantees of member obligations and unadvanced loan commitments intended to meet the financial needs of our members.

### Guarantees

We provide guarantees for certain contractual obligations of our members to assist them in obtaining various forms of financing. We use the same credit policies and monitoring procedures in providing guarantees as we do for loans and commitments. If a member defaults on its obligation, we are obligated to pay required amounts pursuant to our guarantees. Meeting our guarantee obligations satisfies the underlying obligation of our member systems and prevents the exercise of remedies by the guarantee beneficiary based upon a payment default by a member. In general, the member is required to repay any amount advanced by us with interest, pursuant to the documents evidencing the member's reimbursement obligation.

Table 9 shows our guarantees outstanding, by guarantee type and by company, as of August 31, 2015 and May 31, 2015.

**Table 9: Guarantees Outstanding**

(Dollars in thousands)	August 31, 2015	May 31, 2015	Increase/ (Decrease)
Guarantee type:			
Long-term tax-exempt bonds .....	\$ 489,020	\$ 489,520	\$ (500)
Letters of credit .....	369,391	382,233	(12,842)
Other guarantees.....	114,075	114,747	(672)
Total.....	<u>\$ 972,486</u>	<u>\$ 986,500</u>	<u>\$ (14,014)</u>
Company:			
CFC .....	\$ 937,343	\$ 952,875	\$ (15,532)
RTFC .....	1,574	1,574	—
NCSC .....	33,569	32,051	1,518
Total.....	<u>\$ 972,486</u>	<u>\$ 986,500</u>	<u>\$ (14,014)</u>

In addition to the letters of credit listed in the above table, we had master letter of credit facilities in place as of August 31, 2015, under which we may be required to issue up to an additional \$84 million in letters of credit to third parties for the benefit of our members. All of our master letter of credit facilities as of August 31, 2015 were subject to material adverse change clauses at the time of issuance. Prior to issuing a letter of credit under these facilities, we would confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with the letter of credit terms and conditions.

In addition to the guarantees described above, we were the liquidity provider for variable-rate, tax-exempt bonds, issued for our member cooperatives, totaling \$493 million as of August 31, 2015. As liquidity provider on these tax-exempt bonds, we may be required to purchase bonds that are tendered or put by investors. Investors provide notice to the remarketing agent that they will tender or put a certain amount of bonds at the next interest rate reset date. If the remarketing agent is unable to sell such bonds to other investors by the next interest rate reset date, we have unconditionally agreed to purchase such bonds. Our obligation as liquidity provider is in the form of a letter of credit on \$76 million of the tax-exempt bonds, which is included in the letters of credit amount in Table 9. We were not required to perform as liquidity provider pursuant to these obligations during the three months ended August 31, 2015. In addition to being a liquidity provider, we also provided a guarantee for payment of all principal and interest amounts on \$417 million of these bonds as of August 31, 2015, which is included in long-term tax-exempt bond guarantees in Table 9.

Of our total guarantee amounts, 56% as of August 31, 2015 and May 31, 2015 were secured by a mortgage lien on substantially all of the system's assets and future revenue of the borrowers.

The decrease in total guarantees during the three months ended August 31, 2015 was primarily due to a decrease in the total amount of letters of credit outstanding. We recorded a guarantee liability of \$19 million and \$20 million respectively, as of August 31, 2015 and May 31, 2015, related to the contingent and non-contingent exposures for guarantee and liquidity obligations associated with our members' debt.

Table 10 summarizes our off-balance sheet obligations as of August 31, 2015, and maturity of amounts during each of the next five fiscal years and thereafter.

**Table 10: Maturities of Guarantee Obligations**

(Dollars in thousands)	Outstanding Balance	Maturities of Guaranteed Obligations					
		2016	2017	2018	2019	2020	Thereafter
Guarantees.....	\$ 972,486	\$ 164,078	\$ 60,507	\$ 212,846	\$ 18,787	\$ 62,939	\$ 453,329

See "Note 10—Guarantees" for additional information.

### Unadvanced Loan Commitments

Unadvanced commitments represent approved and executed loan contracts for which funds have not been advanced to borrowers. The table below displays the amount of unadvanced loan commitments, which consist of line of credit and long-term loan commitments, as of August 31, 2015 and May 31, 2015. Our line of credit commitments include both contracts that are not subject to material adverse change clauses and contracts that are subject to material adverse change clauses.

**Table 11: Unadvanced Loan Commitments**

(Dollars in thousands)	August 31, 2015	% of Total	May 31, 2015	% of Total
Line of credit commitments:				
Not conditional <sup>(1)</sup>	\$ 2,686,842	19%	\$ 2,764,968	20%
Conditional <sup>(2)</sup>	6,706,480	47	6,529,159	46
Total line of credit unadvanced commitments	9,393,322	66	9,294,127	66
Total long-term loan unadvanced commitments	4,903,121	34	4,835,623	34
Total	\$ 14,296,443	100%	\$ 14,129,750	100%

<sup>(1)</sup>Represents amount related to facilities that are not subject to material adverse change clauses.

<sup>(2)</sup>Represents amount related to facilities that are subject to material adverse change clauses.

For contracts not subject to a material adverse change clause, we are generally required to advance amounts on the committed facilities as long as the borrower is in compliance with the terms and conditions of the facility. As displayed in Table 11, unadvanced line of credit commitments not subject to material adverse change clauses at the time of each advance totaled \$2,687 million and \$2,765 million as of August 31, 2015 and May 31, 2015, respectively. We record a liability for credit losses on our condensed consolidated balance sheets for unadvanced commitments related to facilities that are not subject to a material adverse change clause because we do not consider these commitments to be conditional. Table 12 summarizes the available balance under committed lines of credit that are not subject to a material adverse change clause as of August 31, 2015, and the maturity of amounts during each of the next five fiscal years.

**Table 12: Notional Maturities of Unconditional Committed Lines of Credit**

(Dollars in thousands)	Available Balance	Notional Maturities of Unconditional Committed Lines of Credit				
		2016	2017	2018	2019	2020
Committed lines of credit	\$ 2,686,842	\$ 79,077	\$ 297,416	\$ 717,942	\$ 950,728	\$ 641,679

For contracts subject to a material adverse change clause, the advance of additional amounts is conditional. Prior to making an advance on these facilities, we confirm that there have been no material adverse changes in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with the loan terms and conditions. The substantial majority of our line of credit commitments relate to contracts that include material adverse change clauses. Unadvanced commitments that are subject to a material adverse change clause are classified as contingent liabilities. We do not record a reserve for credit losses on our condensed consolidated balance sheets for these commitments, nor do we include them in our off-balance sheet guarantee amounts in Table 9 above because we consider them to be conditional.

Table 13 summarizes the available balance under unadvanced commitments as of August 31, 2015 and the related maturities by fiscal year and thereafter by loan type:

**Table 13: Notional Maturities of Unadvanced Loan Commitments**

(Dollars in thousands)	Available Balance	Notional Maturities of Unadvanced Commitments					
		2016	2017	2018	2019	2020	Thereafter
Line of credit loans .....	\$ 9,393,322	\$ 595,623	\$5,337,933	\$1,135,540	\$1,108,910	\$ 856,000	\$ 359,316
Long-term loans.....	4,903,121	559,969	1,124,419	807,421	1,114,284	1,044,739	252,289
Total.....	<u>\$14,296,443</u>	<u>\$1,155,592</u>	<u>\$6,462,352</u>	<u>\$1,942,961</u>	<u>\$2,223,194</u>	<u>\$1,900,739</u>	<u>\$ 611,605</u>

Line of credit commitments are generally revolving facilities for periods that do not exceed five years. Historically, borrowers have not fully drawn the commitment amounts for line of credit loans, and the utilization rates have been low regardless of whether a material adverse change clause provision exists at the time of advance. Also, borrowers historically have not fully drawn the commitments related to long-term loans, and borrowings have generally been advanced in multiple transactions over an extended period of time. We believe these conditions are likely to continue because of the nature of the business of our electric cooperative borrowers and the terms of our loan commitments. See “MD&A—Off-Balance Sheet Arrangements” in our 2015 Form 10-K for additional information.

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## RISK MANAGEMENT

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The CFC Board of Directors is responsible for the oversight and direction of risk management, while CFC’s management has primary responsibility for day-to-day management of the risks associated with CFC’s business. In fulfilling its risk management oversight duties, the CFC Board of Directors receives periodic reports on business activities from executive management and from various operating groups and committees across the organization, including the Credit Risk Management group, Internal Audit group and the Corporate Compliance group, as well as the Asset Liability Committee, the Corporate Credit Committee and the Disclosure Committee. The CFC Board of Directors also reviews CFC’s risk profile and management’s response to those risks throughout the year at its meetings. The board of directors establishes CFC’s loan policies and has established a Loan Committee of the board comprising no fewer than 10 directors that reviews the performance of the loan portfolio in accordance with those policies.

For additional information about the role of the CFC Board of Directors in risk oversight, see “Item 10. Directors, Executive Officers and Corporate Governance” in our 2015 Form 10-K for additional information.

## CREDIT RISK

Credit risk is the risk of loss associated with a borrower or counterparty's failure to meet its obligations in accordance with agreed upon terms. Our loan portfolio, which represents the largest component of assets on our balance sheet, and guarantees account for the substantial majority of our credit risk exposure. We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of investment securities and entering into derivative transactions to manage our interest rate risk.

### Loan and Guarantee Portfolio Credit Risk

Below we provide information on the credit risk profile of our loan portfolio and guarantees, including security provisions, loan concentration, credit performance and our allowance for loan losses.

#### Security Provisions

Except when providing line of credit loans, we generally lend to our members on a senior secured basis. Long-term loans are generally secured on parity with other secured lenders (primarily RUS), if any, by all assets and revenue of the borrower with exceptions typical in utility mortgages. Line of credit loans are generally unsecured. In addition to the collateral pledged to secure our loans, borrowers also are required to set rates charged to customers to achieve certain financial ratios. Of our total loans outstanding, 91% were secured and 9% were unsecured as of both August 31, 2015 and May 31, 2015. Table 14 presents, by loan type and by company, the amount and percentage of secured and unsecured loans in our loan portfolio.

**Table 14 : Loan Portfolio Security Profile**

(Dollars in thousands)	August 31, 2015				
	Secured	%	Unsecured	%	Total
Loan type:					
Long-term fixed-rate loans .....	\$ 19,074,885	95%	\$ 942,812	5%	\$ 20,017,697
Long-term variable-rate loans .....	645,333	91	66,104	9	711,437
Loans guaranteed by RUS .....	177,840	100	—	—	177,840
Line of credit loans .....	235,359	20	942,218	80	1,177,577
Total loans outstanding <sup>(1)</sup> .....	<u>\$ 20,133,417</u>	91	<u>\$ 1,951,134</u>	9	<u>\$ 22,084,551</u>
Company:					
CFC.....	\$ 19,332,978	92%	\$ 1,647,468	8%	\$ 20,980,446
RTFC .....	359,107	95	19,926	5	379,033
NCSC.....	441,332	61	283,740	39	725,072
Total loans outstanding <sup>(1)</sup> .....	<u>\$ 20,133,417</u>	91	<u>\$ 1,951,134</u>	9	<u>\$ 22,084,551</u>



(Dollars in thousands)	May 31, 2015				
	Secured	%	Unsecured	%	Total
Loan type:					
Long-term fixed-rate loans .....	\$ 18,526,068	95%	\$ 1,017,206	5%	\$ 19,543,274
Long-term variable-rate loans .....	628,115	90	70,380	10	698,495
Loans guaranteed by RUS .....	179,241	100	—	—	179,241
Line of credit loans .....	107,781	10	930,429	90	1,038,210
Total loans outstanding <sup>(1)</sup> .....	<u>\$ 19,441,205</u>	<u>91</u>	<u>\$ 2,018,015</u>	<u>9</u>	<u>\$ 21,459,220</u>
Company:					
CFC .....	\$ 18,635,818	92%	\$ 1,706,172	8%	\$ 20,341,990
RTFC .....	370,924	96	14,785	4	385,709
NCSC .....	434,463	59	297,058	41	731,521
Total loans outstanding <sup>(1)</sup> .....	<u>\$ 19,441,205</u>	<u>91</u>	<u>\$ 2,018,015</u>	<u>9</u>	<u>\$ 21,459,220</u>

<sup>(1)</sup> Excludes deferred loan origination costs of \$10 million as of August 31, 2015 and May 31, 2015.

As part of our strategy to manage our credit risk exposure, we entered into a long-term standby purchase commitment agreement with Farmer Mac on August 31, 2015. Under this agreement, we may designate certain loans, as approved by Farmer Mac, and in the event any such loan later goes into material default for at least 90 days, upon request by us, Farmer Mac must purchase such loan at par value. We have designated and Farmer Mac has approved an initial tranche of loans of \$520 million as of August 31, 2015, and we expect to designate additional tranches of loans.

### Loan Concentration

We serve electric and telecommunications members throughout the United States and its territories, including 49 states, the District of Columbia, American Samoa and Guam. The largest concentration of loans to borrowers in any one state represented approximately 14% and 15%, respectively, of total loans outstanding as of August 31, 2015 and May 31, 2015.

The largest total outstanding exposure to a single borrower or controlled group represented approximately 2% of total loans and guarantees outstanding as of August 31, 2015 and May 31, 2015. The 20 largest borrowers consisted of 12 distribution systems and 8 power supply systems as of August 31, 2015 and May 31, 2015. Table 15 displays the outstanding exposure of the 20 largest borrowers, by exposure type and by company, as of August 31, 2015 and May 31, 2015.

**Table 15: Credit Exposure to 20 Largest Borrowers**

(Dollars in thousands)	August 31, 2015		May 31, 2015		Increase/ (Decrease)
	Amount	% of Total	Amount	% of Total	
By exposure type:					
Loans .....	\$ 5,434,547	23%	\$ 5,478,977	24%	\$ (44,430)
Guarantees .....	363,522	2	374,189	2	(10,667)
Total exposure to 20 largest borrowers .....	<u>\$ 5,798,069</u>	<u>25%</u>	<u>\$ 5,853,166</u>	<u>26%</u>	<u>\$ (55,097)</u>
By company:					
CFC .....	\$ 5,782,366	25%	\$ 5,837,463	26%	\$ (55,097)
NCSC .....	15,703	—	15,703	—	—
Total exposure to 20 largest borrowers .....	<u>\$ 5,798,069</u>	<u>25%</u>	<u>\$ 5,853,166</u>	<u>26%</u>	<u>\$ (55,097)</u>

## ***Credit Performance***

As part of our credit risk management process, we monitor and evaluate each borrower and loan in our loan portfolio and assign numeric internal risk ratings based on quantitative and qualitative assessments. Our ratings are aligned to regulatory definitions of pass and criticized categories with criticized divided between special mention, substandard and doubtful. Internal risk rating and payment status trends are indicators, among others, of the level of credit risk in our loan portfolio. As displayed in “Note 3—Loans and Commitments,” less than 1% of the loans in our portfolio were classified as criticized as of August 31, 2015 and May 31, 2015. Below we provide information on certain additional credit quality indicators, including nonperforming, restructured and individually impaired loans.

### ***Nonperforming Loans***

We classify loans as nonperforming at the earlier of the date when we determine: (i) interest or principal payments on the loan is past due 90 days or more; (ii) as a result of court proceedings, the collection of interest or principal payments based on the original contractual terms is not expected; or (iii) the full and timely collection of interest or principal is otherwise uncertain. Once a loan is classified as nonperforming, we generally place the loan on nonaccrual status. Interest accrued but not collected at the date a loan is classified as nonperforming is reversed against earnings.

### ***Restructured Loans***

We actively monitor underperforming loans and, from time to time, attempt to work with borrowers to manage such exposures through loan workouts or modifications that better align with the borrower's current ability to pay. Modified loans in which we grant one or more concessions to a borrower experiencing financial difficulty are accounted for and reported as troubled debt restructurings (“TDRs”). Loans modified in a TDR are generally placed on nonaccrual status, although in many cases such loans were already on nonaccrual status prior to modification. These loans may be returned to performing status and the accrual of interest resumed if the borrower performs under the modified terms for an extended period of time and we expect the borrower to continue to perform in accordance with the modified terms. In certain limited circumstances in which a modified loan is current at the modification date, the loan is not placed on nonaccrual status at the time of modification. We had modified loans, all of which met the definition of a TDR, totaling \$11 million and \$12 million as of August 31, 2015 and May 31, 2015, respectively.

### ***Impaired Loans***

We consider a loan to be individually impaired when, based on an assessment of the borrower’s financial condition and the adequacy of collateral, if any, it is probable that we will be unable to collect all amounts due in accordance with the original contractual terms of the loan. Individually impaired loans are subject to the specific allowance methodology. A loan that has been modified in a TDR is generally considered to be individually impaired until it matures, is repaid, or is otherwise liquidated, regardless of whether the borrower performs under the modified terms.

Table 16 presents nonperforming and performing TDR loans as of August 31, 2015 and May 31, 2015. These loans represent the population of loans identified as individually impaired as of the end of each period presented.

**Table 16: Impaired Loans**

<b>(Dollars in thousands)</b>	<b>August 31, 2015</b>	<b>May 31, 2015</b>
Modified TDR loans:		
CFC/Distribution .....	\$ 7,221	\$ 7,221
NCSC .....	—	294
RTFC .....	4,156	4,221
Total TDR loans .....	<u>\$ 11,377</u>	<u>\$ 11,736</u>
TDR loan ratio:		
Percent of total loans outstanding .....	0.05%	0.05%
Percent of total loans and guarantees outstanding .....	0.05	0.05
Performance status:		
Performing TDR loans <sup>(1)</sup> .....	\$ 7,221	\$ 11,736
Nonperforming TDR loans <sup>(1)</sup> .....	4,156	—
Total TDR loans .....	<u>\$ 11,377</u>	<u>\$ 11,736</u>
Nonperforming loan ratio:		
Percent of total loans outstanding .....	0.02%	—%
Percent of total loans and guarantees outstanding .....	0.02	—

<sup>(1)</sup> All loans classified as TDR loans were on nonaccrual status as of August 31, 2015. Foregone interest on these loans totaled \$0.2 million for the three months ended August 31, 2015 and 2014.

We did not accrue any interest on performing TDR loans during the three months ended August 31, 2015 and 2014. We classified \$7 million as performing as of August 31, 2015 because the borrower has demonstrated a sustained period of performance under the modified terms of the restructured loan.

We provide additional information on the credit quality of our loan portfolio in “Note 3—Loans and Commitments.”

### ***Allowance for Loan Losses***

The allowance for loan losses is determined based upon evaluation of the loan portfolio, past loss experience, specific problem loans, economic conditions and other pertinent factors that, in management’s judgment, could affect the risk of loss in the loan portfolio. We review and adjust the allowance quarterly to cover estimated probable losses in the portfolio. All loans are written off in the period that it becomes evident that collectability is highly unlikely; however, our efforts to recover all charged-off amounts may continue. Management believes the allowance for loan losses is appropriate to cover estimated probable portfolio losses.

Table 17 summarizes activity in the allowance for loan losses for the three months ended August 31, 2015 and 2014 and a comparison of the allowance by company as of August 31, 2015 and May 31, 2015.

**Table 17: Allowance for Loan Losses**

(Dollars in thousands)	Three Months Ended August 31,	
	2015	2014
Beginning balance .....	\$ 33,690	\$ 56,429
Provision for loan losses .....	4,562	(6,771)
Net recoveries .....	55	53
Ending balance.....	<u>\$ 38,307</u>	<u>\$ 49,711</u>
	August 31, 2015	May 31, 2015
Allowance for loan losses by company:		
CFC .....	\$ 27,151	\$ 23,716
RTFC .....	5,552	4,533
NCSC .....	5,604	5,441
Total .....	<u>\$ 38,307</u>	<u>\$ 33,690</u>
Allowance coverage ratios:		
Percentage of total loans outstanding.....	0.17%	0.16 %
Percentage of total nonperforming TDR loans outstanding....	921.73	—
Percentage of total performing TDR loans outstanding.....	530.49	287.07
Percentage of loans on nonaccrual status.....	336.71	287.07

Our allowance for loan losses increased by \$5 million during the three months ended August 31, 2015 to \$38 million as of August 31, 2015. The increase reflected an overall increase in loan balances and a slight deterioration in the credit quality and overall credit risk profile of our loan portfolio. Specifically, certain loans experienced negative migration through our internal risk rating process.

On a quarterly basis, we review all nonperforming and restructured loans, as well as certain additional loans selected based on known facts and circumstances, to determine if the loans are impaired and/or to determine if there have been changes to a previously impaired loan. We calculate impairment for loans identified as individually impaired based on the fair value of the underlying collateral securing the loan for collateral-dependent loans or based on the expected future cash flows for loans that are not collateral dependent. As events related to the borrower take place and economic conditions and our assumptions change, the impairment calculations may change. Our specific allowance for loan losses totaled \$1 million and \$0.4 million as of August 31, 2015 and May 31, 2015, respectively, which related to individually impaired loans of \$11 million and \$12 million, respectively.

See “Results of Operations—Provision for Loan Losses” and “Note 3—Loans and Commitments” for additional information. We provide information on our allowance methodology in “Note 1—Summary of Significant Accounting Policies” in our fiscal year 2015 Form 10-K.

### Counterparty Credit Risk

We are exposed to counterparty risk related to the performance of the parties with which we entered into financial transactions, primarily for derivative instruments and cash and time deposits that we have with various financial institutions. To mitigate this risk, we only enter into these transactions with financial institutions with investment-grade ratings. Our cash and time deposits with financial institutions have an original maturity of less than one year.

Our derivative counterparties must be participants in one of our revolving credit agreements. We manage our derivative credit exposure through master netting arrangements and by diversifying our derivative transactions with multiple counterparties. Our largest single counterparty exposure, based on the outstanding notional amount, represented approximately 18% and 19% of our total outstanding notional amount of derivatives as of August 31, 2015 and May 31, 2015, respectively. Our derivative counterparties had credit ratings ranging from Aa2 to Baa1 by Moody's and from AA- to BBB+ by S&P.

### ***Rating Triggers for Derivatives***

The majority of our interest rate swap agreements have credit risk-related contingent features referred to as rating triggers. Under these rating triggers, if the credit rating for either counterparty falls to the level specified in the agreement, the other counterparty may, but is not obligated to, terminate the agreement.

We regularly evaluate the overall credit worthiness of our counterparties. Table 18 displays the notional amounts of our derivative contracts with rating triggers as of August 31, 2015 and the payments that would be required if the contracts were terminated as of that date because of a downgrade of our unsecured credit ratings or the counterparty's unsecured credit ratings to or below Baa1/BBB+, Baa3/BBB- or Ba3/BB by Moody's or S&P, respectively. In calculating the payment amounts that would be required upon termination of the derivative contracts, we assumed that the amounts for each counterparty would be netted in accordance with the provisions of the master netting agreements for each counterparty. The net payment amounts are based on the fair value of the underlying derivative instrument, excluding the credit risk valuation adjustment, plus any unpaid accrued interest amounts.

**Table 18: Rating Triggers for Derivatives**

<b>(Dollars in thousands)</b>	<b>Notional Amount</b>	<b>Payment Required by CFC</b>	<b>Payment Due to CFC</b>	<b>Net (Payable)/ Due</b>
Mutual rating trigger if ratings:				
Falls below Baa1/BBB+ .....	\$ 5,420,527	\$ (176,319)	\$ 3,013	\$ (173,306)
Falls to Baa3/BBB- .....	1,781,207	(15,798)	—	(15,798)
Falls below Baa3/BBB- .....	579,362	(23,217)	—	(23,217)
Falls to or below Ba3/BB <sup>(1)</sup> .....	102,581	—	97	97
Total .....	<u>\$ 7,883,677</u>	<u>\$ (215,334)</u>	<u>\$ 3,110</u>	<u>\$ (212,224)</u>

<sup>(1)</sup> Rating trigger for counterparty falls to or below Ba3/BB, while rating trigger for CFC falls to or below Baa2/BBB by Moody's or S&P, respectively.

The aggregate amount, including the credit risk valuation adjustment, of all interest rate swaps with rating triggers that were in a net liability position was \$217 million as of August 31, 2015. The aggregate amount, including the credit risk valuation adjustment, of all interest rate swaps with rating triggers that were in a net asset position was \$2 million as of August 31, 2015. There were no counterparties that fell below the rating trigger levels in our interest swap contracts as of August 31, 2015. If a counterparty has a rating that falls below the rating trigger level specified in the interest swap contract, we have the option to terminate all interest rate swaps with the counterparty. However, we generally do not terminate such agreements early because our interest rate swaps are critical to our matched funding strategy.

For additional information about the risks related to our business, see "Item 1A. Risk Factors" in our 2015 Form 10-K.

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## **LIQUIDITY RISK**

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We face liquidity risk in funding our loan portfolio and refinancing our maturing obligations. Our Asset Liability Committee monitors liquidity risk by establishing and monitoring liquidity targets, as well as strategies and tactics to meet those targets, and ensuring that sufficient liquidity is available for unanticipated contingencies. We manage our rollover risk by maintaining liquidity reserves. We had liquidity reserve access totaling \$7,389 million as of August 31, 2015. Our liquidity reserve access consisted of cash and time deposits of \$751 million, committed revolving credit agreements of \$3,419 million, committed loan facilities from the Federal Financing Bank ("FFB") of \$500 million, a note purchase agreement

with Farmer Mac of \$300 million and, subject to market conditions, a revolving note purchase agreement with Farmer Mac totaling up to \$2,419 million.

As of August 31, 2015, we had commercial paper, select notes and daily liquidity fund notes, including member investments, of \$3,013 million scheduled to mature during the next 12 months. We expect to continue to maintain member investments in commercial paper, select notes and daily liquidity fund notes at recent levels of approximately \$2,099 million. Dealer commercial paper decreased to \$915 million as of August 31, 2015, from \$985 million as of May 31, 2015. In order to manage our short-term wholesale funding risk, we reduced our non-member outstanding short-term debt, which consists of dealer commercial paper, to an approximate range between \$1,000 million and \$1,250 million in the third quarter of fiscal year 2015. We intend to maintain our dealer commercial paper within that range for the foreseeable future. In order to access the commercial paper markets at attractive rates, we believe we need to maintain our current commercial paper credit ratings of F1 by Fitch, P-1 by Moody's and A-1 by S&P.

We use our bank lines of credit primarily as backup liquidity for dealer and member commercial paper. We had \$3,419 million in available lines of credit with various financial institutions as of August 31, 2015. We have been and expect to continue to be in compliance with the covenants under our revolving credit agreements; therefore, we could draw on these facilities to repay dealer or member commercial paper that cannot be rolled over in the event of market disruptions.

Long-term debt maturing in the next 12 months and medium-term notes with an original maturity of one year or less totaled \$1,932 million as of August 31, 2015. In addition to our access to the dealer and member commercial paper markets as discussed above, we believe we will be able to refinance these maturing obligations through the capital markets and private debt issuances as discussed in further detail under "Sources of Liquidity."

As discussed in further detail under "Off-Balance Sheet Arrangements," as of August 31, 2015, we were the liquidity provider for a total of \$493 million of variable-rate tax-exempt bonds issued for our member cooperatives. During the three months ended August 31, 2015, we were not required to perform as liquidity provider pursuant to these obligations.

As of August 31, 2015, we had a total of \$369 million of letters of credit outstanding for the benefit of our members. That total includes \$76 million for the purpose of providing liquidity for pollution control bonds. The remaining \$293 million represents obligations for which we may be required to advance funds based on various trigger events included in the letters of credit. If we are required to advance funds, the member is obligated to pay such amounts to CFC.

We expect that our current sources of liquidity, coupled with our cash on hand of \$266 million and time deposits of \$485 million as of August 31, 2015, will allow us to meet our obligations and to fund our operations over the next 12 to 18 months.

### **Liquidity and Capital Resources Profile**

The following section discusses our expected sources and uses of liquidity.

## Projected Near-Term Sources and Uses of Liquidity

Table 19 shows the projected sources and uses of cash by quarter through the quarter ending February 28, 2017. In analyzing our projected liquidity position, we track key items identified in the table below. Our estimates assume that the balance of our time deposit investments will remain consistent with current levels over the next six quarters. The long-term debt maturities represent the scheduled maturities of our outstanding term debt for the period presented. The long-term loan advances represent our current best estimate of the member demand for our loans, the amount and the timing of which are subject to change. The long-term loan amortization and repayments represent the scheduled long-term loan amortization for the outstanding loans as of August 31, 2015, as well as our current estimate for the repayment of long-term loans. The estimate of the amount and timing of long-term loan repayments is subject to change. The other loan repayments and advances in the table primarily include line of credit advances and repayments. Such amounts represent the current best estimate of activity communicated to us by our members and, as such, the amount and timing of these amounts are subject to change. We only include such estimates for the near term. We assumed the issuance of commercial paper, medium-term notes and other long-term debt, including collateral trust bonds and private placement of term debt, to maintain matched funding within our loan portfolio and to allow our revolving lines of credit to provide backup liquidity for our outstanding commercial paper. As displayed in Table 19, we expect that estimated long-term loan advances over the next six quarters of \$2,769 million will exceed expected long-term loan repayments of \$1,586 million by \$1,183 million.

**Table 19: Projected Sources and Uses of Liquidity<sup>(1)</sup>**

(Dollars in millions)	Projected Sources of Liquidity				Projected Uses of Liquidity				Cumulative Excess Sources over Uses of Liquidity <sup>(2)</sup>
	Long-term Loan Amortization and Repayments	Other Loan Repayments	Debt Issuance-Long-term Debt	Total Sources of Liquidity	Long-term Debt Maturities <sup>(3)</sup>	Other Loan Advances	Long-term Loan Advances	Total Uses of Liquidity	
<b>Aug15</b>									\$ 751
<b>Nov15</b>	\$ 261	\$ 40	\$ 1,420	\$ 1,721	\$ 845	\$ 15	\$ 976	\$ 1,821	651
<b>Feb16</b>	297	—	480	777	290	10	481	771	657
<b>May16</b>	237	—	610	847	668	—	179	847	657
<b>Aug16</b>	274	—	50	324	129	—	207	336	645
<b>Nov16</b>	263	—	500	763	302	—	469	771	637
<b>Feb17</b>	254	—	550	804	338	—	457	795	646
<b>Totals</b>	<u>\$ 1,586</u>	<u>\$ 40</u>	<u>\$ 3,610</u>	<u>\$ 5,236</u>	<u>\$ 2,572</u>	<u>\$ 25</u>	<u>\$ 2,769</u>	<u>\$ 5,341</u>	

<sup>(1)</sup>The dates presented are intended to reflect the end of each quarterly period through the quarter ending February 28, 2017.

<sup>(2)</sup>Cumulative excess sources over uses of liquidity includes cash and time deposits.

<sup>(3)</sup>Long-term debt maturities includes medium-term notes with an original maturity of less than one year.

The information presented above in Table 19 represents our best estimate of our funding requirements and how we expect to manage those requirements through February 28, 2017. We expect that these estimates will change quarterly based on the factors described above.

## Sources of Liquidity

### Capital Market Debt Issuance

As a well-known seasoned issuer, we have the following effective shelf registration statements on file with the SEC for the issuance of debt:

- unlimited amount of collateral trust bonds until September 2016;
- unlimited amount of senior and subordinated debt securities, including medium-term notes, member capital securities and subordinated deferrable debt, until November 2017; and
- daily liquidity fund notes for a total of \$20,000 million with a \$3,000 million limitation on the aggregate principal amount outstanding at any time until April 2016.

While we register member capital securities and the daily liquidity fund with the SEC, these securities are not available for sale to the general public. Medium-term notes are available for sale to both the general public and members.

Our bank lines of credit may be used for general corporate purposes; however, we use them primarily as backup liquidity for dealer and member commercial paper. Commercial paper issued through dealers totaled \$915 million and represented 4% of total debt outstanding as of August 31, 2015.

#### *Private Debt Issuance*

We have access to liquidity from private debt issuances through note purchase agreements with Farmer Mac. Under the terms of our March 2011 note purchase agreement as amended, we can borrow up to \$4,500 million at any time from the date of the agreement through January 11, 2020 and such date shall automatically extend on each anniversary date of the closing for an additional year, unless prior to any such anniversary date, Farmer Mac provides CFC with a notice that the draw period will not be extended beyond the remaining term. During the three months ended August 31, 2015, we borrowed a total of \$180 million under the note purchase agreement with Farmer Mac. The agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time as market conditions permit. Each borrowing under the note purchase agreement is evidenced by a secured note setting forth the interest rate, maturity date and other related terms as we may negotiate with Farmer Mac at the time of each such borrowing. We may select a fixed rate or variable rate at the time of each advance with a maturity as determined in the applicable pricing agreement. We had up to \$2,419 million available under this revolving note purchase agreement with Farmer Mac as of August 31, 2015.

On July 31, 2015, we entered into a new revolving note purchase agreement with Farmer Mac totaling \$300 million. Under the terms of the new agreement, we can borrow up to \$300 million at any time through July 31, 2018. This agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time. Each borrowing under the note purchase agreement is evidenced by a secured note setting forth the maturity date and other related terms. We had up to \$300 million available under this revolving note purchase agreement with Farmer Mac as of August 31, 2015.

We also have access to unsecured notes payable under bond purchase agreements with the FFB and a bond guarantee agreement with RUS issued under the Guaranteed Underwriter Program which supports the Rural Economic Development Loan and Grant program and provides guarantees to the FFB. During the quarter ended August 31, 2015, we borrowed \$250 million under the Guaranteed Underwriter Program. As of August 31, 2015, we had up to \$500 million available under committed loan facilities from the FFB as part of this program, of which a total of \$250 million is available for advance through October 15, 2016 and a total of \$250 million is available for advance through October 15, 2017. On September 28, 2015, we received a commitment from RUS to guarantee a loan from the Federal Financing Bank for additional funding of \$250 million as part of the Guaranteed Underwriter Program. As a result, we will have an additional \$250 million available under the Guaranteed Underwriter Program with a 20-year maturity repayment period during the three-year period following the date of closing.

#### *Member Loan Repayments*

We expect long-term loan repayments from scheduled loan amortization and prepayments to be \$1,069 million over the next 12 months.

#### *Member Loan Interest Payments*

During the three months ended August 31, 2015, interest income on the loan portfolio was \$243 million, representing an average rate of 4.47% compared with 4.57% for the three months ended August 31, 2014. For the past three fiscal years, interest income on the loan portfolio has averaged \$948 million. As of August 31, 2015, 91% of the total loans outstanding had a fixed rate of interest, and 9% of loans outstanding had a variable rate of interest.



### Bank Revolving Credit Agreements

As of August 31, 2015 and May 31, 2015, we had \$3,420 million of commitments under revolving credit agreements. We had the ability to request up to \$150 million of letters of credit under each agreement in place as of August 31, 2015, which would then reduce the amount available under the facility. Our bank lines of credit may be used for general corporate purposes; however, we use them primarily as backup liquidity for dealer and member commercial paper.

Table 20 presents the total available and the outstanding letters of credit under our revolving credit agreements as of August 31, 2015 and May 31, 2015.

**Table 20: Revolving Credit Agreements**

(Dollars in thousands)	Total Available		Letters of Credit Outstanding		Maturity	Annual Facility Fee <sup>(1)</sup>
	August 31, 2015	May 31, 2015	August 31, 2015	May 31, 2015		
Three-year agreement .....	\$ 1,719,855	\$1,719,855	\$ 145	\$ 145	October 28, 2017	7.5 basis points
Five-year agreement.....	1,699,000	1,699,000	1,000	1,000	October 28, 2019	10 basis points
Total.....	<u>\$ 3,418,855</u>	<u>\$3,418,855</u>	<u>\$ 1,145</u>	<u>\$ 1,145</u>		

<sup>(1)</sup> Facility fee determined by CFC's senior unsecured credit ratings based on the pricing schedules put in place at the inception of the related agreement.

In October 2015, NCSC assumed a total of \$155 million of commitments from one of the banks under the revolving credit agreements. As a result, the total amount available from external third parties under our committed revolving credit agreements decreased to \$3,264 million.

The revolving credit agreements do not contain a material adverse change clause or ratings triggers that limit the banks' obligations to fund under the terms of the agreements, but we must be in compliance with their requirements to draw down on the facilities, including financial ratios. As shown below in Table 22, we were in compliance with all covenants and conditions under our revolving credit agreements and senior debt indentures as of August 31, 2015.

### Member Investments

Table 21 shows the components of our member investments included in total debt outstanding as of August 31, 2015 and May 31, 2015.

**Table 21: Member Investments**

(Dollars in thousands)	August 31, 2015		May 31, 2015		Increase/ (Decrease)
	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>	
Commercial paper .....	\$ 838,180	48%	\$ 736,162	43%	\$ 102,018
Select notes.....	667,669	100	671,635	100	(3,966)
Daily liquidity fund notes.....	592,654	100	509,131	100	83,523
Medium-term notes .....	586,074	17	618,170	18	(32,096)
Members' subordinated certificates.....	1,485,933	100	1,505,420	100	(19,487)
Total.....	<u>\$ 4,170,510</u>		<u>\$ 4,040,518</u>		<u>\$ 129,992</u>
Percentage of total debt outstanding .....	19%		19%		

<sup>(1)</sup> Represents the percentage of each line item outstanding to our members.

Member investments averaged \$4,214 million outstanding over the last three years. We view member investments as a more stable source of funding than capital market issuances.

### *Cash, Investments and Time Deposits*

As of August 31, 2015, cash and time deposits totaled \$751 million. The interest rate earned on the time deposits provides an overall benefit to our net interest yield. The total represents an additional source of liquidity that is available to support our operations.

### *Cash Flows from Operations*

For the three months ended August 31, 2015, cash flows provided by operating activities were \$111 million compared with \$124 million for the prior-year period. Our cash flows from operating activities are driven primarily by a combination of cash flows from operations and the timing and amount of loan interest payments we received compared with interest payments we made on our debt.

### *Compliance with Debt Covenants*

As of August 31, 2015, we were in compliance with all covenants and conditions under our revolving credit agreements and senior debt indentures. Table 22 represents our required and actual financial ratios under the revolving credit agreements at or for the periods ended August 31, 2015 and May 31, 2015.

**Table 22: Financial Ratios under Revolving Credit Agreements**

	Requirement	Actual	
		August 31, 2015	May 31, 2015
Minimum average adjusted TIER over the six most recent fiscal quarters <sup>(1)</sup>	<b>1.025</b>	<b>1.27</b>	1.28
Minimum adjusted TIER for the most recent fiscal year <sup>(1) (2)</sup> .....	<b>1.05</b>	<b>1.30</b>	1.30
Maximum ratio of adjusted senior debt-to-total equity <sup>(1)</sup> .....	<b>10.00</b>	<b>6.16</b>	5.93

<sup>(1)</sup> In addition to the adjustments made to the leverage ratio set forth under “Non-GAAP Financial Measures,” senior debt excludes guarantees to member systems that have certain investment-grade ratings from Moody’s and S&P. The TIER and debt-to-equity calculations include the adjustments set forth under “Non-GAAP Financial Measures” and exclude the results of operations and other comprehensive income for CAH.

<sup>(2)</sup> We must meet this requirement to retire patronage capital.

The revolving credit agreements prohibit liens on loans to members except liens:

- under our indentures,
- related to taxes that are not delinquent or contested,
- stemming from certain legal proceedings that are being contested in good faith,
- created by CFC to secure guarantees by CFC of indebtedness, the interest on which is excludable from the gross income of the recipient for federal income tax purposes,
- granted by any subsidiary to CFC, and
- to secure other indebtedness of CFC of up to \$7,500 million plus an amount equal to the incremental increase in CFC’s allocated Guaranteed Underwriter Program obligations, provided that the aggregate amount of such indebtedness may not exceed \$10,000 million. As of August 31, 2015, the amount of our secured indebtedness for purposes of this provision of all three revolving credit agreements was \$6,750 million.

The revolving credit agreements limit total investments in foreclosed assets held by CAH to \$275 million without consent by the required banks. These investments did not exceed this limit as of August 31, 2015.

Table 23 summarizes our required and actual financial ratios as defined under our 1994 collateral trust bonds indenture and our medium-term notes indentures in the U.S. markets as of August 31, 2015 and May 31, 2015.

**Table 23: Financial Ratios under Indentures**

	Requirement	Actual	
		August 31, 2015	May 31, 2015
Maximum ratio of adjusted senior debt to total equity <sup>(1)</sup> .....	<b>20.00</b>	<b>7.67</b>	7.41

<sup>(1)</sup> The ratio calculation includes the adjustments made to the leverage ratio under "Non-GAAP Financial Measures," with the exception of the adjustments to exclude the non-cash impact of derivative financial instruments and adjustments from total liabilities and total equity.

We are required to pledge collateral equal to at least 100% of the outstanding balance of debt issued under our collateral trust bond indentures and note purchase agreements with Farmer Mac. In addition, we are required to maintain collateral on deposit equal to at least 100% of the outstanding balance of debt to the FFB under the Guaranteed Underwriter Program of the USDA, which supports the Rural Economic Development Loan and Grant program, for which distribution and power supply loans may be deposited. See "Note 3—Loans and Commitments—Pledging of Loans and Loans on Deposit" for additional information related to collateral.

Table 24 summarizes our secured debt or debt requiring collateral on deposit, the excess collateral pledged and our unencumbered loans as of August 31, 2015 and May 31, 2015.

**Table 24: Unencumbered Loans**

(Dollars in thousands)	August 31, 2015	May 31, 2015
Total loans outstanding <sup>(1)</sup>	<b>\$ 22,084,551</b>	\$ 21,459,220
Less: Total secured debt or debt requiring collateral on deposit	<b>(13,802,432)</b>	(13,386,713)
Excess collateral pledged or on deposit <sup>(2)</sup>	<b>(1,012,560)</b>	(1,351,255)
Unencumbered loans	<b>\$ 7,269,559</b>	\$ 6,721,252
Unencumbered loans as a percentage of total loans	<b>33%</b>	31%

<sup>(1)</sup> Excludes deferred loan origination costs of \$10 million as of August 31, 2015 and May 31, 2015.

<sup>(2)</sup> Excludes cash collateral pledged to secure debt. Unless and until there is an event of default, we can withdraw excess collateral as long as there is 100% coverage of the secured debt. If there is an event of default under most of our indentures, we can only withdraw this excess collateral if we substitute cash of equal value.

Table 25 summarizes the amount of notes pledged or on deposit as collateral as a percentage of the related debt outstanding under the debt agreements noted above as of August 31, 2015 and May 31, 2015.

**Table 25: Collateral Pledged or on Deposit**

Debt Agreement	Requirement		Actual	
	Debt Indenture Minimum	Revolving Credit Agreements Maximum	August 31, 2015	May 31, 2015
Collateral trust bonds 1994 indenture.....	<b>100%</b>	<b>150%</b>	<b>104%</b>	106%
Collateral trust bonds 2007 indenture.....	<b>100</b>	<b>150</b>	<b>107</b>	108
Farmer Mac .....	<b>100</b>	<b>150</b>	<b>114</b>	113
Clean Renewable Energy Bonds Series 2009A.	<b>100</b>	<b>150</b>	<b>113</b>	117
FFB Series <sup>(1) (2)</sup> .....	<b>100</b>	<b>150</b>	<b>105</b>	112

<sup>(1)</sup> Represents collateral on deposit as a percentage of the related debt outstanding.

<sup>(2)</sup> All pledge agreements previously entered into with RUS and U.S. Bank National Association were consolidated into one amended, restated and consolidated pledge agreement in December 2012.

## *Uses of Liquidity*

### *Loan Advances*

Loan advances are either from new loans approved to a borrower or from the unadvanced portion of loans previously approved. As of August 31, 2015, unadvanced loan commitments totaled \$14,296 million. Of that total, \$2,687 million represented unadvanced commitments related to line of credit loans that are not subject to a material adverse change clause at the time of each loan advance. As such, we would be required to advance amounts on these committed facilities as long as the borrower is in compliance with the terms and conditions of the loan. New advances under 20% of these \$2,687 million committed line of credit loans would be advanced at rates determined by CFC based on our cost and, therefore, any increase in CFC's costs to obtain funding required to make the advance could be passed on to the borrower. The other 80% of committed line of credit loans represent loan syndications where the pricing is set at a spread over a market index as agreed upon by all of the participating banks and market conditions at the time of syndication. The remaining \$11,609 million of unadvanced loan commitments as of August 31, 2015 were generally subject to material adverse change clauses. Prior to making an advance on these facilities, we would confirm that there has been no material adverse change in the borrower's business or condition, financial or otherwise, since the time the loan was approved and confirm that the borrower is currently in compliance with loan terms and conditions. In some cases, the borrower's access to the full amount of the facility is further constrained by use of proceeds restrictions, imposition of borrower-specific restrictions or by additional conditions that must be met prior to advancing funds.

Since we generally do not charge a fee for the borrower to have an unadvanced amount on a loan facility that is subject to a material adverse change clause, our borrowers tend to request amounts in excess of their immediate estimated loan requirements. Historically, we have not experienced significant loan advances from the long-term unadvanced loan amounts that are subject to material adverse change clauses at the time of the loan advance. We have a very low historical average utilization rate on all our line of credit facilities, including committed line of credit facilities. Unadvanced commitments related to line of credit loans are typically revolving facilities for periods not to exceed five years. Long-term unadvanced commitments generally expire five years from the date of the loan agreement. These reasons, together with the other limitations on advances as described above, all contribute to our expectation that the majority of the unadvanced commitments reported will expire without being fully drawn upon and that the total commitment amount does not necessarily represent future cash funding requirements as of August 31, 2015.

We currently expect to make long-term loan advances totaling approximately \$1,843 million to our members over the next 12 months.

### *Interest Expense on Debt*

For the three months ended August 31, 2015, interest expense on debt was \$166 million, representing an average cost of 3.08% compared with 3.05% for the three months ended August 31, 2014. For the past three fiscal years, interest expense on debt has averaged \$661 million. As of August 31, 2015, 82% of outstanding debt had a fixed interest rate and 18% had a variable interest rate.

### *Principal Repayments on Long-Term Debt*

Table 26 summarizes the principal amount of long-term debt, subordinated deferrable debt and members' subordinated certificates maturing by fiscal year and thereafter as of August 31, 2015.

**Table 26: Principal Maturity of Long-Term Debt**

<b>(Dollars in thousands)</b>	<b>Amount Maturing <sup>(1)</sup></b>	<b>Percentage of Total</b>
May 31, 2016	\$ 1,628,535	9%
May 31, 2017	2,116,984	11
May 31, 2018	1,021,445	6
May 31, 2019	1,837,490	10
May 31, 2020	954,347	5
Thereafter	10,918,767	59
Total	<u>\$ 18,477,568</u>	<u>100%</u>

<sup>(1)</sup>Excludes loan subordinated certificates totaling \$115 million that amortize annually based on the outstanding balance of the related loan and \$0.2 million in subscribed and unissued certificates for which a payment has been received. There are many items that affect the amortization of a loan, such as loan conversions, loan repricing at the end of an interest rate term and prepayments; therefore, an amortization schedule cannot be maintained for these certificates. Over the past fiscal year, annual amortization on these certificates was \$11 million. In fiscal year 2015, amortization represented 10% of amortizing loan subordinated certificates outstanding.

### *Patronage Capital Retirements*

CFC has made annual retirements of allocated net earnings in 35 of the last 36 fiscal years. In July 2015, the CFC Board of Directors approved the allocation of \$78 million from fiscal year 2015 net earnings to CFC's members. CFC made a cash payment of \$39 million to its members in September 2015 as retirement of 50% of allocated net earnings from the prior year as approved by the CFC Board of Directors. The remaining portion of allocated net earnings will be retained by CFC for 25 years under guidelines adopted by the CFC Board of Directors in June 2009. The board of directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable laws and regulation.

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## **MARKET RISK**

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Market risk is the potential for adverse changes in the value of our assets and liabilities resulting from changes in market variables such as interest rates, volatilities or credit spreads. Interest rate risk represents our primary market risk.

### **Interest Rate Risk**

Our interest rate risk exposure is related to the funding of the fixed-rate loan portfolio. The Asset Liability Committee reviews a complete interest rate risk analysis, reviews proposed modifications, if any, to our interest rate risk management strategy and considers adopting strategy changes. Our Asset Liability Committee monitors interest rate risk and generally meets monthly to review and discuss information such as national economic forecasts, federal funds and interest rate forecasts, interest rate gap analysis, our liquidity position, loan and debt maturities, short-term and long-term funding needs, anticipated loan demands, credit concentration risk, derivative counterparty exposure and financial forecasts. The Asset Liability Committee also discusses the composition of fixed-rate versus variable-rate lending, new funding opportunities, changes to the nature and mix of assets and liabilities for structural mismatches, and interest rate swap transactions.

## Matched Funding Practice

We provide our members with many options on loans with regard to interest rates, the term for which the selected interest rate is in effect and the ability to convert or prepay the loan. Long-term loans have maturities of up to 35 years. Borrowers may select fixed interest rates for periods of one year through the life of the loan. We do not match fund the majority of our fixed-rate loans with a specific debt issuance at the time the loans are advanced. To monitor and mitigate interest rate risk in the funding of fixed-rate loans, we perform a monthly interest rate gap analysis that provides a comparison between fixed-rate assets repricing or maturing by year and fixed-rate liabilities and members' equity maturing by year, which is presented in Table 27 below. Fixed-rate liabilities include debt issued at a fixed rate as well as variable-rate debt swapped to a fixed rate using interest rate swaps. Fixed-rate debt swapped to a variable rate using interest rate swaps is excluded from the analysis since it is used to match fund the variable-rate loan pool. With the exception of members' subordinated certificates, which are generally issued with extended maturities, and commercial paper, our liabilities have average maturities that closely match the repricing terms (but not the maturities) of our fixed-interest-rate loans.

We fund the amount of fixed-rate assets that exceed fixed-rate debt and members' equity with short-term debt, primarily commercial paper. We also have the option to enter pay fixed-receive variable interest rate swaps. Our funding objective is to manage the matched funding of asset and liability repricing terms within a range of total assets (excluding derivative assets) deemed appropriate by the Asset Liability Committee based on the current environment and extended outlook for interest rates. Due to the flexibility we offer our borrowers, there is a possibility of significant changes in the composition of the fixed-rate loan portfolio, and the management of the interest rate gap is very fluid. We may use interest rate swaps to manage the interest rate gap based on our needs for fixed-rate or variable-rate funding as changes arise. We consider the interest rate risk on variable-rate loans to be minimal as the loans are eligible to be repriced at least monthly, which minimizes the variance to the cost of variable-rate debt used to fund the loans. Loans with variable interest rates accounted for 9% and 8% of our total loan portfolio as of August 31, 2015 and May 31, 2015, respectively.

## Interest Rate Gap Analysis

Our interest rate gap analysis allows us to consider various scenarios in order to evaluate the impact on adjusted TIER of issuing certain amounts of debt with various maturities at a fixed rate. See "Non-GAAP Financial Measures" for further explanation and a reconciliation of the adjustments to TIER to derive adjusted TIER.

Table 27 shows the scheduled amortization and repricing of fixed-rate assets and liabilities outstanding as of August 31, 2015.

**Table 27: Interest Rate Gap Analysis**

(Dollars in millions)	Prior to 5/31/16	Two Years 6/1/16 to 5/31/18	Two Years 6/1/18 to 5/31/20	Five Years 6/1/20 to 5/31/25	Ten Years 6/1/25 to 5/31/35	6/1/35 and Thereafter	Total
Asset amortization and repricing .....	\$1,602	\$ 3,799	\$2,745	\$ 4,690	\$ 5,075	\$ 2,284	\$ 20,195
Liabilities and members' equity:							
Long-term debt .....	\$1,640	\$ 3,565	\$2,908	\$ 3,702	\$ 3,111	\$ 1,124	\$ 16,050
Subordinated certificates .....	20	74	61	703	259	733	1,850
Members' equity <sup>(1)</sup> .....	—	—	—	—	739	427	1,166
Total liabilities and members' equity .....	\$1,660	\$ 3,639	\$2,969	\$ 4,405	\$ 4,109	\$ 2,284	\$ 19,066
Gap <sup>(2)</sup> .....	\$ (58)	\$ 160	\$ (224)	\$ 285	\$ 966	\$ —	\$ 1,129
Cumulative gap .....	(58)	102	(122)	163	1,129	1,129	
Cumulative gap as a % of total assets .....	(0.25)%	0.43%	(0.52)%	0.69%	4.81%	4.81%	
Cumulative gap as a % of adjusted total assets <sup>(3)</sup> .....	(0.25)	0.44	(0.52)	0.70	4.83	4.83	

<sup>(1)</sup> Includes the portion of the allowance for loan losses and subordinated deferrable debt allocated to fund fixed-rate assets and excludes non-cash adjustments from the accounting for derivative financial instruments.

<sup>(2)</sup>Calculated based on the amount of assets amortizing and repricing less total liabilities and members' equity displayed in Table 27.

<sup>(3)</sup>Adjusted total assets represents total assets reported in our condensed consolidated balance sheets less derivative assets.

We had \$20,195 million of fixed-rate assets amortizing or repricing as of August 31, 2015. These assets were funded by \$16,050 million of fixed-rate liabilities maturing during the next 30 years and \$3,016 million of members' equity and members' subordinated certificates. A portion of members' equity does not have a scheduled maturity. The difference, or gap, of \$1,129 million reflects the amount of fixed-rate assets that are funded with short-term debt as of August 31, 2015. The gap of \$1,129 million represented 4.81% of total assets and 4.83% of total assets excluding derivative assets, or adjusted total assets, as of August 31, 2015.

Our Asset Liability Committee believes it is necessary to maintain an unmatched position on our fixed-rate assets within a limited percentage of adjusted total assets. Our limited unmatched position is intended to provide the flexibility to ensure that we are able to match the current maturing portion of long-term fixed rate loans based on maturity date and the opportunity in the current low interest rate environment to maximize the gross yield on our fixed rate assets without taking what we would consider to be excessive risk. Funding fixed-rate loans with short-term debt increases interest rate and liquidity risk, as the maturing debt would need to be replaced to fund the fixed-rate loans through their repricing or maturity date. We manage interest rate risk through the use of derivatives and by limiting the amount of fixed-rate assets that can be funded by short-term debt to a specified percentage of adjusted total assets based on market conditions. We discuss how we manage our liquidity risk above under "Liquidity Risk."

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## NON-GAAP FINANCIAL MEASURES

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In addition to financial measures determined in accordance with GAAP, management also evaluates performance based on certain non-GAAP measures, which we refer to as "adjusted" measures. We provide a reconciliation of our adjusted measures to the most comparable GAAP measures in this section. We believe these adjusted non-GAAP metrics provide meaningful information and are useful to investors because the financial covenants in our revolving credit agreements and debt indentures are based on these adjusted measures.

### Statements of Operations Non-GAAP Adjustments and Calculation of TIER

Table 28 provides a reconciliation of adjusted interest expense, adjusted net interest income and adjusted net income to the comparable GAAP measures. The adjusted amounts are used in the calculation of our adjusted net interest yield and adjusted TIER.

**Table 28: Adjusted Financial Measures — Income Statement**

(Dollars in thousands)	Three Months Ended August 31,	
	2015	2014
Interest expense .....	\$ (165,700)	\$ (156,552)
Plus: Derivative cash settlements .....	(20,156)	(20,101)
Adjusted interest expense .....	<u>\$ (185,856)</u>	<u>\$ (176,653)</u>
Net interest income .....	\$ 80,416	\$ 80,739
Less: Derivative cash settlements .....	(20,156)	(20,101)
Adjusted net interest income .....	<u>\$ 60,260</u>	<u>\$ 60,638</u>
Net income .....	\$ 43,095	\$ 20,612
Less: Derivative forward value .....	(8,139)	29,777
Adjusted net income .....	<u>\$ 34,956</u>	<u>\$ 50,389</u>

## TIER Calculation

Table 29 presents our TIER and adjusted TIER for the three months ended August 31, 2015 and 2014.

**Table 29: TIER and Adjusted TIER**

	Three Months Ended August 31,	
	2015	2014
TIER <sup>(1)</sup> .....	<u>1.26</u>	<u>1.13</u>
Adjusted TIER <sup>(2)</sup> .....	<u>1.19</u>	<u>1.29</u>

<sup>(1)</sup> TIER is calculated based on net income plus interest expense for the period divided by interest expense for the period.

<sup>(2)</sup> Adjusted TIER is calculated based on adjusted net income plus adjusted interest expense for the period divided by adjusted interest expense for the period.

## Adjustments to the Calculation of Leverage and Debt-to-Equity Ratios

Table 30 provides a reconciliation between the liabilities and equity used to calculate the leverage and debt-to-equity ratios and these financial measures adjusted to exclude the non-cash effects of derivatives and foreign currency adjustments, to subtract debt used to fund loans that are guaranteed by RUS from total liabilities, and to subtract from total liabilities, and add to total equity, debt with equity characteristics.

**Table 30: Adjusted Financial Measures — Balance Sheet**

(Dollars in thousands)	August 31, 2015	May 31, 2015
Total liabilities .....	\$ 22,544,635	\$ 21,934,273
Less:		
Derivative liabilities .....	(392,461)	(408,382)
Debt used to fund loans guaranteed by RUS .....	(177,840)	(179,241)
Subordinated deferrable debt .....	(395,717)	(395,699)
Subordinated certificates .....	(1,485,933)	(1,505,420)
Adjusted liabilities .....	<u>\$ 20,092,684</u>	<u>\$ 19,445,531</u>
Total equity .....	\$ 915,165	\$ 911,786
Less:		
Prior year cumulative derivative forward .....		
value and foreign currency adjustments .....	299,274	185,181
Current year-to-date derivative forward value		
(gains) losses, net .....	(8,139)	114,093
Accumulated other comprehensive income <sup>(1)</sup> .....	(5,138)	(5,371)
Plus:		
Subordinated certificates .....	1,485,933	1,505,420
Subordinated deferrable debt .....	395,717	395,699
Adjusted total equity .....	<u>\$ 3,082,812</u>	<u>\$ 3,106,808</u>
Guarantees <sup>(2)</sup> .....	<u>\$ 972,486</u>	<u>\$ 986,500</u>

<sup>(1)</sup> Represents the accumulated other comprehensive income related to derivatives. Excludes \$3 million and \$4 million of accumulated other comprehensive income at August 31, 2015 and May 31, 2015, respectively, related to the unrecognized gains on our investments. It also excludes \$4 million of accumulated other comprehensive loss related to foreclosed assets at August 31, 2015 and May 31, 2015 and \$1 million of accumulated other comprehensive loss related to a defined benefit pension plan.

<sup>(2)</sup> Guarantees are used in the calculation of leverage and adjusted leverage ratios below.



Table 31 presents the calculations of our leverage and debt-to-equity ratios and our adjusted leverage and debt-to-equity ratios as of August 31, 2015 and May 31, 2015.

**Table 31: Leverage and Debt-to-Equity Ratios**

	August 31, 2015	May 31, 2015
Leverage ratio <sup>(1)</sup> .....	<b>25.70</b>	25.14
Adjusted leverage ratio <sup>(2)</sup> .....	<b>6.83</b>	6.58
Debt-to-equity ratio <sup>(3)</sup> .....	<b>24.63</b>	24.06
Adjusted debt-to-equity ratio <sup>(4)</sup> .....	<b>6.52</b>	6.26

<sup>(1)</sup> Calculated based on total liabilities and guarantees at period end divided by total equity at period end.

<sup>(2)</sup> Calculated based on adjusted total liabilities and guarantees at period end divided by adjusted total equity at period end, such calculation is presented in Table 30 above.

<sup>(3)</sup> Calculated based on total liabilities at period end divided by total equity at period end.

<sup>(4)</sup> Calculated based on adjusted total liabilities at period end divided by adjusted total equity at period end, such calculation is presented in Table 30 above.

**Item 1. Financial Statements**

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**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

<b>(Dollars in thousands)</b>	<b>Three Months Ended August 31,</b>	
	<b>2015</b>	<b>2014</b>
Interest income .....	<b>\$ 246,116</b>	<b>\$ 237,291</b>
Interest expense .....	<b>(165,700)</b>	<b>(156,552)</b>
Net interest income .....	<b>80,416</b>	<b>80,739</b>
Provision for loan losses .....	<b>(4,562)</b>	<b>6,771</b>
Net interest income after provision for loan losses .....	<b>75,854</b>	<b>87,510</b>
Non-interest income:		
Fee and other income .....	<b>4,701</b>	<b>4,357</b>
Derivative losses .....	<b>(12,017)</b>	<b>(49,878)</b>
Results of operations of foreclosed assets .....	<b>(1,921)</b>	<b>(2,699)</b>
Total non-interest income .....	<b>(9,237)</b>	<b>(48,220)</b>
Non-interest expense:		
Salaries and employee benefits .....	<b>(11,490)</b>	<b>(10,797)</b>
Other general and administrative expenses .....	<b>(11,345)</b>	<b>(7,746)</b>
Other .....	<b>(357)</b>	<b>61</b>
Total non-interest expense .....	<b>(23,192)</b>	<b>(18,482)</b>
Income before income taxes .....	<b>43,425</b>	<b>20,808</b>
Income tax expense .....	<b>(330)</b>	<b>(196)</b>
Net income .....	<b>43,095</b>	<b>20,612</b>
Less: Net (income) loss attributable to noncontrolling interests .....	<b>230</b>	<b>(211)</b>
Net income attributable to CFC .....	<b>\$ 43,325</b>	<b>\$ 20,401</b>

See accompanying notes to condensed consolidated financial statements.

**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

<b>(Dollars in thousands)</b>	<b>Three Months Ended August 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income .....	<b>\$ 43,095</b>	<b>\$ 20,612</b>
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale investment securities .....	<b>(664)</b>	2,700
Reclassification of derivative gains to net income .....	<b>(235)</b>	(241)
Defined benefit plan adjustments .....	<b>44</b>	—
Other comprehensive income (loss) .....	<b>(855)</b>	2,459
Total comprehensive income .....	<b>42,240</b>	23,071
Less: Total comprehensive (income) loss attributable to noncontrolling interest .....	<b>232</b>	(208)
Total comprehensive income attributable to CFC .....	<b>\$ 42,472</b>	<b>\$ 22,863</b>

See accompanying notes to condensed consolidated financial statements.

**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

(Dollars in thousands)	August 31, 2015	May 31, 2015
<b>Assets:</b>		
Cash and cash equivalents .....	\$ 266,307	\$ 248,836
Restricted cash .....	5,195	485
Time deposits .....	485,000	485,000
Investment securities .....	83,808	84,472
Loans to members .....	22,094,387	21,469,017
Less: Allowance for loan losses .....	(38,307)	(33,690)
Loans to members, net .....	22,056,080	21,435,327
Accrued interest and other receivables .....	178,703	197,828
Fixed assets, net .....	110,619	110,540
Debt service reserve funds .....	25,602	25,602
Foreclosed assets, net .....	114,253	116,507
Derivative assets .....	107,358	115,276
Other assets .....	26,875	26,186
<b>Total assets</b> .....	<b>\$ 23,459,800</b>	<b>\$ 22,846,059</b>
<b>Liabilities:</b>		
Accrued interest payable .....	\$ 190,643	\$ 123,697
Debt outstanding:		
Short-term debt .....	3,208,704	3,127,754
Long-term debt .....	16,710,748	16,244,794
Subordinated deferrable debt .....	395,717	395,699
Members' subordinated certificates:		
Membership subordinated certificates .....	629,821	645,035
Loan and guarantee subordinated certificates .....	636,116	640,889
Member capital securities .....	219,996	219,496
Total members' subordinated certificates .....	1,485,933	1,505,420
Total debt outstanding .....	21,801,102	21,273,667
Patronage capital retirement payable .....	38,500	—
Deferred income .....	72,497	75,579
Derivative liabilities .....	392,461	408,382
Other liabilities .....	49,432	52,948
<b>Total liabilities</b> .....	<b>22,544,635</b>	<b>21,934,273</b>
Commitments and contingencies .....		
<b>Equity:</b>		
CFC equity: .....		
Retained equity .....	883,996	880,242
Accumulated other comprehensive income .....	3,227	4,080
Total CFC equity .....	887,223	884,322
Noncontrolling interest .....	27,942	27,464
<b>Total equity</b> .....	<b>915,165</b>	<b>911,786</b>
<b>Total liabilities and equity</b> .....	<b>\$ 23,459,800</b>	<b>\$ 22,846,059</b>

See accompanying notes to condensed consolidated financial statements.

**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(UNAUDITED)**

<b>(Dollars in thousands)</b>	<b>Membership Fees and Educational Fund</b>	<b>Patronage Capital Allocated</b>	<b>Members' Capital Reserve</b>	<b>Unallocated Net Income (Loss)</b>	<b>CFC Retained Equity</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total CFC Equity</b>	<b>Non-controlling Interests</b>	<b>Total Equity</b>
Balance as of May 31, 2015....	\$ 2,743	\$ 668,980	\$ 501,731	\$ (293,212)	\$ 880,242	\$ 4,080	\$ 884,322	\$ 27,464	\$ 911,786
Net income .....	—	—	—	43,325	43,325	—	43,325	(230)	43,095
Other comprehensive loss .....	—	—	—	—	—	(853)	(853)	(2)	(855)
Patronage capital retirement....	—	(39,210)	—	—	(39,210)	—	(39,210)	—	(39,210)
Other .....	(361)	—	—	—	(361)	—	(361)	710	349
Balance as of August 31, 2015	<u>\$ 2,382</u>	<u>\$ 629,770</u>	<u>\$ 501,731</u>	<u>\$ (249,887)</u>	<u>\$ 883,996</u>	<u>\$ 3,227</u>	<u>\$ 887,223</u>	<u>\$ 27,942</u>	<u>\$ 915,165</u>
Balance as of May 31, 2014....	\$ 2,751	\$ 630,340	\$ 485,447	\$ (178,650)	\$ 939,888	\$ 3,649	\$ 943,537	\$ 26,837	\$ 970,374
Net income .....	—	—	—	20,401	20,401	—	20,401	211	20,612
Other comprehensive income (loss) .....	—	—	—	—	—	2,462	2,462	(3)	2,459
Patronage capital retirement....	—	(39,662)	—	—	(39,662)	—	(39,662)	—	(39,662)
Other .....	(303)	(1)	1	—	(303)	—	(303)	—	(303)
Balance as of August 31, 2014	<u>\$ 2,448</u>	<u>\$ 590,677</u>	<u>\$ 485,448</u>	<u>\$ (158,249)</u>	<u>\$ 920,324</u>	<u>\$ 6,111</u>	<u>\$ 926,435</u>	<u>\$ 27,045</u>	<u>\$ 953,480</u>

See accompanying notes to condensed consolidated financial statements.

**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(Dollars in thousands)	Three Months Ended August 31,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income .....	\$ 43,095	\$ 20,612
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred income .....	(2,683)	(2,895)
Amortization of debt issuance costs and deferred charges .....	2,052	1,759
Amortization of discount on long-term debt .....	2,110	1,948
Amortization of issuance costs for revolving bank lines of credit .....	2,087	709
Depreciation .....	1,899	1,461
Provision for loan losses .....	4,562	(6,771)
Results of operations of foreclosed assets .....	1,921	2,699
Derivative forward value .....	(8,139)	29,777
Changes in operating assets and liabilities:		
Accrued interest and other receivables .....	806	(2,476)
Accounts payable .....	484	8,874
Accrued interest payable .....	66,946	65,099
Deferred income .....	(399)	4,389
Other .....	(4,045)	(1,127)
Net cash provided by operating activities .....	<u>110,696</u>	<u>124,058</u>
<b>Cash flows from investing activities:</b>		
Advances on loans .....	(2,279,165)	(1,987,198)
Principal collections on loans .....	1,653,889	1,979,315
Net investment in fixed assets .....	(2,058)	(2,485)
Proceeds from foreclosed assets .....	1,333	2,187
Investments in foreclosed assets .....	(1,000)	(2,400)
Investments in time deposits .....	—	(20,000)
Investments in equity securities .....	—	(25,000)
Change in restricted cash .....	(4,710)	(505)
Net cash used in investing activities .....	<u>(631,711)</u>	<u>(56,086)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuances of short-term debt, net .....	146,190	86,389
Proceeds from issuances of short-term debt with original maturity greater than 90 days .....	131,496	132,739
Repayments of short term-debt with original maturity greater than 90 days .....	(196,736)	(145,069)
Proceeds from issuance of long-term debt .....	551,808	216,456
Payments for retirement of long-term debt .....	(89,998)	(349,577)
Proceeds from issuance of members' subordinated certificates .....	746	39,238
Payments for retirement of members' subordinated certificates .....	(5,020)	(66,293)
Net cash provided by (used in) financing activities .....	<u>538,486</u>	<u>(86,117)</u>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>17,471</b>	<b>(18,145)</b>
<b>Beginning cash and cash equivalents .....</b>	<b>248,836</b>	<b>338,715</b>
<b>Ending cash and cash equivalents .....</b>	<b><u>\$ 266,307</u></b>	<b><u>\$ 320,570</u></b>

See accompanying notes to condensed consolidated financial statements.

**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(Dollars in thousands)	Three Months Ended August 31,	
	2015	2014
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest.....	\$ 92,505	\$ 87,037
Cash paid for income taxes .....	4	8
<b>Non-cash financing and investing activities:</b>		
Increase to patronage capital retirement payable .....	\$ 38,500	\$ 39,662
Net decrease in debt service reserve funds/debt service reserve certificates .....	—	(1,034)

See accompanying notes to condensed consolidated financial statements.



**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**The Company**

National Rural Utilities Cooperative Finance Corporation (“CFC”) is a member-owned cooperative association incorporated under the laws of the District of Columbia in April 1969. CFC’s principal purpose is to provide its members with financing to supplement the loan programs of the Rural Utilities Service (“RUS”) of the United States Department of Agriculture (“USDA”). CFC makes loans to its rural electric members so they can acquire, construct and operate electric distribution, generation, transmission and related facilities. CFC also provides its members with credit enhancements in the form of letters of credit and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively serves its membership, which consists of not-for-profit entities or subsidiaries or affiliates of not-for-profit entities. CFC is exempt from federal income taxes.

**Basis of Presentation and Use of Estimates**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Certain prior period amounts have been reclassified to conform to the current period presentation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. In the opinion of management, all normal, recurring adjustments have been included for a fair presentation of this interim financial information. The results of operations in the interim financial statements are not necessarily indicative of the results that may be expected for the full year.

These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, and related notes thereto, included in CFC’s Annual Report on Form 10-K for the fiscal year ended May 31, 2015 (“2015 Form 10-K”).

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of CFC, Rural Telephone Finance Cooperative (“RTFC”), National Cooperative Services Corporation (“NCSC”) and entities created and controlled by CFC to hold foreclosed assets. All intercompany balances and transactions have been eliminated. RTFC was established to provide private financing for the rural telecommunications industry. NCSC was established to provide financing to members of CFC and the for-profit and nonprofit entities that are owned, operated or controlled by, or provide significant benefits to certain members of CFC. CFC currently has one entity, Caribbean Asset Holdings, LLC (“CAH”), that holds foreclosed assets. CAH, which is classified as held for sale, is a holding company for various U.S. Virgin Islands, British Virgin Islands and St. Maarten-based telecommunications operating entities that were transferred to CAH as a result of a loan default by a borrower and subsequent bankruptcy proceedings. Unless stated otherwise, references to “we,” “our” or “us” relate to CFC and its consolidated entities.

**Variable Interest Entities**

Based on the accounting standards governing consolidations, equity controlled by RTFC and NCSC is classified as noncontrolling interest on the condensed consolidated balance sheet, and the subsidiary earnings controlled by RTFC and NCSC are reported as net income or net loss attributable to the noncontrolling interest on the consolidated statement of operations.

**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

CFC manages the lending activities of RTFC and NCSC. We are required to consolidate the financial results of RTFC and NCSC because CFC is the primary beneficiary of variable interests in RTFC and NCSC due to its exposure to absorbing the majority of their expected losses.

Under separate guarantee agreements, RTFC and NCSC pay CFC a fee to indemnify them against loan losses. CFC is the sole lender to and manages the business operations of RTFC through a management agreement in effect until December 1, 2016, which is automatically renewed for one-year terms thereafter unless terminated by either party. CFC is the primary source of funding to, and manages the lending activities of, NCSC through a management agreement that is automatically renewable on an annual basis unless terminated by either party. NCSC funds its lending programs through loans from CFC or debt guaranteed by CFC. In connection with these guarantees, NCSC must pay a guarantee fee.

RTFC and NCSC creditors have no recourse against CFC in the event of a default by RTFC and NCSC, unless there is a guarantee agreement under which CFC has guaranteed NCSC or RTFC debt obligations to a third party. As of August 31, 2015, CFC had guaranteed \$62 million of NCSC debt, derivative instruments and guarantees with third parties, and CFC's maximum potential exposure for these instruments totaled \$66 million. The maturities for NCSC obligations guaranteed by CFC extend through 2031. Guarantees of NCSC debt and derivative instruments are not included in Note 10, Guarantees, as the debt and derivatives are reported on the condensed consolidated balance sheets. As of August 31, 2015, CFC guaranteed \$2 million of RTFC guarantees with third parties. The maturities for RTFC obligations guaranteed by CFC extend through 2016 and are renewed on an annual basis. All CFC loans to RTFC and NCSC are secured by all assets and revenue of RTFC and NCSC, respectively. As of August 31, 2015, RTFC had total assets of \$488 million including loans outstanding to members of \$379 million, and NCSC had total assets of \$739 million including loans outstanding of \$725 million. As of August 31, 2015, CFC had committed to lend RTFC up to \$4,000 million, of which \$360 million was outstanding. As of August 31, 2015, CFC had committed to provide up to \$3,000 million of credit to NCSC, of which \$766 million was outstanding, representing \$704 million of outstanding loans and \$62 million of credit enhancements.

### Interest Income

Interest income on loans is recognized using the effective interest method. The following table presents the components of interest income for the three months ended August 31, 2015 and 2014.

(Dollars in thousands)	Three Months Ended August 31,	
	2015	2014
Interest on long-term fixed-rate loans <sup>(1)</sup> .....	\$ 232,202	\$ 222,328
Interest on long-term variable-rate loans .....	5,020	5,360
Interest on line of credit loans .....	6,198	6,942
Interest on investments.....	2,625	2,572
Fee income <sup>(2)</sup> .....	71	89
Total interest income.....	<u>\$ 246,116</u>	<u>\$ 237,291</u>

<sup>(1)</sup> Includes loan conversion fees, which are deferred and recognized in interest income using the effective interest method. Also includes a small portion of conversion fees, which are intended to cover the administrative costs related to the conversion and are recognized into income immediately at conversion..

<sup>(2)</sup> Primarily related to loan origination and late payment fees.

Deferred income on the condensed consolidated balance sheets primarily includes deferred conversion fees totaling \$68 million and \$70 million as of August 31, 2015 and May 31, 2015, respectively.

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**Interest Expense**

The following table presents the components of interest expense for the three months ended August 31, 2015 and 2014.

(Dollars in thousands)	Three Months Ended August 31,	
	2015	2014
Interest expense on debt: <sup>(1)(2)(3)</sup>		
Short-term debt	\$ 2,542	\$ 3,141
Medium-term notes	20,153	17,159
Collateral trust bonds	82,831	76,182
Subordinated deferrable debt	4,783	4,767
Subordinated certificates	15,306	16,746
Long-term notes payable	40,085	38,557
Total interest expense	<u>\$ 165,700</u>	<u>\$ 156,552</u>

<sup>(1)</sup> Represents interest expense and the amortization of discounts on debt.

<sup>(2)</sup> Includes underwriter's fees, legal fees, printing costs and certain accounting fees, which are deferred and recognized in interest expense using the effective interest method. Also includes issuance costs related to dealer commercial paper, which are recognized immediately as incurred.

<sup>(3)</sup> Includes fees related to funding activities, including fees paid to banks participating in our revolving credit agreements. Amounts are recognized as incurred or amortized on a straight-line basis over the life of the agreement.

**Accounting Standards Adopted in Fiscal Year 2016**

***Simplifying the Presentation of Debt Issuance Costs***

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which amends the current presentation of debt issuance costs in the financial statements by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as an asset in the balance sheet. The guidance, which does not affect the recognition and measurement requirements for debt issuance costs, is effective for us in the first quarter of fiscal year 2017. However, we early-adopted this guidance in the first quarter of fiscal year 2016, and applied its provisions retrospectively, which resulted in the reclassification of unamortized debt issuance costs of \$47 million as of May 31, 2015, from total assets on our condensed consolidated balance sheet to total debt outstanding. We previously presented debt issuance costs as a separate line item under total assets on our condensed consolidated balance sheets. Other than this reclassification, the adoption of the guidance did not impact our consolidated financial statements.

**Recently Issued but Not Yet Adopted Accounting Standards**

***Amendments to the Consolidation Analysis***

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, which is intended to improve upon and simplify the consolidation assessment required to evaluate whether organizations should consolidate certain legal entities such as limited partnerships, limited liability corporations, and securitization structures. The new accounting guidance is effective for us in the first quarter of fiscal year 2017. We do not expect the new guidance to have a material impact on our financial condition, results of operations or liquidity.

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***Revenue from Contracts with Customers***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue from contracts with customers. The new accounting guidance, which does not apply to financial instruments, is effective for us beginning in the first quarter of fiscal year 2018. On April 1, 2015, the FASB voted to propose to defer the effective date of the new revenue recognition standard by one year. We do not expect the new guidance to have a material impact on our financial condition, results of operations or liquidity, as CFC's primary business and source of revenue is from lending.

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**NOTE 2—INVESTMENT SECURITIES**

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Our investment securities consist of holdings of Federal Agricultural Mortgage Corporation ("Farmer Mac") preferred and common stock. The following tables present the amortized cost, gross unrealized gains and losses and fair value of our investment securities, all of which are classified as available for sale, as of August 31, 2015 and May 31, 2015.

August 31, 2015				
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Farmer Mac—Series A Non-Cumulative Preferred Stock..	\$ 30,000	\$ —	\$ (600)	\$ 29,400
Farmer Mac—Series B Non-Cumulative Preferred Stock ..	25,000	1,430	—	26,430
Farmer Mac—Series C Non-Cumulative Preferred Stock ..	25,000	900	—	25,900
Farmer Mac—Class A Common Stock .....	538	1,540	—	2,078
Total available-for-sale investment securities .....	<u>\$ 80,538</u>	<u>\$ 3,870</u>	<u>\$ (600)</u>	<u>\$ 83,808</u>

  

May 31, 2015				
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Farmer Mac—Series A Non-Cumulative Preferred Stock..	\$ 30,000	\$ 264	\$ —	\$ 30,264
Farmer Mac—Series B Non-Cumulative Preferred Stock ..	25,000	1,250	—	26,250
Farmer Mac—Series C Non-Cumulative Preferred Stock ..	25,000	900	—	25,900
Farmer Mac—Class A Common Stock .....	538	1,520	—	2,058
Total available-for-sale investment securities .....	<u>\$ 80,538</u>	<u>\$ 3,934</u>	<u>\$ —</u>	<u>\$ 84,472</u>

The gross unrealized loss on our Farmer Mac—Series A Non-Cumulative Preferred Stock of \$1 million as of August 31, 2015 was largely attributable to changes in interest rates. We did not have any investment securities in an unrealized loss position as of May 31, 2015. For the three months ended August 31, 2015, we recorded an unrealized loss of \$1 million in accumulated other comprehensive income, compared with an unrealized gain of \$3 million for the same prior-year period.

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**NOTE 3—LOANS AND COMMITMENTS**

The table below presents the outstanding principal balance of loans to members, including deferred loan origination costs, and unadvanced loan commitments, by loan type and member class, as of August 31, 2015 and May 31, 2015.

(Dollars in thousands)	August 31, 2015		May 31, 2015	
	Loans Outstanding	Unadvanced Commitments <sup>(1)</sup>	Loans Outstanding	Unadvanced Commitments <sup>(1)</sup>
Loan type: <sup>(2)</sup>				
Long-term fixed-rate loans.....	\$ 20,017,697	\$ —	\$ 19,543,274	\$ —
Long-term variable-rate loans.....	711,437	4,903,121	698,495	4,835,623
Loans guaranteed by RUS.....	177,840	—	179,241	—
Line of credit loans .....	1,177,577	9,393,322	1,038,210	9,294,127
Total loans outstanding <sup>(3)</sup> .....	<u>22,084,551</u>	<u>14,296,443</u>	<u>21,459,220</u>	<u>14,129,750</u>
Deferred loan origination costs .....	9,836	—	9,797	—
Loans to members.....	<u>\$ 22,094,387</u>	<u>\$ 14,296,443</u>	<u>\$ 21,469,017</u>	<u>\$ 14,129,750</u>
Member class: <sup>(2)</sup>				
CFC:				
Distribution.....	\$ 16,575,202	\$ 9,657,965	\$ 16,095,043	\$ 9,474,568
Power supply .....	4,344,867	3,332,602	4,181,481	3,273,501
Statewide and associate .....	60,377	129,032	65,466	127,473
CFC total .....	<u>20,980,446</u>	<u>13,119,599</u>	<u>20,341,990</u>	<u>12,875,542</u>
RTFC.....	379,033	283,112	385,709	288,810
NCSC .....	725,072	893,732	731,521	965,398
Total loans outstanding <sup>(3)</sup> .....	<u>\$ 22,084,551</u>	<u>\$ 14,296,443</u>	<u>\$ 21,459,220</u>	<u>\$ 14,129,750</u>

<sup>(1)</sup> The interest rate on unadvanced commitments is not set until drawn; therefore, the long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

<sup>(2)</sup> Includes nonperforming and restructured loans.

<sup>(3)</sup> Represents the unpaid principal balance excluding deferred loan origination costs.

**Unadvanced Loan Commitments**

A total of \$2,687 million and \$2,765 million of unadvanced commitments as of August 31, 2015 and May 31, 2015, respectively, related to committed lines of credit loans that are not subject to a material adverse change clause at the time of each loan advance. As such, we will be required to advance amounts on these committed facilities as long as the borrower is in compliance with the terms and conditions of the facility.

The following table summarizes the available balance under unconditional committed lines of credit, and the related maturities by fiscal year, as of August 31, 2015.

(Dollars in thousands)	Available Balance	Notional Maturities of Unconditional Committed Lines of Credit				
		2016	2017	2018	2019	2020
Committed lines of credit	\$2,686,842	\$ 79,077	\$297,416	\$717,942	\$950,728	\$641,679

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The remaining unadvanced commitments totaling \$11,609 million and \$11,365 million as of August 31, 2015 and May 31, 2015, respectively, were generally subject to material adverse change clauses. Prior to making an advance on these facilities, we confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with loan terms and conditions. In some cases, the borrower's access to the full amount of the facility is further constrained by the designated purpose, imposition of borrower-specific restrictions or by additional conditions that must be met prior to advancing funds.

The following table summarizes the available balance under unadvanced commitments as of August 31, 2015 and the related maturities by fiscal year and thereafter by loan type:

(Dollars in thousands)	Available Balance	Notional Maturities of Unadvanced Commitments					
		2016	2017	2018	2019	2020	Thereafter
Line of credit loans.....	\$ 9,393,322	\$ 595,623	\$5,337,933	\$1,135,540	\$1,108,910	\$ 856,000	\$ 359,316
Long-term loans.....	4,903,121	559,969	1,124,419	807,421	1,114,284	1,044,739	252,289
Total.....	<u>\$14,296,443</u>	<u>\$1,155,592</u>	<u>\$6,462,352</u>	<u>\$1,942,961</u>	<u>\$2,223,194</u>	<u>\$1,900,739</u>	<u>\$ 611,605</u>

Unadvanced commitments related to line of credit loans are typically for periods not to exceed five years and are generally revolving facilities used for working capital and backup liquidity purposes. Historically, we have experienced a very low utilization rate on line of credit loan facilities, whether or not there is a material adverse change clause. Since we generally do not charge a fee on the unadvanced portion of the majority of our loan facilities, our borrowers will typically request long-term facilities to fund construction work plans and other capital expenditures for periods of up to five years and draw down on the facility over that time. In addition, borrowers will typically request an amount in excess of their immediate estimated loan requirements to avoid the expense related to seeking additional loan funding for unexpected items. These factors contribute to our expectation that the majority of the unadvanced commitments will expire without being fully drawn upon and that the total unadvanced amount does not necessarily represent future cash funding requirements.

### **Loan Sales**

We account for the transfer of loans resulting from direct loan sales to third parties by removing the loans from our condensed consolidated balance sheets when control has been surrendered. We retain the servicing performance obligations on these loans and recognize related servicing fees on an accrual basis over the period for which servicing activity is provided, as we believe the servicing fee represents adequate compensation. Because the loans are sold at par, we record immaterial losses on the sale of these loans for unamortized deferred loan origination costs. We do not hold any continuing interest in the loans sold to date other than servicing performance obligations. We have no obligation to repurchase loans from the purchaser, except in the case of breaches of representations and warranties.

We sold CFC loans with outstanding balances totaling \$52 million and \$2 million, at par for cash, during the three months ended August 31, 2015 and 2014, respectively.

### **Credit Quality**

We closely monitor loan performance trends to manage and evaluate our credit risk exposure. Our goal is to provide a balance between the credit needs of our members while also ensuring sound credit quality of our loan portfolio. Payment status and internal risk rating trends are indicators, among others, of the level of credit risk within our loan portfolios. As part of our strategy to reduce our credit risk exposure, we entered into a long-term standby purchase commitment agreement with Farmer Mac on August 31, 2015. Under this agreement, we may designate certain loans, as approved by Farmer Mac, and in the event any such loan later goes into material default for at least 90 days, upon request by us, Farmer Mac must purchase such loan at par value. We have designated and Farmer Mac has approved an initial tranche of loans of \$520 million as of August 31, 2015, and we can designate additional tranches of loans. We are paying Farmer Mac a monthly fee based on the unpaid principal balance of the loans in the tranche(s) for the commitment to purchase loans under the agreement.

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***Payment Status of Loans***

The tables below present the payment status of loans outstanding by member class as of August 31, 2015 and May 31, 2015.

<b>August 31, 2015</b>						
<b>(Dollars in thousands)</b>	<b>Current</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due <sup>(1)</sup></b>	<b>Total Past Due</b>	<b>Total Financing Receivables</b>	<b>Nonaccrual Loans</b>
CFC:						
Distribution .....	\$ 16,575,202	\$ —	\$ —	\$ —	\$ 16,575,202	\$ 7,221
Power supply .....	4,344,852	15	—	15	4,344,867	—
Statewide and associate...	60,377	—	—	—	60,377	—
CFC total .....	20,980,431	15	—	15	20,980,446	7,221
RTFC .....	379,033	—	—	—	379,033	4,156
NCSC .....	724,929	143	—	143	725,072	—
Total loans outstanding ...	<u>\$ 22,084,393</u>	<u>\$ 158</u>	<u>\$ —</u>	<u>\$ 158</u>	<u>\$ 22,084,551</u>	<u>\$ 11,377</u>
As a % of total loans .....	100.00%	—%	—%	—%	100.00%	0.05%

<b>May 31, 2015</b>						
<b>(Dollars in thousands)</b>	<b>Current</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due <sup>(1)</sup></b>	<b>Total Past Due</b>	<b>Total Financing Receivables</b>	<b>Nonaccrual Loans</b>
CFC:						
Distribution .....	\$ 16,095,043	\$ —	\$ —	\$ —	\$ 16,095,043	\$ 7,221
Power supply .....	4,181,481	—	—	—	4,181,481	—
Statewide and associate...	65,466	—	—	—	65,466	—
CFC total .....	20,341,990	—	—	—	20,341,990	7,221
RTFC .....	385,709	—	—	—	385,709	4,221
NCSC .....	731,521	—	—	—	731,521	294
Total loans outstanding ...	<u>\$ 21,459,220</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 21,459,220</u>	<u>\$ 11,736</u>
As a % of total loans .....	100.00%	—%	—%	—%	100.00%	0.05%

<sup>(1)</sup> All loans 90 days or more past due are on nonaccrual status.

***Internal Risk Ratings of Loans***

We evaluate the credit quality of our loans using an internal risk rating system that employs similar criteria for all member classes. Our internal risk rating system is based on a determination of a borrower's risk of default utilizing both quantitative and qualitative measurements. We have grouped our risk ratings into the categories of pass and criticized based on the criteria below.

- (i) Pass: Borrowers that are not experiencing difficulty and/or not showing a potential or well-defined credit weakness.
- (ii) Criticized: Includes borrowers categorized as special mention, substandard and doubtful as described below:
  - Special mention: Borrowers that may be characterized by a potential credit weakness or deteriorating financial condition that is not sufficiently serious to warrant a classification of substandard or doubtful.
  - Substandard: Borrowers that display a well-defined credit weakness that may jeopardize the full collection of principal and interest.

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- Doubtful: Borrowers that have a well-defined weakness and the full collection of principal and interest is questionable or improbable.

Borrowers included in the pass, special mention, and substandard categories are generally reflected in the general portfolio of loans. Borrowers included in the doubtful category are reflected in the impaired portfolio of loans. Each risk rating is reassessed annually based on the receipt of the borrower's audited financial statements; however, interim downgrades and upgrades may take place at any time as significant events or trends occur.

The following table presents our loan portfolio by risk rating category and member class based on available data as of August 31, 2015 and May 31, 2015.

(Dollars in thousands)	August 31, 2015			May 31, 2015		
	Pass	Criticized	Total	Pass	Criticized	Total
CFC:						
Distribution .....	\$ 16,541,027	\$ 34,175	\$ 16,575,202	\$ 16,062,516	\$ 32,527	\$ 16,095,043
Power supply .....	4,344,867	—	4,344,867	4,181,481	—	4,181,481
Statewide and associate .....	60,114	263	60,377	65,200	266	65,466
CFC total .....	20,946,008	34,438	20,980,446	20,309,197	32,793	20,341,990
RTFC .....	364,137	14,896	379,033	373,087	12,622	385,709
NCSC .....	721,187	3,885	725,072	727,159	4,362	731,521
Total loans outstanding .....	<u>\$ 22,031,332</u>	<u>\$ 53,219</u>	<u>\$ 22,084,551</u>	<u>\$ 21,409,443</u>	<u>\$ 49,777</u>	<u>\$ 21,459,220</u>

**Allowance for Loan Losses**

We maintain an allowance for loan losses at a level estimated by management to provide for probable losses inherent in the loan portfolio as of each balance sheet date. The tables below summarize changes, by company, in the allowance for loan losses as of and for the three months ended August 31, 2015 and 2014.

(Dollars in thousands)	Three Months Ended August 31, 2015			
	CFC	RTFC	NCSC	Total
Balance as of May 31, 2015 .....	\$ 23,716	\$ 4,533	\$ 5,441	\$ 33,690
Provision for loan losses .....	3,380	1,019	163	4,562
Recoveries .....	55	—	—	55
Balance as of August 31, 2015 .....	<u>\$ 27,151</u>	<u>\$ 5,552</u>	<u>\$ 5,604</u>	<u>\$ 38,307</u>

(Dollars in thousands)	Three Months Ended August 31, 2014			
	CFC	RTFC	NCSC	Total
Balance as of May 31, 2014 .....	\$ 45,600	\$ 4,282	\$ 6,547	\$ 56,429
Provision for loan losses .....	(5,192)	6	(1,585)	(6,771)
Recoveries .....	53	—	—	53
Balance as of August 31, 2014 .....	<u>\$ 40,461</u>	<u>\$ 4,288</u>	<u>\$ 4,962</u>	<u>\$ 49,711</u>



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Our allowance for loan losses consists of a specific allowance for loans individually evaluated for impairment and a collective allowance for loans collectively evaluated for impairment. The tables below present, by company, the components of our allowance for loan losses and the recorded investment of the related loans as of August 31, 2015 and May 31, 2015.

(Dollars in thousands)	August 31, 2015			
	CFC	RTFC	NCSC	Total
Ending balance of the allowance:				
Collectively evaluated.....	\$ 27,151	\$ 4,401	\$ 5,604	\$ 37,156
Individually evaluated.....	—	1,151	—	1,151
Total ending balance of the allowance .....	<u>\$ 27,151</u>	<u>\$ 5,552</u>	<u>\$ 5,604</u>	<u>\$ 38,307</u>
Recorded investment in loans:				
Collectively evaluated.....	\$ 20,973,225	\$ 374,877	\$ 725,072	\$ 22,073,174
Individually evaluated.....	7,221	4,156	—	11,377
Total recorded investment in loans.....	<u>\$ 20,980,446</u>	<u>\$ 379,033</u>	<u>\$ 725,072</u>	<u>\$ 22,084,551</u>
Loans to members, net <sup>(1)</sup> .....	\$ 20,953,295	\$ 373,481	\$ 719,468	\$ 22,046,244

  

(Dollars in thousands)	May 31, 2015			
	CFC	RTFC	NCSC	Total
Ending balance of the allowance:				
Collectively evaluated.....	\$ 23,716	\$ 4,138	\$ 5,441	\$ 33,295
Individually evaluated.....	—	395	—	395
Total ending balance of the allowance .....	<u>\$ 23,716</u>	<u>\$ 4,533</u>	<u>\$ 5,441</u>	<u>\$ 33,690</u>
Recorded investment in loans:				
Collectively evaluated.....	\$ 20,334,769	\$ 381,488	\$ 731,227	\$ 21,447,484
Individually evaluated.....	7,221	4,221	294	11,736
Total recorded investment in loans.....	<u>\$ 20,341,990</u>	<u>\$ 385,709</u>	<u>\$ 731,521</u>	<u>\$ 21,459,220</u>
Loans to members, net <sup>(1)</sup> .....	\$ 20,318,274	\$ 381,176	\$ 726,080	\$ 21,425,530

<sup>(1)</sup> Excludes deferred origination costs of \$10 million as of August 31, 2015 and May 31, 2015.

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***Impaired Loans***

Our recorded investment in individually-impaired loans, which consists of the unpaid principal balance, and the related specific valuation allowance, by member class, as of August 31, 2015 and May 31, 2015 are summarized below.

(Dollars in thousands)	August 31, 2015		May 31, 2015	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
With no specific allowance recorded:				
CFC/Distribution .....	\$ 7,221	\$ —	\$ 7,221	\$ —
NCSC .....	—	—	294	—
Total .....	<u>7,221</u>	<u>—</u>	<u>7,515</u>	<u>—</u>
With a specific allowance recorded:				
RTFC.....	<u>4,156</u>	<u>1,151</u>	<u>4,221</u>	<u>395</u>
Total .....	<u>4,156</u>	<u>1,151</u>	<u>4,221</u>	<u>395</u>
Total impaired loans.....	<u>\$ 11,377</u>	<u>\$ 1,151</u>	<u>\$ 11,736</u>	<u>\$ 395</u>

The table below represents the average recorded investment in impaired loans and the interest income recognized, by member class, for the three months ended August 31, 2015 and 2014.

(Dollars in thousands)	Three Months Ended August 31,			
	2015	2014	2015	2014
	Average Recorded Investment		Interest Income Recognized	
CFC/Distribution .....	\$ 7,221	\$ 7,584	\$ —	\$ —
NCSC .....	—	364	—	—
RTFC .....	<u>4,166</u>	<u>1,695</u>	<u>—</u>	<u>—</u>
Total impaired loans.....	<u>\$ 11,387</u>	<u>\$ 9,643</u>	<u>\$ —</u>	<u>\$ —</u>

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**Troubled Debt Restructured (“TDR”) Loans**

The table below summarizes modified loans accounted for and reported as TDRs, the performance status of the loan, and the related unadvanced commitments, by loan type and by company, as of August 31, 2015 and May 31, 2015.

(Dollars in thousands)	August 31, 2015		May 31, 2015	
	Loans Outstanding	Unadvanced Commitments <sup>(1)</sup>	Loans Outstanding	Unadvanced Commitments <sup>(1)</sup>
TDR loans:				
Nonperforming TDR loans:				
RTFC:				
Long-term variable-rate loans	\$ 4,156	\$ —	\$ —	\$ —
Total nonperforming TDR loans	<u>4,156</u>	<u>—</u>	<u>—</u>	<u>—</u>
Performing TDR loans:				
CFC:				
Long-term fixed-rate loans <sup>(2)</sup>	\$ 7,221	\$ —	\$ 7,221	\$ —
NCSC:				
Line of credit loans	—	—	294	—
RTFC:				
Long-term variable-rate loans	—	—	4,221	—
Total performing TDR loans	<u>7,221</u>	<u>—</u>	<u>11,736</u>	<u>—</u>

<sup>(1)</sup> The interest rate on unadvanced commitments is not set until drawn; therefore, the long-term unadvanced loan commitments have been classified in this table as variable-rate unadvanced commitments. However, at the time of the advance, the borrower may select a fixed or a variable rate on the new loan.

<sup>(2)</sup> A borrower in this category also had a line of credit loan outstanding that was classified as performing as of August 31, 2015 and May 31, 2015. Unadvanced commitments related to this line of credit loan totaled \$2 million as of August 31, 2015 and May 31, 2015.

The following table shows foregone interest income as a result of holding loans on nonaccrual status for the three months ended August 31, 2015 and 2014.

(Dollars in thousands)	Three Months Ended August 31,	
	2015	2014
Nonperforming loans	\$ 13	\$ 26
Restructured loans	166	137
Total	<u>\$ 179</u>	<u>\$ 163</u>

As of August 31, 2015, nonperforming TDR loans totaled \$4 million, or 0.02%, of loans outstanding. We did not have any nonperforming TDR loans as of May 31, 2015.

As of August 31, 2015 and May 31, 2015, we had performing TDR loans totaling \$7 million, or 0.03% and \$12 million, or 0.05%, respectively, of loans outstanding, all of which were performing according to their restructured terms. We did not accrue any interest on performing TDR loans during the three months ended August 31, 2015 and 2014. We believe our allowance for loan losses was appropriate to cover the losses inherent in our loan portfolio as of August 31, 2015.

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**Pledging of Loans and Loans on Deposit**

We are required to pledge eligible mortgage notes in an amount at least equal to the outstanding balance of our secured debt.

The following table summarizes our loans outstanding as collateral pledged to secure our collateral trust bonds, Clean Renewable Energy Bonds and notes payable to Farmer Mac and the amount of the corresponding debt outstanding as of August 31, 2015 and May 31, 2015, See “Note 5—Short-Term Debt and Credit Arrangements” and “Note 6—Long-Term Debt”) for information on our borrowings.

<b>(Dollars in thousands)</b>	<b>August 31, 2015</b>	<b>May 31, 2015</b>
Collateral trust bonds:		
2007 indenture:		
Distribution system mortgage notes .....	\$ 6,498,781	\$ 6,551,836
RUS guaranteed loans qualifying as permitted investments .....	155,446	156,665
Total pledged collateral .....	\$ 6,654,227	\$ 6,708,501
Collateral trust bonds outstanding .....	6,197,711	6,197,711
1994 indenture:		
Distribution system mortgage notes .....	\$ 891,957	\$ 905,656
Collateral trust bonds outstanding .....	855,000	855,000
Farmer Mac:		
Distribution and power supply system mortgage notes .....	\$ 2,379,464	\$ 2,160,805
Notes payable outstanding .....	2,081,398	1,910,688
Clean Renewable Energy Bonds Series 2009A:		
Distribution and power supply system mortgage notes .....	\$ 18,685	\$ 19,260
Cash .....	981	485
Total pledged collateral .....	\$ 19,666	\$ 19,745
Notes payable outstanding .....	16,529	16,529

We are required to maintain collateral on deposit in an amount at least equal to the balance of debt outstanding to the Federal Financing Bank (“FFB”) of the United States Treasury issued under the Guaranteed Underwriter Program of the USDA (the “Guaranteed Underwriter Program”). See “Note 5—Short-Term Debt and Credit Arrangements” and “Note 6—Long-Term Debt.”

The following table shows the collateral on deposit and the amount of the corresponding debt outstanding as of August 31, 2015 and May 31, 2015.

<b>(Dollars in thousands)</b>	<b>August 31, 2015</b>	<b>May 31, 2015</b>
FFB:		
Distribution and power supply system mortgage notes on deposit .....	\$ 4,870,659	\$ 4,943,746
Notes payable outstanding .....	4,651,794	4,406,785

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**NOTE 4—FORECLOSED ASSETS**

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CAH is the only entity in which we held foreclosed assets as of August 31, 2015. CAH had total assets, which consisted primarily of property, plant and equipment and goodwill and other intangible assets of \$168 million as of August 31, 2015. CAH had total liabilities of \$240 million as of August 31, 2015 and an equity deficit of \$72 million. CAH's total liabilities included loans and interest payable to CFC, which have been eliminated in consolidation, of \$186 million as of August 31, 2015.

**Sale of CAH**

On September 30, 2015, CFC entered into a Purchase Agreement with CAH, ATN VI Holdings, LLC ("Atlantic") and Atlantic Tele-Network, Inc., the parent corporation of Atlantic, to sell all of the issued and outstanding membership interests of CAH to Atlantic for a purchase price of \$145 million, subject to certain adjustments. We expect to complete the transaction during the second half of calendar year 2016, subject to the satisfaction or waiver of various closing conditions under the Purchase Agreement, including, among other things, the receipt of required communications regulatory approvals in the United States, United States Virgin Islands, British Virgin Islands and St. Maarten, the expiration or termination of applicable waiting periods under applicable competition laws, and the absence of a material adverse effect or material adverse regulatory event.

**Foreclosed Asset Activity**

The table below summarizes amounts recorded in our consolidated financial statements for CAH as of and for the three months ended August 31, 2015. The balance of \$114 million as of August 31, 2015 reflects the expected net proceeds, including estimated adjustments to the selling price and selling costs, from the completion of the CAH sales transaction.

<b>(Dollars in thousands)</b>	<b>Three Months Ended August 31, 2015</b>
Balance as of May 31, 2015 .....	<b>\$ 116,507</b>
Fair value valuation adjustment loss <sup>(1)</sup> .....	<b>(2,254)</b>
Balance as of August 31, 2015 .....	<b><u>\$ 114,253</u></b>

<sup>(1)</sup>Included as a component of results of foreclosed assets on our consolidated statements of operations.

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**NOTE 5—SHORT-TERM DEBT AND CREDIT ARRANGEMENTS**

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The following is a summary of short-term debt outstanding as of August 31, 2015 and May 31, 2015.

<b>(Dollars in thousands)</b>	<b>August 31, 2015</b>	<b>May 31, 2015</b>
Short-term debt:		
Commercial paper sold through dealers, net of discounts <sup>(1)</sup> .....	<b>\$ 914,954</b>	\$ 984,954
Commercial paper sold directly to members, at par <sup>(1)(2)</sup> .....	<b>838,180</b>	736,162
Select notes .....	<b>667,669</b>	671,635
Daily liquidity fund notes .....	<b>592,654</b>	509,131
Medium-term notes sold to members .....	<b>195,247</b>	225,872
Total short-term debt.....	<b><u>\$ 3,208,704</u></b>	<b><u>\$ 3,127,754</u></b>

<sup>(1)</sup> Backup liquidity is provided by our revolving credit agreements.

<sup>(2)</sup> Includes commercial paper sold directly to associates and affiliates.

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**Revolving Credit Agreements**

As of August 31, 2015 and May 31, 2015, we had \$3,420 million of commitments under revolving credit agreements. We had the ability to request up to \$150 million of letters of credit under each agreement in place as of August 31, 2015, which would then reduce the amount available under the facility. The following table presents the total available and the outstanding letters of credit under our revolving credit agreements as of August 31, 2015 and May 31, 2015.

(Dollars in thousands)	Total Available		Letters of Credit Outstanding		Maturity	Annual Facility Fee <sup>(1)</sup>
	August 31, 2015	May 31, 2015	August 31, 2015	May 31, 2015		
Three-year agreement ....	<b>\$ 1,719,855</b>	\$1,719,855	<b>\$ 145</b>	\$ 145	October 28, 2017	7.5 basis points
Five-year agreement .....	<b>1,699,000</b>	1,699,000	<b>1,000</b>	1,000	October 28, 2019	10 basis points
Total.....	<b><u>\$ 3,418,855</u></b>	<u>\$3,418,855</u>	<b><u>\$ 1,145</u></b>	<u>\$ 1,145</u>		

<sup>(1)</sup> Facility fee determined by CFC's senior unsecured credit ratings based on the pricing schedules put in place at the inception of the related agreement.

In October 2015, NCSC assumed a total of \$155 million of commitments from one of the banks under the revolving credit agreements. As a result, the total amount available from external third parties under our committed revolving credit agreements decreased to \$3,264 million.

The following represents our required and actual financial ratios under the revolving credit agreements as of August 31, 2015 and May 31, 2015.

	Requirement	Actual	
		August 31, 2015	May 31, 2015
Minimum average adjusted TIER over the six most recent fiscal quarters <sup>(1)</sup> ..	<b>1.025</b>	<b>1.27</b>	1.28
Minimum adjusted TIER for the most recent fiscal year <sup>(1) (2)</sup> .....	<b>1.05</b>	<b>1.30</b>	1.30
Maximum ratio of adjusted senior debt to total equity <sup>(1)</sup> .....	<b>10.00</b>	<b>6.16</b>	5.93

<sup>(1)</sup> In addition to the adjustments made to the leverage ratio set forth in "Item 7. MD&A—Non-GAAP Financial Measures," senior debt excludes guarantees to member systems that have certain investment-grade ratings by Moody's and S&P. The TIER and debt-to-equity calculations include the adjustments set forth in "Item 7. MD&A—Non-GAAP Financial Measures" and exclude the results of operations and other comprehensive income for CAH.

<sup>(2)</sup> We must meet or exceed the required ratios in order to retire patronage capital.

As of August 31, 2015 and May 31, 2015, we were in compliance with all covenants and conditions under our revolving credit agreements and there were no borrowings outstanding under these agreements.

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**NOTE 6—LONG-TERM DEBT**

The following is a summary of long-term debt outstanding as of August 31, 2015 and May 31, 2015.

(Dollars in thousands)	August 31, 2015	May 31, 2015
Unsecured long-term debt:		
Medium-term notes sold through dealers .....	\$ 2,798,350	\$ 2,749,894
Medium-term notes sold to members .....	390,827	392,298
Subtotal medium-term notes .....	3,189,177	3,142,192
Unamortized discount .....	(664)	(706)
Debt issuance costs .....	(15,732)	(15,335)
Total unsecured medium-term notes .....	3,172,781	3,126,151
Guaranteed Underwriter Program notes payable .....	4,651,794	4,406,785
Debt issuance costs .....	(313)	(320)
Total Guaranteed Underwriter Program notes payable .....	4,651,481	4,406,465
Other unsecured notes payable .....	31,167	31,168
Unamortized discount .....	(592)	(626)
Debt issuance costs .....	(146)	(155)
Total other unsecured notes payable .....	30,429	30,387
Total unsecured notes payable .....	4,681,910	4,436,852
Total unsecured long-term debt .....	7,854,691	7,563,003
Secured long-term debt:		
Collateral trust bonds .....	7,052,711	7,052,711
Unamortized discount .....	(269,167)	(271,201)
Debt issuance costs .....	(24,946)	(26,443)
Total collateral trust bonds .....	6,758,598	6,755,067
Farmer Mac notes payable .....	2,081,398	1,910,688
Other secured notes payable .....	16,529	16,529
Debt issuance costs .....	(468)	(493)
Total other secured notes payable .....	16,061	16,036
Total secured notes payable .....	2,097,459	1,926,724
Total secured long-term debt .....	8,856,057	8,681,791
Total long-term debt .....	\$ 16,710,748	\$ 16,244,794

**Unsecured Notes Payable**

As of August 31, 2015 and May 31, 2015, we had unsecured notes payable totaling \$4,652 million and \$4,407 million, respectively, outstanding under bond purchase agreements with the FFB and a bond guarantee agreement with RUS issued under the Guaranteed Underwriter Program, which provides guarantees to the FFB. We pay RUS a fee of 30 basis points per year on the total amount borrowed. As of August 31, 2015, \$4,652 million of unsecured notes payable outstanding under the Guaranteed Underwriter Program require us to place mortgage notes on deposit in an amount at least equal to the principal balance of the notes outstanding. See “Note 3—Loans and Commitments” for additional information on the mortgage notes held on deposit and the triggering events that result in these mortgage notes becoming pledged as collateral. During the three months ended August 31, 2015, we borrowed \$250 million under the Guaranteed Underwriter Program. As of August 31, 2015, we had up to \$500 million available under committed loan facilities from the Federal Financing Bank as part of this program. We are required to maintain collateral on deposit in an amount at least equal to the balance of debt outstanding to the FFB under this program. On September 28, 2015, we received a commitment from RUS to guarantee a loan from the Federal Financing Bank for additional funding of \$250 million as part of the Guaranteed Underwriter Program. As a result,

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we will have an additional \$250 million available under the Guaranteed Underwriter Program with a 20-year maturity repayment period during the three-year period following the date of closing.

**Secured Notes Payable**

As of August 31, 2015 and May 31, 2015, secured notes payable include \$2,081 million and \$1,911 million, respectively, in debt outstanding to Federal Agricultural Mortgage Corporation (“Farmer Mac”) under a note purchase agreement totaling \$4,500 million. Under the terms of the note purchase agreement, we can borrow up to \$4,500 million at any time through January 11, 2020, and thereafter automatically extend the agreement on each anniversary date of the closing for an additional year, unless prior to any such anniversary date, Farmer Mac provided CFC with a notice that the draw period would not be extended beyond the remaining term. During the three months ended August 31, 2015, we borrowed a total of \$180 million under the note purchase agreement with Farmer Mac. The agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time as market conditions permit, provided that the principal amount at any time outstanding is not more than the total available under the agreement.

On July 31, 2015, we entered into a new revolving note purchase agreement with Farmer Mac totaling \$300 million. Under the terms of the new agreement, we can borrow up to \$300 million at any time through July 31, 2018. This agreement with Farmer Mac is a revolving credit facility that allows us to borrow, repay and re-borrow funds at any time through maturity or from time to time, provided that the principal amount at any time outstanding is not more than the total available under the agreement.

We are required to pledge eligible distribution system or power supply system loans as collateral in an amount at least equal to the total principal amount of notes outstanding under the Farmer Mac agreements. See “Note 3—Loans and Commitments” for additional information on the collateral pledged to secure notes payable under these programs.

As of August 31, 2015 and May 31, 2015, we were in compliance with all covenants and conditions under our senior debt indentures.

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**NOTE 7—SUBORDINATED DEFERRABLE DEBT**

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As of both August 31, 2015 and May 31, 2015, we had \$396 million of 4.75% subordinated deferrable debt outstanding due in 2043. The outstanding balance is presented net of \$4 million in unamortized debt issuance costs for both periods. Subordinated deferrable debt currently outstanding is callable at par on or after April 30, 2023.

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**NOTE 8—DERIVATIVE FINANCIAL INSTRUMENTS**

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**Use of Derivatives**

We are an end user of derivative financial instruments and do not engage in derivative trading. We use derivatives, primarily interest rate swaps and treasury rate locks, to manage interest rate risk. Derivatives may be privately negotiated contracts, which are often referred to as over-the-counter (“OTC”) derivatives, or they may be listed and traded on an exchange. We generally engage in OTC derivative transactions.

**Accounting for Derivatives**

In accordance with the accounting standards for derivatives and hedging activities, we record derivative instruments at fair value as either a derivative asset or derivative liability on our condensed consolidated balance sheets. We report derivative asset and liability amounts on a gross basis based on individual contracts, which does not take into consideration the effects of master netting agreements or collateral netting. Derivatives in a gain position are reported as derivative assets on our condensed consolidated balance sheets, while derivatives in a loss position are reported as derivative liabilities. Accrued



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interest related to derivatives is reported on our condensed consolidated balance sheets as a component of either accrued interest and other receivables or accrued interest payable.

If we do not elect hedge accounting treatment, changes in the fair value of derivative instruments, which consist of periodic derivative cash settlements and derivative forward value amounts, are recognized in our consolidated statements of operations under derivative gains (losses). If we elect hedge accounting treatment for derivatives, we formally document, designate and assess the effectiveness of the hedge relationship. Changes in the fair value of derivatives designated as qualifying fair value hedges are recorded in earnings together with offsetting changes in the fair value of the hedged item and any related ineffectiveness. Changes in the fair value of derivatives designated as qualifying cash flow hedges are recorded as a component of other comprehensive income ("OCI"), to the extent that the hedge relationships are effective, and reclassified AOCI to earnings using the effective interest method over the term of the forecasted transaction. Any ineffectiveness in the hedging relationship is recognized as a component of derivative gains (losses) in our consolidated statement of operations.

We generally do not designate interest rate swaps, which represent the substantial majority of our derivatives, for hedge accounting. Accordingly, changes in the fair value of interest rate swaps are reported in our consolidated statements of operations under derivative gains (losses). Cash settlements related to interest rate swaps are classified as an operating activity in our consolidated statements of cash flows.

We typically designate treasury rate locks as cash flow hedges of forecasted debt issuances. Accordingly, changes in the fair value of the derivative instruments are recorded as a component of OCI and reclassified to interest expense when the forecasted transaction occurs using the effective interest method. Any ineffectiveness in the hedging relationship is recognized as a component of derivative gains (losses) in our consolidated statements of operations. We did not have any derivatives designated as accounting hedges as of August 31, 2015 and May 31, 2015.

**Outstanding Notional Amount of Derivatives**

The notional amount provides an indication of the volume of our derivatives activity, but this amount is not recorded on our condensed consolidated balance sheets. The notional amount is used only as the basis on which interest payments are determined and is not the amount exchanged. The following table shows the outstanding notional amounts and the weighted-average rate paid and received for our interest rate swaps, by type, as of August 31, 2015 and May 31, 2015. The substantial majority of our interest rate exchange agreements use an index based on the London Interbank Offered Rate ("LIBOR") for either the pay or receive leg of the swap agreement.

(Dollars in thousands)	August 31, 2015			May 31, 2015		
	Notional Amount	Weighted-Average Rate Paid	Weighted-Average Rate Received	Notional Amount	Weighted-Average Rate Paid	Weighted-Average Rate Received
Pay-fixed swaps.....	\$ 6,158,280	3.11%	0.29%	\$ 5,776,533	3.15%	0.28%
Receive-fixed swaps.....	3,849,000	0.81	3.09	3,849,000	0.79	3.09
Total interest rate swaps.....	<u>\$10,007,280</u>	2.22	1.37	<u>\$ 9,625,533</u>	2.21	1.40

In addition to the notional amount of swaps shown in the chart above, we have \$115 million notional amount of forward starting swaps with an effective date of September 1, 2015. As of August 31, 2015, the \$115 million notional amount of forward starting swaps had a related fair value recorded on our condensed consolidated balance sheet. Because these swaps were not effective as of August 31, 2015, there have been no accrued cash settlement amounts as of this date.

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**Impact of Derivatives on Condensed Consolidated Balance Sheets**

The following table displays the fair value of the derivative assets and derivative liabilities recorded on our condensed consolidated balance sheets and the related outstanding notional amount of our interest rate swaps as of August 31, 2015 and May 31, 2015.

(Dollars in thousands)	August 31, 2015		May 31, 2015	
	Fair Value	Notional Balance	Fair Value	Fair Value
Derivative assets .....	\$ 107,358	\$ 3,796,629	\$ 115,276	\$ 3,448,615
Derivative liabilities .....	(392,461)	6,210,651	(408,382)	6,176,918
Total .....	<u>\$ (285,103)</u>	<u>\$ 10,007,280</u>	<u>\$ (293,106)</u>	<u>\$ 9,625,533</u>

All of our master swap agreements include legally enforceable netting provisions that allow for offsetting of all contracts with a given counterparty in the event of default by one of the two parties. However, as indicated above, we report derivative asset and liability amounts on a gross basis based on individual contracts. The following table presents the gross fair value of derivative assets and liabilities reported on our condensed consolidated balance sheets as of August 31, 2015 and May 31, 2015, and provides information on the impact of netting provisions and collateral pledged.

(Dollars in thousands)	August 31, 2015					
	Gross Amount of Recognized Assets/ Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Assets/ Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Derivative assets:						
Interest rate swaps.....	\$ 107,358	\$ —	\$ 107,358	\$ 106,580	\$ —	\$ 778
Derivative liabilities:						
Interest rate swaps.....	392,461	—	392,461	106,580	—	285,881

  

(Dollars in thousands)	May 31, 2015					
	Gross Amount of Recognized Assets/ Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Assets/ Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Derivative assets:						
Interest rate swaps.....	\$ 115,276	\$ —	\$ 115,276	\$ 115,276	\$ —	\$ —
Derivative liabilities:						
Interest rate swaps.....	408,382	—	408,382	115,276	—	293,106

**Impact of Derivatives on Condensed Consolidated Statements of Operations**

Derivative gains (losses) reported in our condensed consolidated statements of operations consist of derivative cash settlements and derivative forward value. Derivative cash settlements represent net contractual interest expense accruals on interest rate swaps during the period. The derivative forward value represents the change in fair value of our interest rate swaps during the reporting period due to changes in the estimate of future interest rates over the remaining life of our derivative contracts.

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The following table presents the components of the derivative gains (losses) reported in our condensed consolidated statements of operations for our interest rate swaps for the three months ended August 31, 2015 and 2014.

(Dollars in thousands)	Three Months Ended August 31,	
	2015	2014
Derivative cash settlements.....	\$ (20,156)	\$ (20,101)
Derivative forward value.....	8,139	(29,777)
Derivative losses .....	<u>\$ (12,017)</u>	<u>\$ (49,878)</u>

**Credit-Risk-Related Contingent Features in Derivatives**

The majority of our interest rate swap agreements have credit risk-related contingent features referred to as rating triggers. Under these rating triggers, if the credit rating for either counterparty falls to the level specified in the agreement, the other counterparty may, but is not obligated to, terminate the agreement. Our senior unsecured credit ratings from Moody's and S&P were A2 and A, respectively, as of August 31, 2015. Moody's had our ratings on stable outlook as of August 31, 2015, while S&P had our ratings on negative outlook as of August 31, 2015.

The table below displays the notional amounts of our derivative contracts with rating triggers as of August 31, 2015 and the payments that would be required if the contracts were terminated as of that date because of a downgrade of our unsecured credit ratings or the counterparty's unsecured credit ratings to or below Baa1/BBB+, Baa3/BBB- or Ba3/BB by Moody's or S&P, respectively. In calculating the payment amounts that would be required upon termination of the derivative contracts, we assumed that the amounts for each counterparty would be netted in accordance with the provisions of the master netting agreements for each counterparty. The net payment amounts are based on the fair value of the underlying derivative instrument, excluding the credit risk valuation adjustment, plus any unpaid accrued interest amounts.

(Dollars in thousands)	Notional Amount	Payment Required by CFC	Payment Due to CFC	Net (Payable) Due
Impact of mutual rating downgrade trigger:				
Falls below Baa1/BBB+ .....	\$ 5,420,527	\$ (176,319)	\$ 3,013	\$ (173,306)
Falls to Baa3/BBB- .....	1,781,207	(15,798)	—	(15,798)
Falls below Baa3/BBB- .....	579,362	(23,217)	—	(23,217)
Falls to or below Ba3/BB <sup>(1)</sup> .....	102,581	—	97	97
Total.....	<u>\$ 7,883,677</u>	<u>\$ (215,334)</u>	<u>\$ 3,110</u>	<u>\$ (212,224)</u>

<sup>(1)</sup> Rating trigger for counterparty falls to or below Ba3/BB, while rating trigger for CFC falls to or below Baa2/BBB by Moody's or S&P, respectively.

The aggregate amount, including the credit risk valuation adjustment, of all interest rate swaps with rating triggers that were in a net liability position was \$217 million as of August 31, 2015. The aggregate amount, including the credit risk valuation adjustment, of all interest rate swaps with rating triggers that were in a net asset position was \$2 million as of August 31, 2015.

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**NOTE 9—EQUITY**

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Total equity increased by \$3 million during the three months ended August 31, 2015 to \$915 million as of August 31, 2015. The increase in total equity was primarily attributable to our net income of \$43 million for the period, which was partially offset by patronage capital retirement of \$39 million.

In July 2015, the CFC Board of Directors authorized the allocation of the fiscal year 2015 net earnings as follows: \$1 million to the Cooperative Educational Fund, \$16 million to the members' capital reserve and \$78 million to members in the form of patronage.

In July 2015, the CFC Board of Directors authorized the retirement of allocated net earnings totaling \$39 million, representing 50% of the fiscal year 2015 allocation. This amount was returned to members in cash in September 2015. Future allocations and retirements of net earnings may be made annually as determined by the CFC Board of Directors with due regard for its financial condition. The CFC Board of Directors has the authority to change the current practice for allocating and retiring net earnings at any time, subject to applicable laws and regulations.

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**NOTE 10—GUARANTEES**

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The following table summarizes total guarantees by type of guarantee and member class as of August 31, 2015 and May 31, 2015.

(Dollars in thousands)	August 31, 2015	May 31, 2015
Total by type:		
Long-term tax-exempt bonds .....	\$ 489,020	\$ 489,520
Letters of credit .....	369,391	382,233
Other guarantees.....	114,075	114,747
Total .....	<u>\$ 972,486</u>	<u>\$ 986,500</u>
Total by member class:		
CFC:		
Distribution .....	\$ 159,927	\$ 172,104
Power supply.....	760,341	763,746
Statewide and associate.....	17,075	17,025
CFC total .....	<u>937,343</u>	<u>952,875</u>
RTFC .....	1,574	1,574
NCSC .....	33,569	32,051
Total .....	<u>\$ 972,486</u>	<u>\$ 986,500</u>

The maturities for the long-term tax-exempt bonds and the related guarantees run through calendar year 2042. Amounts in the table represent the outstanding principal amount of the guaranteed bonds. As of August 31, 2015, our maximum potential exposure for the \$71 million of fixed-rate tax-exempt bonds is \$101 million, representing principal and interest. Of the amounts shown in the table above for long-term tax-exempt bonds, \$417 million and \$418 million as of August 31, 2015 and May 31, 2015, respectively, are adjustable or floating-rate bonds that may be converted to a fixed rate as specified in the applicable indenture for each bond offering. We are unable to determine the maximum amount of interest that we could be required to pay related to the remaining adjustable and floating-rate bonds. Many of these bonds have a call provision that in the event of a default allow us to trigger the call provision. This would limit our exposure to future interest payments on these bonds. Our maximum potential exposure is secured by a mortgage lien on all of the system's assets and future revenue.

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If the debt is accelerated because of a determination that the interest thereon is not tax-exempt, the system's obligation to reimburse us for any guarantee payments will be treated as a long-term loan.

The maturities for letters of credit run through calendar year 2024. The amounts shown in the table above represent our maximum potential exposure, of which \$52 million is secured as of August 31, 2015. As of August 31, 2015 and May 31, 2015, the letters of credit include \$76 million to provide the standby liquidity for adjustable and floating-rate tax-exempt bonds issued for the benefit of our members, respectively. Security provisions include a mortgage lien on substantially all of the system's assets, future revenue and the system's investment in our commercial paper.

In addition to the letters of credit listed in the table above, under master letter of credit facilities in place as of August 31, 2015, we may be required to issue up to an additional \$84 million in letters of credit to third parties for the benefit of our members. As of August 31, 2015, all of our master letter of credit facilities were subject to material adverse change clauses at the time of issuance. Prior to issuing a letter of credit, we would confirm that there has been no material adverse change in the business or condition, financial or otherwise, of the borrower since the time the loan was approved and confirm that the borrower is currently in compliance with the letter of credit terms and conditions.

The maturities for other guarantees listed in the table run through calendar year 2025. The maximum potential exposure for these other guarantees is \$115 million, all of which is unsecured.

As of August 31, 2015 and May 31, 2015, we had \$431 million and \$434 million of guarantees, respectively, representing 44% of total guarantees, under which our right of recovery from our members was not secured.

In addition to the guarantees described above, as of August 31, 2015, we were the liquidity provider for a total of \$493 million of variable-rate tax-exempt bonds issued for our member cooperatives. While the bonds are in variable-rate mode, in return for a fee, we have unconditionally agreed to purchase bonds tendered or put for redemption if the remarketing agents are unable to sell such bonds to other investors. During the three months ended August 31, 2015, we were not required to perform as liquidity provider pursuant to these obligations.

#### **Guarantee Liability**

As of August 31, 2015 and May 31, 2015, we recorded a guarantee liability of \$19 million and \$20 million respectively, which represents the contingent and non-contingent exposures related to guarantees and liquidity obligations associated with our members' debt. The contingent guarantee liability as of August 31, 2015 and May 31, 2015 was \$1 million based on management's estimate of exposure to losses within the guarantee portfolio. The remaining balance of the total guarantee liability of \$18 million and \$19 million as of August 31, 2015 and May 31, 2015, respectively, relates to our non-contingent obligation to stand ready to perform over the term of our guarantees and liquidity obligations that we have entered into or modified since January 1, 2003.

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#### **NOTE 11—FAIR VALUE MEASUREMENTS**

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We use fair value measurements to record fair value adjustments for certain assets and liabilities and to determine fair value disclosures. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (also referred to as an exit price). Assets and liabilities accounted for and reported at fair value in our consolidated financial statements on a recurring basis each reporting period include our available-for-sale investment securities and derivative instruments. Assets that are not measured at fair value each reporting period but are subject to fair value measurements on a nonrecurring basis in certain circumstances include impaired loans and long-lived assets classified as held for sale. The adjustments related to assets measured at fair value on a nonrecurring basis usually result from the application of lower-of-cost-market accounting or impairment of individual assets.

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**Fair Value Hierarchy**

The fair value accounting guidance provides a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on the markets in which the assets or liabilities trade and whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Fair value measurement of a financial asset or liability is assigned a level based on the lowest level of any input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are summarized below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities
- Level 3: Unobservable inputs

For additional information regarding the fair value hierarchy and a description of the methodologies we use to measure fair value, see “Note 13—Fair Value Measurements” and “Note 14—Fair Value of Financial Instruments” to the Consolidated Financial Statements in our 2015 Form 10-K.

**Recurring Fair Value Measurements**

The table below presents the carrying value and fair value of financial instruments reported in our condensed consolidated financial statements at fair value on a recurring basis as of August 31, 2015 and May 31, 2015, and the classification level of the fair value methodology within the fair value measurement hierarchy.

(Dollars in thousands)	August 31, 2015			May 31, 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Investment securities, available for sale..	\$ 83,808	\$ —	\$ 83,808	\$ 84,472	\$ —	\$ 84,472
Deferred compensation investments.....	4,173	—	4,173	4,294	—	4,294
Derivative assets.....	—	107,358	107,358	—	115,276	115,276
Derivative liabilities .....	—	392,461	392,461	—	408,382	408,382

**Transfers Between Levels**

We monitor the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy and transfer between Level 1, Level 2, and Level 3 accordingly. Observable market data includes but is not limited to quoted prices and market transactions. Changes in economic conditions or market liquidity generally will drive changes in availability of observable market data. Changes in availability of observable market data, which also may result in changing the valuation technique used, are generally the cause of transfers between levels. We did not have any transfers between levels for financial instruments measured at fair value on a recurring basis for the three months ended August 31, 2015 and 2014.

**Nonrecurring Fair Value**

The table below presents the carrying value and fair value of assets reported in our condensed consolidated financial statements at fair value on a nonrecurring basis as of August 31, 2015 and May 31, 2015, and unrealized losses for the three months ended August 31, 2015 and 2014.

(Dollars in thousands)	Level 3 Fair Value		Unrealized Losses Three Months Ended August 31	
	August 31, 2015	May 31, 2015	2015	2014
Impaired loans, net of specific reserves .....	\$ 3,005	\$ —	\$ (1,151)	\$ (226)

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***Significant Unobservable Level 3 Inputs***

*Impaired Loans*

We utilize the fair value of the collateral underlying the loan to determine the fair value and specific allowance for impaired loans. In estimating the fair value of the collateral, we may use third-party valuation specialists, internal estimates or a combination of both. The valuation technique used to determine fair value of the nonperforming loans provided by both our internal staff and third-party specialists includes market multiples (i.e., comparable companies). The significant unobservable inputs used in the determination of fair value for the specific impaired loans is a multiple of earnings before interest, taxes, depreciation and amortization of 4.0x. The significant unobservable inputs for estimating the fair value of nonperforming collateral-dependent loans are reviewed by our Credit Risk Management group to assess the reasonableness of the assumptions used and the accuracy of the work performed. In cases where we rely on third-party inputs, we use the final unadjusted third-party valuation analysis as support for any adjustments to our consolidated financial statements and disclosures.

Because of the limited amount of impaired loans as of August 31, 2015 and May 31, 2015, we do not believe that potential changes in the significant unobservable inputs used in the determination of the fair value will have a material impact on the fair value measurement of these assets or our results of operations.

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**NOTE 12—FAIR VALUE OF FINANCIAL INSTRUMENTS**

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The following table presents the carrying value and fair value, and the classification level within the fair value measurement hierarchy, of our financial instruments as of August 31, 2015 and May 31, 2015.

(Dollars in thousands)	August 31, 2015		Fair Value Measurements Using		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>					
Cash and cash equivalents .....	\$ 266,307	\$ 266,307	\$ 266,307	\$ —	\$ —
Restricted cash .....	5,195	5,195	5,195	—	—
Time deposits .....	485,000	485,000	—	485,000	—
Investment securities .....	83,808	83,808	83,808	—	—
Deferred compensation investments .....	4,173	4,173	4,173	—	—
Loans to members, net .....	22,056,080	22,444,320	—	—	22,444,320
Debt service reserve funds .....	25,602	25,602	25,602	—	—
Derivative assets .....	107,358	107,358	—	107,358	—
<b>Liabilities:</b>					
Short-term debt .....	3,208,704	3,208,518	1,507,654	1,700,864	—
Long-term debt .....	16,710,748	17,638,836	—	10,768,602	6,870,234
Guarantee liability .....	19,125	21,704	—	—	21,704
Derivative liabilities .....	392,461	392,461	—	392,461	—
Subordinated deferrable debt .....	395,717	396,916	—	396,916	—
Members' subordinated certificates .....	1,485,933	1,485,957	—	—	1,485,957

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(Dollars in thousands)	May 31, 2015		Fair Value Measurements Using		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
<b>Assets:</b>					
Cash and cash equivalents .....	\$ 248,836	\$ 248,836	\$ 248,836	\$ —	\$ —
Restricted cash .....	485	485	485	—	—
Time deposits .....	485,000	485,000	—	485,000	—
Investment securities .....	84,472	84,472	84,472	—	—
Deferred compensation investments .....	4,294	4,294	4,294	—	—
Loans to members, net .....	21,435,327	21,961,048	—	—	21,961,048
Debt service reserve funds .....	25,602	25,602	25,602	—	—
Derivative instruments .....	115,276	115,276	—	115,276	—
<b>Liabilities:</b>					
Short-term debt .....	3,127,754	3,127,541	1,494,131	1,633,410	—
Long-term debt .....	16,244,794	17,356,223	—	10,878,302	6,477,921
Guarantee liability .....	19,917	22,545	—	—	22,545
Derivative instruments .....	408,382	408,382	—	408,382	—
Subordinated deferrable debt .....	395,699	406,000	—	406,000	—
Members' subordinated certificates .....	1,505,420	1,505,444	—	—	1,505,444

We consider observable prices in the principal market in our valuations where possible. Fair value estimates were developed at the reporting date and may not necessarily be indicative of amounts that could ultimately be realized in a market transaction at a future date. For additional information regarding the fair value hierarchy and a description of the methodologies we use to measure fair value, see “Note 13—Fair Value Measurements” and “Note 14—Fair Value of Financial Instruments” to the Consolidated Financial Statements in our 2015 Form 10-K. See “Note 11—Fair Value Measurement” for additional information on assets and liabilities reported at fair value on a recurring and nonrecurring basis on our condensed consolidated balance sheets.



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**NOTE 13—SEGMENT INFORMATION**

The following tables display segment results for the three months ended August 31, 2015 and 2014, and assets attributable to each segment as of August 31, 2015 and 2014.

(Dollars in thousands)	Three Months Ended August 31, 2015			
	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income.....	\$ 243,051	\$ 11,850	\$ (8,785)	\$ 246,116
Interest expense .....	(165,382)	(9,103)	8,785	(165,700)
Net interest income.....	77,669	2,747	—	80,416
Provision for loan losses .....	(4,562)	—	—	(4,562)
Net interest income after provision for loan losses .....	73,107	2,747	—	75,854
Non-interest income:				
Fee and other income .....	4,599	818	(716)	4,701
Derivative losses .....	(11,827)	(190)	—	(12,017)
Results of operations of foreclosed assets .....	(1,921)	—	—	(1,921)
Total non-interest income.....	(9,149)	628	(716)	(9,237)
Non-interest expense:				
General and administrative expenses.....	(20,276)	(2,812)	253	(22,835)
Other .....	(357)	(463)	463	(357)
Total non-interest expense.....	(20,633)	(3,275)	716	(23,192)
Income before income taxes .....	43,325	100	—	43,425
Income tax expense.....	—	(330)	—	(330)
Net income (loss).....	\$ 43,325	\$ (230)	\$ —	\$ 43,095
Assets:				
Total loans outstanding.....	\$ 22,045,237	\$ 1,104,105	\$ (1,064,791)	\$ 22,084,551
Deferred loan origination costs.....	9,836	—	—	9,836
Less: Allowance for loan losses .....	(38,307)	—	—	(38,307)
Loans to members, net.....	22,016,766	1,104,105	(1,064,791)	22,056,080
Other assets .....	1,203,978	119,366	80,376	1,403,720
Total assets.....	\$ 23,220,744	\$ 1,223,471	\$ (984,415)	\$ 23,459,800

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(Dollars in thousands)	Three Months Ended August 31, 2014			
	CFC	Other	Elimination	Consolidated Total
Statement of operations:				
Interest income.....	\$ 234,140	\$ 11,807	\$ (8,656)	\$ 237,291
Interest expense .....	(156,228)	(8,980)	8,656	(156,552)
Net interest income.....	77,912	2,827	—	80,739
Provision for loan losses.....	6,771	—	—	6,771
Net interest income after provision for loan losses .....	84,683	2,827	—	87,510
Non-interest income:				
Fee and other income .....	4,226	362	(231)	4,357
Derivative losses .....	(49,171)	(707)	—	(49,878)
Results of operations from foreclosed assets .....	(2,699)	—	—	(2,699)
Total non-interest income.....	(47,644)	(345)	(231)	(48,220)
Non-interest expense:				
General and administrative expenses.....	(16,699)	(2,075)	231	(18,543)
Other .....	61	—	—	61
Total non-interest expense.....	(16,638)	(2,075)	231	(18,482)
Income before income taxes .....	20,401	407	—	20,808
Income tax expense.....	—	(196)	—	(196)
Net income.....	<u>\$ 20,401</u>	<u>\$ 211</u>	<u>\$ —</u>	<u>\$ 20,612</u>
Assets:				
Total loans outstanding.....	\$ 20,449,352	\$ 1,075,354	\$ (1,049,835)	\$ 20,474,871
Deferred loan origination costs.....	9,707	—	—	9,707
Less: Allowance for loan losses .....	(49,711)	—	—	(49,711)
Loans to members, net.....	20,409,348	1,075,354	(1,049,835)	20,434,867
Other assets	1,726,624	145,696	(117,682)	1,754,638
Total assets	<u>\$ 22,135,972</u>	<u>\$ 1,221,050</u>	<u>\$ (1,167,517)</u>	<u>\$ 22,189,505</u>

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about market risk, see “Part I—Item 2. MD&A—Market Risk” and “Note 8—Derivatives.”

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting that occurred during the three months ended August 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II—OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time, CFC is subject to certain legal proceedings and claims in the ordinary course of business, including litigation with borrowers related to enforcement or collection actions. In such cases, the borrower or others may assert counterclaims or initiate actions against us. Management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, liquidity, or results of operations. CFC establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Accordingly, no reserve has been recorded with respect to any legal proceedings at this time. In June 2015, RTFC received a notice of deficiency from the Virgin Islands Bureau of Internal Revenue (“BIR”) alleging that RTFC owes tax or other amounts, plus interest, in connection with tax years 1996 and 1997, and 1999 through 2005. On September 4, 2015, RTFC filed a petition with the District Court of the Virgin Islands in response to the BIR’s notice of deficiency. RTFC believes that these allegations are without merit and will continue to contest this determination.

**Item 1A. Risk Factors**

Refer to “Part I—Item 1A. Risk Factors” in our 2015 Form 10-K for information regarding factors that could affect our results of operations, financial condition and liquidity. We are not aware of any material changes in the risk factors set forth under “Part I—Item 1A. Risk Factors” in our 2015 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

The following exhibits are incorporated by reference or filed as part of this Report.

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
10.1*	— Long Term Standby Commitment to Purchase dated August 31, 2015, between the Registrant and Federal Agricultural Mortgage Corporation.
10.2*	— Purchase Agreement dated September 30, 2015, between the Registrant, Caribbean Asset Holdings, LLC, ATN VI Holdings, LLC and Atlantic Tele-Network, Inc.
12*	— Computations of Ratio of Earnings to Fixed Charges
31.1*	— Certification of the Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	— Certification of the Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002
32.1†	— Certification of the Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	— Certification of the Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	— XBRL Instance Document
101.SCH*	— XBRL Taxonomy Extension Schema Document
101.CAL*	— XBRL Taxonomy Calculation Linkbase Document
101.LAB*	— XBRL Taxonomy Label Linkbase Document
101.PRE*	— XBRL Taxonomy Presentation Linkbase Document
101.DEF*	— XBRL Taxonomy Definition Linkbase Document

\*Indicates a document being filed with this Report.

^ Identifies a management contract or compensatory plan or arrangement.

†Indicates a document that is furnished with this Report, which shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### **NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**

Date: October 14, 2015

By: /s/ J. ANDREW DON  
J. Andrew Don  
Senior Vice President and Chief Financial Officer

By: /s/ ROBERT E. GEIER  
Robert E. Geier  
Controller (Principal Accounting Officer)

## LONG TERM STANDBY COMMITMENT TO PURCHASE

This **Long Term Standby Commitment to Purchase** (“Commitment”) is made as of August 31, 2015 between the **Federal Agricultural Mortgage Corporation** (“Farmer Mac”), a corporation organized and existing under the laws of the United States of America and **National Rural Utilities Cooperative Finance Corporation**, organized and existing under the laws of the District of Columbia (“CFC” or “Seller”).

WHEREAS, the Seller and Farmer Mac each desire to enter into this Commitment, which permits the Seller, at its option, to sell Qualified Loans within a defined portfolio of Qualified Loans to Farmer Mac from time to time during the life of the defined portfolio and obligates Farmer Mac to purchase such Qualified Loans, all under the terms and conditions set forth in this Commitment; and

WHEREAS, the Seller and Farmer Mac have identified a portfolio of Qualified Loans that the parties desire to make subject to the terms and conditions of this Commitment; and

WHEREAS, the Seller and Farmer Mac seek to create a procedure by which the Seller may add additional Qualified Loans to such portfolio from time to time.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings set forth in this Commitment, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Farmer Mac and the Seller agree as follows:

### ARTICLE I

#### DEFINED TERMS

Whenever used in this Commitment, the following words and phrases have the following meanings:

Average Equity to Total Assets: As defined in the Servicing Agreement.

Average Equity to Total Capitalization Ratio: As defined in the Servicing Agreement.

Average Long-Term Debt to Net Utility Plant Ratio: As defined in the Servicing Agreement.

Average Modified Debt Service Coverage Ratio—Distribution: As defined in the Servicing Agreement.

Average Modified Debt Service Coverage Ratio—G&T: As defined in the Servicing Agreement.

Borrower Rating: The borrower rating assigned by the Seller to a Qualified Loan from time to time in accordance with the Seller’s internal risk rating system.

Business Day: Any day other than a Saturday, Sunday or other day Farmer Mac or the Seller is closed for business.

Charter Act: The Farmer Mac Charter Act in Title VIII of the Farm Credit Act of 1971 (12 U.S.C. §§2279aa *et seq.*), as amended and in effect from time to time.

Commitment Term: From the Effective Date of this Commitment through and including the date on which all Qualified Loans have been purchased or securitized or deemed paid in full (through scheduled payments, prepayments, liquidation or otherwise).

Debt to EBITDA Ratio: As defined in the Servicing Agreement.

Defaulted Qualified Loan: Any Qualified Loan that is delinquent in payment for ninety (90) or more consecutive days or otherwise in material non-monetary default, except as otherwise provided in Article V herein. A Defaulted Qualified Loan that was a Qualified Loan on the date it was added to the Portfolio will be a Qualified Loan for purposes of this Commitment unless the terms of such loan are modified by the Seller, without the consent of Farmer Mac, in a manner that is not authorized under Section 5.01(d) of the Servicing Agreement, except as to (a) subpart (ii) thereof with respect to interest rate conversions or repricings in the ordinary course of business, and (b) subpart (vii) thereof.

Delinquency Report: The report providing information with respect to any delinquent Qualified Loan included in the Portfolio, as provided monthly to Farmer Mac by the Seller pursuant to Section 4.04. The Delinquency Report shall be provided in a Microsoft Excel (XLS) format in accordance with the file specifications reasonably required by Farmer Mac and shall include a description of proposed remedial actions to be taken by the Seller. The current required file specifications for the Delinquency Report are set forth in Exhibit G to this Commitment.

Delivery Date: The date on which the Seller sells a Qualified Loan in the Portfolio to Farmer Mac, which, in the case of Defaulted Qualified Loans, shall be the date that Farmer Mac disburses the purchase proceeds in accordance with Section 5.01, and, in the case of Flex Qualified Loans, shall be the date of delivery of a Qualified Loan to Farmer Mac pursuant to Section 5.02.

Effective Date: The date this Commitment is executed, except with respect to Qualified Loans listed on a Qualified Loan Schedule delivered to Farmer Mac by the Seller pursuant to Section 4.02(b), in which case the Effective Date shall be the first day of the month following receipt of such Qualified Loan Schedule by Farmer Mac.

Eligible Class A Member: Each Class A Member of CFC, as described in CFC's Bylaws currently in effect, that satisfies the following criteria on the Effective Date of such Member's Qualified Loan:

- (a) Such Member's Average Long-Term Debt to Net Utility Plant Ratio does not exceed 90%;
- (b) Such Member's Average Modified Debt Service Coverage Ratio—Distribution is at least 1.35;

- (c) Such Member's Average Equity to Total Assets is at least 20%; and
- (d) Such Member's Qualified Loan has a Facility Rating of "4.9" or lower.

Eligible Class B Member: Each Class B Member of CFC, as described in CFC's Bylaws currently in effect, that satisfies the following criteria on the Effective Date of such Member's Qualified Loan:

- (a) Such Member's Average Equity to Total Capitalization Ratio at least 25%;
- (b) Such Member's Average Modified Debt Service Coverage Ratio—G&T is at least 1.15;
- (c) Such Member's Average Equity to Total Assets is at least 10%;
- (d) Such Member's Debt to EBITDA Ratio is no greater than 12; and
- (e) Such Member's Qualified Loan has a Facility Rating of "4.9" or lower.

Event of Default: An event described in Article VIII.

Facility Rating: The facility rating assigned by the Seller to a Qualified Loan from time to time in accordance with the Seller's internal risk rating system.

Flex Qualified Loan: Any Qualified Loan that complies, on the date of its sale to Farmer Mac, with the standards set forth herein for a Qualified Loan.

Governmental Body: Any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality having jurisdiction over the parties.

Liquidated Qualified Loan: Any defaulted Qualified Loan, including any Qualified Loan as to which the related Mortgaged Property is held by Farmer Mac, as to which the Seller has determined that all amounts it expects to recover from or on account of such Qualified Loan have been recovered and have been appropriately distributed.

Liquidation Expenses: Expenses incurred by or on behalf of Farmer Mac or the Seller in connection with the liquidation of any defaulted Qualified Loan, including, without limitation, legal fees and expenses, brokerage commissions paid to third parties, any unreimbursed amounts expended for hazard insurance and environmental reports respecting the related Qualified Loan and any related and unreimbursed expenditures for real estate and conveyance taxes or for property restoration or preservation.

Liquidation Proceeds: For any Defaulted Qualified Loan purchased by Farmer Mac hereunder, cash (including insurance proceeds) received in connection with Farmer Mac's liquidation of such Defaulted Qualified Loan and, if applicable, ultimate disposition of related property securing such Qualified Loan.

Loan Activity Report: The report regarding activity with respect to each Qualified Loan included in the Portfolio, as provided monthly to Farmer Mac by the Seller pursuant to



Section 4.04. The Loan Activity Report shall be based on actual payment activity and provided in a Microsoft Excel (XLS) format in accordance with the file specifications reasonably required by Farmer Mac. The current required file specifications for the Loan Activity Report are set forth in Exhibit F to this Commitment.

Loan Agreement: An original loan agreement to which the applicable borrower is a party and providing for the Qualified Loan which is evidenced by the related Mortgage Note and, if applicable, secured by the related Mortgage.

Loan Setup File: The information about each Qualified Loan added to the Portfolio, as provided to Farmer Mac by the Seller pursuant to Section 4.04. The Loan Setup File shall be provided in a Microsoft Excel (XLS) format in accordance with the file specifications reasonably required by Farmer Mac. The current required file specifications for the Loan Setup File are set forth in Exhibit E to this Commitment.

Loss Reserve Amount: With respect to any Defaulted Qualified Loan, the amount, if any, by which (a) the sum of the amounts due as described in paragraphs 5.01(b)(I)(iv) and (v) (or paragraphs 5.01(b)(II)(iv) and (v), as applicable) hereof exceeds (b) (x) Liquidation Proceeds less (y) Liquidation Expenses not theretofore reimbursed to either Farmer Mac or the Seller, as appropriate, less (z) the sum of the amounts described in paragraphs 5.01(b)(I)(i) and (ii) (or paragraphs 5.01(b)(II)(i) and (ii), as applicable) hereof. Liquidation Proceeds and Liquidation Expenses shall be allocated among all then outstanding loans from Seller to the borrower, including such Defaulted Qualified Loan.

MBS: Securities issued and/or guaranteed by Farmer Mac that are secured as to 100% of the outstanding principal amount by Qualified Loans.

Mortgage: An original mortgage, deed of trust or other instrument that constitutes a first lien on an interest in real property securing the Mortgage Note. Such Mortgage may be an RUS form of mortgage, a CFC form of mortgage, the form specified by another lender and agreed to by CFC, or an indenture of trust substantially in the form as is usual and customary for rural electric utility borrowers. It is understood that some of the Mortgages provide that one or more promissory notes may be secured by such Mortgage without being specifically identified in such Mortgage and without such Mortgage being amended to reflect such fact.

Mortgage File: The following documents pertaining to the applicable Qualified Loan:

(a) an original or copy of the Mortgage Note endorsed without recourse to Farmer Mac (or to such other Person as directed by Farmer Mac), with all necessary intervening endorsements showing a complete chain of endorsement from the originator to the Seller, if applicable;

(b) if the Qualified Loan is secured by real property, a copy of the applicable Mortgage;

(c) an original or copy of each amendment to the Mortgage Note and, if the Qualified Loan is secured by real property, a copy of each amendment to the Mortgage in Seller's possession;

- (d) an original or copy of the Loan Agreement;
- (e) a copy of the Opinion of Counsel of borrower's counsel; and
- (f) if the Qualified Loan is secured by real property, copies of any other security documents (including any UCC-1, UCC-2 or UCC-3 financing statement), that evidence the creation or perfection of a security interest in the related real property and are in the possession of or within the control of the Seller.

Mortgage Note: A promissory note or other evidence of indebtedness of a borrower under a Qualified Loan, together with all riders thereto and amendments thereof.

Opinion of Counsel: A written opinion of counsel of a law firm reasonably acceptable to the recipient thereof. Any Opinion of Counsel may be provided by in-house counsel of a Person if reasonably acceptable to the addressee thereof.

Optional Removal Trigger: With respect to any pool of Qualified Loans identified on a Qualified Loan Schedule, the amount specified, if any, in the Qualified Loan Schedule as to which the Seller would be permitted to remove the pool of Qualified Loans from the Portfolio under Section 10.01(b) if the aggregate unpaid principal balance of the Qualified Loans remaining in the pool is equal to or less than such specified trigger amount, which shall be stated in the Qualified Loan Schedule as a percentage of the aggregate outstanding principal balance of the Portfolio as of the Effective Date.

Permitted Lien: A pledge of any Qualified Loan identified on a Qualified Loan Schedule pursuant to any of the following, as any such document may be amended, restated, supplemented, substituted or otherwise modified from time to time, and as any identified trustee or collateral agent may be substituted from time to time: (i) the Indenture dated as of February 15, 1994, as amended on September 15, 1994 by and between CFC and U.S. Bank National Association, as successor Trustee; (ii) the Indenture dated as of October 25, 2007, by and between CFC and U.S. Bank National Association, as Trustee; (iii) the Amended, Restated and Consolidated Bond Guarantee Agreement, dated as of December 13, 2012, by and between CFC and the United States of America, acting through the Rural Utilities Service; (iv) the Amended, Restated and Consolidated Pledge Agreement, dated as of December 13, 2012, by and among CFC, the United States of America, acting through the Rural Utilities Service, and U.S. Bank National Association, as Collateral Agent; (v) the Second Amended, Restated and Consolidated Pledge Agreement, dated as of July 31, 2015, by and among, CFC, Farmer Mac, U.S. Bank National Association, as Collateral Agent, and Farmer Mac Mortgage Securities Corporation, as Note Purchaser; or (vi) any indenture, bond guarantee agreement or pledge agreement with U.S. Bank National Association, the United States of America acting through the Rural Utilities Service, Farmer Mac, Farmer Mac Mortgage Securities Corporation, or party of similar character, establishing a similar funding program secured by the pledge of certain CFC loans.

Person: An individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

Portfolio: All of the groups of Qualified Loans, identified on each of the Qualified Loan Schedules signed by the parties hereto and delivered to Farmer Mac in connection with this

Commitment and incorporated herein by reference, which are subject to this Commitment and are eligible to be sold to Farmer Mac under the terms and conditions set forth in this Commitment. Additional pools of Qualified Loans may be added to the Portfolio under this Commitment with the written concurrence of both parties.

Qualified Loan: Any loan, or an interest in a loan (including a Qualified Participation Interest), for an electric facility that satisfies the following criteria, meets the requirements of this Commitment on its Effective Date and which is identified in the Portfolio or which is added to the Portfolio as provided for herein:

(a) The Borrower is either an Eligible Class A Member, an Eligible Class B Member or other Class A or B Member of CFC as approved by Farmer Mac, that has received, or is eligible to receive, a loan from RUS under the Rural Electrification Act of 1936.

(b) Such loan is payable in full upon maturity or amortizes on a level principal or level debt service basis.

(c) Interest is payable on such loan monthly, quarterly, semi-annually or annually, as specified in the applicable Loan Agreement.

(d) On its Effective Date, the Seller will have at least one other loan to the same borrower in the Seller's portfolio. In addition, on its Effective Date, it will be the intention of the Seller to maintain a credit relationship with such borrower until such time as the loan to such borrower added to the Portfolio pursuant to this Commitment is repaid in full.

(e) No event of default with respect to such loan shall have been declared by the Seller and be continuing on the Effective Date.

(f) Such loan is a performing loan and is not more than thirty (30) days delinquent in payment.

(g) Such loan shall have been documented in accordance with the Seller's existing practices and procedures at the time, and in form and substance that are substantially similar to the documentation used by Seller for loans of similar character in the Seller's own loan portfolio as of its Effective Date.

(h) The principal balance of such loan, when aggregated with (x) the aggregate principal balance of all loans to the same borrower previously added to the Portfolio hereunder and (y) the aggregate principal balance of all loans to the same borrower previously sold by Seller to Farmer Mac, will not exceed \$50,000,000 (or any higher amount permitted by Farmer Mac and communicated to Seller in writing).

(i) With respect to any loan, the Borrower of which is a Class B Member, the principal balance of such loan, when aggregated with (x) the aggregate principal balance of all other loans to Class B Members previously added to the Portfolio hereunder, (y) the aggregate principal balance of all loans previously sold by Seller to Farmer Mac with respect to Class B Members, and (z) the aggregate principal balance of all loans previously pledged by Seller to Farmer Mac with respect to Class B Members, will not exceed \$2.0 billion (or any higher amount permitted by Farmer Mac and communicated to Seller in writing).

Qualified Loan Schedule: A listing of Qualified Loans in a form reasonably required by Farmer Mac. The current form of Qualified Loan Schedule required by Farmer Mac is attached as Exhibit D to this Commitment.

Qualified Participation Interest: An undivided interest in a mortgage loan, including the related mortgage or deed of trust. The related mortgage loan must be a Qualified Loan, and the ratio of the principal balance of the Qualified Participation Interest to the principal balance of the underlying loan will be determined at the time the Qualified Participation Interest is placed into the Portfolio. A Qualified Participation Interest, if transferred to Farmer Mac pursuant to the terms of this Commitment, will have first priority or shared *pari passu* right in payment and liquidation to the interest not transferred to Farmer Mac. The documentation evidencing the transfer of a Qualified Participation Interest will be agreed upon between the Seller and Farmer Mac at the time the initial Qualified Participation Interest is transferred to Farmer Mac either as a Defaulted Qualified Loan or a Flex Qualified Loan.

Repurchase Price: With respect to any Qualified Loan, the unpaid principal balance thereof together with accrued and unpaid interest thereon to the date of repurchase.

Reserve Amount Total Limit: If applicable, as indicated in the related Qualified Loan Schedule for a pool of Qualified Loans, the maximum aggregate amount of Reserve Payments to be paid by Seller to Farmer Mac during the term of this Commitment. The Reserve Amount Total Limit shall equal with respect to each pool of Qualified Loans listed on a Qualified Loan Schedule, the percentage (as specified in the related Qualified Loan Schedule) of the aggregate outstanding principal balance of the Portfolio as of the Effective Date.

Reserve Payment: If applicable, as indicated in the related Qualified Loan Schedule for a pool of Qualified Loans, an amount to be paid by Seller to Farmer Mac to mitigate a Loss Reserve Amount that Farmer Mac would otherwise incur with respect to a Defaulted Qualified Loan. Such amount shall equal the lesser of (a) the Loss Reserve Amount; and (b) the Reserve Amount Total Limit. The amount of a Reserve Payment shall be reduced by the amount that the aggregate of all Reserve Payments made over the term of this Commitment exceeds the Reserve Amount Total Limit.

Regulatory Authority: Any federal or state governmental authority charged with regulation, supervision, examination and enforcement authority over the Seller and the Seller's underwriting and servicing practices.

Risk Rating Methodology: The Seller's current internal risk rating methodology for determining Facility Ratings or Borrower Ratings.

RUS: The Rural Utilities Service of the United States Department of Agriculture, acting by and through the Administrator of the Rural Utilities Service, and including any successor agencies or departments.

Servicing Agreement: The Amended and Restated Master Sale and Servicing Agreement between Farmer Mac and CFC dated as of August 12, 2011.

**Standby Purchase Commitment Fee:** The periodic amount due Farmer Mac from the Seller for this Commitment. Such amount with respect to any Qualified Loan included in the Portfolio shall be paid in monthly payments in arrears in an amount equal to 1/12th of the applicable fee, multiplied by the unpaid principal balance of such Qualified Loan, as reported monthly by the Seller in accordance with Section 4.04. The applicable fee for any particular Qualified Loan shall be as agreed upon between the parties and set forth in a Qualified Loan Schedule signed by both parties.

Solely for purposes of this definition of Standby Purchase Commitment Fee, the term “unpaid principal balance of such Qualified Loan” shall mean the unpaid principal balance of such Qualified Loan, calculated as of the first day of the month prior to the month in which the Standby Purchase Commitment Fee is to be paid.

**Termination Event:** With respect to either the Seller or Farmer Mac, (i) any change in law or regulation (or any ruling or interpretation related to any existing law or regulation) that, in the reasonable judgment of such party and as supported by a written opinion of such party’s retained counsel, renders the transaction contemplated hereby void, unenforceable or illegal (in whole or in part) as to such party, (ii) any change in the law, regulations or Financial Accounting Standards adopted by the Financial Accounting Standards Board (or other similar accounting rules) that, in the reasonable judgment of such party and as supported by a written opinion of an independent counsel and/or accounting firm acceptable to both parties, renders the transaction as contemplated hereby unsound as to such party, it being understood by the parties that the treatment of the transaction contemplated hereby as risk management and the weighting of the Qualified Loans, other than Qualified Participation Interests and, if applicable, loans in an amount up to the Reserve Amount Total Limit, in the 20% category for risk-based capital purposes by the Seller and as off-balance sheet assets by Farmer Mac for capital requirements represents the accounting treatment contemplated by the parties, or (iii) any change in the Bank Capital Methodology and Assumptions and Nonbank Financial Institutions Rating Methodology rating criteria as defined in and published by Standard & Poor’s Financial Services LLC or its successor that, in the reasonable judgement of Seller renders the transaction as contemplated hereby no longer beneficial for Seller for risk-based capital purpose, it being understood by the parties that the treatment of the transaction contemplated hereby as the weighting of the Qualified Loans, other than Qualified Participation Interest, and, if applicable, loans in an amount up to the Reserve Amount Total Limit, in the 23% category for risk-based capital purpose by the Seller.

## **ARTICLE II**

### **GENERAL COVENANTS OF THE SELLER**

Section 2.01. **Performance of Obligations.** The Seller hereby covenants to keep and perform faithfully all of the covenants and undertakings contained herein.

Section 2.02. **Good Standing.** The Seller hereby covenants to maintain its current condition of good standing under all applicable laws and regulations and to commit no act that would alter the status of the Seller as represented in Section 6.03 hereof.

Section 2.03. Further Assurances. The Seller shall, subject to applicable confidentiality requirements, execute and deliver or cause to be executed and delivered to Farmer Mac now, and at any reasonable time or times hereafter at the request of Farmer Mac, all documents, instruments, letters of direction, notices, reports, acceptances, receipts, consents, waivers, affidavits and certificates as Farmer Mac may reasonably request, in form satisfactory to Farmer Mac in order to consummate fully all of the transactions contemplated hereunder.

Section 2.04. Sale, Transfer or Pledge of Portfolio or Servicing Rights. During the Commitment Term, the Seller may not pledge or hypothecate all or any portion of any Qualified Loan or the Portfolio or any of the rights associated with the Portfolio and the Qualified Loans except for Permitted Liens. Notwithstanding the foregoing, Farmer Mac shall not be obligated to purchase any Qualified Loan hereunder unless and until such Qualified Loan is free and clear of any pledge or security interest, including any Permitted Liens. The Seller may sell or transfer the Portfolio or the servicing rights associated with the Qualified Loans only under the terms set forth below.

(a) Farmer Mac will approve the sale or transfer of the Portfolio only if all of the Qualified Loans in the Portfolio are sold or transferred to a purchaser or transferee that is reasonably acceptable to Farmer Mac and that agrees to assume all of the Seller's obligations hereunder pursuant to a written agreement among the Seller, Farmer Mac and such successor party. If the Seller transfers or sells the Portfolio but retains the right to service the Qualified Loans, the written agreement among the Seller, Farmer Mac and the successor party shall also provide that the payment of the Standby Purchase Commitment Fee shall remain a corporate obligation of the Seller.

(b) Farmer Mac will approve the sale of the servicing rights associated with the Qualified Loans only if such servicing is sold (a) with respect to all Qualified Loans and (b) to one successor servicer reasonably acceptable to Farmer Mac that agrees, pursuant to a written agreement among the Seller, Farmer Mac and such successor servicer, to the obligations of the Seller set forth herein.

(c) Any sale or transfer of the Portfolio or the rights associated with the Portfolio will be subject to a transfer fee of 5 basis points (0.05%) per annum of the aggregate outstanding unpaid principal balance of the Qualified Loans in the Portfolio, to be payable out of the future cash flows on the Qualified Loans.

(d) Upon such transfer, the Seller shall have no further right to include additional Qualified Loans in the Portfolio.

Section 2.05. Indemnification. The Seller shall indemnify and hold Farmer Mac harmless from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) (excluding any and all losses, claims, damages, liabilities and expenses related to any delinquency in payment for ninety (90) or more consecutive days or other material non-monetary default of a Qualified Loan, except to the extent such losses, claims, damages, liabilities or expenses are caused directly by Seller's negligent servicing practices) (collectively, "Losses") to which Farmer Mac may become subject

insofar as such Losses arise out of or are based upon (i) the Seller's performance of its servicing obligations set forth in this Commitment with respect to the Qualified Loans in the Portfolio prior to sale of the Qualified Loans to Farmer Mac or (ii) a final adjudication of, including any settlement of, any outstanding litigation described in Exhibit C attached to this Commitment. This covenant to indemnify and hold harmless shall survive the sale of the Qualified Loans to Farmer Mac.

Section 2.06. Original Principal Balance. Notwithstanding any other provision of this Commitment, the Seller shall not deliver a Flex Qualified Loan to Farmer Mac for sale if the original principal balance of such Qualified Loan does not meet Farmer Mac's maximum dollar purchase limitations, in effect as of the Delivery Date, for the purchase of similar Qualified Loans, determined in accordance with the Charter Act.

Section 2.07. Seller Status. The Seller shall deliver all applications, instruments and other documents reasonably requested by Farmer Mac to maintain its status as a Farmer Mac approved seller and servicer.

Section 2.08. Lien Status of Qualified Loans. The Seller represents and warrants that each loan listed as "secured" in a Qualified Loan Schedule signed by both parties is secured by a validly recorded, filed and perfected lien mortgage shared pari passu and pro rata by the lenders that are parties to the mortgage on the real property securing the Qualified Loan.

Section 2.09. Change in Risk Rating Methodology. The Seller shall deliver written notice to Farmer Mac within 30 days after the occurrence of any of the following material changes to the Seller's Risk Rating Methodology: (1) any material change to the weighting of the risk rating criteria; and (2) any material change in the criteria in the risk rating.

### ARTICLE III

#### COVENANTS OF FARMER MAC

Section 3.01. Commitment to Purchase Qualified Loans. Farmer Mac hereby covenants to purchase the Qualified Loans in the Portfolio in accordance with the provisions of this Commitment.

Section 3.02. Performance of Obligations. Farmer Mac hereby covenants to keep and perform faithfully all of the covenants and undertakings contained herein.

Section 3.03. Good Standing. Farmer Mac hereby covenants to maintain its current condition of good standing under all applicable laws and regulations and to commit no act that would alter the status of Farmer Mac as represented in Section 7.02 hereof.

### ARTICLE IV

#### PRE-DELIVERY OBLIGATIONS OF THE SELLER

Section 4.01. Payment of Standby Purchase Commitment Fees. With respect to each Qualified Loan listed on a Qualified Loan Schedule signed by both parties, the Seller shall pay to Farmer Mac in immediately available funds, by 12:00 noon (eastern time), on the seventh Business Day of each month, an amount sufficient to pay the Standby Purchase Commitment Fee. If such funds are not received by Farmer Mac by 12:00 noon (eastern time) on such seventh Business Day, the Seller shall pay interest to Farmer Mac on such overdue amount at a rate equal to the federal funds rate. The Seller's obligation to pay the Standby Purchase Commitment Fee shall begin in the month immediately following the Effective Date with respect to each Qualified Loan and end in the month immediately following the month in which the Commitment Term expires.

Section 4.02. Delivery of Qualified Loan Information. (a) Not later than the tenth day of the month following the date of execution of this Commitment, the Seller shall deliver to Farmer Mac the information required to complete a Qualified Loan Schedule for the Qualified Loans initially to be included in the Portfolio. Such Qualified Loans shall become part of the Portfolio as of the Effective Date upon receipt by Farmer Mac of such Qualified Loan Schedule signed by both Farmer Mac and the Seller. The information required for such Qualified Loan Schedule shall be delivered in an electronic format acceptable to Farmer Mac.

(b) The Seller may deliver to Farmer Mac information required to complete additional Qualified Loan Schedules for any additional Qualified Loans approved by Farmer Mac that the Seller wishes to add to the Portfolio. The Seller shall follow the same requirements for completion of the initial Qualified Loan Schedule. Such additional approved Qualified Loans shall become part of the Portfolio effective on the Effective Date indicated in the related Qualified Loan Schedule upon receipt by Farmer Mac of such Qualified Loan Schedule signed by both Farmer Mac and the Seller. The Standby Purchase Commitment Fee with respect to any such additional Qualified Loans shall be due and payable beginning in the month following the month in which the related Effective Date occurs.

(c) The Seller may deliver to Farmer Mac information required to complete additional Qualified Loan Schedules for any additional Qualified Loans Seller wishes to substitute for any existing Qualified Loan in the Portfolio. Such substitution shall be subject to (i) the substituting Qualified Loan shall have a Facility Rating at the time of substitution equal to or better than the Qualified Loan being substituted or (ii) Farmer Mac's approval of the new Qualified Loan, which shall not be unreasonably withheld or delayed. The Seller shall follow the same requirements for completion of the initial Qualified Loan Schedule. Such substitute Qualified Loans shall become part of the Portfolio effective on the Effective Date indicated in the related Qualified Loan Schedule upon receipt by Farmer Mac of such Qualified Loan Schedule signed by both Farmer Mac and the Seller. The Standby Purchase Commitment Fee with respect to any such substitute Qualified Loans shall be due and payable beginning in the month following the month in which the related Effective Date occurs. The Seller may not otherwise remove a Qualified Loan from the Portfolio without the prior written consent of Farmer Mac; except, that, (I) if, in connection with the refinance of any Qualified Loan in the ordinary course of business, the Borrower elects to have the loan sold to Farmer Mac pursuant to the Servicing Agreement, such Qualified Loan shall be removed from the Portfolio following notice thereof from CFC to Farmer Mac and neither party shall have any obligation with respect thereto hereunder, or (II) if the Seller refinances, restructures or modifies any Qualified Loan without the written consent of Farmer Mac or in a manner that is not authorized under Section 5.01(d) of the Servicing Agreement (except as to subpart (ii) thereof with respect to interest rate conversions or repricings



in the ordinary course of business, and subpart (vii) thereof), such Qualified Loan shall be removed from the Portfolio and Farmer Mac shall not be obligated to purchase such restructured or modified Qualified Loan. Loan modifications include, but are not limited to, situations where the obligations related to a Qualified Loan are assumed by a new borrower or new guarantor through the acquisition of the original borrower's or guarantor's assets and liabilities, whether such acquisition is accomplished via purchase or some other form of corporate merger or consolidation.

(d) If the Seller renews a loan that was included in the Portfolio and has matured, such loan may become part of the Portfolio, without Farmer Mac's prior review and approval, effective on the related Effective Date indicated on a Qualified Loan Schedule delivered by the Seller to Farmer Mac that contains the required information about the renewed loan; provided that the principal balance of the new loan does not exceed 100% of the unpaid principal balance of the Qualified Loan prior to maturity and renewal. A Qualified Loan may be renewed and added to the Portfolio under this subsection 4.02(d) up to a maximum of two times, after which any such renewed loan may only be added to the Portfolio upon Farmer Mac's prior review and approval and signing of a Qualified Loan Schedule. With respect to each renewed loan added to the Portfolio pursuant to this subsection 4.02(d), the Seller and Farmer Mac agree that Farmer Mac shall have the right, at any time for a period of 12 months after a loan's Effective Date, to review the loan files for and conduct due diligence on such loan to determine whether it is a Qualified Loan. If Farmer Mac determines, in its sole discretion, that any such loan was not a Qualified Loan at the time the loan was added to the Portfolio, the applicable Qualified Loan Schedule shall be revised to reflect that such loan is not in the Portfolio, and Farmer Mac shall have no obligation to purchase such loan from the Seller under this Commitment.

Section 4.03. Administration and Servicing of Qualified Loans. (a) The Seller will service the Qualified Loans in the Portfolio using commercially reasonable practices and in substantial compliance with the applicable servicing standards set forth in the sections of Sections 5.01(a) through (f) of the Servicing Agreement pertaining to the servicing of loans and administration of proceeds, except as modified by this Commitment. The Seller may conduct such servicing through the facilities of agents or independent contractors but shall not thereby be released from any of its duties or responsibilities hereunder.

(b) The Seller must maintain or provide for the maintenance of a Mortgage File for each Qualified Loan in the Portfolio. The Seller will provide for the physical segregation of any original Mortgage Notes relating to the Qualified Loans in the Portfolio and hold such Mortgage Notes in a secure environment in accordance with generally accepted industry standards for the custody of mortgage loan documentation. The Seller will maintain or provide for the maintenance of each Mortgage Note in a fire resistant vault, drawer or other suitable depository. The Seller is responsible for maintaining accurate accounting and borrower payment records.

(c) Upon reasonable notice and at any reasonable time during the Commitment Term and subject to applicable confidentiality requirements, Farmer Mac has the right to examine any and all books and records that pertain to the Qualified Loans, any and all accounting reports associated with the Qualified Loans and borrower remittances, and any other reports and documentation that Farmer Mac considers necessary to assure that (i) the Qualified Loans meet the terms and conditions set forth herein and (ii) the Seller is servicing the Qualified Loans in compliance with Sections 5.01 (a) through (f) of the Servicing Agreement and this Commitment.

(d) The Seller shall service delinquent Qualified Loans using commercially reasonable practices in substantial compliance with Sections 5.01(a) through (f) of the Servicing Agreement, including timely initiation of loss mitigation efforts. However, the Seller must sell the delinquent Qualified Loan to Farmer Mac prior to completion of the foreclosure process (or other comparable conversion) in accordance with Section 5.01 hereof. If title to the underlying mortgaged property has transferred to the Seller and no right of rescission by the borrower exists, the related Qualified Loan is no longer eligible for sale to Farmer Mac and should be reported as a “payoff” in accordance with the requirements of Section 4.04.

(e) The Seller shall service all Qualified Loans, and all other loans to borrowers of Qualified Loans (“Related Loans”), in a manner that protects Farmer Mac’s financial interests. In that regard, without Farmer Mac’s prior concurrence, which concurrence shall not be unreasonably withheld, the Seller shall not, without limitation, apply funds received, take or defer taking any servicing action (including restructuring or reamortizing), or waive a substantive default with respect to any Related Loan if so doing materially increases the amount of Farmer Mac’s risk of or actual loss with respect to the relationship (i.e., the Qualified Loan plus all Related Loans).

(f) With respect to either Qualified Participation Interests or Qualified Loans that are part of a syndication, the Seller shall provide promptly upon receipt any notices, requests for consent, or other information received from the lead lending institution for such Qualified Participation Interest or Qualified Loan, or from any other participant or lending institutions in the syndicate, as applicable. To the extent that the Seller is the lead agent or lead lending institution in the participation arrangement or syndication, as applicable, the Seller shall provide any such notices, requests for consent, or other information to Farmer Mac concurrently with the remaining members of the participation or syndication.

Section 4.04. Reporting Requirements. Not later than the last Business Day of the month in which a Qualified Loan is added to the Portfolio, the Seller shall provide a Loan Setup File to Farmer Mac. Thereafter and until the Qualified Loan is sold to Farmer Mac or otherwise removed from the Portfolio, the Seller shall provide a Loan Activity Report to Farmer Mac not later than the seventh Business Day of each month. In addition, the Seller shall provide a Delinquency Report to Farmer Mac on or before the tenth day of each calendar month (or if such tenth day is not a Business Day, the next succeeding Business Day) to the extent that any of the Qualified Loans included in the Portfolio are delinquent.

## **ARTICLE V**

### **DELIVERY OF AND PAYMENT FOR QUALIFIED LOANS**

Section 5.01. Defaulted Qualified Loans. (a) Subject to the requirements set forth in this Commitment, the Seller may elect to sell to Farmer Mac, in exchange for cash, any Defaulted Qualified Loan. The election by Seller to sell to Farmer Mac any Defaulted Qualified Loan shall not trigger any obligation on the part of Seller to sell other Defaulted Qualified Loans that are under this Commitment. Notwithstanding the foregoing, prior to transfer of ownership of a mortgaged property from the borrower to the Seller as a result of loss mitigation efforts, a foreclosure proceeding or other comparable conversion, the Seller shall sell to Farmer Mac the

related Defaulted Qualified Loan regardless of the amount of time such Qualified Loan has been delinquent.

(b) (I) The purchase price for any Defaulted Qualified Loan shall equal the unpaid principal balance of the Qualified Loan, as reported to Farmer Mac in accordance with Section 4.04, in the month in which the Seller elects to sell such Qualified Loan. The purchase price for a Defaulted Qualified Loan shall not include accrued or delinquent interest or foreclosure or related costs or expenses. Liquidation proceeds or other payments with respect to such Defaulted Qualified Loan shall be applied as follows:

- (i) To the Seller, unpaid interest accruing at the note rate on the Qualified Loan while held by the Seller, but not to exceed interest accruing through 6 months following the first delinquency.
- (ii) To the party making protective advances and paying liquidation expenses and REO expenses, reimbursement for such advances and expenses.
- (iii) To the servicer, unpaid servicing fees accrued during the period Farmer Mac owned the Defaulted Qualified Loan.
- (iv) To Farmer Mac, unpaid interest accruing at the note rate less the applicable servicing fee rate on the Qualified Loan from the date purchased by Farmer Mac until the date of liquidation.
- (v) To Farmer Mac, the outstanding principal amount of the Qualified Loan.
- (vi) To the Seller, unpaid interest accruing at the note rate on the Defaulted Qualified Loan from the date through which the Seller was paid for the interest by Farmer Mac until the date Farmer Mac purchased the Defaulted Qualified Loan.
- (vii) To the Seller, default interest accruing while the Seller held the Defaulted Qualified Loan.
- (viii) To Farmer Mac, the remainder, if any.

(II) The purchase price for any Defaulted Qualified Loan that is a Qualified Participation Interest shall equal the unpaid principal balance of the Qualified Participation Interest, as reported to Farmer Mac in accordance with Section 4.04, in the month in which the Seller elects to sell such Qualified Participation Interest. The purchase price for a Defaulted Qualified Loan that is a Qualified Participation Interest shall not include accrued or delinquent interest or foreclosure or related costs or expenses. Liquidation proceeds or other payments with respect to the pro rata portion of the loan underlying such Defaulted Qualified Loan that is a Qualified Participation Interest shall be applied as follows:

- (i) To the Seller, unpaid interest accruing at the note rate on the Qualified Participation Interest while it was held by the Seller, but not to exceed interest accruing through 6 months following the first delinquency on the loan.
- (ii) To the party making protective advances and paying liquidation expenses and REO expenses, reimbursement, on a pro rata basis, for such advances and expenses.
- (iii) To the applicable servicer, their pro rata portions of any unpaid servicing fees accrued on the underlying loan during the period Farmer Mac owned the Defaulted Qualified Loan that is a Qualified Participation Interest.
- (iv) To Farmer Mac, the unpaid interest accruing at the note rate less the applicable servicing fee rate on the Qualified Participation Interest from the date purchased by Farmer Mac until the date of liquidation.
- (v) To Farmer Mac, the outstanding principal amount of the Qualified Participation Interest.
- (vi) To the Seller, unpaid interest accruing at the note rate on the Qualified Participation Interest from the date through which the Seller was paid for the interest by Farmer Mac until the date Farmer Mac purchased the Qualified Participation Interest.
- (vii) To the Seller, default interest on a pro rata basis accruing on the underlying loan prior to Farmer Mac's purchase of the Defaulted Qualified Loan that is a Qualified Participation Interest.
- (viii) To Farmer Mac, the remainder, if any.

The purchase proceeds, as well as any reimbursement of a portion of the Standby Purchase Commitment Fee, as described in Section 5.04, will be disbursed by wire transfer to the Seller on the first Business Day of the month following Farmer Mac's confirmation of receipt of a completed Purchase Request and Certification as described in subsection (c) below. The parties acknowledge and agree that so long as the Seller is servicer of the Qualified Loan and to the extent any funds in the Collection Account (as defined in the Servicing Agreement) are allocable to Seller's pro rata portion of the Qualified Loan, Seller shall be entitled at any time to withdraw such funds, as such funds are not required to be deposited in such Collection Account.

(c) No later than the seventh Business Day of any month in which the Seller elects to sell Defaulted Qualified Loans to Farmer Mac, the Seller will do the following:

- (i) deliver a Purchase Request and Certification electronically and in hard copy, in the form of Exhibit B attached hereto, listing the Farmer Mac loan number and unpaid principal balance of the Qualified Loans that have become Defaulted Qualified Loans that the Seller wishes to sell to Farmer Mac either as whole loans or participation interests. The Purchase

Request and Certification shall be delivered to Farmer Mac via facsimile transmission (number 202-872-7713).

(ii) prepare and deliver the Mortgage File, as well as original executed versions of each Mortgage Note in the Mortgage File, to Farmer Mac. Only Farmer Mac's loan records as reflective of the reports submitted by the Seller under Section 4.04 hereof shall determine the proceeds that the Seller is entitled to receive for Farmer Mac's purchase of Defaulted Qualified Loans.

(d) As of its Delivery Date, a Defaulted Qualified Loan sold to Farmer Mac (or as to which a participation interest is sold to Farmer Mac) shall no longer be subject to the terms of this Commitment and shall be serviced by the Seller in accordance with the standard servicing terms of Article V of the Servicing Agreement. It is the express and specific intent of the parties hereto that the sale of a Defaulted Qualified Loan sold to Farmer Mac (or as to which a participation interest is sold to Farmer Mac) as provided herein is and shall be construed for all purposes as a true and absolute sale of such loan, and shall provide Farmer Mac with the full benefits of ownership of such loan.

(e) The Seller and Farmer Mac agree that, if a Defaulted Qualified Loan sold to Farmer Mac subsequently becomes current in payments under its original terms without being restructured, Farmer Mac may, in its sole discretion, sell such Qualified Loan, provided, however, the Seller shall have a right to first refusal to purchase such Qualified Loan for a price equal to the unpaid principal balance plus any accrued interest on such Qualified Loan. In the event of such re-purchase by Seller, such Qualified Loan will thereafter be listed on the applicable Qualified Loan Schedule and be a part of the Portfolio subject to this Commitment.

(f) If the Qualified Loan Schedule indicates that the related pool of Qualified Loans is subject to Reserve Payments by specifying a Reserve Amount Total Limit, then no later than the fifth Business Day following the date that a Defaulted Qualified Loan sold to Farmer Mac becomes a Liquidated Qualified Loan, Seller will pay to Farmer Mac any related Reserve Payment.

Section 5.02. Flex Qualified Loans. (a) Subject to the requirements set forth in this Commitment, the Seller may elect to sell to Farmer Mac, from time to time, at any time during the Commitment Term, in exchange for cash, some or all Flex Qualified Loans, subject to Farmer Mac's then-current requirements for its Cash Window Program for cash purchases, and any other terms mutually agreed between the parties at the time of sale. Flex Qualified Loans sold to Farmer Mac for cash pursuant to the terms of this section shall be sold at the price agreed by Farmer Mac and the Seller at the time of sale based on Farmer Mac's then-required net yield for cash window purchases of the same product type as such Qualified Loans.

(b) Prior to the removal of a Flex Qualified Loan from the Portfolio, the Seller will contact Farmer Mac to enter into a mandatory commitment to sell such Flex Qualified Loan to Farmer Mac in accordance with the procedures set forth for selling loans in the Servicing Agreement. In the month in which the Seller elects to sell Flex Qualified Loans to Farmer Mac, the Seller will report, in accordance with the loan level reporting requirements set forth in Section 4.04, the removal of the Qualified Loan from this Commitment by reporting a zero unpaid principal balance.

(c) The Seller shall sell Flex Qualified Loans pursuant to subparagraph (a) in the month in which the Qualified Loan is removed from this Commitment.

(d) No later than the last Business Day of the month of the sale to Farmer Mac of Flex Qualified Loans, the Seller shall supply to Farmer Mac a Loan Setup File including each such Flex Qualified Loan.

(e) As of its Delivery Date, a Flex Qualified Loan sold to Farmer Mac (or as to which a participation is sold to Farmer Mac) shall no longer be subject to the terms of this Commitment and shall be serviced by the Seller in accordance with the standard servicing provisions of Article V of the Servicing Agreement.

#### Section 5.03. [RESERVED].

Section 5.04. Mandatory Flex Participation Interests. (a) Upon election by the Seller to deliver a Flex Qualified Loan to Farmer Mac pursuant of this Commitment, Farmer Mac shall be entitled to perform such due diligence as to allow it to determine the value of the related mortgaged property at the time of purchase by Farmer Mac. In the event that (i) Farmer Mac determines that the outstanding principal balance of such Qualified Loan exceeds the maximum loan-to-value ratio for eligibility for the appropriate Farmer Mac program at the time of purchase by Farmer Mac and (ii) if applicable, such Qualified Loan is not insured or guaranteed by a qualified mortgage insurer approved by Farmer Mac, Farmer Mac shall so notify the Seller and shall purchase only a pro rata participation interest in such Qualified Loan. Such pro rata participation interest shall be calculated to result in the loan-to-value ratio (based on an appraisal) of Farmer Mac's participation interest being equal to the maximum loan-to-value ratio for eligibility for the appropriate Farmer Mac loan product.

(b) In the event that Farmer Mac accepts delivery of only a participation interest in a Qualified Loan as described in paragraph (a) above, Farmer Mac shall reimburse the Seller for a portion of the Standby Purchase Commitment Fee collected with respect to such Qualified Loan. The amount of reimbursement due to the Seller as described in the preceding sentence shall be the difference between (A) the amount of Commitment Fee collected over the preceding twelve (12) months and (B)(I) the amount in the preceding clause (A) times (II) the pro-rata percentage of the participation interest purchased by Farmer Mac relative to the outstanding balance of the Qualified Loan at the time of Farmer Mac's purchase of such participation interest.

Section 5.05. Custodian. (a) For any Qualified Loan purchased by Farmer Mac under Article V hereof and unless Farmer Mac has directed otherwise, Seller shall act as custodian for the Mortgage File for such Qualified Loan. The Participation Custodian shall manage all aspects of the custodial process for the Mortgage File, including:

(i) Maintaining the Mortgage File separate from all other loan files owned or serviced by the Seller, and maintaining books and records for each Qualified Loan serviced by it which shall be clearly marked in its loan servicing system to reflect the sale of the Qualified Loan and the ownership of each Qualified Loan by Farmer Mac;

(ii) Maintaining the Mortgage File in a secure location, in accordance with the Seller's customary business practices; and

(iii) Generating custodian reports or performing other custodial duties as may reasonably be requested by Farmer Mac.

(b) Seller shall hold Farmer Mac and its officers and employees harmless from any liability, loss, or damage in connection with the loss, theft, or destruction of any Mortgage Files while such Mortgage Files are in the possession, custody or control of the Seller pursuant to this Section 5.05.

(c) If Farmer Mac has notified the Seller that an entity other than the Seller shall serve as custodian of the Mortgage File for such Qualified Loan in accordance with this Section 5.05, the Seller agrees to cooperate with Farmer Mac and the designated custodian to transfer the Mortgage File and all of its contents and take such other commercially reasonable action that Farmer Mac determines in its sole discretion is necessary or appropriate to transfer custody of the Mortgage File to the designated custodian.

## **ARTICLE VI**

### **REPRESENTATIONS AND WARRANTIES OF THE SELLER**

The Seller represents and warrants that:

Section 6.01. Seller's Status. As of the date of this Commitment and each Effective Date:

(a) Each loan listed in a Qualified Loan Schedule is a Qualified Loan.

(b) The Seller is a cooperative association duly organized, validly existing and in good standing under the laws governing its creation and existence and with the requisite power and authority to conduct its business as it is currently being conducted; the Seller holds all licenses, certificates and permits necessary for the conduct of its business as it is currently being conducted and is or will be in compliance with the laws of each state in which any real property securing any Mortgage is located to the extent necessary to ensure the enforceability of each Qualified Loan.

(c) The Seller has the requisite power and authority to execute and deliver this Commitment, to service and administer all the Qualified Loans identified on each Qualified Loan Schedule in accordance with the terms of this Commitment, and to take all other actions and execute and deliver all other documents which are requisite or pertinent to the transactions described in this Commitment. The persons signing such documents and taking such actions on its behalf have been duly authorized to do so and such documents and actions are valid, legally binding and enforceable against the Seller in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights and to general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law).

(d) The Seller is not required to obtain the consent of any other Person or any consents, licenses, approvals or authorizations from, or registrations or declarations with, any governmental authority, bureau or agency in connection with the execution, delivery, performance, validity or enforceability of this Commitment, except for such consents, licenses, approvals or authorizations, or registrations or declarations, as shall have been obtained or filed, as the case may be.

(e) No action, suit or proceeding is pending or, to the best of the Seller's knowledge, threatened against it that would prohibit it from entering into this Commitment or performing its obligations hereunder or, in the reasonable opinion of the Seller has a reasonable likelihood of resulting in a material adverse effect on the transactions contemplated hereby.

(f) The Seller is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or governmental agency, which default would reasonably be expected to have consequences that would materially and adversely affect the condition (financial or otherwise) or operations of the Seller or its respective properties or would reasonably be expected to have consequences that would materially adversely affect the performance of the Seller hereunder.

(g) The execution and delivery of this Commitment by the Seller and the performance and compliance with the terms of this Commitment by the Seller will not violate the Articles of Incorporation or Bylaws of the Seller, or constitute a material default (or an event which, with notice or lapse of time, or both, would constitute a material default) under, or result in the material breach of, any material contract, agreement or other instrument to which the Seller is a party or which may be applicable to the Seller, or any of its assets.

(h) No Event Default under Section 8.01 below has occurred and is continuing and no event or circumstance has occurred or exists which, with notice or lapse of time or both, would constitute an Event Default under Section 8.01 below.

Section 6.02. Showings. The Seller has delivered to Farmer Mac on or prior to the date of execution of this Commitment an officer's certificate substantially in the form set forth in Exhibit A.

Section 6.03. Fraudulent Conveyance. The performance of the Seller's obligations under this Commitment does not constitute a fraudulent conveyance within the meaning of any bankruptcy, insolvency, reorganization, moratorium or other similar law affecting the rights of creditors.

Section 6.04. Portfolio Requirements. As of the Effective Date with respect to a Qualified Loan, such Qualified Loan has not been purchased or securitized by Farmer Mac, paid in full (through scheduled payments, prepayments or otherwise) or otherwise removed from the Portfolio under the terms and conditions set forth in this Commitment.



## ARTICLE VII

### **REPRESENTATIONS AND WARRANTIES OF FARMER MAC**

Farmer Mac represents and warrants that:

Section 7.01. Consents and Approvals. No consents or approvals of any Person are or will be required which have not or will not have been obtained for the execution and delivery of this Commitment or the performance of any obligations hereunder.

Section 7.02. Corporate Existence and Power. Farmer Mac is an instrumentality of the United States, created and existing under the laws of the United States, duly organized, validly existing and in good standing under the laws governing its creation and existence, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted and to enter into this Commitment.

Section 7.03. Authorization and Non-contravention. The execution, delivery and performance by Farmer Mac of this Commitment are within Farmer Mac's corporate power and have been duly authorized by all necessary corporate action on the part of Farmer Mac (no action by its shareholders being required) and will not: (i) violate or contravene any law, regulation, judgment, injunction, order, decree or other instrument currently binding on Farmer Mac; or (ii) violate, contravene or constitute a default under any provision of the Charter Act or of any agreement, contract, mortgage or other instrument currently binding on Farmer Mac.

Section 7.04. Binding Effect. This Commitment constitutes a valid and legally binding agreement of Farmer Mac enforceable against Farmer Mac in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, moratorium or similar laws, or by legal or equitable principles relating to or limiting creditors' rights generally.

Section 7.05. Governmental Consents. No consent, approval, authorization or order of any Governmental Body is required, and no filing need be made with any Governmental Body, in connection with the execution, delivery and performance by Farmer Mac of this Commitment or the consummation by Farmer Mac of the transactions contemplated hereby.

Section 7.06. Compliance with Laws. Farmer Mac is not in violation of any statute, rule or regulation of any Governmental Body or any order of any court or arbitrator, the violation of which, considered in the aggregate, could materially adversely affect the business, operations or properties of Farmer Mac.

Section 7.07. Litigation. There are no actions, suits, or proceedings pending or, to the best knowledge of Farmer Mac, threatened, or any judgment or order entered against Farmer Mac or its assets in any court or before any Federal, state, municipal or other governmental department or commission, board, bureau, agency or instrumentality which is likely to be adversely determined and which if adversely determined will materially, adversely affect its business or financial condition or the validity and enforceability of this Commitment or its ability to perform in accordance with this Commitment.

## ARTICLE VIII

### EVENTS OF DEFAULT

Section 8.01. Seller Events of Default. Any one or more of the following acts or occurrences by the Seller shall constitute an Event of Default under this Commitment:

(a) failure by the Seller to pay the Standby Purchase Commitment Fee or any Reserve Payment, if applicable, in accordance with the terms of this Commitment; or

(b) failure by the Seller to observe or perform any covenant or agreement contained in Section 2.06 herein; or

(c) failure by the Seller to observe or perform any other covenants or agreements set forth in this Commitment or in the Servicing Agreement which continues unremedied for a period of thirty (30) days after the Seller first acquires knowledge or receives notice thereof; or

(d) any covenant, representation, warranty or statement made by the Seller herein or in any certificate delivered in connection herewith shall prove to have been incorrect in any material respect when made; provided that if the incorrect matter as to which such representation or warranty relates is capable of being cured, it shall not constitute an Event of Default hereunder unless the Seller fails to correct such matter within thirty (30) days after the Seller shall first acquire knowledge or receive notice thereof; or

(e) a decree or order of a court or agency or supervisory authority having jurisdiction on the premises for the appointment of a conservator, receiver or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities or similar proceedings, or for the winding-up or liquidation of its affairs, shall have been entered against the Seller; or

(f) the Seller consents to the appointment of a conservator, receiver or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities or similar proceedings relating to the Seller or all or substantially all of its property; or

(g) the Seller admits in writing its inability to pay its debts generally as they become due, files a petition to invoke any applicable insolvency or reorganization statute, makes an assignment for the benefit of its creditors, or voluntarily suspends payment of its obligations.

Section 8.02. Farmer Mac Events of Default. Any one or more of the following acts or occurrences by Farmer Mac shall constitute an Event of Default under this Commitment:

(a) failure to purchase an eligible Qualified Loan or a Qualified Participation Interest pursuant to the terms of this Commitment or reimburse a portion of the Standby Purchase Commitment Fee pursuant to Section 5.04(b); or

(b) failure by Farmer Mac to observe or perform any other covenants or agreements set forth in this Commitment which continues unremedied for a period of thirty (30) days after Farmer Mac first acquires knowledge or receives notice thereof; or

(c) any covenant, representation, warranty or statement made by Farmer Mac herein shall prove to have been incorrect in any material respect when made; or

(d) a decree or order of a court or agency or supervisory authority having jurisdiction on the premises for the appointment of a conservator, receiver or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities or similar proceedings, or for the winding-up or liquidation of its affairs, shall have been entered against Farmer Mac; or

(e) Farmer Mac consents to the appointment of a conservator, receiver or liquidator in any insolvency, readjustment of debt, marshaling of assets and liabilities or similar proceedings relating to Farmer Mac or all or substantially all of its property; or

(f) Farmer Mac admits in writing its inability to pay its debts generally as they become due, files a petition to invoke any applicable insolvency or reorganization statute, makes an assignment for the benefit of its creditors, or voluntarily suspends payment of its obligations.

## **ARTICLE IX**

### **REMEDIES**

Section 9.01. Remedies of Farmer Mac. Upon the occurrence of any Event of Default by the Seller hereunder, unless such Event of Default has been cured, Farmer Mac may, at its option:

(a) terminate this Commitment and refuse to accept delivery of additional Defaulted Qualified Loans for purchase hereunder; and/or

(b) solely for any Event of Default related to Section 6.01(a) hereunder, direct the Seller to repurchase the affected Qualified Loan sold to Farmer Mac by remitting the Repurchase Price to an account designated by Farmer Mac.

Notwithstanding the foregoing, the parties agree and acknowledge that Farmer Mac is entitled to seek any and all legal and/or equitable remedies that may be available to Farmer Mac under applicable law for any Seller Event of Default.

Section 9.02. Remedies of Seller. Upon the occurrence of any Event of Default by Farmer Mac hereunder, the Seller may, at its option, terminate this Commitment; provided however, that:

(a) Upon an Event of Default under Section 8.02(b), (c) or, in the case of the appointment of a conservator only, (d), the Seller may terminate this Commitment only if such Event of Default remains uncured for a period of 30 days following written notice to Farmer Mac by the Seller.

(b) Upon an Event of Default under 8.02(a), the Seller may: (i) elect to require that the purchase price be paid by the issuance of an MBS backed by such Qualified Loan or (ii) terminate this Commitment only if such Event of Default remains uncured for a period of 30 days following written notice to Farmer Mac by the Seller.

Section 9.03. Remedies Not Exclusive. Unless otherwise expressly provided, no remedy conferred herein or reserved to any party is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity; provided, however, that in no event shall either party have any liability to the other party with respect to consequential damages.

Section 9.04. Delay or Omission Not Waiver. No delay or omission of either party to exercise any right or remedy provided hereunder upon an Event of Default (except a delay or omission pursuant to a written waiver) shall impair any such right or remedy or constitute a waiver of any such Event of Default or acquiescence therein. Every right and remedy given by this Article IX or by law to either party may be exercised from time to time, and as often as may be deemed expedient by either party. In order to entitle either party to exercise any remedy reserved to such party in this Article IX, it shall not be necessary to give any notice unless otherwise provided in Sections 9.01 or 9.02.

## ARTICLE X

### MISCELLANEOUS

#### Section 10.01. Termination Event; Removal of Qualified Loans from Portfolio.

(a) Farmer Mac and the Seller each must give the other party written notice of the occurrence of a Termination Event. In the case of a Termination Event, such notice shall be accompanied by an opinion of counsel or an opinion of an independent accounting firm, if applicable, supporting the conclusion that a Termination Event has occurred. Upon the declaration of the occurrence of a Termination Event, this Commitment shall terminate only in respect to the Qualified Loans affected by the Termination Event and be of no further force or effect.

(b) If the Qualified Loan Schedule specifies an Optional Removal Trigger for the related pool of Qualified Loans, then notwithstanding the provisions of Section 4.02(c), the Seller may remove all (but not part) of a pool of Qualified Loans identified on a Qualified Loan Schedule from the Portfolio without the prior written consent of Farmer Mac to the extent that the aggregate unpaid principal balance of the Qualified Loans remaining in the applicable pool is less than or equal to the Optional Removal Trigger. Seller shall provide Farmer Mac with not fewer than thirty (30) days written notice of its intent to remove a pool of Qualified Loans from the Portfolio pursuant to this Section 10.01(b). Upon removal of any pool of Qualified Loans from the Portfolio, Farmer Mac shall not be obligated to purchase any Qualified Loan contained in such pool in the future under the terms of this Commitment.

Section 10.02. Accounting/Capital Treatment. Neither Farmer Mac nor any of the directors, officers, employees or agents of Farmer Mac shall be under any liability for the accuracy, legality or soundness of the Seller's intended accounting or capital treatment of the transaction contemplated by this Commitment or for the Seller's interpretation of any accounting rules relating to its intended accounting or capital treatment of this transaction.

Section 10.03. Servicing. In connection with the servicing of the Qualified Loans in the Portfolio, although the Seller agrees to comply (or cause its subservicer to comply) in all material respects with the applicable servicing standards set forth in the Servicing Agreement, the parties agree that the Seller is not servicing the Portfolio for Farmer Mac until the Qualified Loans are removed from the Portfolio and sold to Farmer Mac.

Section 10.04. Reserved.

Section 10.05. Benefit of Commitment. Any reference to any of the parties to this Commitment shall be deemed to include the successors and assigns of such party. All covenants and agreements herein contained are for the benefit of the parties hereto only, and nothing expressed or implied herein is intended to be for the benefit of any other Person.

Section 10.06. Amendments and Waivers. No term, covenants, agreement or condition of this Commitment may be amended, nor any compliance therewith waived (either generally or in a particular instance and either retrospectively or prospectively) except by an instrument in writing duly executed and delivered by the parties hereto.

Section 10.07. Notices. All notices and communications provided for hereunder shall be in writing and shall be delivered by legible telecopy (receipt confirmed by telephone) or by a means that guarantees over-night delivery. All notices and communications shall be addressed as follows.

If to the Seller:

National Rural Utilities Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Telephone: 703-467-7402  
Facsimile: 703-467-5178  
Attn: Andrew Don, Senior Vice President  
& Chief Financial Officer

With a copy to:

National Rural Utilities Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Telephone: 703-467-1872  
Facsimile: 703-467-5651  
Attn: Roberta B. Aronson, Esq., Senior Vice President  
& General Counsel

If to Farmer Mac:

Farmer Mac  
 Attention: General Counsel  
 1999 K Street, N.W.  
 4<sup>th</sup> Floor  
 Washington, DC 20006  
 Facsimile: (202) 872-7713

Section 10.08. Attorneys' Fees. If a legal action is commenced in connection with any dispute under this Commitment, the prevailing party shall be entitled to reasonable attorney fees, costs, and necessary disbursements incurred in connection with the related action as determined by the court.

Section 10.09. Severability. If any provision of this Commitment shall be invalid, illegal or unenforceable, such provision shall be severable from the remaining provisions of this Commitment, and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 10.10. Multiple Counterparts. This Commitment may be simultaneously executed in multiple counterparts, all of which shall constitute one and the same instrument and each of which shall be, and shall be deemed to be, an original.

Section 10.11. Governing Law. The terms of this Commitment shall be construed and interpreted in accordance with federal law. To the extent federal law incorporates state law, that state law shall be the laws of the District of Columbia, without regard to the conflicts of laws provisions thereof.

Section 10.12. Termination. This Commitment shall terminate on the earlier of (a) the last day of the Commitment Term, (b) the date upon which the actions required upon the occurrence of a Termination Event, as set forth in Section 10.01, have been fulfilled by the Seller or Farmer Mac, as applicable, (c) at Farmer Mac's or the Seller's option, as applicable, the date upon which an Event of Default has occurred with respect to the other party, and (d) the date specified in a notice of termination delivered by Seller, at Seller's discretion, provided such notice is delivered at least two (2) years after the Effective Date of this Commitment and provides at least six (6) months prior notice of such termination.

Section 10.13. Time is of the Essence. Time is of the essence for all of the terms and provisions of this Commitment.

[Remainder of Page Intentionally Blank – Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Commitment to be duly executed by their duly authorized officers or representatives as of the date above first written.

**FEDERAL AGRICULTURAL MORTGAGE CORPORATION**

By: /s/ R. DALE LYNCH  
Name: R. Dale Lynch  
Title: CFO, EVP

**NATIONAL RURAL UTILITIES COOPERATIVE  
FINANCE CORPORATION**

By: /s/ J. ANDREW DON  
Name: J. Andrew Don  
Title: Senior Vice President and Chief Financial Officer

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**EXHIBIT A**

**OFFICER'S CERTIFICATE**

of

\_\_\_\_\_ (the "Seller")  
[Institution's Name]

I, \_\_\_\_\_, a duly appointed or elected officer of the Seller hereby certify as follows:

1. The Seller has the requisite authority under its articles of incorporation and by-laws (or similar organizational documents) to enter into and perform under the Long Term Standby Commitment to Purchase (the "Commitment") between the Seller and the Federal Agricultural Mortgage Corporation.
2. The Seller has taken such action, including the adoption of resolutions if necessary, to authorize the Seller's entry into and performance under the Commitment.
3. The person or persons who signed the Commitment on behalf of the Seller are authorized to execute and deliver the Commitment on behalf of the Seller.

IN WITNESS WHEREOF, I have signed this Officer's Certificate this \_\_\_\_\_ day of \_\_\_\_\_, in the year \_\_\_\_\_.

By: \_\_\_\_\_

Name:

Title:



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**EXHIBIT B**  
**PURCHASE REQUEST AND CERTIFICATION**

TO:     [            ]  
Farmer Mac  
1133 21<sup>st</sup> Street, N.W.  
Suite 600  
Washington, D.C. 20036

**DATE:**       \_\_\_\_\_ [No later than the 7<sup>th</sup> business day of the month]

**SELLER PURCHASE REQUEST AND CERTIFICATION**

Farmer Mac Seller ID:

The following Qualified Loans have become Defaulted Qualified Loans pursuant to the Long-Term Standby Commitment to Purchase entered into between Farmer Mac and [NAME OF SELLER] (the "Seller") as of [DATE] (the "Commitment"). Accordingly, the Seller certifies that (i) all the information contained in the Qualified Loan Schedule submitted to the Custodian is correct and (ii) upon payment of the purchase price, the Seller will transfer an undivided interest in such Qualified Loans or Qualified Participation Interests to Farmer Mac. Capitalized terms used but not defined herein shall have the meanings set forth in the Commitment.

Farmer Mac Loan #	Current whole loan UPB	Participation Interest and %
_____	_____	_____
_____	_____	_____
_____	_____	_____

[NAME]

By:  
      [Authorized Officer]

Contact Person:

Name:

Phone #:

Address:

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**EXHIBIT C**  
**PENDING LITIGATION SCHEDULE**

Except as disclosed in the Seller's Form 10-K filed with the U.S. Securities and Exchange Commission on August 26, 2015, none.

**EXHIBIT D****Qualified Loan Schedule:** [Name of Seller and Related Pool Identifier]**Effective Date:** [Fill in date]

	<i>Loan Advance</i>	<i>Interest</i>	<i>Effective Date</i>	<i>FAMC</i>	<i>Commitment</i>	<i>Maturity</i>
<i>Payment</i>						
<i>Loan Number</i>	<i>Borrower Name</i>	<i>Date</i>	<i>Rate Type</i>	<i>Balance</i>	<i>Participation</i>	<i>Fee Rate</i>
<i>Frequency</i>						<i>Date</i>

Total Number of Loans: [\_\_\_\_\_]

Weighted Average Commitment Fee:[\_\_\_\_\_]%

Total Scheduled Balance of Loans:

\$[\_\_\_\_\_]

The loans listed in this Qualified Loan Schedule (“QLS”) have been included in the Seller’s Portfolio under the Long Term Standby Commitment to Purchase Agreement between Farmer Mac and the Seller (the “Commitment”) based on information provided to Farmer Mac by the Seller. Seller acknowledges that the due diligence procedures Farmer Mac performs prior to signing a QLS vary depending on the characteristics of the loans nominated by the Seller for inclusion in the Portfolio and do not necessarily include a review of loan files by Farmer Mac for conformity with Farmer Mac’s requirements. The Seller further acknowledges that it remains fully obligated under its representations and warranties with respect to each of the loans listed on this QLS, as set forth in Section 6.01 of the Commitment, and subject to the remedies for any breach of those representations and warranties.

The Seller acknowledges that payment of the Standby Purchase Commitment Fee and submission of the monthly loan activity report are due on or before the 7th Business Day of each month, beginning the month after the month of the Effective Date. Failure to pay the Standby Purchase Commitment Fee in accordance with the terms of the Commitment requires interest to be paid on any overdue amount and constitutes an Event of default for which Farmer Mac may terminate the Commitment. The Seller certifies that the information contained in this Qualified Loan Schedule is accurate.

Optional Removal Trigger Percentage:\_\_\_\_\_ (if none specified, then 0%)

Reserve Amount Total Limit:\_\_\_\_\_ (if none specified, then 0%)

**[Name of Seller]****Signature:****Name:****Title:****Federal Agricultural Mortgage Corporation****Signature:****Name:****Title:****QUALIFIED LOAN SCHEDULE**

**EXHIBIT E**

**FILE SPECIFICATIONS FOR LOAN SETUP FILE**

<b>LONG TERM STANDBY COMMITMENT, BASIC SETUP FILE</b>			
<b>Field Number</b>	<b>Field Name</b>	<b>Format Example</b>	<b>Description</b>
1	Coop ID	DC001	Alphanumeric RUS Cooperative ID
2	Coop Name	FMAC Example Coop	Name of Cooperative
3	Loan Numbers	DC00190000001	Alphanumeric loan identification number (specified by counterparty)
4	Facility Type	PC	Type of Loan Program (PC = Standby; LUM = Loan Purchase)
5	Unpaid Principal Balance	2093377.20	Outstanding balance of loan at the time of submissions (just the portion participated to Farmer Mac)
6	Pool Effective Date	8/1/2015	Effective date of the purchase commitment
7	Maturity Date	8/1/2025	Date the loan matures
8	Amortization End Date	8/1/2030	Final amortization end date (must be equal to or greater than maturity)
9	Amortization Basis	Level Debt	Type of amortization (Level Debt, Interest Only, Level Principal, Custom)
10	Payment Frequency	6	Number of months between interest and principal payments (Annual=12, Semi-annual=6, Quarterly=3, Monthly=1)
11	Interest Rate Term	1.00	Years interest rate is fixed
12	Remaining Loan Term	10.00	Years remaining until last payment
13	Interest Rate Set Date	9/1/2014	Date the interest rate was last set
14	Annual Commitment Fee Rate	.0020	Annualized fee paid to Farmer Mac to commit to purchase loan
15	Current Note Rate	.0400000	The note rate at the time of submission
16	Loan Advance Date	8/1/2013	Date the loan was originally settled or originated
17	Interest Payment Type	LTF	Type of interest rate product (LTV or variable and LTF or fixed)
18	Day Count Convention	30/360	Loan accounting day count convention (30/360, ACT/360, 30/365, ACT/365, ACT/ACT)
19	Next Repricing Date	9/1/2016	Next date on which the loan will change its rate (Adjustable only)
20	Reset Margin	.0250000	Amount of margin added to index value at the time of reset (Adjustable only)
21	Rate Reset Index	1ML	Index to which the loan's rate will change (Adjustable only; "Internal" if internal, non-published index)
22	Loan Participation	0	Farmer Mac is participating only on a portion of the note (boolean; 0 = no and 1 = yes)
23	Percent Participation	.50	Percentage of total loan that Farmer Mac is a participant

## EXHIBIT F FILE SPECIFICATIONS FOR LOAN ACTIVITY REPORT

<b>LTSPC &amp; Security, Periodic File</b>					
Field Number	Field Name	Type	Max Length	Format Example	Description/ Comments
1	Coop ID	AN	50	DC001	Alphanumeric RUS Cooperative ID
2	Loan Number	AN	50	DC00190000001	Alphanumeric loan identification number (specified by counterparty)
3	Prior Month Balance	Numeric	32	1000000	Balance of the loan or participation amount at the beginning of the period before any payments applied (i.e., first of month)
4	Ending Period Balance	Numeric	32	1000000	Balance of the loan or participation amount at the end of the period after any payments applied (i.e., end of month)
5	Current Note Rate	Numeric	32	.0360000	Current effective interest rate of note at the beginning of the period
6	Accrued Interest	Numeric	32	3000	Amount of accrued interest during the monthly period
7	Delinquency Code	Numeric	2	1	Loan past due indicator at end of period
8	Periodic Report Date	Date	10	8/1/2015	Date of the reporting period (always first of month)
9	Commitment Fee	Numeric	32	8/1/2030	Amount of commitment fee paid to Farmer Mac for month (on a 30/360 basis: beginning balance * fee rate / 12)
10	Action Code	Numeric	3	50	Code corresponding to servicing actions or payoffs
11	Last Payment Effective Date	Date	10	7/31/2015	Date the loan last paid principal and/or interest (used to evaluate days past due)

### LEGEND ONE: ACTION CODE

0	No Action Code
10	Delinquent Loan Purchase by Farmer Mac
20	Loan Paid Off
30	Removed Loan from LTSC (with consent from FAMC)
40	Modified LTSC Loan (Seller will add Loan to Setup File)
50	New Loan Added to LTSC (Seller will add to Setup File)
60	Repriced LTSC Loan (Loan Number Updated)

### LEGEND TWO: DELINQUENCY CODE

1	Current
2	30-59 Days Delinquent
3	60-89 Days Delinquent
4	90+ Days Delinquent
5	Foreclosure
6	Bankruptcy
7	REO
8	Ready to purchase

**EXHIBIT G**

**FILE SPECIFICATIONS FOR DELINQUENCY REPORT**

<b><i>DISTRESSED LOAN REPORTING - ALL PRODUCTS</i></b>					
<b>Field Number</b>	<b>Field Name</b>	<b>Type</b>	<b>Max Length</b>	<b>Format Example</b>	<b>Description/ Comments</b>
<b>GENERAL DELINQUENCY SECTION</b>					
1	Loan Number	AN	50	123456	Unique Loan number assigned by Farmer Mac
2	Report Date	Date	19	MM/DD/YYYY	Delinquency Reporting Date
3	Borrower Last Name	AN	50	Text	Last Name\ Entity Name of First Borrower Listed on Related Borrower Setup File
4	Payment Due Date	Date	19	MM/DD/YYYY	Date the Original Delinquent Payment was Due
5	Delinquency Status Code	Numeric	11	300	Legend One *
6	Delinquency Reason Code	Numeric	11	300	Legend Two *
9	Servicer Comments	Memo	512	Text	Completed by Central Servicer

## APPENDIX A

### LEGEND ONE:

Code	Delinquency Status	Delinquency Reason Description
1	Pending Action	Delinquency is being resolved by servicer, but no formal action has been taken.
2	Foreclosure	The servicer has referred the case to an attorney to take legal action to acquire the property through a foreclosure sale.
3	Chapter 7 Bankruptcy	The mortgagor(s) has filed for bankruptcy under Chapter 7 of the Federal Bankruptcy Act.
4	Chapter 11 Bankruptcy	The mortgagor(s) has filed for bankruptcy under Chapter 11 of the Federal Bankruptcy Act.
5	Chapter 12 Bankruptcy	The mortgagor(s) has filed for bankruptcy under Chapter 12 of the Federal Bankruptcy Act.
6	Chapter 13 Bankruptcy	The mortgagor(s) has filed for bankruptcy under Chapter 13 of the Federal Bankruptcy Act.
7	Forbearance	The servicer has authorized a temporary suspension of payments or a repayment plan that calls for periodic payments of less than the scheduled payment, periodic payments at different intervals, etc. to give the mortgagor(s) additional time and a means for bringing the mortgage current by repaying all delinquent installments.
8	Preforeclosure Sale	The mortgagor(s) plans to pursue a preforeclosure sale (a payoff of less than the full amount of our indebtedness) to avoid the expenses of foreclosure proceedings.
9	Drug Seizure	The Department of Justice has decided to seize (or has seized) a property under the forfeiture provision of the Controlled Substances Act.
10	Refinance	The servicer is pursuing a modification arrangement whereby the existing first mortgage is refinanced (paid off) with the proceeds of the new mortgage arranged by us.
11	Assumption	The servicer is working with the mortgagor(s) to sell the property by permitting the purchaser to pay the delinquent installments and assume the outstanding debt in order to avoid a foreclosure.
12	Modification	The servicer is working with the mortgagor(s) to renegotiate the terms of the mortgage in order to avoid foreclosure.
13	Charge-Off	The Servicer is determining whether it is in our best interests to pursue collection efforts or legal actions against the mortgagor(s) (because of a reduced value for the property, a low outstanding mortgage balance, or the presence of certain environmental hazards on the property).
14	Third-Party Sale	We authorized a foreclosure bid equal to the "fair market value" of a property (instead of the "total indebtedness") in order to encourage third party bidding at the foreclosure sale.
15	Probate	The servicer is waiting to pursue (or complete) foreclosure action because proceedings required to verify a deceased mortgagor's will are in process.
16	Deed-in-Lieu	We authorized the servicer to accept a voluntary conveyance of the property instead of initiating foreclosure proceedings.

17	Assignment	Use this code to indicate that a mortgage is in the process of being assigned to the insurer or guarantor.
18	REO	Use this action code for REO

LEGEND  
TWO:

Code	Delinquency Reason	Delinquency Reason Description
1	Curtailment of Income	The delinquency is attributable to a reduction in the mortgagor's income, such as a garnishment of wages, a change to a lower paying job, reduced commissions or overtime pay, loss of a part-time job, low commodity prices, etc. The mortgagor(s) is expected to recover from such a set-back.
2	Excessive Obligations	The delinquency is attributable to the mortgagor's having incurred excessive debts (either in a single instance or as a matter of habit) that prevent him or her from making payments on both those debts and the mortgage debt. The mortgagor(s) is expected to recover if debt obligations are reduced.
3	Farm Management/ Business Failure	The delinquency is attributable to having a reduction in income that are the direct result of the farming operation not remaining a viable entity or, at least, unable to generate sufficient cash to meet mortgage obligations.
4	Death of Principal mortgagor(s)	The delinquency is attributable to the death of the principal mortgagor(s).
5	Illness of Principal mortgagor(s)	The delinquency is attributable to a prolonged illness that keeps the principal mortgagor(s) from working and generating income.
6	Illness of mortgagor (s) Family Member	The delinquency is attributable to the principal mortgagor's having incurred extraordinary expenses as the result of the illness of a family member.
7	Death of mortgagor (s) Family Member	The delinquency is attributable to the principal mortgagor's having incurred extraordinary expenses as the result of the death of a family member.
8	Marital Difficulties	The delinquency is attributable to problems associated with a separation or divorce, such as a dispute over ownership of the property, a decision not to make payments until the divorce settlement is finalized, a reduction in the income available to repay the mortgage debt, etc.
9	Abandonment of Property	The delinquency is attributable to the mortgagor's having abandoned the property for reason(s) that are not known by the servicer (because the servicer has not been able to locate the mortgagor(s)).
10	Property Problem	The delinquency is attributable to the condition of the improvements or the property (substandard construction, expensive and extensive repairs needed, subsidence of sinkholes on property, impaired rights of ingress and egress, etc. ) or the mortgagor(s) dissatisfaction with the property or the neighborhood.
11	Inability to Sell Property	The delinquency is attributable to the mortgagor's having difficulty in selling the property.
12	Inability to Rent Property	The delinquency is attributable to the mortgagor's needing rental income to make the mortgage payments and having difficulty in finding a tenant.
13	Military Service	The delinquency is attributable to the principal mortgagor's having been called to active duty status and his or her military pay not being sufficient to enable the continued payment of the existing mortgage debt.
14	Unemployment	The delinquency is attributable to a reduction in income resulting from the principal mortgagor(s) having lost his or her job.



15	Casualty Loss	The delinquency is attributable to the mortgagor's having incurred a sudden, unexpected property loss as the result of an accident, fire, storm, theft, earthquake, etc.
16	Servicing Problems	The delinquency is attributable to the mortgagor's being dissatisfied with the way the mortgage servicer is servicing the loan or with the fact that servicing of the loan has been transferred to a new servicer.
17	Payment Adjustment	The delinquency is attributable to the mortgagor's being unable to make a new payment that resulted from an increase related to a scheduled payment change for a graduated-payment or adjustable- rate mortgage.
18	Payment Dispute	The delinquency is attributable to a disagreement between the mortgagor(s) and the mortgage servicer about the amount of the mortgage payment, the acceptance of a partial payment, or the application of previous payments that results in the mortgagor(s) refusal to make the payment(s) until the dispute is resolved.
19	Transfer of Ownership Pending	The delinquency is attributable to the mortgagor's having agreed to sell the property and deciding not to make any additional payments.
20	Fraud	The delinquency is attributable to a legal dispute arising out of a fraudulent or illegal action that occurred in connection with the origination of the mortgage (or later).
21	Unable to Contact Borrower	The reason for the delinquency cannot be ascertained because the mortgagor(s) cannot be located or has not responded to the servicer's inquiries.
22	Incarceration	The delinquency is attributable to the principal mortgagor(s) having been jailed or imprisoned (regardless of whether he or she is still incarcerated).
23	Other	The delinquency is attributable to reasons that are not otherwise included in this list of applicable codes.

**PURCHASE AGREEMENT**

**by and among**

**NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION**

**CARIBBEAN ASSET HOLDINGS, LLC**

**ATN VI HOLDINGS, LLC**

**and**

**ATLANTIC TELE-NETWORK, INC.**

**Dated as of September 30, 2015**

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## PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (this “Agreement”) is entered into to be effective as of September 30, 2015, by and among Caribbean Asset Holdings, LLC, a Delaware limited liability company (the “Company”), National Rural Utilities Cooperative Finance Corporation, a member-owned, nonprofit financing cooperative incorporated under the laws of the District of Columbia, and the sole member of the Company (the “Parent” and, together with the Company, the “Sellers”), ATN VI Holdings, LLC, a Delaware limited liability company (“Buyer”), and Atlantic Tele-  
Network, Inc., a Delaware corporation and parent corporation of Buyer (“Buyer Parent”). Unless otherwise provided, capitalized terms used herein are defined, or the definitions cross-referenced, in Article 1 below.

## PRELIMINARY STATEMENTS

A. The Company, through its ownership of operating Subsidiaries, is in the business of marketing, selling and providing wireless and wireline telecommunications, broadband (including data transmission via undersea cable), video programming services, hosting, storage, VOIP and managed services throughout the United States Virgin Islands, British Virgin Islands and Sint Maarten, a constituent country of the Kingdom of the Netherlands (the “Business”).

B. The Buyer wishes to acquire the Business from the Parent by purchasing all of the issued and outstanding right, title and interest in and to the member interests in the Company, and Parent desires to sell the Business to the Buyer by the sale of all such member interests in the Company, on the terms and subject to the conditions of this Agreement.

C. In connection with the transactions contemplated hereby and as a condition to the consummation thereof, the Company shall, or cause its direct or indirect Subsidiary to, sell, assign, transfer and convey to a third party all right, title and interest in and to the Excluded Assets (such transactions, each, a “Divestiture” and collectively, the “Divestitures”).

D. In connection with the transactions contemplated hereby, Buyer Parent and FTI Consulting, Inc. (“FTI”) have entered into a letter agreement, attached hereto as Exhibit J (the “FTI Letter Agreement”), concerning, among other things, transition management services which may be provided by FTI to Buyer, the Company and Seller Entities after the Closing on the terms and subject to the conditions set forth in the form of transition management services agreement attached hereto as Exhibit K (the “FTI Transition Management Services Agreement”).

## STATEMENT OF AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

### **Article 1\_ DEFINITIONS**



**Section 1.01 Definitions.** The following terms, as used in this Agreement and the Exhibits and Schedules hereto, have the following meanings:

“Action” means any suit, litigation, hearing, examination, inquiry, investigation, audit, arbitration, cause of action, claim, complaint, criminal prosecution, governmental or other administrative proceeding, whether at law or at equity, before or by any Governmental Authority, arbitrator or other tribunal.

“Affiliate” means, as to any Person, any other Person which, directly or indirectly, controls, or is controlled by, or is under common control with, such Person; provided, that (i) for purposes of Section 3.06, Section 3.09, Section 3.13(o), Section 3.13(r), Section 11.02 and the definition of “Related Person”, National Cooperative Services Corporation, RTFC and the directors, officers and employees of such cooperatives and of Parent shall be deemed to be Affiliates of the Sellers or the Seller Entities, and (ii) for all other purposes of this Agreement, none of National Cooperative Services Corporation, RTFC or the directors, officers or employees of such cooperatives or of Parent shall be deemed to be Affiliates of the Sellers or the Seller Entities. As used in this definition, “control” (including, with its correlative meanings, “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of management or policies of a Person, whether through the ownership of securities or partnership or other ownership interests, by contract or otherwise.

“Anti-Corruption Laws” means any Applicable Laws in the Territory related to combating bribery and corruption, including the Foreign Corrupt Practices Act of 1977.

“Anti-Terrorism and Anti-Money Laundering Laws” means any Applicable Laws in the Territory related to terrorism or money laundering, including: the Executive Order and statutes authorizing the establishment of trade and economic sanctions programs enforced by the Office of Foreign Assets Control of the U.S. Treasury Department, the Bank Secrecy Act of 1970 and the USA PATRIOT Act of 2001.

“Applicable Law” means, with respect to any Person, any transnational, domestic or foreign federal, state or local law (statutory, common or otherwise), constitution, treaty, convention, licensing requirement, ordinance, code, rule, regulation, order, injunction, judgment, decree, ruling or other similar requirement enacted, adopted, promulgated, applied or enforced by a Governmental Authority that is binding upon or applicable to such Person or its assets or properties, as amended unless expressly specified otherwise; and “Applicable Tax Law” means Applicable Law relating to Taxes.

“Auction” means the broadcast incentive auction to be conducted by the FCC under Section 6403 of the Middle Class Tax Relief and Job Creation Act of 2012.

“Available Cash” means the aggregate amount of cash and cash equivalents (including bank deposits) as reflected in the Company’s and the Seller Entities’ bank statements and certificates of deposit less escrowed amounts or other restricted cash balances and less the amounts of any unpaid checks, drafts and wire transfers issued on or prior to the date of determination, calculated in accordance with GAAP and consistent with the preparation of the Latest Balance Sheet. For the

avoidance of doubt, Available Cash shall (a) be calculated net of issued but uncleared checks and drafts, (b) include cash, checks and drafts deposited or on hand to be deposited for the accounts of the Company and the Seller Entities, and (c) be calculated net of overdrawn accounts.

“Bonneville Matter” means the dispute raised by the Sellers with Bonneville Group Virgin Islands, a construction company based in Puerto Rico, for the overcharge of materials and labor and the scope of work performed with respect to the installation of telecommunications fiber optic cables in the U.S. Virgin Islands pursuant to five (5) contracts between the parties, including addendums and supplemental documents thereto, which contracts consist of (a) the June 17, 2011 contract, (b) the June 21, 2011 contract, (c) the October 13, 2011 contract, (d) the August 30, 2010 contract and (e) the September 5, 2008 contract.

“BT&P” means the Bureau Telecommunications and Post St. Maarten.

“Business Day” means any day excluding Saturday, Sunday and any day on which banking institutions located in the State of New York or Commonwealth of Massachusetts are authorized or required by Applicable Law to close.

“BVI Ministry” means the British Virgin Islands Ministry of Communications and Works.

“Closing Indebtedness” means an amount equal to the unpaid principal amount of, all interest on, all premiums, penalties or fees, if any, and all other costs, expenses and other amounts owed to any Person or other Liabilities as of the Closing in respect of Indebtedness (excluding pre-billed customer services).

“Closing Pension/OPEB Shortfall” means, with respect to each Pension/OPEB Plan, the excess, if any, of the aggregate value of the benefits accrued under such Pension/OPEB Plan as of the Closing Date, over the fair value, determined as of the Closing Date, of the assets held in segregated trusts, escrow accounts, rabbi trusts, insurance contracts or other funding mechanisms established or maintained by the Company or a Seller Entity for the purpose of funding the liabilities under such Pension/OPEB Plan. The Closing Pension/OPEB Shortfall for each Pension/OPEB Plan shall be jointly determined by the plan’s enrolled actuary and by Deloitte & Touche LLP in accordance with Accounting Standards Codification (ASC) Topic 715 based on the RP-2014 mortality table, the MP-2014 projection scale, subject to the immediately following four sentences, other assumptions as detailed in Schedule 1.D, and other reasonable plan assumptions. The actuarial assumptions included in Schedule 1.D are based on economic and demographic conditions as of the date of this Agreement. To the extent there are changes in economic and demographic conditions between the date of this Agreement and the Closing Date, the assumptions will be reviewed by both the plan’s enrolled actuary and by Deloitte & Touche LLP to ensure that they are still appropriate as of the Closing Date. If not, the plan’s enrolled actuary and Deloitte & Touche LLP will cooperate in good faith to make appropriate changes in the assumptions at such time. The discount rate for each of the Pension/OPEB Plans will be determined as of the Closing Date using the same method used to determine the unfunded benefit obligations under such Pension/OPEB Plan for purposes of the Company’s financial statements for the fiscal year ended May 31, 2015.

“CoBank” means CoBank ACB, as administrative agent and lender to Buyer Parent, or any successor or assign thereof.

“Code” means the Internal Revenue Code of 1986, as amended, and any reference to any particular Code section shall be interpreted to include any revision of or successor to that section regardless of how numbered or classified.

“Communications Laws” means, collectively, the Communications Act of 1934, as amended, and the rules and regulations promulgated by the FCC under the foregoing, as in effect from time to time.

“Communications Permits” means all Permits issued or granted by a Communications Regulatory Authority that are held by the Company or a Seller Entity.

“Communications Regulatory Authority” means any Governmental Authority having the regulatory, administrative or licensing authority over the operations or assets of the Company or a Seller Entity in any given jurisdiction, including, without limitation, the FCC, the PSC, the BVI Ministry, the BT&P, and the Sint Maarten Ministry, and, in each case, any successor authority.

“Communications Regulatory Authority Consent” means the grant by any Communications Regulatory Authority of its consent, where required or advisable by legal counsel (including the consent of the Sint Maarten Ministry), to the assignment of a Communications Permit or the transfer of control of a Communications Permit or a Seller Entity holding a Communications Permit, in each case, in connection with the transactions contemplated hereby, including the sale of the Membership Interest to Buyer.

“Competition Laws” means Applicable Laws regulating antitrust, anti-monopoly, trade practices and other anti-competitive conduct; provided, however, that “Competition Laws” shall not be deemed to include the Communications Act of 1934, as amended, 47 U.S.C. § 254(e).

“Contract” means any contract, agreement, license, lease, instrument, arrangement or other understanding, including purchase orders and invoices, whether written or oral, and all amendments, modifications and supplements thereto.

“Copyleft License” means any license that requires, as a condition of use, modification or distribution of a work of authorship, that such work of authorship or derivative works thereof be made available free of charge under such license, and that, in the case of software, be made available in source code form, or under terms that allow such software to be reverse engineered. Copyleft Licenses include without limitation the GNU General Public License, the GNU Lesser General Public License, the Mozilla Public License, the Common Development and Distribution License, the Eclipse Public License, and all Creative Commons “sharealike” licenses.

“Environmental Laws” means Applicable Laws concerning pollution or protection of the environment or human health and safety, including, but without limitation, Applicable Laws relating to the generation, handling, transportation, treatment, storage, disposal, distribution, labeling,

discharge, emission, release, threatened release, control, mitigation, or remediation of any Hazardous Substances.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“Escrow Account” means the account established by the Escrow Agent to hold the Escrow Amount, and any earnings thereon, pursuant to the Escrow Agreement.

“Escrow Agent” means JPMorgan Chase Bank, N.A.

“Escrow Agreement” means the Escrow Agreement, in the form of Exhibit A, to be entered into between the Buyer, Parent and the Escrow Agent effective as of the Closing Date.

“Excluded Assets” means (a) all of the equity interests and assets of Group B-200, Inc., (b) the real property owned by Virgin Islands Telephone Corporation listed on Schedule 3.10(a) as the “Sunny Isle Property,” and (c) the other assets set forth on Schedule 1.A.

“FCC” means the United States Federal Communications Commission.

“Filing” means any registration, petition, statement, application, schedule, form, declaration, notice, notification, report, submission or information or other filing.

“Final Order” means action by a Governmental Authority which has not been vacated, reversed, set aside, annulled or suspended and as to which: (a) no request for stay by such authority of the action is pending, no such stay is in effect, and, if any deadline for filing any such request is designated by statute or regulation, it has passed; (b) no petition for rehearing or reconsideration of the action is pending before such Governmental Authority, and the time for filing any such petition has passed; (c) such Governmental Authority does not have the action under reconsideration on its own motion and the time for such reconsideration has passed; and (d) no appeal to a court, or request for stay by a court, of such Governmental Authority’s action is pending or in effect, and, if any deadline for filing any such appeal or request is designated by statute or rule, it has passed.

“Financing” means the financing of the Purchase Price by RTFC in the amount and on the terms and conditions set forth in the Financing Documents.

“Financing Documents” means the Loan Agreement by and between Buyer, the Company and RTFC, the Security Agreement by and between Buyer, the Company, RTFC and the other parties thereto, the Guaranty made by Buyer Parent in favor of RTFC, the Guaranty made by the subsidiaries of the Company in favor of RTFC, the Secured Promissory Note with Buyer and the Company as borrowers in favor of RTFC, and the Subordination Agreement, substantially in the forms of Exhibits B, C, D, E, F and G, respectively.

“GAAP” means United States generally accepted accounting principles, consistently applied.

“Governmental Authority” means any transnational, domestic or foreign federal, state or local governmental, regulatory or administrative authority, department, court, agency or official, including any political subdivision thereof.

“Hazardous Substances” means any substance, material or waste the presence, use, handling, storage or disposal of which is regulated, prohibited or restricted under Environmental Laws, including, but without limitation: (1) petroleum and its by-products, asbestos or asbestos-containing material, polychlorinated biphenyls, mold, radon and lead-based paint and (2) any material or substance which is defined by Environmental Laws as a “hazardous waste,” “hazardous substance,” “hazardous material,” “restricted hazardous waste,” “industrial waste,” “solid waste,” “contaminant,” “pollutant,” “special waste,” “toxic material,” “toxic waste” or “toxic substance.”

“Plan of Record Adjustment” means the aggregate amount, if any, calculated in accordance with Part 1 of the Plan of Record on the basis of the average costs and Closing Count, in each case in connection with the Reduction.

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the related regulations and published interpretations.

“Plan of Record” means that certain schedule executed and delivered by Buyer and Sellers as of the date of this Agreement setting forth, among other things, (a) in Part 1 thereof, the manner in which the Plan of Record Adjustment, if any, shall be calculated, (b) in Part 2 thereof, average costs underlying the calculation set forth in Part 1, (c) in Part 3 thereof, targeted cost reductions and a mutually agreed upon permissible variance therefrom, and (d) in Part 4 thereof, detailed supporting information underlying the average costs contained in Part 2.

“Income Tax” means any federal, state, local or non-U.S. income tax measured by or imposed on net income, including any interest, penalty, or addition thereto, whether disputed or not.

“Income Tax Return” means any return, declaration, report, claim for refund, or information return or statement relating to Income Taxes, including any schedule or attachment thereto.

“Indebtedness” means all aggregate obligations of the Company and the Seller Entities (including all obligations in respect of principal, accrued interest, penalties, fees and premiums) (a) for borrowed money (including overdraft facilities), (b) evidenced by notes, bonds, debentures or similar Contracts, (c) for the deferred purchase price of property, goods or services (other than any trade accounts payable of the Business or other items as and to the extent actually included as current Liabilities in the calculation of the Net Working Capital amount, but including any deferred purchase price Liabilities, earnouts, contingency payments, installment payments, seller notes, promissory notes, or similar Liabilities, in each case, related to past acquisitions by the Company or any Seller Entity and, for the avoidance of doubt, in each case, whether or not contingent), (d) under capital leases (in accordance with GAAP), (e) in respect of deferred compensation for services, (f) in respect of severance, change of control payments, stay bonuses, retention bonuses, success bonuses, and other bonuses and similar Liabilities payable in connection with the transactions contemplated hereby), (g) obligations and/or Contracts relating to hedging, interest rate protection, swaps, collar

agreements and similar arrangements, and (h) in the nature of guarantees of the obligations described in clauses (a) through (g) above of any other Person.

“Knowledge” when used in the phrase “to the Knowledge of the Sellers” or similar phrases means, and shall be limited to, (i) the current, actual knowledge and awareness of Shawn O’Donnell, Mark Fortin, Matt Muckelbauer and Pam Schaard after inquiry of each of the Persons reporting directly to them with positions of Vice President and above at the Seller Entities (including, at a minimum, each of Debra Thomas Smith, Michael McHale, Jennifer Matarangas-King and Nathania Bates) and responsibility for the subject matter in question, and (ii) the current, actual knowledge and awareness of Luanne Hodge and Beulah Jonis without inquiry of any of the Persons reporting to them.

“Liabilities” means any and all Indebtedness, liabilities, commitments and obligations of any kind, whether fixed, contingent or absolute, matured or unmatured, liquidated or unliquidated, accrued or not accrued, asserted or not asserted, known or unknown, direct or indirect, determined, determinable or otherwise, whenever or however arising (including whether arising out of any contract or tort or whether based on negligence or strict liability) and whether or not the same would be required by GAAP to be reflected in financial statements or disclosed in the notes thereto.

“Lien” means, with respect to any asset, any lien, pledge, charge, claim, security interest, mortgage, easement, equitable interest, right of possession, lease or tenancy, infringement, encroachment, hypothecation, restriction, assignment or other encumbrance of any kind, including any right of first refusal, option or similar right providing for the purchase, disposition or acquisition thereof, conditional sale agreement, preemptive right, community property interest, impediment or exception to title, reservation of right, limitation or impairment of use, imperfection of title, attachment, easement, any restriction on the transfer of any asset, any restriction on the receipt of any income derived from any asset, any restriction on the use of any asset and any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset (including any agreement to give any of the foregoing).

“Losses” means any and all actions, claims, Liabilities, damages, losses, penalties, awards, settlements, judgments, charges, expenses and costs, including any interest, penalties, fines, reasonable legal, accounting and other professional fees directly related thereto and reasonable expenses incurred in the investigation, collection, prosecution, determination and defense of such Losses, that is incurred or suffered by a specified Person; provided, however, that Losses will not include any indirect, consequential, special or punitive damages or any damages or liability for lost profits or the like or based on multiple of profits, multiple of cash flow or similar valuation methodology, except to the extent (a) awarded by a court or other authority of competent jurisdiction to an unaffiliated third party in any Third Party Claim, or (b) arising from intentional or willful misrepresentation of facts that constitutes common law fraud under Applicable Laws.

“Material Adverse Effect” means any event, change, development, circumstance or condition that, individually or in the aggregate, has had or would reasonably be expected to have (a) a material adverse effect on the business, assets, properties, liabilities, results of operations or financial condition of the Company and the Seller Entities, taken as a whole, or (b) a material adverse effect on the ability of the Sellers to consummate the transactions contemplated by this Agreement,

other than, in the case of clause (a) only: (i) changes to the telecommunications, video programming or media services industries or the markets in which the Business operates that are not unique to the Business, (ii) the announcement or disclosure of the transactions contemplated herein, (iii) general economic, regulatory or political conditions or changes, (iv) changes in or the condition of financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index), (v) military action or any act of terrorism, (vi) changes in law or GAAP after the date hereof, (vii) compliance with the express terms of this Agreement or any express request of the Buyer or Buyer Parent (other than in respect of any requirement to operate in the ordinary course of business), (viii) a flood, hurricane, earthquake or other natural disaster, (ix) the failure of any Seller Entity to meet or achieve the results set forth in any internal projection (it being understood that the facts or occurrences giving rise or contributing to such failure that are not otherwise excluded from the definition of “Material Adverse Effect” may be taken into account in determining whether there has been a “Material Adverse Effect”), (ix) any matter set forth in the Schedules to the extent existing as of the date of this Agreement and expressly set forth in the Schedules, (x) changes in rates for residential and business customers of the Business pursuant to a Final Order by the PSC with respect to the Rate Case, (xi) changes directly and proximately resulting from the Reduction, or (xii) any suit, action or proceeding arising out of or in connection with this Agreement or the transactions contemplated hereby (provided that the existence of any such suit, action or proceeding may nonetheless constitute the breach of a representation or warranty or the failure of a condition precedent to a party’s obligation to perform hereunder); provided, that, in the case of clauses (i), (iii), (iv), (v), (vi) and (viii), such change does not disproportionately affect the Company, the Seller Entities or the Business compared to third parties.

“Material Adverse Regulatory Event” means the imposition by the FCC of a spectrum-related condition or divestment as a requirement to its approval of the Buyer’s purchase of the Membership Interest and operation of the Business, which would curtail the network or services of Buyer Parent or its Affiliate, Choice Communications, LLC, a U.S. Virgin Islands limited liability company, in the United States Virgin Islands as in effect on the date of this Agreement.

“Metrics” means the quality of service and other standards applicable to the Business and set forth in Schedule 6.01(a)(vii).

“Net Working Capital” means, subject to the exceptions and qualifications, if any, set forth on Schedule 1.B, the difference of (a) all consolidated current assets of the Business (excluding Available Cash), minus (b) all consolidated current Liabilities of the Business (excluding each of any deferred revenue, Closing Indebtedness and Closing Transaction Costs, if any). The foregoing shall be determined from the consolidated balance sheet of the Company in accordance with GAAP (except as otherwise provided in the immediately preceding sentence), consistent with the preparation of the Latest Balance Sheet.

“Net Working Capital Amount” means the Net Working Capital of the Company as of the close of business on the Closing Date.

“Open Source License” means any license meeting the Open Source Definition (as promulgated by the Open Source Initiative) or the free Software Definition (as promulgated by the

Free Software Foundation), or any substantially similar license, including but not limited to any license approved by the Open Source Initiative or any Creative Commons License. For avoidance of doubt, Open Source Licenses include without limitation Copyleft Licenses.

“Open Source Software” means any software subject to an Open Source License.

“ordinary course of business” means the ordinary course of business, consistent with past practice in both nature and amount.

“Organizational Documents” means the articles of incorporation, certificate of incorporation, charter, bylaws, articles of formation, certificate of formation, regulations, operating agreement, limited liability company agreement, certificate of limited partnership, partnership agreement, and all other similar documents, instruments or certificates executed, adopted, or filed in connection with the creation, formation, or organization of a Person, including any amendments thereto.

“Pension/OPEB Plan” means each of (a) the Innovative Communications Corp. Consolidated Pension Plan (the “iCC Pension Plan”), (b) the Virgin Islands Telephone Corporation Pension Plan for Hourly Employees (the “VITELCo Pension Plan”), (c) the Innovative Communications Corp. and Virgin Islands Telephone Corp. Salaried Employees Postretirement Benefits Plan (the “Salaried Postretirement Plan”), and (d) the Innovative Communications Corp. and Virgin Islands Telephone Corp. Bargaining Unit Employees Postretirement Plan (the “Hourly Postretirement Plan”).

“Permits” means all permits, approvals, consents, licenses, concessions or other rights granted by any Governmental Authority (including any Communications Regulatory Authority) that are necessary for the lawful ownership and operation of the assets of a Seller Entity or other lawful conduct of the Business as currently conducted.

“Permitted Liens” means any (a) Liens in respect of Taxes not yet due and payable or that are being contested in good faith by appropriate proceedings or which can be paid currently with no penalty and, in either case, for which adequate reserves are reflected in the Financial Statements in accordance with GAAP; (b) mechanics’, carriers’, workmen’s, repairmen’s, statutorily imposed or other like Liens arising or incurred in the ordinary course of business of the Business for sums not yet due that are not material in amount and do not materially detract from the value of or materially impair the existing use of the property affected by such Lien, or for which appropriate reserves are reflected in the Financial Statements in accordance with GAAP, which shall not be individually or in the aggregate greater than \$100,000 (or, with the Buyer’s consent, which shall not be unreasonably withheld or delayed, such greater amount); (c) Liens arising under original purchase price conditional sales Contracts and equipment leases with third parties that are Contracts entered into in the ordinary course of business of the Business which conditional sales Contracts or equipment leases involve less than \$100,000 individually or in the aggregate or which are identified in subsection (q) of Schedule 3.13; (d) statutory or common law Liens to secure sums not yet do to landlords, sublandlords, licensors or sublicensors under any Real Property Lease that are expressly set forth in such lease; (e) survey exceptions, imperfections of title, Liens or other title matters affecting any personal or real property that do not, individually or in the aggregate,



adversely affect the continued use of the encumbered property for the purposes for which such property is currently being used; (f) with respect to real property, zoning, building codes and other Applicable Law regulating the use or occupancy of such real property or the activities conducted thereon that are imposed by any Governmental Authority having jurisdiction over such real property, but only to the extent such Liens do not impair or hinder the ordinary course of business of the Business or adversely affect the continued use of the encumbered property for the purposes for which such property is currently being used; and (g) Liens securing Indebtedness to be repaid and released in connection with the Closing (provided that all such Liens are released at Closing and, following the Closing, will no longer be a “Permitted Lien” for purposes hereof).

“Person” means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or any agency or instrumentality thereof.

“PSC” means the U.S. Virgin Islands Public Services Commission.

“Quiet Period” means the period of time during which Auction applicants are prohibited by Applicable Law from communicating with “covered television licensees” and “forward auction applicants” (as such terms are defined in the rules and regulations of the FCC) regarding the applicants’ bids and bidding strategies.

“Rate Adjustment” means in the event that the rates in effect on the date of this Agreement for residential and business customers of the Business are (a) decreased, (b) neither increased nor decreased, or (c) increased by less than 10%, in each case, on a consolidated basis based on local revenue requirements, pursuant to a Final Order by the PSC with respect to the Rate Case, then an amount calculated in accordance with Schedule 1.C.

“Rate Case” means the rate review proceeding pending before the PSC in Dockets 626 and 628.

“Reduction” has the meaning set forth in Part 1 of the Plan of Record.

“Reference Date” means (i) with respect to matters pertaining the Company and DTR Holdings, LLC and its Subsidiaries, October 6, 2010, and (ii) with respect to matters pertaining to BVI Assets Holdings, LLC, STM Asset Holdings, LLC and their respective Subsidiaries, March 1, 2011.

“Related Agreements” means the Escrow Agreement and all other documents, certificates and instruments created, executed and delivered by any of the parties to this Agreement in connection with or pursuant to this Agreement or the transactions contemplated hereby except the Financing Documents.

“Related Person” means, with respect to a specified entity, (a) any Affiliate of such entity, (b) each other Person who owns of record or beneficially at least five percent of the outstanding capital stock or other equity securities of such entity, (c) each individual who is an officer, director,

manager or trustee of such entity, and (d) to the Knowledge of the Sellers', any Affiliate, beneficiary or immediate family member of any Person described in clause (b) or (c) of this definition.

"RT Park" means the University of the Virgin Islands Research and Technology Park Corporation, a public corporation and autonomous instrumentality of the Government of the United States Virgin Islands.

"RT Park-PC" means the Research and Technology Park Protected Cell Corporation, as created pursuant to Chapter 43, Title 17, Virgin Islands Code, as amended from time to time.

"RT Park Agreement" means, collectively, (i) the Park Tenant Agreement, dated as of November 30, 2011, by and among Caribbean Communications Corp. d/b/a Innovative Cable TV – St. Thomas and St. John; St. Croix Cable TV, Inc. d/b/a Innovative Cable TV – St. Croix; Vitelcom Cellular, Inc. d/b/a Innovative Wireless; VI PowerNet, LLC; and iCC TV, Inc. d/b/a TV2, RT Park; and RT Park-PC, (ii) the VI E-Cell Company Agreement, dated as of June 1, 2011, by and among Caribbean Communications Corp. d/b/a Innovative Cable TV – St. Thomas and St. John; St. Croix Cable TV, Inc. d/b/a Innovative Cable TV – St. Croix; Vitelcom Cellular, Inc. d/b/a Innovative Wireless; VI PowerNet, LLC; and iCC TV, Inc. d/b/a TV2, RT Park; and RT Park-PC and (iii) the Protected Cell License Agreement, dated as of June 1, 2011, by and among RT Park, RT Park-PC and Caribbean Communications Corp. d/b/a Innovative Cable TV – St. Thomas and St. John; St. Croix Cable TV, Inc. d/b/a Innovative Cable TV – St. Croix; Vitelcom Cellular, Inc. d/b/a Innovative Wireless; VI PowerNet, LLC; and iCC TV, Inc. d/b/a TV2.

"RTFC" means Rural Telephone Finance Cooperative, a District of Columbia cooperative association.

"Seller Closing Certificates" means the Closing Count Schedule and the certificates delivered by Sellers pursuant to the last sentence of Section 6.03 and pursuant to Sections 9.01(f), (j), (l) and (m).

"Seller Entities" means all of the Company's direct and indirect Subsidiaries other than Group B-200, Inc., which Subsidiaries are set forth on Schedule 3.01(a).

"Seller Proceeds" means the net amount payable to Parent from the Purchase Price, which shall be an amount equal to the difference of (a) Purchase Price less (b) the Closing Pension/OPEB Shortfall for each of the Pension/OPEB Plans less (c) the Closing Transaction Costs less (d) the Closing Indebtedness paid at Closing, if any, pursuant to Section 2.02(c)(i).

"Sint Maarten Ministry" means the Sint Maarten Ministry of Tourism, Economic Affairs, Traffic and Telecommunication.

"Subsidiary" means, with respect to any Person, any other Person, the securities or other ownership interests of which having ordinary voting power to elect a majority of the board of directors, or other individuals performing similar functions, is directly or indirectly owned or controlled by such Person or one of its Subsidiaries.

“Target Net Working Capital Amount” means zero dollars and cents.

“Tax” means any federal, state, territory, local or foreign income, gross receipts, capital stock, franchise, profits, withholding, social security, unemployment, disability, real property, ad valorem/personal property, stamp, excise, occupation, sales, use, transfer, value added, alternative minimum, estimated or other tax, assessment, duty, fee, levy or other governmental charge, including any interest, penalty or addition thereto.

“Tax Returns” means any return, report, information return or other document (including schedules or any related or supporting information) filed or required to be filed with any Governmental Authority or other authority in connection with the determination, assessment or collection of any Tax or the administration of any laws, regulations or administrative requirements relating to any Tax.

“Territory” means United States Virgin Islands, British Virgin Islands and the Dutch overseas territory of Sint Maarten.

“Transaction Costs” means all fees, costs and expenses (including, without limitation, fees, costs and expenses of legal counsel, investment bankers, brokers or other representatives and consultants and appraisal fees, costs and expenses) incurred in connection with this Agreement and the transactions contemplated hereby, including legal, accounting and investment banking fees.

“Union Contract Extension” means the Memorandum of Agreement, dated as of September 2, 2015, by and between the Virgin Islands Telephone Corporation d/b/a Innovative Telephone, its successors and assigns, and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, the United Steelworkers, AFL-CIO-CLC on behalf of Locals 8713 and 8545, extending the term of the Collective Bargaining Agreement, a copy of which is attached hereto as Exhibit I.

**Section 1.02 Cross-References to Other Defined Terms.** Each term listed below is defined in the Section of this Agreement listed opposite such term:

<b>Term</b>	<b>Section</b>
Agreement	Preface
Allocation Statement	Section 8.09
Alternative Transaction	Section 8.03
Business	Preliminary Statement A
Buyer	Preface
Buyer’s Computation	Section 2.05(a)
Buyer Indemnified Parties	Section 11.02(a)
Buyer Parent	Preface
BVI	Section 8.03
Claim	Section 11.05
Claim Notice	Section 11.05

<b>Term</b>	<b>Section</b>
Closing	Section 2.04(a)
Closing Date	Section 2.04(a)
Closing Count	Section 2.02(b)(ii)
Closing Count Schedule	Section 2.02(b)(ii)
Closing Transaction Costs	Section 2.02(c)
Collateral Source	Section 11.06(a)
Confidentiality Agreement	Section 7.01
Company	Preface
Company Contracts	Section 3.13
Consulting Agreement	Preliminary Statement E
Deductible	Section 11.03(a)
Designated Easements	Section 6.01(a)(ix)
Designated Leased Properties	Section 6.01(a)(ix)
Divestitures	Preliminary Statement C
Employee Benefit Plans	Section 3.16(a)
Environmental Permits	Section 3.18(a)
ERISA Affiliate	Section 3.16(a)
Escrow Amount	Section 2.03
Estimated Purchase Price	Section 2.02(b)(i)
Exceptions	Section 6.05(b)
Excluded Real Property	Section 3.10(a)
Facilities	Section 3.11(b)
Financial Statements	Section 3.08(a)(ii)
Firm	Section 2.05(d)
Fiscal 2014 Financial Statements	Section 3.08(a)(i)
Flow of Funds	Section 2.02(b)(ii)
Force Majeure Interruption	Section 9.01(u)
FTI	Preliminary Statement D
FTI Letter Agreement	Preliminary Statement D
FTI Transition Management Services Agreement	Preliminary Statement D
Fundamental Representations	Section 11.01
Indemnatee	Section 11.04(a)
Indemnitors	Section 11.04(a)
Interim Balance Sheet	Section 3.08(a)(ii)
Interim Financial Statements	Section 3.08(a)(ii)
Latest Balance Sheet	Section 3.08(a)(ii)
Leased Real Property	Section 3.10(a)
Membership Interest	Section 2.01(a)
Objection Notice	Section 2.05(c)
Outside Date	Section 10.01(d)
Parent	Preface

<b>Term</b>	<b>Section</b>
Payoff Letter	Section 2.02(c)(i)
Pre-Closing Tax Period	Section 8.08
Purchase Price	Section 2.02(a)
Real Property	Section 3.10(a)
Real Property Lease	Section 3.10(a)
Retained Litigation	Section 11.04(f)
Schedules	Article 3 Preamble
Second Request	Section 8.02(a)
Section 1060 Allocation	Section 8.09
Securities Act	Section 3.02(d)
Seller Indemnified Parties	Section 11.02(b)
Seller Insurance Policy	Section 11.06(b)
Sellers	Preface
Sellers' Computation	Section 2.02(b)(i)
Statement	Section 8.08
STM	Section 8.03
Straddle Period	Section 8.07
Tax Claim	Section 11.04(f)
Tax Indemnity	Section 11.02(a)(vii)
Third Party Claim	Section 11.04(a)
Title Exceptions Adjustment	Section 2.02(a)(vii)
Transfer Taxes	Section 8.05
USVI Conditions Precedent	Section 8.03

## **ARTICLE 2**

### **TRANSACTION**

#### **Section 2.01 Acquisition of Membership Interest.**

(a) As of the Closing, upon the terms and subject to the conditions set forth in this Agreement, Parent shall sell, assign, transfer and convey to the Buyer free and clear of all Liens (other than restrictions under Applicable Law and Liens created by the Buyer or its Affiliates), and the Buyer shall purchase and acquire from Parent, all right, title and interest in and to the Parent's entire membership interest in the Company (the "Membership Interest"), which constitutes 100% of the membership interests in the Company.

(b) The purchase price to be paid by the Buyer to Parent for the Membership Interest shall consist of the Purchase Price. At the Closing, the Buyer shall pay, by wire transfer of immediately available funds to the accounts designated by Parent, an amount of cash equal to the Estimated Purchase Price less the Escrow Amount.

#### **Section 2.02 Purchase Price.**

(a) For purposes of this Agreement, "Purchase Price" means an amount equal to the total of:

(i) \$145,000,000,

(ii) either (A) plus an amount equal to the excess of the Net Working Capital Amount over the Target Working Capital Amount, if any, or (B) minus an amount equal to the excess of the Target Working Capital Amount over the Net Working Capital Amount, if any,

(iii) plus an amount equal to Available Cash as of the Closing Date,

(iv) minus an amount equal to any Closing Indebtedness that is not included in the Flow of Funds;

(v) minus the Rate Adjustment, if any;

(vi) minus the Plan of Record Adjustment, if any; and

(vii) minus an amount equal to the aggregate of any liquidated sums required to remove Exceptions as contemplated by Section 6.05(b)(ii) to the extent not included in the Flow of Funds (the "Title Exceptions Adjustment").

(b) At least three Business Days prior to the scheduled Closing Date and in accordance with the accounting methods, policies, principles, practices and procedures, with consistent classifications, judgments and estimation methodology as set forth in the Plan of Record and on Schedule 1.B, Schedule 1.C and Schedule 1.D, the Sellers shall deliver to the Buyer:

(i) the Sellers' good faith estimate, on a reasonable basis using the Company's and the Seller Entities' then available financial information, of the Purchase Price (such estimate is referred to as the "Estimated Purchase Price"), together with reasonable detail of such calculation, which shall include the Sellers' good faith estimate or determination, as applicable, of Net Working Capital, Available Cash as of the Closing Date, Closing Indebtedness, the Rate Adjustment, the Plan of Record Adjustment, the Title Exceptions Adjustment, the Closing Pension/OPEB Shortfall for each of the Pension/OPEB Plans, the Closing Transaction Costs and the Seller Proceeds (collectively, the "Sellers' Computation"), in each case, with reasonable detail of such estimates or determination; and

(ii) a schedule (in the form of Part 3 of the Plan of Record) setting forth the number of Company and Seller Entity employees and independent contractors as of the Closing Date (the "Closing Count" and such schedule, the "Closing Count Schedule"),

The Sellers will make available to the Buyer and its auditors, employees and advisors all records and work papers used in preparing the Sellers' Computation and will consult with and answer any questions the Buyer or auditors, employees and advisors (including outside accountants) may have concerning the calculations. The Sellers' Computation shall include the Rate Adjustment, if any, if such amount is determinable at such time. If such amount is not then determinable, the Seller

Proceeds shall be adjusted after the Closing in accordance with Section 2.05(f) to give effect to the Rate Adjustment, if applicable.

(c) Contemporaneously with the delivery of the Sellers' Computation, the Sellers shall also deliver to the Buyer the following:

(i) one or more payoff letters (each a "Payoff Letter"), dated no more than three Business Days prior to the Closing Date and in customary form and substance reasonably satisfactory to Buyer, with respect to all Closing Indebtedness, if any, of the Company or any Seller Entities in order to (i) satisfy such Closing Indebtedness as of the Closing Date, and (ii) terminate and release any Liens related thereto;

(ii) an invoice from each advisor or other service provider to the Company or any Seller Entities, dated no more than three Business Days prior to the Closing Date, with respect to all Transaction Costs estimated to be due and payable to such advisor or other service provider by the Company or any Seller Entity, as the case may be, as of the Closing Date, including, without limitation, any Transaction Costs payable to legal counsel for the Company and the Seller Entities (such amounts, "Closing Transaction Costs"); and

(iii) a schedule, which shall be subject to Buyer's review and approval, setting forth the various payments to be funded on the Closing Date with proceeds from the Estimated Purchase Price, including payment of any Closing Indebtedness to be paid at Closing, the Closing Pension/OPEB Shortfall, any Closing Transaction Costs (including, without limitation, fees payable to the Escrow Agent, to the extent not otherwise paid) and Transfer Taxes, to the extent known and not otherwise paid, and the Seller Proceeds, any liquidated sums required to remove Exceptions as contemplated by Section 6.05(b)(ii), together with the names of the payees, the amounts to be paid, and the manner in which payments will be made, including wire instructions if applicable (the "Flow of Funds").

Buyer and Buyer Parent shall be entitled to rely on the Flow of Funds without independent investigation or confirmation and shall have no Liability for any error or omission contained therein.

**Section 2.03 Escrow.** At the Closing, the Buyer shall deposit with the Escrow Agent, by wire transfer of immediately available funds, \$14,500,000 of the Purchase Price (together with interest earned thereon, the "Escrow Amount") to be held in the Escrow Account in accordance with the Escrow Agreement and this Agreement. The Escrow Account shall provide security to the Buyer for Parent's indemnification obligations under this Agreement. On the 15<sup>th</sup> month anniversary of the Closing Date, the balance of the Escrow Amount, less any amounts subject to outstanding claims for Losses, shall be released to Parent in accordance with this Agreement and the Escrow Agreement. If on the 15<sup>th</sup> month anniversary of the Closing, the Buyer shall have made any claim against Parent for any other Losses that remain outstanding, the Escrow Agreement and Escrow Account shall remain in place, and an amount equal to such Losses, shall continue to be held by the Escrow Agent thereunder until final resolution of all of such claims, at which time the Escrow Agreement and the Escrow Account shall be terminated in accordance with this Agreement and the Escrow Agreement.

## **Section 2.04 The Closing.**

(a) The closing of the transactions contemplated by this Agreement (the “Closing”) shall take place at the offices of Norton Rose Fulbright, 799 9<sup>th</sup> Street NW, Suite 1000, Washington, D.C. 20001, at 10:00 a.m., Eastern Standard Time, on the last Business Day of the month following full satisfaction or due waiver of all of the closing conditions set forth in Article 9 (other than those that, by their nature, are to be satisfied at the Closing) or on such other date or at such other place (including remotely via the exchange of executed documents and other deliverables) as is mutually agreeable to the Buyer and the Sellers. The date of the Closing is referred to herein as the “Closing Date.” The execution and delivery of this Agreement and the other agreements, documents, certificates or instruments to be delivered by the parties at the Closing, may be accomplished via facsimile, portable document format, overnight delivery or courier services as the parties may agree. The Closing will be effective, and all documents will be deemed executed and delivered, and all actions and proceedings will be deemed taken, simultaneously as of 12:01 a.m., Eastern Standard Time, on the Closing Date.

(b) Upon the terms and subject to the conditions set forth in this Agreement, the parties hereto shall consummate the following transactions as of the Closing:

(i) Parent shall deliver to the Buyer an executed assignment document, in the form of Exhibit H, transferring the Membership Interest to the Buyer;

(ii) the Buyer shall pay the Estimated Purchase Price by making the payments in such amounts and to such payees as specified in the Flow of Funds, including, without limitation, in respect of: (A) the Escrow Amount, (B) the Closing Indebtedness to be paid at Closing pursuant to Section 2.02(c)(i), (C) the Closing Pension/OPEB Shortfall, (D) the Closing Transaction Costs, (E) liquidated sums required to remove Exceptions as contemplated by Section 6.05(b)(ii), and (F) the Seller Proceeds on the basis of the Estimated Purchase Price; and

(iii) the Buyer and the Sellers shall make such other deliveries as are required by, and in accordance, with Article 9.

## **Section 2.05 Purchase Price Adjustments.**

(a) Buyer’s Calculation. Within 60 days after the Closing Date, the Buyer shall prepare and deliver to Parent the Buyer’s determination of (i) the Net Working Capital Amount, (ii) Available Cash as of the Closing Date, (iii) Closing Indebtedness; (iv) the Closing Count and related Plan of Record Adjustment, (v) the Title Exceptions Adjustment, (vi) the Closing Pension/OPEB Shortfall for each of the Pension/OPEB Plans, (vii) the Closing Transaction Costs, and (viii) the Purchase Price and Seller Proceeds resulting therefrom (collectively, the “Buyer’s Computation”). The Buyer’s Computation shall be prepared, and the components thereof determined, in accordance with the accounting methods, policies, principles, practices and procedures, with consistent classifications, judgments and estimation methodology as set forth in the Plan of Record and on Schedule 1.B, Schedule 1.C and Schedule 1.D, as applicable. The Buyer will make available to Parent and its auditors, employees and advisors all records and work papers used in preparing the



Buyer's Computation and will prepare and deliver to Parent a reasonably detailed analysis of the changes supporting any variances between the Buyer's determination of the components thereof and the corresponding estimates of such amounts as determined by the Sellers pursuant to Section 2.02(b).

(b) Methodology. The parties agree that the purpose of preparing the Sellers' Computation and the Buyer's Computation and determining the components thereof and the related Seller Proceeds adjustment contemplated by this Section 2.05 is to measure the amount of any changes in the Net Working Capital Amount, Available Cash as of the Closing Date, Closing Indebtedness, Closing Count and related Plan of Record Adjustment, Title Exceptions Adjustment, Closing Pension/OPEB Shortfall and Closing Transaction Costs and such processes are not intended to permit the introduction of judgments, accounting methods, policies, principles, practices, procedures, classifications or estimation methodologies that are different than those reflected in the Plan of Record and in Schedule 1.B, Schedule 1.C and Schedule 1.D, as applicable.

(c) Parent's Objection. If Parent disagrees with any aspect of the Buyer's Computation, Parent may, within 60 days after receipt of the Buyer's Computation, deliver a notice (an "Objection Notice") to the Buyer setting forth Parent's objection in reasonable detail and the Parent's determination of the Net Working Capital Amount, Available Cash as of the Closing Date, Closing Indebtedness, Closing Count and related Plan of Record Adjustment, Title Exceptions Adjustment, Closing Pension/OPEB Shortfall and Closing Transaction Costs and Parent's calculation of the Purchase Price and Seller Proceeds resulting therefrom, together with all supporting documentation. If Parent does not deliver an Objection Notice to the Buyer within 60 days after receipt of the Buyer's Computation, then the parties hereto will be deemed to have agreed to the Buyer's Computation and the components of such Buyer's Computation shall be deemed to be finally determined as set forth therein.

(d) Resolution of Disagreements. The Buyer and Parent shall use reasonable efforts to resolve any disagreements as to the Buyer's Computation and the Objection Notice, but if they do not obtain a final resolution within 30 days after the Buyer has received the Objection Notice, the Buyer and Parent shall jointly retain Ernst & Young LLP or other accounting firm of national reputation mutually acceptable to the Buyer and Parent (the "Firm") to resolve any remaining disagreements. The Buyer and Parent shall direct the Firm to render a determination within 30 days after its retention and the Buyer, Parent and their respective agents shall cooperate with the Firm during its engagement. The Firm will act as an expert and not as an arbitrator in conducting its analysis and may consider only those items and amounts in the Buyer's Computation or Objection Notice which the Buyer and Parent are unable to resolve. In resolving any disputed item, the Firm may not assign a value to any item greater than the greatest value for such item claimed by either party or less than the smallest value for such item claimed by either party. The Firm's determination shall be based solely on written submissions by the Buyer and Parent (i.e., not on independent review) and on the definitions, principles, methodologies and standards included herein. The determination of the Firm shall be conclusive and binding upon the Buyer and Parent. Until the Firm makes its determination, the costs and expenses of the Firm shall be borne equally by the Buyer, on the one hand, and Parent, on the other hand; provided that, when the Firm makes its determination, any costs and expenses (including costs and expenses previously advanced) of the

Firm that are allocable to the party whose determination of the Purchase Price in its original submission to the Firm was closest to the Firm's determination of the same shall be paid by the other party, it being agreed among the parties that the Buyer and Parent shall bear the Firm's costs and expenses equally if their respective determinations are equidistant from the Firm's determination.

(e) Post-Closing Adjustment.

(i) If the Seller Proceeds as finally determined pursuant to Section 2.05(d) exceeds the Seller Proceeds set forth in Sellers' Computation, within five Business Days after such final determination, the Buyer shall pay to Parent, by wire transfer of immediately available funds, an amount equal to such difference plus simple interest thereon, at an interest rate equal to 4%, from the Closing Date to the date of payment, computed on an annual basis using a 360-day year.

(ii) If the Seller Proceeds as finally determined pursuant to Section 2.05(d) is less than the Seller Proceeds set forth in Sellers' Computation, then within five Business Days after the determination thereof, Parent shall pay to the Buyer, by wire transfer of immediately available funds, an amount equal to such excess plus simple interest thereon, at an interest rate equal to 4%, from the Closing Date to the date of payment, computed on an annual basis using a 360-day year.

(iii) If the Seller Proceeds as finally determined pursuant to Sections 2.05(d) is equal to the Seller Proceeds set forth in Sellers' Computation, then there shall be no other adjustment to Seller Proceeds pursuant to this Section 2.05, except as provided in Section 2.05(f).

(f) Rate Adjustment. If the Rate Adjustment occurs prior to the Closing, then the Sellers shall include such amount in the Sellers' Computation using the same accounting methods, policies, principles, practices and procedures, with consistent classifications, judgments and estimation methodology, as are reflected on Schedule 1.C. If occurring after the Closing, then within ten Business Days after the final determination of the Rate Adjustment, the Buyer shall prepare and deliver to Parent the Buyer's calculation of the Purchase Price and Seller Proceeds resulting therefrom, as determined by using the same accounting methods, policies, principles, practices and procedures, with consistent classifications, judgments and estimation methodology, as are reflected on Schedule 1.C. Such calculations and resulting by either party and the resulting adjustments to the Purchase Price and Seller Proceeds shall be subject to the procedures, methodologies and payment mechanics set forth in this Section 2.05 *mutatis mutandis*, subject to differences in the timing of Buyer's delivery of its initial calculation.

**Section 2.06 Withholding Rights.** Notwithstanding anything herein to the contrary, Buyer shall be entitled to deduct and withhold from any amounts otherwise payable to any Person pursuant to this Agreement such amounts required to be deducted and withheld under any provision of Applicable Tax Law. All such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the recipient in respect of which such withholding was made.

**ARTICLE 3**  
**REPRESENTATIONS AND WARRANTIES OF THE SELLERS**

The Sellers, jointly and severally, represent and warrant to the Buyer that, as of the date of this Agreement, each statement contained in this Article 3 is correct and complete and will be correct and complete as of the Closing, except as set forth in the Schedules accompanying this Agreement (each a “Schedule” and, collectively, the “Schedules”) delivered pursuant to Section 6.03.

**Section 3.01    Organization and Qualification.**

(a)     Parent is a cooperative association duly incorporated, validly existing and in good standing under the laws of the District of Columbia. The Company is a limited liability company, duly organized, validly existing and in good standing under the laws of the state of its formation. Each Seller Entity is a corporation or limited liability company duly incorporated or formed, as applicable, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation, as applicable, as set forth on Schedule 3.01(a). The Company and each Seller Entity has all requisite corporate power and authority to own or lease its properties and to conduct its businesses in the manner and in the places where such properties are owned or leased and where such businesses are currently conducted and currently proposed to be conducted.

(b)     The Company and each Seller Entity is duly licensed and qualified to do business and in good standing in each jurisdiction in which the properties owned or leased by it or the operation of its business makes such licensing or qualification to do business necessary, except where the failure to be so licensed or qualified would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(c)     The Company has made available to the Buyer the Organizational Documents of the Company and each Seller Entity, which are in full force and effect, and the Company and each Seller Entity are in full compliance with the provisions thereof.

**Section 3.02    Interests Owned.**

(a)     Parent owns of record and beneficially the Membership Interest free and clear of all Liens (other than restrictions under Applicable Law and Liens created by the Buyer or its Affiliates), which constitute all of the membership interests in the Company. Neither the Company nor any Seller Entity has any Subsidiaries or owns any capital stock or other equity securities issued by any other Person, other than (i) the Seller Entities as set forth on Schedule 3.02(a), (ii) short-term marketable securities held in the ordinary course of business, and (iii) Group B-200, Inc., the capital stock of which is an Excluded Asset that will be assigned or otherwise transferred at or prior to the Closing, so that as of the Closing neither the Company nor any Seller Entity will own any equity interests in Group B-200, Inc.

(b)     As of the date of this Agreement, except for RT Park-PC’s right to, or ownership of, a 0.5% equity interest in certain Seller Entities as set forth on Schedule 3.02(a), each Seller Entity is wholly-owned by the Company, either directly or indirectly through other Seller Entities. Except

as set forth in the RT Park Agreement and on Schedule 3.02(a), RT Park-PC has no rights to, or ownership of, any equity interests in any Seller Entity.

(c) Schedule 3.02(c) sets forth with respect to the Company and each Seller Entity, the authorized voting and non-voting capital stock or equity interests, the outstanding voting and non-voting capital stock or equity interests, and the record holders thereof.

(d) The Membership Interest and all outstanding capital stock and equity interests of the Seller Entities are duly authorized and validly issued, fully paid and non-assessable and are not subject to any preemptive or similar right. No class of equity securities of the Company or any Seller Entity is registered or required to be registered under the Securities Act of 1933, as amended (the “Securities Act”), or any other applicable securities law.

(e) Except for this Agreement, the RT Park Agreement and as set forth in Schedule 3.02(e), there are no outstanding or authorized securities, options (whether vested or unvested), warrants, rights, contracts, rights to subscribe, calls, conversion rights, redemption rights or other agreements providing for the issuance, redemption, purchase, disposition or acquisition of any membership or other ownership interest in the Company or any Seller Entity. Except for this Agreement, the RT Park Agreement and as set forth in Schedule 3.02(e), there are no voting trusts, proxies or other agreements to which any Seller or Seller Entity is a party or by which any of them is bound with respect to the issuance, holding, acquisition, voting or disposition of any capital stock or membership interest in the Company or any Seller Entity. There are no outstanding bonds, debentures, notes or other indebtedness issued by the Company or any Seller Entity (i) having the right to vote on any matters on which equity holders thereof may vote (or which is convertible into, or exchangeable for, securities having such right), or (ii) the value of which is directly based upon or derived from the equity interests, voting securities or other ownership interests of the Company or Seller Entity.

(f) Except for the membership interests in DTR Holdings, LLC, STM Asset Holdings, LLC and BVI Asset Holdings, LLC and inter-company receivables, the Company does not own any material assets.

### **Section 3.03 Authority.**

(a) Each Seller has the full corporate power and authority to enter into this Agreement and each Related Agreement to be executed and delivered by it pursuant to or as contemplated by this Agreement and to carry out the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the performance of each Seller’s respective obligations under this Agreement and each Related Agreement to which it is (or will be) a party have been duly authorized by all necessary corporate action on the part of the Sellers, respectively, and no other proceedings on the part of the Sellers are necessary to authorize this Agreement or any Related Agreement to which it is (or will be) a party or to consummate the transactions contemplated hereby and thereby. This Agreement, each Related Agreement to which the Sellers are a party and each agreement, document and instrument to be executed and delivered by the Sellers pursuant to this Agreement constitute, or will when executed and delivered constitute, valid and binding obligations of the Sellers, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors’ rights

generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

(b) The execution and delivery by the Sellers of this Agreement and each Related Agreement to which they are a party do not, and, will not, (i) assuming all notices, consents, approvals, authorizations, Filings or other actions described in Section 3.03(c) and Schedule 3.03(c) have been obtained or made, conflict with or violate any Applicable Law with respect to any Seller or any Seller Entity or by which any of their respective properties or assets are bound or affected, (ii) violate or conflict with the Organizational Documents of any Seller or any Seller Entity, or (iii) result in any material violation or material breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, result in triggering any payment or other obligations under, or result in the creation of a Lien on any of the property or assets of any Seller or any Seller Entity pursuant to any Company Contract, material Permit or other material obligation to which it is a party or by which any Seller or Seller Entity or its respective properties or assets are bound or affected.

(c) Except as set forth in Schedule 3.03(c), the execution, delivery or performance of this Agreement by the Sellers and the consummation by the Sellers of the transactions contemplated by this Agreement and the Related Agreements require no material action by or in respect of, or Filing with, or acknowledgement, consent or approval of, any Governmental Authority or other Person other than (i) compliance with any applicable requirements of the HSR Act and other Competition Laws and (ii) receipt by the parties hereto of each of the Communications Regulatory Authority Consents as set forth in Schedule 3.03(c).

**Section 3.04 Compliance with Laws.** Except as set forth on Schedule 3.04, and except with respect to the subject matter of the representations and warranties set forth in Section 3.06 (Taxes), Section 3.12 (Intellectual Property), Section 3.15 (Permits), Section 3.16 (Employee Benefit Plans), Section 3.17 (Labor Matters) and Section 3.18 (Environmental Matters), since the Reference Date and, to the Knowledge of the Sellers, prior to the Reference Date:

(a) the Company and each Seller Entity has in all material respects complied with, and currently is in compliance in all material respects with, all Applicable Laws, including, without limitation, Competition Laws, Anti-Terrorism and Anti-Money Laundering Laws and Anti-Corruption Laws, and no investigation, review, request for information, notice or other communication by any Governmental Authority with respect to violations of any Applicable Law, including, without limitation, Competition Laws, Anti-Terrorism and Anti-Money Laundering Laws and Anti-Corruption Laws, by the Company or any Seller Entity is pending, or to the Knowledge of the Sellers, threatened, and (ii) to the Knowledge of the Sellers, there is no fact which might reasonably be expected to give rise to any such material investigation, material review, material request for information, or material notice; and

(b) (i) none of the Company, any Seller Entity nor, to the Knowledge of Sellers, any equity owner, director, officer or employee or any agent or other Person authorized to act on behalf of the Company or any Seller Entity, has, directly or indirectly, in connection with the operation of their respective businesses given or agreed to give any unlawful gift or similar unlawful benefit

(other than with respect to bona fide payments for which adequate consideration has been given) to, or otherwise taken any direct or indirect unlawful interest in, any Governmental Authority or other Person in violation of Applicable Law, and (ii) none of the Company or any Seller Entity nor, to the Knowledge of Sellers, any equity owner, director, officer or employee or any agent or other Person authorized to act on behalf of the Company or any Seller Entity, has used the Company's or any Seller Entity's corporate funds for unlawful contributions, bribes, kickbacks, gifts, entertainment or other unlawful expenses related to political activity or violated any of the provisions of the Foreign Corrupt Practices Act of 1977, as amended (or similar non-U.S. Applicable Laws); *provided, however*, that notwithstanding the forgoing, no representation under this Section 3.04(b) is being made with respect to RT Park-PC as an equity owner of certain of the Seller Entities.

**Section 3.05 Advisory and Other Fees.** No Seller has incurred, and no Seller Entity shall become liable for, any advisory fee, broker's commission or finder's fee relating to or in connection with the transactions contemplated by this Agreement, other than fees and costs payable to FTI, which fees shall be paid by Parent.

**Section 3.06 Taxes.** Except as set forth on Schedule 3.06 and subject to Section 3.06(i) below:

(a) (1) All Income Tax Returns and other material Tax Returns with respect to the Company and the Seller Entities required by Applicable Law to be filed have been timely filed on or before the Closing Date (after giving effect to any applicable extensions granted);

(i) The Company and each Seller Entity has timely paid or caused to be paid as of the date hereof all Income Taxes and other material Taxes (whether or not shown on any Tax Returns) due and owing by the Company and the Seller Entities, except where the failure to pay such Taxes would not have a Material Adverse Effect or except to the extent such Taxes are being contested in good faith or are properly reserved for on the books or records of the Company or such Seller Entity; and

(ii) There has not been any audit of material Taxes with respect to the Company or any Seller Entity or of any material Tax Return filed by or with respect to the Company or any Seller Entity for which the applicable statute of limitations has not expired; no audit of any material Taxes with respect to the Company or any Seller Entity or of any such Tax Return of or including the Company or any Seller Entity is in progress; and neither the Company nor any Seller Entity has been notified in writing by any Governmental Authority that any audit is contemplated or pending.

(b) Neither the Company nor any Seller Entity (a) is or has ever been a member of an affiliated group filing a consolidated federal Income Tax Return or (b) has any liability for Taxes of any Person arising from the application of Treasury Regulation Section 1.1502-6 or any analogous provision of state, local or foreign law, or as a transferee or successor, by contract, or otherwise.

(c) To the Knowledge of the Sellers, the Company and the Seller Entities have withheld and paid each Tax required to have been withheld and paid in connection with amounts paid or

owing to any employee, independent contractor, creditor, customer, shareholder or other party, and complied with all information reporting and backup withholding provisions of Applicable Law.

(d) No claim has been made by any Governmental Authority in any jurisdiction where the Company or the Seller Entities do not file Tax Returns that it is, or may be, subject to Tax by that jurisdiction, and to Sellers' Knowledge, there is no basis for any such claim to be made.

(e) No private letter rulings, technical advice memoranda or similar agreement or rulings have been requested, entered into or issued by any Governmental Authority with respect to the Company or any Seller Entity.

(f) From its formation, the Company has been a disregarded entity distinct from Parent for U.S. federal income tax purposes. The Company has not made an election to be treated as an association taxable as a corporation for U.S. federal income tax purposes.

(g) Neither the Company nor any of the Seller Entities has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment.

(h) None of the non-U.S. Seller Entities has recognized a material amount of Subpart F Income as defined in Section 952 of the Code.

(i) Notwithstanding anything to the contrary in this Section 3.06, the representations and warranties in paragraph (a) through (h) of this Section 3.06 as they apply to any period ending prior to the Reference Date or, for a period that began before and ended after the Reference Date, that portion of such period ending on the Reference Date, are limited to, and qualified by, the Knowledge of the Sellers.

**Section 3.07    Litigation.** Except as set forth in Schedule 3.07, (a) there is no Action pending or, to the Sellers' Knowledge threatened, in either case, by or against the Company or any Seller Entity, or any properties, assets or rights of the Company or any Seller Entity before or by any Governmental Authority, or any officer or employee of the Company or any Seller Entity in such officer's or employee's capacity as such, and (b) neither the Company nor any Seller Entity is subject to any outstanding judgment, order, writ, injunction, ruling, decision or decree of, or any settlement under the jurisdiction of, any Governmental Authority.

### **Section 3.08    Financial Statements; Indebtedness.**

(a) Attached as Schedule 3.08(a) are the following financial statements:

(i) the consolidated audited balance sheets of the Company as of May 31, 2014 ("Latest Balance Sheet"), and the consolidated audited statements of operations and cash flows for the fiscal year then ended (collectively, the "Fiscal 2014 Financial Statements"); and

(ii) the consolidated unaudited balance sheet of the Company as of June 30, 2015 (the "Interim Balance Sheet"), and the related statements of operations and cash flows for

the one fiscal month then ended (collectively, the “Interim Financial Statements” and, together with the Fiscal 2014 Financial Statements, the “Financial Statements”).

(b) The Fiscal 2014 Financial Statements have been prepared in accordance with GAAP applied consistently during the periods covered thereby, and present fairly in all material respects the consolidated financial condition of the Company at the dates of said statements and the results of its consolidated operations and cash flows for the periods covered thereby. The Interim Financial Statements have been prepared in accordance with GAAP applied consistently during the period covered thereby, and present fairly in all material respects the consolidated financial condition of the Company at the date of such statements and the results of its consolidated operations and cash flows for the period covered thereby, except that they do not contain the materials and disclosures to be found in notes to financial statements prepared in accordance with GAAP, nor do they reflect year-end adjustments.

(c) Except as set forth on Schedule 3.08(c) neither the Company nor any Seller Entity has any Liabilities, except for (i) the Liabilities (in nature and amount) reflected or reserved against on the Latest Balance Sheet (including any notes thereto); (ii) Liabilities incurred in the ordinary course of business consistent with past practice since the date of the Latest Balance Sheet, none of which are, individually or in the aggregate, material in amount; (iii) Transaction Costs; and (iv) Liabilities arising in the ordinary course of business under Contracts (other than arising out of a breach or a default).

(d) Schedule 3.08(d) sets forth a true and complete list of the individual items constituting the Indebtedness of the Company and each Seller Entity as of the date hereof (indicating the amount and the Person to whom such amount is owed).

### **Section 3.09 Transactions with Related Persons.**

(a) Except for (i) Indebtedness pursuant to credit arrangements with Parent or Affiliates disclosed on Schedule 3.08(d), (ii) transactions between and among the Company and Seller Entities (and no other Person), in each case, with a value less than \$120,000, and (iii) as set forth on Schedule 3.09(a), no Related Person of the Company or any Seller Entity is currently (A) a party to any transaction with the Company or any Seller Entity with a value in excess of \$120,000 (including any Contract providing for the employment of, furnishing of goods or services by, rental of real or personal property from, borrowing money from or lending money to, or otherwise requiring payments to, any such Related Person, but excluding payments for normal salary and bonuses and reimbursement of reasonable business and travel-related expenses to employees), or (B) to the Knowledge of the Sellers, the direct or indirect owner of a material interest in any Person which is a competitor, supplier or customer of the Company with a value in excess of \$120,000. Without limiting the foregoing, Schedule 3.09(a) identifies each and every Contract or transaction involving the Company or a Seller Entity, on the one hand, and FTI, on the other hand.

(b) Except as set forth in Schedule 3.09(b), no Related Person of the Company has any outstanding Indebtedness payable to the Company and the Company has not guaranteed any obligation or Indebtedness of any such Related Person to any Person.



### **Section 3.10 Real Properties.**

(a) The Company does not own any real property. The Seller Entities own only (i) the real property as set forth on Schedule 3.10(a) (collectively, the “Real Property”), and (ii) the real property that is an Excluded Asset as set forth on Schedule 3.10(a) (the “Excluded Real Property”) (as to which no representations are made). The applicable Seller Entity set forth on Schedule 3.10(a) has good and indefeasible title to the applicable Real Property free and clear of any Liens, except for Permitted Liens. Prior to the Closing, the Excluded Real Property will be sold or otherwise transferred and will not be owned by the Company or any Seller Entity as of the Closing. The transactions contemplated in this Agreement do not require the payment of any Transfer Tax, fee or other similar type of payment or the filing of any Transfer Tax return or any similar forms. No Seller Entity has granted an option, right of first refusal or first opportunity to any party to purchase all or any portion the Real Property or any interest therein.

(b) Schedule 3.10(b) sets forth each lease, license, easement or other agreement under which the Company or any Seller Entity leases or has rights to use any material real property, including site leases and tower leases (the “Real Property Leases”). The Sellers have made available to Buyer true and complete copies of all Real Property Leases, including any amendments or modifications thereto. Each Real Property Lease is valid, binding and in full force and effect, and neither the Company nor any Seller Entity, nor to the Company’s Knowledge, any other party thereto is in breach or default thereunder and, to the Knowledge of Sellers, no event has occurred which, with notice or the lapse of time, or both, would constitute a breach or default or permit termination, modification or acceleration thereunder. The Company or a Seller Entity is in actual possession of the leased premises under the Real Property Leases. The Company or a Seller Entity has paid or cause to be paid the rent set forth in the Real Property Leases on a current basis and there are no past due amounts for rent or other fees or charges or unpaid deposits or claims against any deposits and neither the Company nor any Seller Entity is obligated to pay any additional rent, charges or other amounts to any of the landlords for any period subsequent to the Closing Date. The Company or any Seller Entity has not received written notice from or given written notice to any landlord claiming that such landlord or the Company or the Seller Entity party thereto is in material default under any Real Property Lease, which has not been cured. Nor, during the last two years, has the Company or any Seller Entity received any written notice from any easement grantor requesting removal of equipment or other personal property. Neither the Company nor any Seller Entity nor, to the Knowledge of the Sellers, any other party to a Real Property Lease has violated in any material respect any provision of, or committed or failed to perform any act that, with or without notice, lapse of time or both, would constitute a default under the provisions of such Real Property Lease.

(c) Except as set forth on Schedule 3.10(c)(i), the Company or such Seller Entity, as applicable, has a valid and subsisting leasehold interest in all the real property which is the subject of each of the respective Real Property Leases (the “Leased Real Properties”), free and clear of all Liens other than Permitted Liens. Except as set forth on Schedule 3.10(c)(ii), no Leased Real Property is subject to any sublease, sublicense or other agreement granting to any other Person any right to use, occupancy or enjoyment of such property or any portion thereof. Except for Permitted Liens, the Sellers have no Knowledge of any impediment to the right of the Company or Seller Entity, as applicable, to quiet enjoyment of each of the Leased Real Properties for the full term of

the applicable Real Property Lease (and any renewal option(s) contained therein). Except as set forth on Schedule 3.10(c)(iii), the Company and the Seller Entities are not parties to any agreement governing or affecting the occupancy or tenancy of any of the Leased Real Property by any Person other than the Company or a Seller Entity. Since the Reference Date, and to the Knowledge of the Sellers, prior to the Reference Date, the Company has not received written notice (or been served with legal process to the effect) that the whole nor any part of any Real Property or Leased Real Property is subject to any pending suit for condemnation or other taking by any Government Authority, and, to the Knowledge of the Sellers, no such condemnation or other taking is threatened. The current use, occupancy and operation of the Real Property and the premises leased pursuant to the Real Property Leases by the Company and the Seller Entities is (i) in compliance in all material respects with all Applicable Laws (including, without limitation, zoning, use, occupancy, building, ordinance and other applicable Laws), and (ii) in compliance in all material respects with and permitted by the Real Property Leases. No notes or notices of violation of law or municipal ordinances or of Federal, State, Municipal, County, local or other governmental agency regulations, orders or requirements relating to all or any portion of any of the Real Property or Leased Real Property have been entered or received by the Company or the Seller Entities.

(d) Except as set forth on Schedule 3.10(d)(i), to the Knowledge of Sellers, no Permit pertaining to the leasing or operation of any Real Property or Leased Real Property, other than those which are transferable with such property, is required by any Governmental Authority. Except as set forth on Schedule 3.10(d)(ii), no consent from the landlord or any other party pertaining to the transfer or assignment of the Real Property Leases is required in connection with the transactions contemplated by this Agreement.

(e) The Real Property and the Leased Real Property constitute all of the real property that is used in the Business or occupied by the Company and Seller Entities. Except as set forth on Schedule 3.10(e), all of the buildings and structures and improvements located on any of the Real Property or Leased Real Property are in good condition and repair, subject to normal wear and tear, and are free of any significant defects.

### **Section 3.11 Tangible Personal Property; Facilities.**

(a) Except as set forth on Schedule 3.11 and with respect to any Excluded Asset (as to which no representations are made), (i) the Seller Entities have good and valid title to or a valid license or leasehold interest in all of the material items of network equipment and other tangible personal property reflected on the Latest Balance Sheet or acquired after the date of the Latest Balance Sheet that are purported to be leased by the Seller Entities, except as sold or disposed of subsequent to the date thereof in the ordinary course of business, (ii) all such tangible personal property is used exclusively by the Seller Entities in the operation of the Business, and (iii) all such tangible personal property (other than licensed or leased tangible property) is owned free and clear of all Liens, except for Permitted Liens. The Company does not own any tangible personal property. Except as set forth on Schedule 3.11, the properties, assets and rights owned, leased or licensed by the Seller Entities constitute all of the properties, assets and rights used in connection with the operation of the Business as currently conducted by the Company and the Seller Entities.

(b) The properties and assets of the Seller Entities, including, without limitation, the wireless and wireline telecommunications and video distribution networks and information technology systems owned by the Sellers and Seller Entities for use in the operation of the Business, including all computer hardware, software, firmware, and process automation (collectively, “Facilities”), taken as a whole, perform in material conformance with the appropriate specifications or documentation for such Facilities. Except as set forth on Schedule 3.11, since the Reference Date there have been no failures, breakdowns, data security breaches or other events materially affecting any such Facilities that were required to be reported to either the FCC, PSC, BT&P or Telecommunications Regulatory Commission by the Company or any Seller Entity. Except as set forth on Schedule 3.11, the Facilities are in good working order and condition, free from all material defects, ordinary wear and tear excepted and subject to routine maintenance. The Facilities are currently available, in all material respects, for the Sellers and Seller Entities and, as applicable, their customers, in the ordinary course of businesses. The Sellers and Seller Entities maintain commercially reasonable security, disaster recovery and business continuity plans, and procedures and have taken commercially reasonable measures to protect the security and integrity of the Facilities and the data stored or contained therein or transmitted thereby.

### **Section 3.12 Intellectual Property.**

(a) Schedule 3.12(a) sets forth all patents, trademark registrations, service mark registrations, trade names, domain name registrations, copyright registrations, and all applications for any of the foregoing, that are used or held for use by the Company or any Seller Entity. Except as set forth on Schedule 3.12(a), no intellectual property is owned by a third party that is necessary for the operation of the Business, as currently conducted and as proposed to be conducted.

(b) The Company has not embedded any Open Source Software subject to a Copyleft License in any of its products or services made generally available or that is in development. No Open Source Software of any kind has been embedded into any of its products or made available as a part of any of its services. However, to the extent that any such Open Source Software, including any libraries or code, may have been embedded or otherwise integrated into, aggregated or compiled with any of the Company’s products or made available as a part of any of its services, no such Open Source Software is subject to the terms of, or licensed on terms of or substantially similar to a Copyleft License.

(c) Except as set forth on Schedule 3.12(c), since the Reference Date and, to the Knowledge of the Sellers, prior to the Reference Date, neither the Company nor any Seller Entity has received any written notice of infringement of, misappropriation of, or conflict with the rights of others with respect to any know-how, trade secrets, patents, trademarks, trade names, brand names and copyrights. Except as set forth on Schedule 3.12(c), neither the Company nor any Seller Entity has breached any license to which it is a party or infringed or misappropriated the intellectual property of any third party.

(d) Each employee who has commenced employment with the Company since January 1, 2015 and each current consultant of the Company has assigned and/or is under an obligation to assign to the Company any and all intellectual property rights to intellectual property that he or she

created or conceived of and/or will create or conceive of during the course of their employment or the term of their consulting contract, respectively, with the Company.

(e) Except as set forth on Schedule 3.12(c), to the Sellers' Knowledge, there has been no infringement or misappropriation by any third party of the intellectual property owned by a Seller Entity.

**Section 3.13 Contracts.** Except for the RT Park Agreement, the Real Property Leases listed on Schedule 3.10(b) and the other Contracts listed on Schedule 3.13 (collectively, the "Company Contracts"), neither the Company nor any Seller Entity is a party to or subject to:

(a) any plan or Contract providing for bonuses, stock, options, stock purchases, profit sharing, collective bargaining or the like;

(b) any employment Contract or Contract for services, including for services by independent contractors, which requires the payment of more than \$150,000 annually in total cash compensation which is not terminable on 90 or fewer days' notice by the Company or a Seller Entity without liability for any material penalty or severance payment;

(c) any Contract (including a purchase order entered in the ordinary course of business) for the purchase of any commodity, material, equipment or service in excess of \$150,000;

(d) any other Contracts creating any obligation of the Company or any Seller Entity of more than \$150,000 annually with respect to any such contract;

(e) any Contract requiring the purchase of all or substantially all of its requirements of a particular product or service from a supplier;

(f) any Contract which by its terms does not terminate or is not terminable by the Company or any Seller Entity on fewer than 91 days' notice without payment of a penalty of \$100,000 or more;

(g) any Contract containing covenants limiting the freedom of the Company or any Seller Entity to compete in any line of the Business or with any Person with respect to the Business or limiting or restricting the ability of the Company or any Seller Entity to solicit customers or employees of the Business;

(h) any Contract for the purchase of any fixed asset for a price in excess of \$150,000;

(i) any partnership, joint venture or other similar Contract;

(j) any Contract providing for the license of patents, trademarks, service marks, trade names, copyrights, trade secrets, know-how or other intellectual property between the Company or any Seller Entity and any third party (other than shrink wrap and off-the-shelf software and licenses);

(k) any lease of personal property which involves annual payments by the Company or any Seller Entity of \$150,000 or more;

(l) any Contract that relates to any Indebtedness in excess of \$150,000 or grants a Lien (other than Permitted Liens) on any assets of the Company or any Seller Entity with a value in excess of \$100,000;

(m) any Contract pursuant to which the Company receives or makes annual payments in excess of \$200,000 in any calendar year (other than any Contract described elsewhere in this Section 3.13);

(n) any Contract under which the Company or a Seller Entity has made advances or loans to any Person in excess of \$100,000 (which shall not include advances made to an employee of the Company or any Seller Entity in the ordinary course of business and intercompany loans and advances among the Company and the Seller Entities, in each case, individually or in the aggregate in an amount no greater than \$100,000);

(o) any Contract with any Affiliate of the Company or any Seller Entity with payments in excess of \$50,000 and that is not terminable upon less than 91 days' notice (other than any Contract described elsewhere in this Section 3.13);

(p) any Contract for the sale of any assets (other than Excluded Assets) of the Company or any Seller Entity with a value in excess of \$100,000 or the acquisition of the equity or assets of another Person with a value in excess of \$100,000, other than this Agreement and other than the purchase and sale of services in the ordinary course of business;

(q) conditional sales Contracts and equipment leases involving at least \$100,000;

(r) any Contract that measures performance or determines the amount of any money to be paid or received by the Company or any Seller Entity by reference to the revenues, profits, assets, subscribers, homes-passed, or other attributes or operating results or metrics of Affiliates of the Company or any Seller Entity; and

(s) any Contract with any Governmental Authority.

All Company Contracts are valid and in full force and effect and constitute legal, valid and binding obligations of the Company or the Seller Entity party thereto and, to the Knowledge of the Sellers, the other parties thereto, and are enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity). Neither the Company nor the Seller Entity party thereto, nor to the Knowledge of the Sellers, any other party thereto, is in default in complying with any material provisions thereof, nor has such party received written or, to the Knowledge of the Sellers, oral notice of any such default, and to the Knowledge of the Sellers, no condition or event or facts exist which, with notice, lapse of time or both, would constitute a default of any material provision thereof on the part of the Company or any Seller Entity. The Sellers have made available to Buyer true and complete copies of all Company Contracts, including all exhibits, schedules, amendments and supplements thereto. Neither the Company nor any Seller Entity has received any written or, to the Knowledge of the Sellers, oral notice from any other party

to a Company Contract of the early termination thereof, or of any claim, dispute or controversy in excess of \$100,000 with respect thereto.

### **Section 3.14 Insurance.**

(a) Schedule 3.14(a) lists, by type, carrier, policy number, coverage amount and expiration date, all insurance coverage carried by the Company and each Seller Entity, indicating, with respect to each such policy, whether it is occurrence based or claims made.

(b) Schedule 3.14(b) sets forth a schedule of all claims made under any of the policies listed in Schedule 3.14(a) in excess of \$100,000 (aggregating for purposes of such threshold all claims for related matters) since the Reference Date. All outstanding claims have been filed in a timely fashion. All premiums which are due and payable with respect thereto have been timely paid. Neither the Company nor any Seller Entity has received written notice of cancellation or non-renewal of any such policy or binder. All such insurance policies are in full force and effect and sufficient for compliance with all Applicable Laws and Contracts to which the Company or any Seller Entity is a party or by which it is bound

(c) Except as set forth in Schedule 3.14(c), none of such insurance policies will terminate or lapse by reason of the execution and delivery of this Agreement or the consummation of the sale of the Member Interests contemplated hereby. The Company and each Seller Entity has complied in all material respects with the provisions of each insurance policy under which it is currently the insured. No insurer under any insurance policy under which the Company or any Seller Entity currently is insured has canceled or provided written notice of cancellation or non-renewal of any such policy.

### **Section 3.15 Permits.**

(a) Schedule 3.15(a) sets forth as of the date of this Agreement (i) all material Permits, including all Communications Permits, held by the Company or any Seller Entity and (ii) all applications in connection with such Communications Permits that are pending before a Communications Regulatory Authority.

(b) Except as set forth on Schedule 3.15(b), (i) the Company and each Seller Entity has obtained all Permits from Governmental Authorities necessary for the ownership of such entities' assets and properties and the conduct of the Business as presently conducted, which have been granted pursuant to and in accordance with the requirements of Applicable Law, except, with respect to Permits other than Communications Permits, where the failure to obtain such Permits would not reasonably be expected to have a Material Adverse Effect, (ii) all such Permits are valid and in full force and effect (except as may expire at the end of their stated terms), and have not been suspended, revoked, cancelled, terminated, forfeited or adversely modified to any material extent, and are issued in the name of the Company or Seller Entity that holds such Permits, (iii) none of such Permits is subject to termination by its terms as a result of the execution of this Agreement by the Sellers or by the consummation of sale of the Membership Interest or the other transactions contemplated by this Agreement, and (iv) there is no Action pending or, to the Company's Knowledge, threatened that could result in the termination, revocation, limitation, suspension, restriction, adverse

modification, or impairment, to any material extent, of any material Permit or any Communications Permit or the imposition of any fine, penalty or other sanctions in excess of \$25,000 (1) for violation of any legal or regulatory requirements relating to any material Permit or (2) for violation of any legal or regulatory requirements relating to any Communications Permit. With respect to the Communications Permits, “full force and effect” means that (1) the orders issuing the Communications Permits have become effective under the Applicable Law; (2) the grant of each of the Communications Permits to the applicable holder thereof has become a Final Order; (3) the actions granting all Communications Permits, together with all underlying construction permits, have not been reversed, stayed, enjoined, annulled or suspended; (4) the Communications Permits have not expired by their own terms or been invalidated or modified by any subsequent action and, to the Knowledge of Sellers, no event, condition or circumstance would preclude any Communications Permit from being renewed in the ordinary course (to the extent that such Communications Permit is renewable by its terms); and (5) there is no material condition outside of the ordinary course imposed on the Communications Permits by a Communications Regulatory Authority (including any material condition on the grant of a renewal application) that is not disclosed on the face of the Communications Permit; provided that ordinary course shall include any condition described in any Applicable Law that applies generally to substantially similar communications permits held by third parties. Except as set forth on Schedule 3.15(b), the Company and the Seller Entities are in compliance in all material respects with their obligations under each of the Permits set forth on Schedule 3.15(a) and the rules and regulations of the FCC and any other Governmental Authority, and no notice of material violation, order of forfeiture or material complaint, proceeding, review or investigation against the Company or any Seller Entity relating to any such Permits by any Governmental Authority is pending nor, to the Knowledge of the Sellers, has any Governmental Authority indicated in writing to the Company or a Seller Entity an intention to conduct the same.

(c) The Sellers and the Seller Entities (i) are in material compliance with all Applicable Laws that apply to, and all requirements that are contained in, each Communications Permit and since the Reference Date have timely fulfilled and performed all of their material obligations with respect thereto; (ii) since the Reference Date have timely made all required Filings with all Communications Regulatory Authority required by Applicable Law and such filings were correct in all material respects; (iii) have provided Buyer with access to copies of each such material Filing made in the last three years; (iv) since the Reference Date have not made any misstatements of fact, or omitted to disclose any fact, to any Communications Regulatory Authority or in any Filing therewith, which misstatements or omissions, individually or in the aggregate, could reasonably be expected to subject a Communications Permit to revocation or failure to renew; and (v) since the Reference Date do not have Knowledge of any fact or circumstance, which if known by a Communications Regulatory Authority would present a substantial risk that a Communications Permit could be revoked, cancelled, suspended, not renewed in the ordinary course or materially adversely modified or that any substantial fine or forfeiture could be imposed against Seller or a Seller Entity.

(d) Since the Reference Date, neither Sellers nor any Seller Entity has incurred, or if incurred it has fully discharged, any fine, charge or other liability resulting from any noncompliance with a Communications Permit or an Applicable Law applicable to the holder of a Communications

Permit prior to the Closing. Sellers and all Seller Entities have timely made the payment of all regulatory fees and surcharges, including contributions to universal service funds, disability access funds, emergency calling funds, and all other such funds to which contributions are required by Applicable Law, and all other debts and amounts otherwise due and owing to a Communications Regulatory Authority or other Governmental Authority by reason of the ownership of, or operation pursuant to, a Communications Permit.

(e) Except for structures that do not require registration, each of the antenna structures used for the operation of the Communications Permits has been registered with the appropriate Governmental Authority by Sellers or a Seller Entity, or, in the case of structures where Sellers or a Seller Entity is a lessee of the structure, to the Knowledge of Sellers, by the lessor of the structure. All of the transmission sites and paths currently operated by Sellers or a Seller Entity and that are subject to a Communications Permit have been constructed and are currently operated in all respects as represented to the applicable Communications Regulatory Authority in currently effective filings, and modifications to such transmission sites and paths have been preceded by the submission to the appropriate Communications Regulatory Authority of all filings required by Applicable Law.

(f) Since the Reference Date and, to the Knowledge of the Sellers, prior to the Reference Date, neither Sellers nor Seller Entities have violated Section 254(e) of the Communications Act of 1934, as amended, 47 U.S.C. § 254(e).

### **Section 3.16 Employee Benefit Plans.**

(a) Schedule 3.16(a) sets forth a list of all material “employee benefit plans,” as defined in Section 3(3) of ERISA, and all other employee benefit or executive compensation arrangements, whether offered to current or former employees or their beneficiaries or dependents, perquisite programs, including severance pay, sick leave, vacation pay, salary continuation for disability, retirement benefits, deferred compensation, bonus pay, incentive pay, profit sharing, hospitalization insurance, medical insurance, life insurance, scholarships or tuition reimbursements, whether written or unwritten, that are maintained, sponsored, contributed to, or required to be contributed to by the Company, any Seller Entity, or any entity within the same “controlled group” as the Company or any Seller Entity, within the meaning of Section 4001(a)(14) of ERISA (an “ERISA Affiliate”), or under which the Company, any Seller Entity or any of their ERISA Affiliates have any ongoing material liability (collectively, the “Employee Benefit Plans”).

(b) The Company has made available to Buyer true, correct and complete copies of each Employee Benefit Plan (including any amendments), or if the Employee Benefit Plan is not in writing, a summary of the material terms, and, to the extent applicable, a copy of: (i) any related trust documents, insurance contracts or other funding instruments and amendments thereto; (ii) the three most recent Forms 5500, including all schedules, if any; (iii) the most recent financial statement (to the extent such financial statements are not included in the Form 5500) (iv) current summary plan descriptions and summaries of material modifications, if any; (v) employee handbooks; (vi) the three most recent reports regarding the satisfaction of the nondiscrimination requirements of Section 410(b), 401(k) and 401(m) of the Code (vii) the most recent determination or opinion letter from the Internal Revenue Service, if any; and (viii) any material correspondence from a Governmental Authority, with respect to any Employee Benefit Plan.



(c) There are no pending actions, claims or lawsuits which have been asserted, instituted or, to the Sellers' Knowledge, threatened, against the Employee Benefit Plans, the assets of any of the trusts in their capacity as such under such plans or the plan sponsor or the plan administrator, or against any fiduciary of the Employee Benefit Plans with respect to the operation of such plans (other than routine benefit claims), which could reasonably be expected to result in material liability to the Company or a Seller Entity.

(d) Except as set forth on Schedule 3.16(d), all Employee Benefit Plans subject to ERISA or the Code have been maintained and administered, in all material respects, in accordance with their terms and with all provisions of ERISA and the Code, respectively (including rules and regulations thereunder), and other Applicable Law. Each Employee Benefit Plan that is intended to be qualified within the meaning of Section 401(a) of the Code is so qualified and has received a favorable determination or opinion letter as to its qualification, and nothing has occurred that would reasonably be expected to cause the loss of such qualification.

(e) Except as set forth on Schedule 3.16(e), (i) no Employee Benefit Plan is subject to Title IV of ERISA; (ii) no "reportable event" within the meaning of Section 4043 of ERISA (for which the 30-day notice requirement has not been waived) has occurred within the preceding three years with respect to any Employee Benefit Plan; (iii) no material lien has been imposed in favor of any Employee Benefit Plan against the assets of the Company, any Seller Entity or any ERISA Affiliate pursuant to Section 303(k) of ERISA or Section 430(k) of the Code and no event or condition has occurred or could reasonably be expected to occur which might give rise to the imposition of such a lien. Neither the Company, any Seller Entity, or any ERISA Affiliate has incurred or reasonably expects to incur any material liability under Title IV of ERISA other than contributions to the plans set forth on Schedule 3.16(e) or premiums to the Pension Benefit Guaranty Corporation with respect to such plans in the ordinary course. Each plan set forth on Schedule 3.16(e) is in compliance in all material respects with the minimum funding standards set forth in ERISA Section 303 and Section 412 of the Code and all contributions required under ERISA Section 303 and Section 412 of the Code as of the date of this Agreement have been made and no such plan is in "at-risk" status within the meaning of Section 430(i)(4) of the Code or Section 303(i)(4) of ERISA or subject to the limitations of Section 436 of the Code.

(f) Neither the Company, any Seller Entity, or any ERISA Affiliate has, within the past six years, sponsored or contributed to, or has had any material liability or obligation, in respect of (i) any multiple employer welfare arrangement (as defined in Section 3(40) of ERISA); (ii) any multiemployer plan (as defined in Section 3(37) of ERISA; or (iii) any multiple employer plan for purposes of Sections 4063 and 4064 of ERISA. No Employee Benefit Plan is funded by, associated with or related to a voluntary employee's benefit association (as defined in Section 501(c)(9) of the Code.

(g) Except as set forth on Schedule 3.16(g), no Employee Benefit Plan provides health or other welfare benefits to any employee of the Company, Seller Entity, or current or former ERISA Affiliate, or any dependent of any such employee, following termination of the employee's employment, except as may be required by Section 4980B of the Code or similar Applicable Law and at the individual's sole expense.

(h) Neither the Company nor any other “disqualified person” or “party in interest,” as defined in Section 4975 of the Code and Section 3(14) of ERISA, respectively, has engaged in any “prohibited transaction,” as defined in Section 4975 of the Code or Section 406 of ERISA (which is not otherwise exempt), with respect to any Employee Benefit Plan, nor, to the Sellers’ Knowledge, have there been any fiduciary violations under ERISA that could subject the Company (or any employee) to any material penalty or tax under Section 502(i) of ERISA or Section 4975 of the Code.

(i) Neither the execution and delivery of this Agreement nor the approval or consummation of the transactions contemplated herein will (either alone or in conjunction with any other event) (i) entitle any current employee of the Company or a Seller Entity to severance pay, unemployment compensation, or accrued pension benefit or any other compensatory payment or benefit, (ii) increase the dollar value of any payments or benefits under any Employee Benefit Plan.

(j) Except as set forth on Schedule 3.16(j), the Company or Seller Entity, as applicable, has made on a timely basis all contributions, premiums or payments required to be made by it under the terms of each Employee Benefit Plan or applicable Law or, to the extent not yet due, have been adequately accrued on the financial statements of the Company or Seller Entity.

(k) No Company Employee Benefit Plan is subject to the laws of any jurisdiction outside the United States, except as set forth on Schedule 3.16(k).

(l) Neither the Company nor the Seller Entity are a party to any oral or written (i) agreement, plan or arrangement under which any person may receive an “excess parachute payment” within the meaning of 280G of the Code from the Company or the Seller Entity that may be subject to the tax imposed by Section 4999 of the Code; or (ii) agreement or plan binding the Company or the Seller Entity, any of the benefits of which shall be increased (including without limitation any Section 280G gross up payment) or the vesting of the benefits of which shall be accelerated by the transactions contemplated by this Agreement.

**Section 3.17 Labor Matters.** The Company has delivered to Buyer and Buyer Parent a list certified by an authorized officer of the Company of the employees and independent contractors of the Sellers and the Seller Entities providing services to the Business as of the date hereof, which sets forth each such individual’s current salary or base rate of pay, title or job function, job location, status (as to leave or disability, full or part time, exempt or non-exempt and temporary or permanent status) and union membership (if applicable).

(a) Neither the Company nor any Seller Entity is delinquent in any material respect for the payment of any material wages, salaries, commissions, consulting fees, bonuses, severance, termination pay or other compensation for any services performed for it or any such amounts required to be reimbursed by it to any employee or independent contractor.

(b) Except as set forth on Schedule 3.17(b), there are no material grievances, complaints or charges by any individual providing services to the Business that have been filed against any Seller or Seller Entity under any dispute resolution procedure that have not been dismissed. There is no, and since the Latest Balance Sheet, there has not been any, (a) unfair labor practice charge

or complaint pending or, to the Sellers' Knowledge, threatened, against the Company or any Seller Entity; (b) labor strike, slowdown or stoppage actually pending or, to the Sellers' Knowledge, threatened, against or affecting the Company or any Seller Entity; (c) labor grievance, demand for arbitration or any arbitration proceeding arising out of or under collective bargaining agreements, is pending; (d) organizational campaigns, petitions or other unionization activities seeking recognition of a collective bargaining unit; and (e) administrative charge or court complaint against the Company or any Seller Entity concerning alleged employment discrimination or other employment-related matters pending or threatened before the U.S. Equal Employment Opportunity Commission or any other Governmental Authority.

(c) Except as disclosed on Schedule 3.17(c), neither the Company nor any Seller Entity is a party to any collective bargaining agreement, contract or other oral or written agreement, including but not limited to any work rules, past practices, memoranda of understanding or letters of understanding with a labor union or labor organization and there are no labor unions, labor organizations, work councils or other organizations representing, or purporting to represent or organize any employee of the Company or any Seller Entity. Each collective bargaining agreement set forth on Schedule 3.17(c), including but not limited to the Union Contract Extension, is complete and accurate and has been duly authorized by all necessary action on the part of the Company and Seller Entities that are parties thereto, and to the Sellers' Knowledge, the other parties thereto.

(d) The Company and each Seller Entity are currently in material compliance with all applicable Laws relating to employment and labor, including those related to wages and hours, hiring practices, parental and family leave and pay, immigration, non-discrimination in employment, workers compensation, and the collection and payment of withholding and/or payroll taxes and similar Taxes.

(e) Any individual providing services for the Company or any Seller Entity who has been classified as an independent contractor, as an employee of some other entity whose services are leased to the Company or any Seller Entity, or as any other non-employee category, has been correctly so classified and is in fact not a common law employee of any of the Company or any Seller Entity.

### **Section 3.18 Environmental Matters.**

Except as set forth on Schedule 3.18:

(a) The Company and the Seller Entities have obtained and, since the Reference Date (and to the Knowledge of the Sellers, prior to the Reference Date), have possessed and maintained compliance with all Permits required under Environmental Laws for the conduct of the Business as presently conducted and the use of Real Property ("Environmental Permits"). All Environmental Permits are listed in Schedule 3.18.

(b) Since the Reference Date and, to the Knowledge of the Sellers, prior to the Reference Date, the Company and the Seller Entities have complied in all material respects with, and have not committed any violation of, any Environmental Laws.

(c) Since the Reference Date and, to the Knowledge of the Sellers, prior to the Reference Date if not resolved as of the Reference Date, neither the Company nor any Seller Entity has received written notice from, or been subject to any Action by, any Governmental Authority or other Person asserting or alleging that the Company or any Seller Entity has failed to comply with any Environmental Laws, or that the Company or any Seller Entity is liable for any material injury or material damages to any Person or property because of the release or threatened release of Hazardous Substances. To the Knowledge of the Company and Seller Entities, no circumstances exists that could give rise to any such notice, Action, inquiry, or investigation.

(d) To the Knowledge of the Sellers, neither the Company nor any Seller Entity has disposed of or released any Hazardous Substance at any Real Property or at any real property formerly owned or operated by the Company or any Seller Entity.

(e) To Knowledge of the Company and Seller Entities, none of the following exists at the Real Property: (i) underground or aboveground storage tanks; (ii) asbestos-containing material in any form; (iii) materials or equipment containing polychlorinated biphenyls; (iv) landfills, dumps or other disposal facilities; (v) manufacturing operations; (vi) vehicle maintenance or washing facilities; or, (vii) Hazardous Substances other than of the types and in the quantities necessary and ordinarily used in the Business, as allowed under Environmental Laws.

(f) The Company has made available to Buyer true and complete copies of all material reports, studies and results of analyses, tests, or monitoring relating to the environmental condition of the Real Property, including without limitation the presence of Hazardous Substances in, on, or under the Real Property, or concerning compliance, by the Company, Seller Entities, or any other Person for whose conduct the Company or Seller Entities are or may be held responsible, with Environmental Laws.

(g) Neither the Company nor any Seller Entity (i) is subject to any judgment, order, writ, injunction, ruling, decision or decree of, or any settlement under the jurisdiction of, any Governmental Authority imposed by or under any Environmental Laws, or (ii) has assumed, either contractually or by operation of Applicable Law, the liabilities or obligations of any other Person under any Environmental Law.

Notwithstanding any implication to the contrary contained herein, this Section 3.18 constitutes the sole and exclusive representations and warranties of the Sellers with respect to Environmental Laws and all other environmental matters.

**Section 3.19 Books and Records.** The books and records of the Company have been maintained accurately in all material respects and in accordance with good business and bookkeeping practices and in accordance with all Applicable Laws; the transactions entered therein represent bona fide transactions; and the revenues, expenses, assets and liabilities of the Company have been properly recorded therein. The internal controls and procedures of the Company are sufficient to ensure that the Financial Statements are accurate in all material respects. Since the Reference Date, there has been no material change in any accounting controls, policies, principles, methods or practice, including any change with respect to the establishment of reserves of the Company.

**Section 3.20 Absence of Certain Events.** Except as set forth in Schedule 3.20, since the date of the Latest Balance Sheet through the date hereof, the Company and the Seller Entities have conducted the Business only in the ordinary course of business. Without limiting the foregoing, since the date of the Latest Balance Sheet through the date hereof, except as set forth in Schedule 3.20, there has not been:

(a) Any sale, assignment, license or other disposition of any portion of the assets or properties of the Company or any Seller Entity, except in the ordinary course of business;

(b) Any Liens imposed or created on any of the assets or properties of the Company or any Seller Entity, other than Permitted Liens;

(c) Any (i) Material Adverse Effect, or (ii) damage, destruction or loss of any of the material assets or properties of the Company or any Seller Entity by fire or other casualty, whether or not covered by insurance;

(d) Any termination, modification or amendment of any Contract, except for terminations, modifications or amendments which are not material to the operation of the Business (other than the Union Contract Extension);

(e) A change in any of the accounting principles adopted by the Company or any Seller Entity or any change in any Company's or Seller Entities' accounting policies, procedures, practices or methods with respect to applying such principles, other than as required by GAAP or by Applicable Law;

(f) Any acceleration or delay in the collection of notes or accounts receivable of the Company or any Seller Entity in an aggregate amount in excess of \$150,000 in advance of or beyond their regular due dates or the dates when the same would have been collected in the ordinary course of business;

(g) Any delay or acceleration in the payment of any account payable or other liability of the Company or any Seller Entity in an aggregate amount in excess of \$150,000 beyond or in advance of its due date or the date when such account payable or other liability would have been paid in the ordinary course of business;

(h) Any material change in the prices at which any products or services are sold or distributed, or any offering of any rebates, discounts, commissions, incentives or inducements for the purchase of any products or services that are materially different from those rebates, discounts, commissions, incentives or inducements offered by the Company or the Seller Entities to subscribers on a case by case basis in the ordinary course of business;

(i) Any issuance, redemption, repurchase, split, combination or reclassification by the Company or any Seller Entity of any shares of its capital stock or other equity interest;

(j) Any loan, advance or capital contribution made by the Company or any Seller Entity to, or investment in, any Person, other than loans or advances (i) among the Company and the Seller

Entities and (ii) to employees in connection with reasonable business-related expenses, in each case made in the ordinary course of business and that will be reimbursed in full in accordance with the Company's or Seller Entity's business expense policies prior to Closing;

(k) Any acquisition by merger or consolidation with, or by purchase of a substantial portion of the assets or equity interests of, or by any other manner, any business or any Person or any division thereof for consideration in excess of \$200,000;

(l) Any adoption of a plan of complete or partial liquidation, dissolution, reorganization or restructuring of the Company or any Seller Entity or filing of a petition in bankruptcy under any provisions of federal or state bankruptcy law or consent to the filing of any bankruptcy petition against it under any similar Applicable Law;

(m) Any incurrence of any capital expenditures or any obligations or liabilities in respect thereof in excess of budget, individually or in the aggregate;

(n) Any settlement, or offer or proposal to settle, any material Action (other than the Bonneville Matter); and

(o) Any agreement, understanding, authorization or proposal for the Company or any Seller Entity to take any of the actions specified in this Section 3.20 other than as expressly contemplated pursuant to this Agreement.

**Section 3.21 Accounts Receivable.** Schedule 3.21 contains true and complete copies of the accounts receivable aging of the Company and the Seller Entities as of the Interim Balance Sheet. All accounts receivable of the Company and the Seller Entities (a) have arisen from bona fide transactions by the Company or Seller Entity, as applicable, in the ordinary course of business, (b) except as listed on Schedule 3.21(b), to the Knowledge of the Sellers, have been validly billed in the ordinary course of business at the aggregate recorded amounts thereof, net of any applicable allowance for doubtful accounts reflected in the Interim Balance Sheet or in Net Working Capital (it being understood that this clause (b) shall be deemed a representation only and not a warranty or guaranty of collection), (c) have not been assigned or pledged to any Person and (d) as of the Closing, will not be subject to any Liens, other than Permitted Liens and Liens created by the Buyer.

**Section 3.22 Business Names and Addresses.** Since the Reference Date, neither the Company nor any Seller Entity has used any business name other than as set forth in Schedule 3.22, and has not had a business address other than the address(es) that are set forth in Schedule 3.22.

**Section 3.23 Bank Accounts.** Schedule 3.23 sets forth (a) the name of each bank, trust corporation or other financial institution and stock or other broker with which the Company or any Seller Entity has an account, credit line or safe deposit box or vault, (b) the names of all Persons authorized to draw thereon or to have access to any safe deposit box or vault, (c) the purpose of each such account, safe deposit box or vault, and (d) the names of all Persons authorized by proxies, powers of attorney or other like instruments to act on behalf of the Company and/or any Seller Entity in matters concerning its business or affairs. No such proxies, powers of attorney or other like instruments are irrevocable.

**Section 3.24 Solvency.** After giving effect to the transactions contemplated by this Agreement, Parent will be able to pay its debts as they become due and will own property which has a fair saleable value greater than the amounts required to pay its debts (including a reasonable estimate of the amount of all contingent Liabilities). After giving effect to the transactions contemplated by this Agreement, Parent will have adequate capital to carry on its business. No transfer of property is being made and no obligation is being incurred in connection with the transactions contemplated by this Agreement with the intent to hinder, delay or defraud either present or future creditors of Parent.

**Section 3.25 Privacy and Data Security Matters.** Except as set forth in Schedule 3.25, the Company and the Seller Entities have adopted privacy and data security policies and measures consistent with Applicable Law in all material respects and are and, to the Knowledge of the Sellers since the Reference Date have been, in compliance with such policies and measures in all material respects. Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, none of the Company or any of the Seller Entities has, with respect to its data or systems (or to the knowledge of the Sellers, the data or systems of any vendor or agent), suffered any unauthorized access or disclosure, or violation of any applicable privacy or data security Applicable Law, including but not limited to those requiring notification to any person or Governmental Authority, in connection with the confidential or personal information of any person.

**Section 3.26 Plan of Record.** Part 2 of the Plan of Record sets forth a complete and accurate calculation of the average costs identified therein and associated with the Reduction and Part 4 of the Plan of Record sets for complete and accurate information supporting such average costs.

**Section 3.27 No Other Representations and Warranties.** EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE 3 (QUALIFIED BY THE SCHEDULES, AS THE SAME MAY BE AMENDED OR SUPPLEMENTED), AND IN ANY SELLER CLOSING CERTIFICATES (AS DEFINED IN SECTION 1.01), THE SELLERS MAKE NO EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY, AND THE SELLERS HEREBY DISCLAIM ANY SUCH REPRESENTATION OR WARRANTY WITH RESPECT TO THE EXECUTION AND DELIVERY OF THIS AGREEMENT AND THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

#### **ARTICLE 4**

#### **BUYER AND BUYER PARENT UNCONDITIONAL GUARANTY**

**Section 4.01 Guaranty.** Buyer Parent hereby unconditionally guarantees to the Sellers the full, complete and prompt payment and performance by the Buyer of all of the Buyer's Liabilities, responsibilities and duties under this Agreement and the other agreements contemplated hereby. In the event that the Buyer fails at any time to perform any obligation it is required to perform under this Agreement or the other agreements contemplated hereby, the Sellers shall first make written demand to the Buyer for such performance and shall concurrently provide a copy of such written demand to Buyer Parent. In the event that the Buyer's failure continues for a period of five Business Days after delivery of such demand, the Sellers shall deliver a written demand for performance to Buyer Parent and Buyer Parent shall perform or cause the Buyer or other entity to perform such

obligations (a) within two Business Days after delivery of such written demand, with respect to the payment of money, and (b) as promptly as practicable, with respect to other obligations; provided, that Buyer Parent shall promptly commence its efforts to perform or cause the performance of any such obligation and shall diligently pursue performance of such obligation thereafter. This guaranty is absolute, unconditional and irrevocable irrespective of any circumstances which might otherwise constitute a legal or equitable discharge or defense of a guarantor, but subject to the rights, defenses and limitations that are available to Buyer pursuant to this Agreement. Buyer Parent further agrees to pay all reasonable costs and expenses (including, but not limited to, court costs and reasonable attorneys' fees) paid or incurred by the Sellers in enforcing this guaranty.

## **ARTICLE 5**

### **REPRESENTATIONS AND WARRANTIES OF THE BUYER AND BUYER PARENT**

The Buyer and Buyer Parent, jointly and severally, represent and warrant to the Sellers that each statement contained in this Article 5 is correct and complete.

**Section 5.01 Existence and Power.** Buyer Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all corporate powers and all material Permits from Governmental Authorities required to carry on its business as now conducted. The Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of U.S. Virgin Islands and has all limited liability company powers and all material Permits from Governmental Authorities required to carry on its business as now conducted.

**Section 5.02 Organizational Authorization.** Each of the Buyer and Buyer Parent has the full right, power and authority to enter into this Agreement, the Financing and each Related Agreement to be executed and delivered by it pursuant to or as contemplated by this Agreement and to carry out the transactions contemplated hereby and thereby. The execution and delivery of this Agreement, the Financing and each Related Agreement to which the Buyer or Buyer Parent is (or will be) a party, and the performance of the Buyer's and Buyer Parent's respective obligations hereunder and thereunder, have been duly authorized by all necessary action on the part of the Buyer and Buyer Parent, respectively. This Agreement, the Financing Documents and each Related Agreement to which the Buyer or Buyer Parent is a party and each agreement, document and instrument to be executed and delivered by the Buyer or Buyer Parent pursuant to this Agreement constitute, or will when executed and delivered constitute, valid and binding obligations of the Buyer and Buyer Parent, respectively, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

**Section 5.03 Governmental Authorization.** The execution, delivery and performance by the Buyer and Buyer Parent of this Agreement, the Financing Documents and the Related Agreements, and the consummation by the Buyer and Buyer Parent of the transactions contemplated hereunder and thereunder, require no material action by or in respect of, or Filing with, any Governmental Authority other than (i) compliance with any applicable requirements of the HSR Act and other Competition Laws, (ii) receipt by the parties hereto of each of the Communications Regulatory Authority Consents as set forth in Schedule 3.03(c), and (iii) any other actions or Filings



the absence of which would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

**Section 5.04 Noncontravention.** Except as set forth in Schedule 5.04, the execution, delivery and performance by the Buyer and Buyer Parent of this Agreement, the Financing Documents and each Related Agreement to which they are a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not (i) violate the Organizational Documents of either the Buyer or Buyer Parent, (ii) assuming compliance with the matters referred to in Section 5.03, violate any material Applicable Law, judgment, injunction, order or decree or (iii) require any material consent or other material action by any Person under, constitute a default under, or give rise to any right of termination, cancellation or acceleration of any right or obligation of either the Buyer or Buyer Parent under any provisions of any material agreement or other material instrument binding upon the Buyer or Buyer Parent.

**Section 5.05 Buyer's Qualification to Hold Permits.** Except as set forth in Schedule 5.05, (a) the Buyer is qualified to directly or indirectly hold all Permits (including Communications Permits) necessary for the conduct of the Business, including with respect to composition of the Buyer's ownership and with respect to the Buyer's character qualifications and (b) the Buyer is not aware of any fact or circumstance concerning the Buyer that would be reasonably expected to cause a Governmental Authority, including any Communications Regulatory Authority, to fail to grant its consent to the Buyer's purchase of the Membership Interest and the other transactions contemplated hereby, including any Communications Regulatory Authority Consent.

**Section 5.06 Sufficient Funds.** The Buyer and Buyer Parent have, and will continue to have until and as of the Closing, cash on hand and committed financing, assuming the funding of the Financing, as are needed to pay the Purchase Price and discharge their respective obligations under this Agreement and the Related Agreements, and neither the Buyer nor Buyer Parent has reason to believe that such cash on hand and committed financing (assuming the funding of the Financing) will not be available on a timely basis for the transactions contemplated by this Agreement.

**Section 5.07 Purchase for Investment.** The Buyer is purchasing the Membership Interest for investment for its own account and not with a view to, or for sale in connection with, any distribution thereof. The Buyer is an "accredited investor" and has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Membership Interest and is capable of bearing the economic risks of such investment.

**Section 5.08 Actions and Proceedings.** There are no (a) outstanding judgments, orders, writs, injunctions or decrees of any court, governmental agency or arbitration tribunal against the Buyer, Buyer Parent or any of their Affiliates, which have or would have a material adverse effect on the ability of the Buyer or Buyer Parent to consummate the transactions contemplated hereby or (b) actions, suits, claims or legal, administrative or arbitration proceedings or investigations pending or, to the knowledge of the Buyer or Buyer Parent, threatened against the Buyer or Buyer Parent, which have or would have a material adverse effect on the ability of the Buyer or Buyer Parent to consummate the transactions contemplated hereby.

**Section 5.09 Finder's Fees.** There is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of the Buyer or Buyer Parent who might be entitled to any fee or commission upon the consummation of the transactions contemplated by this Agreement, other than Q Advisors LLC, which fees shall be paid by Buyer Parent or an Affiliate thereof.

**Section 5.10 Solvency.** After giving effect to the transactions contemplated by this Agreement, the Financing and any other financing arrangements incurred in connection herewith, the Company and the Seller Entities will be able to pay their respective debts as they become due and will own property which has a fair saleable value greater than the amounts required to pay their debts (including a reasonable estimate of the amount of all contingent Liabilities). After giving effect to the transactions contemplated by this Agreement, including the Financing, the Company and the Seller Entities will have adequate capital to carry on the Business. No transfer of property is being made and no obligation is being incurred in connection with the transactions contemplated by this Agreement with the intent to hinder, delay or defraud either present or future creditors of the Company or any Seller Entity.

**Section 5.11 Acknowledgment by the Buyer and Buyer Parent.**

(a) The Buyer and Buyer Parent have conducted to their satisfaction, an independent investigation and verification of the financial condition, results of operations, assets, Liabilities, properties and projected operations of the Company, the Seller Entities and the Business, and in making their determination to proceed with the transactions contemplated by this Agreement, the Buyer and Buyer Parent have relied on the results of their own independent investigation and verification and the representations and warranties of the Sellers expressly and specifically set forth in this Agreement (including the Schedules, as the same may be amended or supplemented) and any Seller Closing Certificates delivered to Buyer at Closing. SUCH REPRESENTATIONS AND WARRANTIES BY THE SELLERS CONSTITUTE THE SOLE AND EXCLUSIVE REPRESENTATIONS AND WARRANTIES OF THE SELLERS TO THE BUYER AND BUYER PARENT IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREBY, AND THE BUYER AND BUYER PARENT UNDERSTAND, ACKNOWLEDGE AND AGREE THAT ALL OTHER REPRESENTATIONS AND WARRANTIES OF ANY KIND OR NATURE EXPRESSED OR IMPLIED (INCLUDING, WITHOUT LIMITATION, ANY RELATING TO THE FUTURE OR HISTORICAL FINANCIAL CONDITION, RESULTS OF OPERATIONS, ASSETS OR LIABILITIES OF THE COMPANY OR ANY SELLER ENTITY OR THE QUALITY, QUANTITY OR CONDITION OF THE BUSINESS) ARE SPECIFICALLY DISCLAIMED BY THE SELLERS. EXCEPT AS SET FORTH IN ANY REPRESENTATIONS AND WARRANTIES OF THE SELLERS EXPRESSLY AND SPECIFICALLY SET FORTH IN THIS AGREEMENT (INCLUDING THE SCHEDULES, AS THE SAME MAY BE AMENDED OR SUPPLEMENTED) AND ANY SELLER CLOSING CERTIFICATES DELIVERED TO BUYER AT CLOSING, THE SELLERS DO NOT MAKE OR PROVIDE, AND THE BUYER AND BUYER PARENT HEREBY WAIVE, ANY WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, AS TO THE QUALITY, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, CONFORMITY TO SAMPLES, OR CONDITION OF THE ANY ASSETS, THE BUSINESS OR ANY PART THEREOF. NOTWITHSTANDING THE FOREGOING OR

ANYTHING ELSE HEREIN TO THE CONTRARY, NOTHING HEREIN IS INTENDED TO LIMIT THE RIGHTS OF THE BUYER OR BUYER PARENT WITH RESPECT TO INTENTIONAL OR WILLFUL MISREPRESENTATION OF FACTS THAT CONSTITUTES COMMON LAW FRAUD UNDER APPLICABLE LAWS WITH RESPECT TO THE REPRESENTATIONS AND WARRANTIES IN THIS AGREEMENT AS MADE BY SELLERS AND AS QUALIFIED BY THE SCHEDULES. AND/OR ANY SELLER CLOSING CERTIFICATES DELIVERED TO BUYER AT CLOSING.

(b) In connection with the Buyer's and Buyer Parent's investigation of the Company and the Business, the Buyer and Buyer Parent have received from or on behalf of the Sellers certain projections and other forward-looking information of the Seller Entities and the Business. The Buyer and Buyer Parent acknowledge that there are uncertainties inherent in attempting to make such estimates, projections and other forecasts and plans, that the Buyer and Buyer Parent are familiar with such uncertainties, that the Buyer and Buyer Parent are taking full responsibility for making their own evaluation of the adequacy and accuracy of all estimates, projections and other forecasts and plans so furnished to them (including the reasonableness of the assumptions underlying such estimates, projections and forecasts), and that the Buyer and Buyer Parent shall have no claim against the Sellers with respect thereto. Accordingly, the Sellers make no representations or warranties whatsoever with respect to such estimates, projections and other forecasts and plans (including the reasonableness of the assumptions underlying such estimates, projections and forecasts). The Buyer and Buyer Parent agree that none of Parent, the Company, any Seller Entity, or any other Person will have or be subject to any liability to the Buyer, Buyer Parent or any other Person resulting from the distribution to the Buyer and Buyer Parent, or the Buyer's or Buyer Parent's use of, any information regarding the Company, any Seller Entity or the Business, and any information, document or material made available to the Buyer, Buyer Parent or their Affiliates in certain physical or on-line "data rooms," management presentations or any other form in expectation of the transactions contemplated by this Agreement other than as set forth in any representations and warranties of the Sellers expressly and specifically set forth in his Agreement (including the Schedules, as the same may be amended or supplemented) and any Seller Closing Certificates delivered to Buyer at Closing.

**Section 5.12 No Reliance.** Except as it may apply to claims by the Buyer or Buyer Parent for intentional or willful misrepresentation of facts that constitutes common law fraud under Applicable Laws, the Buyer and Buyer Parent acknowledge and agree that the representations and warranties made by the Sellers in this Agreement (as qualified by the Schedules) and any Seller Closing Certificates delivered to Buyer at Closing supersede, replace and nullify in every respect the data set forth in any other document, material or statement, whether written or oral, made available to the Buyer and Buyer Parent, and the Buyer and Buyer Parent shall be deemed to have not relied on any data contained in such other document, material or statement for any purpose whatsoever, including, without limitation, as a promise, projection, guaranty, representation, warranty or covenant, except as set forth in any representations and warranties of the Sellers expressly and specifically set forth in this Agreement (including the Schedules, as the same may be amended or supplemented) and any Seller Closing Certificates delivered to Buyer at Closing.

**ARTICLE 6**  
**COVENANTS OF THE SELLERS**

**Section 6.01 Conduct of the Company.** During the period from the date of this Agreement and continuing until the Closing, the Sellers agree that, except (i) as expressly contemplated or permitted by this Agreement or Schedule 6.01, (ii) as required by Applicable Law, or (iii) to the extent that the Buyer or Buyer Parent shall otherwise consent (such consent not to be unreasonably withheld, delayed, or conditioned):

(a) the Company and the Seller Entities shall:

(i) use all reasonable efforts to carry on the Business in the usual, regular and ordinary course in all material respects, in substantially the same manner as heretofore conducted, and shall use all reasonable efforts to preserve intact the present lines of the Business, maintain their respective Permits (including Communications Permits) and other rights and franchises and preserve their respective relationships (contractual or otherwise) with customers, suppliers and others having business dealings with the Business (including, without limitation, through ordinary course renewals, negotiations with and amendments to such relationships) to the end that the ongoing Business shall not be impaired in any material respect at the Closing;

(ii) incur the capital expenditures consistent in all material respects with the budget set forth on Schedule 6.01(a)(ii);

(iii) consummate the Divestitures;

(iv) cause any Liens other than Permitted Liens on the assets of the Company and the Seller Entities to be released, discharged and terminated as of or prior to the Closing (it being understood that Liens terminated upon payment of Closing Indebtedness in accordance with the Flow of Funds shall be deemed released, discharged and terminated as of Closing);

(v) as of or prior to the Closing, cause to be paid, settled, cancelled or otherwise satisfied all Indebtedness and any other intercompany Liabilities owing or due by the Company or any Seller Entity, on the one hand, and Parent, on the other hand (it being understood that Closing Indebtedness paid at Closing in accordance with the Flow of Funds shall be deemed paid, settled, cancelled and satisfied as of the Closing);

(vi) implement the Reduction in accordance with the scheduled headcount reduction set forth in Part 3 of the Plan of Record such that the Closing Count does not vary from the target count set forth in the column labeled "Column C" by more than the number set forth in the corresponding column labeled "Column D" on a line by line basis;

(vii) use commercially reasonable efforts to promptly comply with the Metrics and conduct the activities related thereto in each case as set forth on Schedule 6.01(a)(vii);

(viii) use commercially reasonable efforts to migrate residential customers to the hybrid fiber-coaxial network operated by the Company and Seller Entities and to decommission their copper plant, in each case, in accordance with the schedule executed by Sellers and delivered to Buyer as of the date of this Agreement;

(ix) use commercially reasonable efforts to:

(A) with respect to each of the Leased Real Properties listed on Schedule 3.10(b) and identified with an asterisk (\*) (the “Designated Leased Properties”), (i) enter into fully executed, and if applicable, duly registered leases or other similar agreements on customary terms providing a valid and subsisting leasehold interest or other similar rights, and (ii) remove, discharge or obtain a release of any Lien (other than a Permitted Lien) adversely affecting the applicable Seller Entity’s occupancy or enjoyment thereof;

(B) enter into and duly record easements on customary terms with respect to each of the properties listed on Schedule 3.10(b) under the heading “List of Easements” and identified with an asterisk (\*) (the “Designated Easements”); and

(C) complete the purchase of real property listed on Schedule 3.10(a) under the heading “Real Property in Process of finalizing transfer and registration process”;

and, in each case, provide Buyer with evidence of the same; and

(x) take the actions set forth in Schedule 6.01(a)(x).

(b) the Company and the Seller Entities shall not:

(i) incur or commit to any capital expenditures or any obligations or Liabilities in connection with capital expenditures, except for (i) capital expenditures and obligations or Liabilities in connection therewith incurred or committed to in the ordinary course of business, or (ii) other capital expenditures and obligations or Liabilities that are incurred in good faith and acting reasonably, as a prudent operator of its business; provided, that, in each case such capital expenditures and obligations are consistent in all material respects with the budget attached as Schedule 6.01(a)(ii);

(ii) acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire or agree to acquire or license any assets or rights (other than the acquisition or license of assets used in the operations of the Business in the ordinary course of business in an aggregate amount not to exceed \$100,000);

(iii) other than the Divestitures, sell, license, encumber (other than Permitted Liens incurred in the ordinary course of business) or otherwise dispose of, or agree to sell,

license, encumber (other than Permitted Liens incurred in the ordinary course of business) or otherwise dispose of, any of material assets other than in the ordinary course of business;

(iv) create, incur, assume or suffer to exist any Indebtedness, issuances of debt, securities, guarantees, loans or advances not in existence as of the date of this Agreement, except trade debt and commercial finance in the ordinary course of business and except for Indebtedness which shall be paid, settled, cancelled or otherwise satisfied at or prior to the Closing;

(v) except as required by changes in GAAP or as required by Applicable Law, change their respective methods of accounting in effect as of the date hereof;

(vi) enter into or become bound by, or permit any of the assets owned or used by it to become bound by, any Contract of the type required to be disclosed pursuant to Section 3.13 of this Agreement other than Contracts (A) involving less \$100,000 and which are terminable by the Company or Seller Entity on less than 91 days' notice without penalty or payment, and (B) entered into in the ordinary course of business;

(vii) modify, amend, terminate (except by its stated termination date) or waive any material right or remedy under any Company Contract in a manner that would be adverse to the Company or the Seller Entities;

(viii) amend or otherwise change the Organizational Documents of the Company or any Seller Entity through merger, liquidation, reorganization, restructuring or in any other fashion change the corporate structure or ownership of the Company or any Seller Entity;

(ix) issue, sell, transfer, pledge, dispose of or encumber, or authorize the issuance, sale, transfer, pledge, disposition or encumbrance of, or redeem, purchase or otherwise acquire, any shares of capital stock or other equity of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of capital stock, or any other ownership interest of, the Company or any Seller Entity;

(x) split, combine or reclassify any of the Company's or any Seller Entity's capital stock or other securities or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or other equity interests;

(xi) a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization or file any petition in bankruptcy under any provisions of federal or state bankruptcy law or consent to the filing of any bankruptcy petition against it under any similar Applicable Law;

(xii) form any Subsidiary or acquire any equity or other interest or make any other investment in or capital contribution to any other Person, other than investments in short-term marketable securities in the ordinary course of business;

(xiii) acquire (by merger, consolidation, acquisition of stock or other securities or assets or otherwise) any corporation, limited liability company, partnership, joint venture or other business organization or division thereof;

(xiv) change in any manner the compensation (including bonus) or fringe benefits payable or to become payable to their respective officers, directors or employees, other than (i) changes in the ordinary course of business or (ii) stay bonuses granted and paid to such individuals in connection with the transactions contemplated herein;

(xv) grant any severance or termination pay to, or enter into or amend any employment or severance agreement with, any director, officer or other employee, or establish, adopt, enter into or amend any Employee Benefit Plan, except as required by Applicable Law, or pay or agree to pay any severance or termination pay to any director, officer, employee or consultant;

(xvi) declare, set aside or pay any dividend or other distribution (whether in cash, stock or other securities or property or any combination thereof) in respect of any of its capital stock or other equity interests, except dividends or other distributions made in the ordinary course of business;

(xvii) accelerate or delay collection of any notes or accounts receivable of the Company or any Seller Entity in advance of or beyond their regular due dates or the dates when the same would have been collected in the ordinary course of business, other than accounts receivable that are (individually or in the aggregate) less than \$250,000;

(xviii) delay or accelerate payment of any account payable or other Liability of the Company or any Seller Entity beyond or in advance of its due date or the date when such account payable or other Liability would have been paid in the ordinary course of business, other than accounts payable or other Liabilities that are (individually or in the aggregate) less than \$100,000;

(xix) make any material change in the prices at which any products or services are sold or distributed, or offer any rebates, discounts, commissions, incentives or inducements for the purchase of any products or services other than in the ordinary course of business;

(xx) except as set forth on Schedule 6.01(b)(xx), make, change or revoke any material Tax election, change an annual accounting period, adopt or change any material accounting method, file any amended Tax Return, enter into any closing agreement, settle any material Tax Claim or material assessment relating to the Company, surrender any right to claim a material refund of Taxes, consent to any extension or waiver of the limitation period applicable to any material Tax Claim or material assessment relating to the Company or any Seller Entity, or take any other similar action, or omit to take any action relating to the filing of any material Tax Return or the payment of any material Tax;

(xxi) except in accordance with the budget set forth on Schedule 6.01(a)(ii), purchase, acquire, lease or license any assets in any single transaction or series of related

transactions having a fair market value in excess of \$120,000 in the aggregate, other than in the ordinary course of business;

(xxii) write-down or write-up the value of any asset by more than 10%, except as required by or in accordance with GAAP;

(xxiii) settle any Action asserting Liabilities in excess of \$25,000, individually, or \$150,000 in the aggregate against any other Person;

(xxiv) make a Filing with the FCC to obtain eligibility to bid on spectrum licenses in the Auction, unless such Filing complies with the requirements set forth in Section 8.02 (g); or

(xxv) authorize, recommend, propose or announce an intention to do any of the foregoing, or agree or enter into any Contract to do any of the foregoing;

*provided, however*, that this Section 6.01 shall in not in any way restrict or otherwise prohibit the ability of the Sellers and the Seller Entities to (i) take any action with respect to an Excluded Asset, including selling, disposing or otherwise transferring an Excluded Asset to any other person or entity, (ii) make payments, accept additional advances and prepay intercompany Indebtedness and other intercompany liabilities prior to the determination of the Estimated Purchase Price, (iii) make distributions or dividends prior to the determination of the Estimated Purchase Price, (iv) take any action with respect to the Reduction provided that the same complies with all Applicable Laws, or (v) incur the capital expenditures and other budgeted cash flows consistent in all material respects with the budget set forth on Schedule 6.01(a)(ii).

## **Section 6.02 Buyer Access; Financial Statements.**

(a) From the date hereof until the Closing Date, Sellers will (i) give the Buyer, Buyer Parent and their respective counsel, auditors, financing sources and other authorized representatives reasonable access to the offices, properties, books and records of the Company and the Seller Entities, (ii) furnish promptly to Buyer, Buyer Parent and their respective counsel, auditors, financing sources, and other authorized representatives all information concerning the Company and the Seller Entities, the Business and their respective properties, books, Contracts, records and personnel as Buyer, Buyer Parent or such representatives may reasonably request and, without limiting the foregoing, within 30 days following the date of this Agreement, provide the Buyer with a schedule setting forth a brief description of the use of each Owned Real Property and Leased Real Property; (iii) make available to the representatives of Buyer and Buyer Parent, upon the reasonable request therefor, the Company's and Seller Entities' accountants, counsel and employees, by telephone or at the locations at which they generally perform services for the Company and the Seller Entities, for discussion of the Company's businesses, properties or personnel as Buyer or Buyer Parent may reasonably request, (iv) without limiting the foregoing, make available to the representatives of Buyer and Buyer Parent the Company's and Seller Entities' senior management for (A) weekly operations integration and transition planning meetings, and (B) monthly meetings to discuss the status of pending Tax Claims, and (v) use reasonable efforts to make available to the representatives of Buyer and Buyer Parent, upon reasonable request therefor, such customers, suppliers or other



Persons with whom the Company or Seller Entities maintain a business or commercial relationship; provided that any such access (A) shall be during normal business hours on reasonable notice, (B) shall not be required where such access would be prohibited or otherwise limited by any Applicable Law, and (C) shall not otherwise unreasonably interfere with the conduct of the Business.

(b) Following the date hereof and through the Closing Date, the Company shall prepare and furnish to the Buyer and Buyer Parent:

(iii) promptly after completion, the consolidated audited balance sheets of the Company as of May 31, 2015, and the consolidated audited statements of operations and cash flows for the fiscal year then ended;

(iv) promptly after completion and in any event within thirty (30) days of the end of each calendar month, (A) the unaudited consolidated balance sheet of the Company and the Seller Entities as of the end of such preceding calendar month, and (B) the related unaudited consolidated statement of operations and cash flow of the Company and the Seller Entities for such preceding month; and

(v) promptly after completion and in any event within forty-five (45) days of the end of each calendar quarter, (A) the unaudited consolidated balance sheet of the Company and the Seller Entities as of the end of such preceding quarter, and (B) the related unaudited consolidated statement of operations and cash flow of the Company and the Seller Entities for such preceding quarter.

(c) Following the date hereof and through the Closing Date, the Company shall prepare and furnish to the Buyer and Buyer Parent, within ten (10) days of the end of each calendar month, a status report reflecting the Company's and Seller Entities' progress relative to the Reduction.

(d) From and following the date of this Agreement, unless this Agreement is terminated in accordance with the terms hereof, the Sellers, jointly and severally, covenant and agree that they will not, and will not permit any of their respective controlled Affiliates to, divulge or make use of any trade secrets or other Confidential Information (as such term is defined in the Confidentiality Agreement) of the Company, any Seller Entity or the Business, other than in connection with the Financing and to disclose such secrets and information to Buyer, Buyer Parent or to such other Persons as requested by Buyer.

(e) Following the date hereof and through the Closing Date, the Seller shall make available to the representatives of Buyer and Buyer Parent the Company's and Seller Entities' senior management for weekly regulatory meetings (which may be held in connection with the Section 6.02(a)(iv) weekly operations integration and transition planning meetings) during which, among other things, the Company's and Seller Entities' senior management shall report to Buyer and Buyer Parent regarding (i) their respective compliance with the Metrics and Communications Laws; (ii) all communications with Communications Regulatory Authorities; and (iii) any recent developments in connection with a Communications Regulatory Authority that is reasonably likely to have an effect on the Business.

**Section 6.03 Notice; Supplemental Disclosure.** Between the date hereof and the Closing Date, the Sellers, on the one hand, and the Buyer and Buyer Parent, on the other hand, will promptly provide the other party with written notice, in reasonable detail, of (i) the discovery of any event, condition, fact or circumstance that occurred or existed on or prior to the date of this Agreement and that causes or constitutes a material breach of any representation or warranty made by such party in this Agreement, (ii) any Action, event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that causes or constitutes a material inaccuracy in or material breach of any representation or warranty made by such party in this Agreement, (iii) the occurrence or non-occurrence of any event the occurrence or non-occurrence of which has caused, or would cause, any condition set forth in Article 9 to be incapable of being satisfied, and (iv) any material breach of any covenant or obligation of such party. Such written notice shall state whether such matter, event, condition, fact, circumstance or development (A) cannot be cured and (B) would result in any of the other party's conditions set forth in Article 9 to be incapable of being satisfied. Upon receipt of any such notice stating the matters set forth in clauses (A) and (B) of the immediately preceding sentence, the non-notifying party may terminate this Agreement in accordance with Article 10 (1) within 30 days after being provided such written notice in the event the notice relates to a breach of a representation or warranty, or (2) within 90 days after being provided such written notice in the event the notice relates to a breach of covenant or agreement or a condition becoming incapable of being satisfied (or in either case, if Buyer requests additional information of Sellers within five Business Days following receipt of such notice, then such applicable time period shall begin at such time as Buyer is provided with such requested supplemental information). If such party chooses not to terminate this Agreement, then such written notice shall constitute an amendment to the Schedules hereto and cure, or be deemed an exception to, any breach of representation, warranty, covenant, agreement or condition, as applicable, for purposes of satisfying such Closing condition in Article 9, and such party shall be deemed to have irrevocably waived its right to terminate this Agreement solely with respect to such matter; *provided, however*, that such party's other rights and remedies hereunder, including, without limitation, to terminate this Agreement by reason of additional, though related matters, events, conditions, facts, circumstances or developments, or to seek indemnification pursuant to Article 11, shall remain unaffected by such deemed waiver. Notwithstanding the foregoing, any updates relating to Actions, events, conditions, facts or circumstances that occur, arise or exist after the date of this Agreement to any of Schedules 3.10(b) (List of Real Property Leases), 3.12(a) (List of Intellectual Property) 3.13 (List of Company Contracts), 3.14(a) and (b) (List of Insurance Policies and Claims), 3.15(a) (List of Permits), 3.18 (List of Environmental Permits), 3.22 (List of Business Names and Addresses) and 3.23 (List of Bank Accounts) shall be deemed to have cured any misrepresentation or breach that might have existed hereunder by reason of such matter not being disclosed on the Schedules hereto as of the date of this Agreement, and no party shall be entitled to terminate this Agreement under Article 10 or seek indemnification pursuant to Article 11 with respect to such matters. The Company will deliver to Buyer and Buyer Parent an update, certified by an authorized officer of the Company, to the information regarding employees and independent contractors of the Sellers and the Seller Entities delivered pursuant to Section 3.17, dated no later than three Business Days prior to the Closing Date.

**Section 6.04 Acquisition Proposals.** Neither of the Sellers shall, nor shall either of them authorize or permit any officer, director, member, manager, employee, agent or other representative

of the Company or Parent or any of their respective Affiliates to, directly or indirectly, seek, solicit or encourage, or furnish information with respect to the sale of the Membership Interest, the Company, the Seller Entities or the Business (or any portion of the foregoing) to, or engage in any discussions with, any Person in connection with, any proposal for the acquisition of all or any portion of the Membership Interest or the assets or properties of the Company or any Seller Entity, other than as contemplated by this Agreement. The Sellers will promptly cease or cause to be terminated any existing activities or discussions with any Person (other than Buyer and Buyer Parent) with respect to any of the foregoing and will promptly request the return or destruction of any confidential information provided to any such Person in connection with a prospective acquisition of the Membership Interest, or any of the assets or properties of the Company or Seller Entities. The Sellers shall notify Buyer in writing of any breach of this Section 6.04 within one Business Day after any Sellers' officers or directors become aware of such breach. Such written notification shall describe in reasonable detail any such occurrence and identify the Persons, circumstances and all relevant terms involved. Without limiting the foregoing, any violation of the restrictions set forth above by any officer, director, member, manager, authorized agent or other authorized representative of the Sellers, the Company or any Seller Entity shall be deemed to be a breach of this Section 6.04 by the Sellers.

#### **Section 6.05                      Real Estate Matters.**

(a) Without limiting the generality of Section 6.02, from and after the date of this Agreement, Sellers shall afford to the officers, employees, attorneys, accountants, agents and other authorized representatives of Buyer reasonable access in order that Buyer may have full opportunity, at Buyer's sole cost and expense, to inspect, take measurements, conduct surveys and tests, show the Owned Real Property to contractors, architects, surveyors, engineers, consultants, insurers, banks and other lenders or investors, and to make legal, financial, engineering, accounting and other reviews or investigations of the Owned Real Property. In addition, Sellers shall reasonably cooperate with Buyer and execute documents reasonably required by Buyer in order to obtain, at Buyer's sole cost and expense, appraisals, title commitments, surveys or other documents related to the Owned Real Property. To the extent Buyer elects to obtain title commitments or title policies with respect to Owned Real Property, it shall use its commercially reasonable efforts to obtain the same as soon as practicable following the date of this Agreement and, with respect to any such title commitments or title policies which reflect Exceptions, will deliver the same to Sellers promptly following receipt thereof.

(b) If any title commitment or any title policy obtained by Buyer discloses any Lien, mortgage, judgement or other encumbrance affecting any parcel of Owned Real Property (collectively, "Exceptions"), other than the Permitted Liens, then, with respect to each such Exception, Sellers shall take such action as is required to have such Exception removed by the title company, which action may include the payment of a liquidated sum of money, the delivery of an affidavit and/or the delivery of an indemnity, in each case, as reasonably requested by Buyer's title company; provided, that, (i) if such Exception may be satisfied by the payment of a liquidated sum of money then, in lieu of such removal, (A) such liquidated sum shall be reflected on the Flow of Funds and paid from the Estimated Purchase Price, or (B) the Purchase Price will be reduced, on a dollar-for-dollar basis, by the amount of such liquidated sum, and (ii) if such Exception has not

been reduced to a liquidated sum and is not material, Sellers failure to remove said Exception shall not be considered a breach of this Section 6.05(b).

## **ARTICLE 7**

### **COVENANTS OF THE BUYER**

**Section 7.01 Confidentiality.** The Buyer Parent and the Company acknowledge and agree to continue to be bound by the Confidentiality Agreement, dated as of January 19, 2015, between the Buyer Parent and the Company, as amended from time to time (the “Confidentiality Agreement”).

**Section 7.02 Seller Access.** From and after the Closing, the Buyer shall afford the Parent and its designees and representatives reasonable access to the books, records (including accountants’ work papers) and employees of the Company and the Seller Entities, in each case, solely to the extent the Parent reasonably needs (a) to comply with reporting, disclosure, filing or other requirements imposed on the Parent by a Governmental Authority, (ii) for use in any Tax audits or litigation in which the Parent is a party (it being understood for the avoidance of doubt that information sharing with respect to any litigation to which the Parent is a party shall be subject to Article 11), or (iii) to comply with the Parent’s obligations under this Agreement; provided, however, that as a condition to providing such access, the Parent and its representatives shall agree to enter into a confidentiality agreement in form and substance reasonably satisfactory to Buyer. Unless otherwise consented to in writing by the Parent, none of Buyer, Buyer Parent, the Company or any Seller Entity shall, for a period of six years after the Closing Date, destroy, alter or otherwise dispose of any of the books and records without first offering to surrender to the Sellers such books and records or any portion thereof which such party may intend to destroy, alter or otherwise dispose of.

## **ARTICLE 8**

### **ADDITIONAL COVENANTS OF THE PARTIES**

**Section 8.01 Commercially Reasonable Efforts; Further Assurances.** Subject to the terms and conditions of this Agreement, including, Section 8.02(a) below, (a) the Buyer, Buyer Parent and the Sellers shall use their commercially reasonable efforts to take, or cause to be taken, all actions necessary or desirable under Applicable Law to consummate the transactions contemplated by this Agreement, including (i) preparing and filing as promptly as practicable with any Governmental Authority all documentation to effect all necessary Filings, and (ii) obtaining and maintaining all licenses, authorizations, permits, consents, approvals, clearances, variances, exemptions and other confirmations required to be obtained from any Governmental Authority or other third party to consummate the transactions contemplated by this Agreement (including satisfaction of the conditions set forth in Article 9), (b) the Sellers and the Buyer and Buyer Parent agree to execute and deliver such other documents, certificates, agreements and other writings and to take such other actions as may be necessary or desirable in order to consummate or implement expeditiously the transactions contemplated by this Agreement, and (c) from time to time, as and when requested by any party hereto and at such party’s expense, any other party shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as such other party may reasonably deem

necessary or desirable to evidence and effectuate the transactions contemplated by this Agreement. Without limiting the foregoing, the Sellers shall, and shall cause the Company and the Seller Entities and, in each case, their respective officers, employees and agents, to, cooperate in good faith with Buyer to consummate the Financing, which cooperation shall include, without limitation, providing evidence of insurance satisfactory to RTFC and the execution of the Financing Documents.

## **Section 8.02 Further Cooperation; Required Actions.**

(a) In furtherance and not in limitation of the foregoing, each of the Sellers and the Buyer shall, as promptly as practicable after the date hereof, make any and all Filings necessary or appropriate under the HSR Act and the Competition Laws of the British Virgin Islands and Sint Maarten in connection with the transactions contemplated hereby. Subject to Section 8.01, each of the Sellers and the Buyer shall use its commercially reasonable efforts to supply as promptly as practicable any additional information that may be requested pursuant to the HSR Act or such Competition Law and to take all other actions necessary to cause the expiration, termination, or early termination of the applicable waiting periods under the HSR Act or such Competition Law, or the receipt of any requisite clearances and approvals under such Competition Law, including responding to a Request for Additional Information and Material pursuant to the HSR Act (a “Second Request”), as soon as practicable. Except with respect to any condition or divestment related to spectrum licenses held by Buyer or its Affiliates and contemplated in the definition of Material Adverse Regulatory Event which shall not be prohibited or restrained by the following proviso, nothing in this Agreement (i) shall require Buyer or Buyer Parent to litigate or participate in the litigation of any action or proceeding pursuant to the HSR Act or any other Competition Law, whether judicial or administrative, brought by any Governmental Authority or appeal any order (A) challenging or seeking to restrain or prohibit the consummation of the transaction or seeking to obtain from Buyer or Buyer Parent any damages in relation therewith, or (B) seeking to prohibit or limit in any respect, or place any conditions on, the ownership or operation by Buyer or Buyer Parent of all or any portion of Buyer or Buyer Parent’s business, the Business or assets or any product of the Company, or the equity of, or voting interest in, the Company or any Seller Entity, or to require any such person to dispose of, license (whether pursuant to an exclusive or nonexclusive license) or hold separate all or any portion of Buyer or Buyer Parent’s business, the Business or assets or any product of the Company, or the equity of, or voting interest in, the Company or any Seller Entity, in each case, as a result of or in connection with the transaction, or (ii) shall require Buyer or Buyer Parent to, nor shall the Company without the prior written consent of Buyer or Buyer Parent, (A) agree or proffer to any of the prohibitions, limitations, conditions or other actions referred to in the preceding clause (i)(B), or (B) enter into any settlement, undertaking, consent decree, stipulation or agreement with any Governmental Authority in connection with the transaction.

(b) In furtherance and not in limitation of the foregoing, each of the Sellers, the Buyer, and the Buyer Parent shall, as promptly as practicable after the date hereof, assemble all appropriate information to complete and jointly submit Filings (i) seeking the Communications Regulatory Authority Consents set forth in Schedule 3.03(c) or described in Section 3.03(c)(i) and (ii) to the extent necessary and appropriate under Applicable Law providing notice to applicable Communications Regulatory Authorities, in each case of clauses (i) and (ii) with respect to

consummation of the transactions contemplated hereby, within 30 Business Days of the date hereof (or such later date as mutually agreed by the parties hereto, such agreement not to be unreasonably withheld, conditioned or delayed).

(c) In furtherance and not in limitation of the foregoing and to the extent not prohibited by Applicable Law or any Governmental Authority, each of the Sellers, the Buyer, and Buyer Parent shall cooperate with each other (i) in determining what actions by or in respect of, or filing with, any Governmental Authority other than those identified in Sections 8.02(a) through (b) are required, or which actions, consents, approvals or waivers are required to be obtained under any Company Contracts, including the RT Park Agreement, in each case in connection with the consummation of the transactions contemplated by this Agreement, and (ii) in taking such actions or making any such filings, in furnishing information required in connection therewith and in seeking timely to obtain any such actions, consents, approvals or waivers. Except with respect to any condition or divestment related to spectrum licenses held by Buyer or its Affiliates and contemplated in the definition of Material Adverse Regulatory Event which shall not be prohibited or restrained by the following proviso and subject to the last provision of this Section 8.02(c), nothing in this Agreement, (i) shall require Buyer or Buyer Parent to litigate or participate in the litigation of any action or proceeding in connection with a Communications Regulatory Authority Consent, whether judicial or administrative, brought by any Governmental Authority or appeal any order (A) challenging or seeking to restrain or prohibit the consummation of the transaction or seeking to obtain from Buyer or Buyer Parent any damages in relation therewith, or (B) seeking to prohibit or limit in any respect, or place any conditions on, the ownership or operation by Buyer or Buyer Parent of all or any portion of Buyer or Buyer Parent's business or the Business or assets (including Communications Permits) or any product of the Company or to require any such person to dispose of, license (whether pursuant to an exclusive or nonexclusive license) or hold separate all or any portion of Buyer or Buyer Parent's business or the Business or assets (including Communications Permits) or any product of the Company, in each case, as a result of or in connection with the transaction, or (ii) shall require Buyer or Buyer Parent to, nor shall the Company without the prior written consent of Buyer or Buyer Parent, (A) agree or proffer to any of the prohibitions, limitations, conditions or other actions referred to in the preceding clause (i)(B), or (B) enter into any settlement, undertaking, consent decree, stipulation or agreement with any Governmental Authority in connection with the transaction; *provided, however*, Buyer and Buyer Parent shall negotiate in good faith with the PSC with respect to obtaining the Communications Regulatory Authority Consents.

(d) In furtherance and not in limitation of the foregoing, and to the extent permitted by Applicable Law, each of the Sellers, Buyer, and Buyer Parent shall use its commercially reasonable efforts to (i) cooperate in all respects with each other in connection with any Filing and in connection with any investigation or other inquiry by or on behalf of a Governmental Authority; (ii) promptly inform the other party of any Filing or communication received from, or intended to be given to, any Governmental Authority regarding any of the transactions contemplated hereby; (iii) and prior to submitting any Filing, substantive written communication, correspondence or other information or response by such party to any Governmental Authority (or members of the staff of any Governmental Authority), permit the other party and its counsel the opportunity to review as reasonably in advance as practicable under the circumstances, and consider in good faith the comments of the other party in connection with any such Filing, communication or inquiry; (iv)

furnish each other with a copy of any Filing, communication or, if in written form, inquiry, it or any of its Affiliates makes to or receives from any Governmental Authority; and (v) consult with each other in advance of any meeting or conference with any such Governmental Authority to the extent reasonably practicable, give the other party the opportunity to attend and participate in such meetings and conferences, in each case (i)-(iv) regarding any of the transactions contemplated hereby.

(e) Each of the Company and the Buyer shall pay its own costs in connection with any Filings pursuant to this Section 8.02, and each of them shall pay one-half of any filing fees in connection with any joint Filings pursuant to this Section 8.02, including pursuant to the HSR Act and any other Competition Law.

(f) Promptly after the date hereof, and only to the extent permitted by FCC rules, Sellers and Buyer Parent shall establish, and Sellers shall designate the appropriate employees of the Company to participate with employees of Buyer Parent in, a joint working group to prepare for the integration of the Company and the Seller Entities after the Closing into Buyer Parent's internal control structure and procedures for financial reporting compliance with the requirements of Rule 404 of the Sarbanes-Oxley Act and Buyer Parent's financial reporting structure. In addition, prior to the Closing, Sellers shall, and shall cause the Company and the Seller Entities and their respective directors, officers, employees and representatives to, reasonably cooperate with Buyer Parent and its representatives in connection with the preparation of any financial information that may be required by Form 8-K, Regulation S-X, and/or Regulation S-K promulgated under the Securities Act (including any audited financial statements and pro forma financial statements under Rule 3-05 of Regulation S-X) in connection with the transaction. Without limiting the generality of the foregoing, Sellers shall, and shall cause the Company, its other Subsidiaries and their respective representatives to, upon reasonable request (a) furnish the report of the Company's auditor on the most recent audited consolidated financial statements of the Company and the Seller Entities and use its commercially reasonable efforts to obtain the consent of such auditor to the use of such report in accordance with normal custom and practice; (b) furnish any additional financial statements, schedules or other financial data relating to the Company and the Seller Entities reasonably requested by Buyer Parent; (c) furnish management and legal representatives of senior officers of the Company to auditors; and (d) make available the employees and advisors of the Company and the Seller Entities to provide reasonable assistance with Buyer Parent's preparation of any required financial statements.

(g) The Buyer, Buyer Parent, Sellers, and Seller Entities shall, and shall use commercially reasonable efforts to cause their respective Affiliates to (to the extent required by Applicable Law), disclose the existence of this Agreement and the Related Agreements in any Filing that they make to participate in, or otherwise in connection with, the Auction to the extent reasonably necessary to enable the parties to perform their obligations under this Agreement and complete the transactions contemplated herein during the Auction's Quiet Period.

**Section 8.03 Alternative Transaction Structure.** In the event that all conditions precedent under Section 9.01 and Section 9.02 have been satisfied other than the receipt of Communications Regulatory Authority Consents necessary to transfer control of STM Asset

Holdings, LLC (“STM”) and/or BVI Assets Holdings, LLC (“BVI”) (all such conditions precedent, the “USVI Conditions Precedent”), and it is reasonably likely that the receipt of the Communications Regulatory Authority Consents necessary to transfer control of STM and/or BVI will materially delay Closing, then the parties shall cooperate and use their respective commercially reasonable efforts to restructure the transaction contemplated hereby to facilitate a timely Closing (the “Alternative Transaction”). In the event of such restructuring, the parties shall cooperate in good faith to modify this Agreement and enter into such other agreements and arrangements necessary in order to effect such Alternative Transaction.

**Section 8.04 Public Announcements.** No press release or other public announcement related to this Agreement or the transactions contemplated herein shall be issued or made without the joint approval of the Buyer and the Sellers unless required by Applicable Law or listing agreement with a national securities exchange (in the reasonable opinion of counsel), in which case, the party proposing to issue such press release or make such public announcement shall use its commercially reasonable efforts to consult in good faith with the other party before issuing any such press release or making any such public announcement to attempt to agree upon mutually satisfactory text.

**Section 8.05 Transfer Taxes.** Parent and the Buyer shall each bear 50% of the obligation with respect to all use, sales, transfer, recording, registration and other fees, and other similar transaction Taxes (but not taxes on any income or gain realized by the Sellers in connection with the transactions contemplated hereby, which taxes shall be solely the responsibility of the Sellers), if any, imposed by reason of the transactions contemplated by this Agreement (“Transfer Taxes”). Parent and the Buyer shall be jointly responsible for preparing and timely filing any Tax Returns required with respect to any such Transfer Taxes, and shall provide each other with cooperation in the preparation of any such Tax Returns.

**Section 8.06 Disclosure Generally.** The Schedules have been arranged, for purposes of convenience only, as separately titled Schedules corresponding to the Sections of this Agreement. Any information set forth in any Schedule or incorporated in any Section of this Agreement shall be considered to have been set forth in each other Schedule only to the extent the relevance of such information is reasonably apparent on the face of such Schedule. The specification of any dollar amount in the representations and warranties contained in this Agreement or the inclusion of any specific item in the Schedules is not intended to imply that such amounts, or higher or lower amounts, or the items so included or other items, are or are not required to be disclosed or are within or outside of the ordinary course of business. The information contained in the Schedules is disclosed solely for the purposes of this Agreement, and no information contained therein shall be deemed to be an admission by any party hereto to any third party of any matter whatsoever, including of any violation of Applicable Law or breach of any agreement.

**Section 8.07 Straddle Period Taxes.** For purposes of this Agreement, any Tax Liability attributable to a taxable period that begins before and ends after the Closing Date (a “Straddle Period”) shall be apportioned, (i) in the case of Taxes based upon, or related to, income or receipts, or imposed in connection with any sale or other transfer or assignment of property (real or personal, tangible or intangible) (other than conveyances pursuant to this Agreement), on the basis of a “closing of the books” as of the beginning of, but not including, the Closing Date; and (ii) in the



case of other Taxes, amounts allocated to the portion of the Straddle Period ending on the Closing Date shall be deemed to be the amount of such Taxes for the entire period multiplied by a fraction the numerator of which is the number of days in the period ending on the Closing Date and the denominator of which is the number of days in the entire period.

**Section 8.08 Tax Returns.** Parent shall be responsible for preparing any Tax Returns with respect to the Company and the Seller Entities for any taxable year that ends on or prior to the Closing Date. All such Tax Returns shall be prepared in accordance with past practice and custom of the Company and the Seller Entities. The Buyer shall be responsible for preparing any Tax Returns with respect to the Company and the Seller Entities for any Straddle Periods and for taxable years beginning and ending after the Closing Date. For any Tax Return filed by Parent after the Closing Date, Parent shall make such Tax Returns available for review by the Buyer no less than 15 days in advance of the due date for filing such Tax Returns, and shall cause any reasonable comments of the Buyer to be reflected in such Tax Return, and Buyer and Parent shall work together to resolve any disagreement regarding the Tax Returns; *provided, however*, that if any disagreements are not resolved prior to the due date of a Tax Return, such Tax Return shall be filed as prepared by Parent and such disagreement shall be resolved by the Firm and any determination of the Firm will be final. Parent shall pay to Buyer on or before the due date of such Tax Return any Tax Liability shown as due thereon, but only to the extent such Tax Liability exceeds the amount of such Tax Liability included in the determination of Net Working Capital and taken into account as an adjustment to the purchase price hereunder. For all Straddle Period Tax Returns, Buyer shall make such Tax Returns available to Parent no less than 15 days in advance of the due for filing such Tax Returns, together with a statement showing the computation of the Tax Liability of the Company or Seller Entities (as the case may be) for the portion of the Straddle Period ending on or before the Closing Date (the “Pre-Closing Tax Period”) and for the portion of the Straddle Period ending after the Closing Date (the “Statement”). Buyer shall cause any reasonable comments of Parent to be reflected in such Tax Return. Parent shall pay to Buyer on or before the due date of the Straddle Period Tax Return any Tax Liability attributable to the Pre-Closing Tax Period reflected on the Statement to Buyer, but only to the extent such Tax Liability for the Pre-Closing Tax Period exceeds the amount of such Tax Liability included in the determination of Net Working Capital and taken into account as an adjustment to the purchase price hereunder. In the event of any disagreement between the Buyer and Parent regarding such Tax Returns or the Statement, such disagreement shall be resolved by the Firm and any such determination by the Firm shall be conclusive and final. The fees and expenses of the Firm shall be borne equally by the Buyer and Parent. Unless otherwise required by Applicable Law, Buyer shall not amend any Tax Return of the Seller Entities or the Company for any taxable period ending on or prior to the Closing Date or amend or revoke any Tax elections of the Seller Entities or the Company if such amendment or revocation would impact the Tax Liability of the Seller Entities or the Company for any such taxable periods.

**Section 8.09 Allocation Statement.** Within 90 days after the Closing, Parent shall deliver to the Buyer a statement (the “Allocation Statement”) allocating the consideration paid by the Buyer pursuant to this Agreement among the Company’s assets in accordance with Section 1060 of the Code and the Treasury Regulations thereunder (the “Section 1060 Allocation”). If, within 30 days after delivery of the Allocation Statement, the Buyer notifies Parent in writing that the Buyer objects to the allocation set forth in the Allocation Statement, Parent and the Buyer shall use

commercially reasonable efforts to resolve such dispute within 20 days. In the event the Buyer and Parent are unable to resolve such dispute within 20 days, the Buyer and Parent shall file their Tax Returns in accordance with their own determinations as to the correct allocation. The parties agree to amend the Section 1060 Allocation as necessary to reflect any adjustments in consideration agreed upon, or payments made, after the Closing Date. Except as otherwise provided in this Section 8.09, the Buyer and Parent further agree to file, and to cause their respective Affiliates to file, their income tax returns and all other Tax Returns and necessary forms in such a manner as to reflect the allocation of the consideration as determined in accordance with this Section 8.09, *provided, however*, nothing herein shall prevent the Buyer or Parent, as the case may be, from settling any proposed deficiency or adjustment by any Governmental Authority based on the Allocation Statement and neither the Buyer nor Parent will be required to litigate any proposed adjustment by any Governmental Authority challenging such Allocation Statement. Any refund received by the Seller Entities for periods prior to the Closing Date or any portion of a Straddle Period prior to the Closing Date shall be paid to Parent, except to the extent such refund was taken into account as an adjustment to the Purchase Price hereunder.

**Section 8.10 Asset Purchase Reporting.** For U.S. federal Income Tax (and state, local and non-U.S. tax purposes, as applicable), Parent and the Buyer agree to report the Buyer's purchase of the Membership Interest as the purchase of the assets and liabilities of the Company.

## **ARTICLE 9**

### **CONDITIONS TO CLOSING**

**Section 9.01 Conditions to the Buyer's Obligations.** The obligations of the Buyer to consummate the transactions contemplated by this Agreement are subject to the satisfaction (or the Buyer's waiver) of the following conditions as of the Closing Date:

(a) (i) the representations and warranties of the Sellers contained in Section 3.02 (Interests Owned) shall have been true and correct as of the date of this Agreement and as of the Closing Date in all respects, (ii) the Fundamental Representations shall have been true and correct in all material respects (or, to the extent qualified by materiality or Material Adverse Effect within any such representation or warranty, true and correct in all respects) as of the date of this Agreement and as of the Closing Date, except (A) for changes contemplated by this Agreement, and (B) for those representations and warranties that address matters only as of the date of this Agreement or any other particular date (in which case such representations and warranties shall have been true and correct in all material respects (or, to the extent qualified by materiality or Material Adverse Effect within any such representation or warranty, true and correct in all respects) as of such particular date), and (iii) all other representations and warranties of the Sellers contained in Article 3 shall have been true and correct as of the date of this Agreement and as of the Closing Date (except that the accuracy of representations and warranties that by their terms speak as of specific date will be determined as of such specified date), other than to the extent that the failure of such representations and warranties to be true and correct individually or in the aggregate would not reasonably be expected to cause a Material Adverse Effect (or, to the extent qualified by Material Adverse Effect within any such representation or warranty, true and correct in all respects);

(b) the Sellers shall have performed in all material respects all of the covenants and agreements required to be performed by them under this Agreement at or prior to the Closing;

(c) all consents, approvals, Filings, waivers or concessions required from third parties set forth on Schedule 9.01(c) and all Communications Regulatory Authority Consents set forth on Schedule 3.03(c) shall have been made or obtained, and, in the case of consents, approvals, Filings, waivers or concessions of Governmental Authorities (including Communications Regulatory Authority Consents), shall have been made by Final Order;

(d) no temporary restraining order, preliminary or permanent injunction or other judgment or order issued by a Governmental Authority or pursuant to Applicable Law shall be in effect which prohibits, restrains or renders illegal the consummation of the transactions contemplated hereby or would cause such transactions to be rescinded, nor shall any proceeding brought by any Governmental Authority seeking any of the foregoing be pending, and there shall not be any action taken, or any Applicable Law enacted, entered, enforced or deemed applicable to the transactions contemplated by this Agreement which makes the consummation thereof, as contemplated herein, illegal;

(e) since the date of this Agreement, there shall have been no Material Adverse Effect or Material Adverse Regulatory Event;

(f) the Parent shall have delivered to Buyer a certificate, executed by the chief executive or financial officer of the Parent, dated as of the Closing Date, certifying that the conditions set forth in Sections 9.01(a), (b) and (e) have been satisfied;

(g) the Sellers shall have delivered the Payoff Letters or other written agreements for the release of all Liens (other than Permitted Liens) on any assets or properties of the Company and the Seller Entities (in form and substance reasonably satisfactory to Buyer);

(h) the Escrow Agreement shall have been executed and delivered by Parent and the Escrow Agent;

(i) the Financing Documents shall have been executed and delivered by RTFC and the Company;

(j) the Company or, alternatively, Parent, shall have delivered to Buyer a certificate or certificates in form and substance reasonably satisfactory to Buyer, certifying any facts that would exempt the transaction contemplated hereby from or eliminate withholding under Section 1445 of the Code and analogous provisions of foreign Applicable Tax Law;

(k) Buyer shall have received, with respect to the Company and each Seller Entity, a certificate of good standing or valid existence, as applicable, of the Company or Seller Entity, as applicable, issued by the Secretary of State or other Governmental Authority of the jurisdiction in which such entity was organized and each jurisdiction in which such entity is qualified or authorized to do business as a foreign corporation, limited liability company or other legal entity, in each case, dated no more than seven days prior to the Closing Date;

(l) Buyer shall have received, with respect to the Company and each Seller Entity the Organizational Documents, certified by the Secretary of State or other Governmental Authority of the jurisdiction of organization, to the extent applicable, and the Company's or Seller Entity's corporate Secretary, as applicable;

(m) Buyer shall have received, resolutions of the members of Parent authorizing and approving this Agreement and the transactions contemplated hereby, certified by the Parent's Secretary or other authorized officer;

(n) Buyer shall have received (at the office of its outside legal counsel) the corporate minute books and stock or other equity interests of the Company and each Seller Entity;

(o) Buyer shall have received evidence, reasonably satisfactory to Buyer, as to the consummation of the Divestitures;

(p) The FTI Letter Agreement shall be in full force and effect and, to the extent requested by Buyer Parent in accordance with the terms of the FTI Letter Agreement, the FTI Transition Management Services Agreement shall have been executed and delivered by FTI;

(q) The PSC shall not have granted a cable franchise to a third party, who in ATN's reasonable judgment is (or is reasonably likely to become) a bona fide competitor to the cable business operated by the Seller Entities, between the date hereof and the Closing Date;

(r) Each of the Permits identified on Schedule 9.01(r) is in full force and effect and, with respect to any Permit identified on Schedule 9.01(r) that pursuant to its terms is scheduled to expire within sixty (60) days after the Closing Date, the Company and the Seller Entities have timely filed an application to renew or extend such Permit;

(s) The Management Services Agreement, dated as of January 28, 2010, between FTI and Parent shall be terminated with no further force or effect or Liability on the part of the Company or any Seller Entity;

(t) The Union Contract Extension is in full force and effect;

(u) Each Seller Entity providing services in the United States that is subject to Communications Laws and all facilities in the United States used by the Business to provide services in the United States that are subject to Communications Laws are compliant in all material respects with all applicable Communication Laws; each Seller Entity providing services in the United States that is subject to the Metrics and all facilities in the United States used by the Business to provide services in the United States that are subject to the Metrics are compliant in all material respects with all applicable Metrics; each Seller Entity that is subject to Communications Laws shall provide the Buyer with reasonable evidence of such compliance; and each Seller Entity that is subject to a Metric shall provide the Buyer with reasonable evidence that it has been in compliance with such Metrics for at least the 90 consecutive days immediately preceding the Closing Date, excluding, for purposes of such calculation, any days of non-compliance attributable to a single event outside of the reasonable control of the Company and Seller Entities that could not have been avoided

through the exercise of due care and that causes a Seller Entity to fail to comply with one or more Metrics during such 90-day period (a “Force Majeure Interruption”), and aggregating the days immediately preceding and immediately following such Force Majeure Interruption as if consecutive; and

(v) The Settlement Agreement and Mutual Release, dated as of August 25, 2015, by and between Bonneville Group Virgin Islands, Inc. and the Virgin Islands Telephone Corporation d/b/ a Innovative Telephone, a copy of which has been provided to Buyer, remains in full force and effect and Sellers have paid all amounts owed thereunder and delivered evidence reasonably satisfactory to Buyer of such payment.

**Section 9.02 Conditions to the Sellers’ Obligations.** The obligation of the Sellers to consummate the transactions contemplated by this Agreement is subject to the satisfaction (or the Sellers’ waiver) of the following conditions as of the Closing Date:

(a) The representations and warranties of the Buyer and Buyer Parent contained in Article 5 hereof shall have been true and correct in all material respects (or, to the extent qualified by materiality within any such representation or warranty, true and correct in all respects) as of the date of this Agreement and as of the Closing Date, except (i) for changes contemplated by this Agreement, and (ii) for those representations and warranties that address matters only as of the date of this Agreement or any other particular date (in which case such representations and warranties shall have been true and correct in all material respects (or, to the extent qualified by materiality within any such representation or warranty, true and correct in all respects) as of such particular date);

(b) the Buyer and Buyer Parent shall have performed in all material respects all of the covenants and agreements required to be performed by each of them under this Agreement at or prior to the Closing;

(c) all consents, approvals, Filings, waivers, or concessions required from third parties set forth on Schedule 9.01(c) and all Communications Regulatory Authority Consents set forth on Schedule 3.03(c) shall have been made or obtained;

(d) no temporary restraining order, preliminary or permanent injunction or other judgment or order issued by a Governmental Authority or pursuant to Applicable Law shall be in effect which prohibits, restrains or renders illegal the consummation of the transactions contemplated hereby or would cause such transactions to be rescinded, nor shall any proceeding brought by any Governmental Authority seeking any of the foregoing be pending, and there shall not be any action taken, or any Applicable Law enacted, entered, enforced or deemed applicable to the transactions contemplated by this Agreement which makes the consummation thereof, as contemplated herein, illegal;

(e) the Escrow Agreement shall have been executed and delivered by Buyer and the Escrow Agent; and

(f) the Buyer shall have delivered to Parent a certificate, executed by the chief executive or financial officer of the Buyer, dated as of the Closing Date, certifying that the conditions set forth in Sections 9.02(a) and (b) have been satisfied.

## **ARTICLE 10**

### **TERMINATION**

**Section 10.01 Termination.** This Agreement may be terminated at any time prior to the Closing:

(a) by the mutual written consent of the Buyer and Buyer Parent, on the one hand, and the Sellers, on the other hand;

(b) by the Buyer and Buyer Parent, if the Sellers (or either of them) shall have breached in any material respect any of its or their representations or warranties or failed to perform in any material respect any covenant or other agreement contained herein, which breach or failure to perform would render unsatisfied any condition to the obligations of the Buyer at the Closing and (i) such breach or failure to perform is not curable, or (ii) if capable of being cured, has not been cured by the Sellers prior to the earlier of (A) ten Business Days after the Sellers' receipt of written notice thereof from the Buyer, and (B) the Outside Date;

(c) by the Sellers, if Buyer or Buyer Parent shall have breached in any material respect any of its representations or warranties or failed to perform in any material respect any covenant or other agreement contained herein, which breach or failure to perform would render unsatisfied any condition to the obligations of the Sellers at the Closing and (i) such breach or failure to perform is not curable, or (ii) if capable of being cured, has not been cured by the Buyer or Buyer Parent, as applicable, prior to the earlier of (A) ten Business Days after the Buyer's and Buyer Parent's receipt of written notice thereof from the Sellers, and (B) the Outside Date;

(d) by the Buyer and Buyer Parent, if the Closing has not occurred on or before the 15th-month anniversary of the date that the last application (that is in proper form and content for processing) for the Communications Regulatory Authority Consents is filed by the parties (such date, the "Outside Date"); provided, further, the Buyer and Buyer Parent shall not be entitled to terminate this Agreement pursuant to this Section 10.01(d) if the Buyer's or Buyer Parent's breach of this Agreement has prevented the consummation of the transactions contemplated hereby;

(e) by the Sellers, if the Closing has not occurred on or before the Outside Date; provided, further, the Sellers shall not be entitled to terminate this Agreement pursuant to this Section 10.01 (e) if the Sellers' breach of this Agreement has prevented the consummation of the transactions contemplated hereby; or

(f) By either Buyer and Buyer Parent, on the one hand, or the Sellers, on the other hand, if a Governmental Authority shall have issued an order, permanent injunction or other judgment or taken any other action including in connection with the required approvals under the HSR Act, other Competition Laws, or a Communications Regulatory Authority Consent, in each case, which has

become a Final Order and which restrains, enjoins or otherwise prohibits or denies the consummation of the transfer of control of DTR Holdings, LLC.

The party desiring to terminate this Agreement pursuant to this Section 10.01 shall give written notice of such termination to the other parties hereto.

**Section 10.02 Effect of Termination.** In the event this Agreement is terminated as provided in Section 10.01, the provisions of this Agreement shall immediately become void and of no further force and effect, other than Section 7.01 (Confidentiality), Section 8.04 (Public Announcements), this Section 10.02, and Article 12; *provided, however*, that nothing in this Section 10.02 shall be deemed to impair the right of any party to compel specific performance by any other party of its obligations under this Agreement; and provided further, however, that termination shall not relieve any party of liability for any breach by it prior to such termination of its obligations under this Agreement; and; *provided, further, that*, parties hereto shall cooperate in good faith to withdraw Filings made to Governmental Authorities in respect of any requested or required consent or approval.

## **ARTICLE 11**

### **INDEMNIFICATION**

**Section 11.01 Survival Period.** All representations and warranties made by the parties in this Agreement will survive until the fifteen (15)-month anniversary of the Closing Date, except that the representations and warranties contained in Section 3.01(a) (Organization and Qualification), Section 3.02 (Interests Owned), Section 3.03(a) and clause (ii) of Section 3.03(b) (Authority; No Conflicts of Organizational Documents), Section 3.05 (Advisory and Other Fees), Section 3.06 (Taxes), Section 3.08(d) (Indebtedness), Section 3.15(f) (Permits); Section 3.16 (Employee Benefit Plans), Section 3.18 (Environmental Matters), Section 5.01 (Existence and Power), Section 5.02 (Organizational Authorization) and Section 5.09 (Finder's Fees) (the foregoing Sections, the "Fundamental Representations") shall survive the Closing until the date that is sixty (60) days following the expiration of the applicable statute of limitations or other effective temporal limitation governing claims relating to the underlying subject matter, as applicable. This Article 11 will survive the Closing and will remain in effect (i) with respect to Sections 11.02(a)(i) and 11.02(b)(i), so long as the relevant representations and warranties survive, (ii) with respect to Sections 11.02(a)(ii) and 11.02(b)(ii), so long as the applicable covenant survives, (iii) with respect to Sections 11.02(a)(iii)-(viii), until the date that is sixty (60) days following the expiration of the applicable statute of limitations, (iv) with respect to Section 11.02(a)(ix), until the fifteen (15)-month anniversary of the Closing Date, and (v) with respect to Section 11.02(a)(x), until the date that is 60 days following the expiration of the applicable statute of limitations relating to the underlying Tax matter. Any matter as to which a claim has been asserted by timely notice that is pending or unresolved at the end of the applicable survival period will continue to be covered by this Article 11, notwithstanding any applicable statute of limitations, until such matter is finally terminated or otherwise resolved under this Agreement or non-appealable judgment of an arbitrator, and any amounts payable under this Agreement are finally determined and paid.

### **Section 11.02 Indemnification.**

(a) Subject to the other provisions and limitations of this Article 11, after the Closing, Parent shall indemnify, defend and hold harmless the Buyer, Buyer Parent, and their respective Affiliates (including, following the Closing, the Company and the Seller Entities) and their respective officers, directors, members, managers, shareholders, employees, agents and representatives (the “Buyer Indemnified Parties”) from, against and in respect of any Loss which the Buyer Indemnified Party suffers as a result of or arising from:

(i) any breach of any representation or warranty made by the Sellers in this Agreement or any Seller Closing Certificate, in each case without giving effect to any qualifications as to materiality, Material Adverse Effect or similar qualifications contained in such representations and warranties;

(ii) any breach of any covenant or agreement of the Sellers set forth in this Agreement or in any Seller Closing Certificate;

(iii) any Transaction Costs or Closing Indebtedness to the extent not satisfied in full pursuant to Section 2.05;

(iv) any matter set forth in Schedule 3.07;

(v) any claims by any interested party arising out of, or related to, the bankruptcy of Innovative Communication Corporation;

(vi) any matter set forth in Schedule 3.04;

(vii) failure of the Company or a Seller Entity to comply with any Communications Law or Metric prior to the Closing Date;

(viii) any Exceptions that are neither (A) removed prior to Closing as contemplated by Section 6.02(b)(i), nor (B) with respect to which a liquidated sum is reflected on the Flow of Funds or accounted for as a reduction to Purchase Price as contemplated by Section 6.20(b)(ii);

(ix) failure of the applicable Seller Entity to: (A) with respect to each of the Designated Leased Properties, (i) enter into fully executed, and if applicable, duly registered leases or other similar agreements on customary terms providing a valid and subsisting leasehold interest or other similar rights, or (ii) remove, discharge or obtain a release of any Lien (other than a Permitted Lien) adversely affecting the applicable Seller Entity’s occupancy or enjoyment thereof; (B) enter into and duly record easements on customary terms with respect to each of the Designated Easements; and (C) complete the purchase of real property listed on Schedule 3.10(a) under the heading “Real Property in Process of finalizing transfer and registration process”; and

(x) any Taxes imposed on the Company or any Seller Entity attributable to (A) any taxable year ending on or before the Closing Date, (B) the Pre-Closing Tax Period, (C) the Divestitures, and/or (D) Liabilities of the Company or the Selling Entities for Taxes



(including, without limitation, Taxes payable to the U.S. Virgin Islands Bureau of Internal Revenue) for any taxable year ending on or before the Closing Date or Pre-Closing Tax Period of any other Person by reason of Treasury Regulation Section 1.1502-6 (or analogous provisions of state, local or foreign Applicable Tax Laws), or as a successor, transferee or otherwise (the “Tax Indemnity”).

(b) Subject to the other provisions and limitations of this Article 11, after the Closing the Buyer and Buyer Parent shall, jointly and severally, indemnify, defend and hold harmless the Parent and its Affiliates and their respective officers, directors, members, managers, shareholders, employees, agents and representatives (the “Seller Indemnified Parties”) from, against and in respect of any Loss which the Seller Indemnified Party suffers as a result of or arising from:

(i) any breach of any representation or warranty made by the Buyer and Buyer Parent in this Agreement; and

(ii) any breach of any covenant or agreement of the Buyer or Buyer Parent set forth in this Agreement.

**Section 11.03 Limitations.** Notwithstanding any provision of this Agreement to the contrary:

(a) Parent, on the one hand, and Buyer and Buyer Parent, on the other hand, as applicable, will not be required to indemnify any Person under Section 11.02(a)(i) or Section 11.02(b)(i), respectively, with respect to any Losses unless and until the individual Loss, together with all other Losses, exceeds \$1,450,000 (the “Deductible”), and in such event the Parent, on the one hand, or Buyer and Buyer Parent, on the other hand, as applicable, will be responsible for only those indemnifiable Losses in excess of those counted towards the Deductible;

(b) the aggregate Liability of the Parent under Section 11.02(a)(i), or Buyer and Buyer Parent under Section 11.02(b)(i), respectively, for all Losses (other than Losses arising out of a breach of any Fundamental Representation) will not exceed an amount equal to \$36,250,000;

(c) without limiting the foregoing, the limitations set forth in this Section 11.03 will also not apply to claims based upon intentional or willful misrepresentation of facts that constitutes common law fraud under Applicable Laws; and

(d) the Buyer Indemnified Parties shall not be entitled to seek indemnification from Parent with respect to any Losses suffered as a direct result of any election by the Buyer to consummate the transactions contemplated by this Agreement prior to the last date on which a Communications Regulatory Authority Consent becomes a Final Order.

#### **Section 11.04 Indemnification Procedure as to Third Party Claims.**

(a) Promptly after the assertion by any third party of any claim (a “Third Party Claim”) that results, or might upon the resolution of such Third Party Claim result in, Losses for which any Person entitled to indemnification under Section 11.02 (the “Indemnitee”) is entitled to

indemnification pursuant to this Agreement, such Indemnitee shall promptly provide notice of such Third Party Claim to the parties from whom such indemnification could be sought (the “Indemnitors”) (provided that failure to so notify the Indemnitors will only relieve the indemnification obligation if and to the extent such failure results in material prejudice with respect to such Third Party Claim) and prior to the fifteen (15)-month anniversary of the Closing Date, the Escrow Agent.

(b) The Indemnitors may, at its option and upon acknowledging in writing to the Indemnitee’s reasonable satisfaction the Indemnitor’s responsibility for the entirety of any amounts payable to any third party with respect to such Third Party Claim (without regard to any threshold or limitation contemplated by Section 11.02(a) or (b), as the case may be), assume the defense of the Indemnitee against such Third Party Claim (including the employment of counsel reasonably acceptable to the Indemnitee and the payment of reasonable expenses). Any Indemnitee shall have the right to employ separate counsel in any such Third Party Claim and to participate in the defense thereof, but the fees and expenses of such counsel shall not be an expense of the Indemnitor unless (i) the Indemnitor shall have failed, within a reasonable time after having been notified by the Indemnitee of the existence of such Third Party Claim as provided in the preceding sentence, to assume the defense of such Third Party Claim or (ii) the employment of such counsel has been specifically authorized by the Indemnitor. If (i) the Indemnitor does not assume such defense, or notifies the Indemnitee within 30 days after the date notice is provided pursuant to Section 11.04(a) that the Indemnitor does not assume such defense, (ii) the Indemnitor having assumed such defense but failed to contest such Third Party Claim in good faith with legal counsel reasonably acceptable to Indemnitee (and Indemnitee’s consent shall not be unreasonably withheld or delayed), then the Indemnitee shall have the right, but not the obligation (upon delivering notice to such effect to the Indemnitor) to retain separate counsel of its choosing, defend such Third Party Claim and have the sole power to direct and control such defense (all at the reasonable cost and expense of the Indemnitor); it being understood that the Indemnitee’s right to indemnification for a Third Party Claim shall not be adversely affected by assuming the defense of such Third Party Claim. In all cases, the party without the right to control the defense of the Third Party Claim may retain counsel of its choice at its own expense, and may participate in the defense of such Third Party Claim.

(c) Notwithstanding Section 11.04(b) above, if, with respect to a Third Party Claim: (i) such Third Party Claim seeks an injunction or other equitable remedies other than monetary damages in respect of the Indemnitee or its business; (ii) such Third Party Claim is reasonably likely to result in liabilities that, taken with other then existing claims under this Article 11, will not be fully indemnified hereunder; (iii) the Indemnitee has been advised by counsel in writing that an actual or potential conflict exists between the Indemnitee and the Indemnitor in connection with the defense of the Third Party Claim; (iv) such Third Party Claim involves a Permit or Governmental Authority; or (v) such Third Party Claim seeks a finding or admission of a violation of Applicable Law by the Indemnitee or any of its Affiliates, then, in each such case (A) the Indemnitee alone shall be entitled, but not obligated, to contest and defend, such Third Party Claim in the first instance, with counsel of its choosing and reasonably acceptable to the Indemnifying Parties, at the expense of the Indemnifying Parties; it being understood that the Indemnitee’s right to indemnification for a Third Party Claim shall not be adversely affected by assuming the defense of such Third Party Claim, and

(B) if the Indemnitee does not contest and defend such Third Party Claim, the Indemnitor shall then have the right to contest and defend such Third Party Claim.

(d) The Indemnitee and the Indemnitor shall use commercially reasonable efforts to avoid production of confidential information (consistent with Applicable Law), and to cause all communications among employees, counsel and others representing any party to a Third Party Claim to be made so as to preserve any applicable attorney-client or work-product privileges.

(e) Notwithstanding anything in this Section 11.04 to the contrary, neither the Indemnitor nor the Indemnitee may, without the written consent of the other party, which consent shall not be unreasonably withheld or delayed, settle or compromise any Third Party Claim for which indemnification is sought, or permit a default judgment, or consent to entry of any judgment. If a settlement offer solely for money damages is made by the applicable third-party claimant, and the Indemnitor notifies the Indemnitee in writing of the Indemnitor's willingness to accept the settlement offer and pay the amount called for by such offer without reservation of any rights or defenses against the Indemnitee, the Indemnitee may decline to accept the settlement offer and may continue to contest such claim, free of any participation by the Indemnitor, and the amount of any ultimate Liability with respect to such Third Party Claim that the Indemnitor has an obligation to pay under this Agreement will be limited to the lesser of (i) the amount of the settlement offer that the Indemnitee declined to accept plus the Losses of the Indemnitee relating to such Third Party Claim incurred with respect to costs and expenses of investigation, collection, prosecution, determination and defense thereof (including reasonable legal, accounting and other professional fees) through the date of its rejection of the settlement offer, or (ii) the aggregate Losses of the Indemnitee with respect to such Third Party Claim.

(f) Notwithstanding anything contained in this Section 11.04 to the contrary, for (i) any matter identified on Schedule 3.06 and identified with an asterisk (\*) (each, a "Tax Claim"), and (ii) any Action or other matter set forth on Schedule 3.07 that remains open after the Closing (collectively with the Tax Claims, the "Retained Litigation"), (A) Parent shall control, prosecute and defend against, the Retained Litigation on behalf of the Company and the Seller Entities, including, without limitation, any settlement of the Retained Litigation; provided, that, no compromise or settlement of the Retained Litigation may be effected without the written consent of Buyer (such consent not to be unreasonably withheld, conditioned or delayed provided that such compromise or settlement involves the payment of money damages only and includes mutual general releases), (B) Parent shall actively and diligently conduct the prosecution or defense, as applicable, of the Retained Litigation, (C) Parent shall keep the Buyer reasonably informed as to the status of the Retained Litigation (including, without limitation, by participating in monthly meetings with Buyer to discuss status and strategy) and copy Buyer on all correspondence relating thereto, (D) Buyer shall be entitled to participate in, and be present at, conference calls and meetings concerning the Retained Litigation, and (E) the Buyer shall be entitled to retain separate legal counsel and other advisors for purposes of keeping itself reasonably apprised as to the rights and obligations of the Buyer Indemnified Parties with respect to the Retained Litigation, and the Buyer shall bear all of the costs and expenses of such counsel and other advisors.

**Section 11.05 Non-Third Party Claims.** If a claim for Losses (a “Claim”) is to be made by any Indemnitee that does not involve a third party, such Indemnitee shall give written notice (a “Claim Notice”) to the Parent if the Claim Notice is being given by a Buyer Indemnified Party and to Buyer and Buyer Parent if the Claim Notice is being given by a Seller Indemnified Party, in each case, promptly after such Indemnitee becomes aware of any fact, condition or event giving rise to Losses for which indemnification may be sought under Section 11.02(a) or 11.02(b), which Claim Notice shall specify in reasonable detail, to the extent reasonably practicable at such time, the amount of the Claim and the Losses included in the amount so stated, the date (if any) such item was incurred or suffered, the basis for any anticipated liability and the nature of the misrepresentation, default, breach of warranty or breach of covenant or claim to which each such item is related. The failure of any Indemnitee to give timely notice hereunder shall not affect such Indemnitee’s rights to indemnification hereunder, except to the extent the applicable Indemnitor is actually prejudiced by such delay or failure, and the amount of reimbursement to which the Indemnitee is entitled shall be reduced by the amount, if any, by which the Indemnitee’s Losses would have been less had such Claim Notice been timely given. If the applicable Indemnitor notifies the Indemnitee that it does not dispute the claim described in such Claim Notice or fails to respond within 30 days following receipt of such Claim Notice, the Losses identified in the Claim Notice will be conclusively deemed a liability of the Indemnitor under Section 11.02(a) or 11.02(b), as applicable. If the applicable Indemnitor disputes its liability with respect to such Claim or the estimated amount of such Losses pursuant to this Section 11.05, the parties shall attempt in good faith to resolve such dispute; provided, that if such dispute has not been resolved within 90 days following receipt of such Claim Notice, then the Indemnitor and the Indemnitee may seek legal redress in accordance with the terms of this Agreement.

**Section 11.06 Adjustments; Subrogation; Regarding the Net Working Capital Amount.**

(a) For purposes of calculating amounts recoverable from an Indemnitor, Losses will be measured net of any amounts actually recovered (and not simply recoverable) after deducting collection costs and expenses, including any deductible amount, and any resultant increase in insurance premiums, by the Indemnitee for the Losses for which such indemnification payment is payable under any insurance policy, warranty or indemnity from any third party (each such source, a “Collateral Source”). In the event that a recovery or payment from a Collateral Source is received by an Indemnitee with respect to any Loss for which any such Indemnitee has been indemnified by any Indemnitor hereunder, then a refund equal to the aggregate amount of the recovery (after deducting collection costs and expenses, including any deductible amount, and any resultant increase in insurance premiums), up to the amount paid by the Indemnitor to the Indemnitee, shall be made promptly by such Indemnitee to such Indemnitor. Notwithstanding anything to the contrary contained herein, all such amounts actually recovered shall count against the Deductible.

(b) If (i) Indemnitee is a Buyer Indemnified Party and (ii) a Loss is covered by a Seller Insurance Policy, Indemnitee shall seek full recovery and payment of such Loss from such Seller Insurance Policy to the same extent as it would if such Loss were not subject to indemnification hereunder. The Buyer and the Company shall not terminate or cancel any Seller Insurance Policy. For purposes hereof, “Seller Insurance Policy” means any insurance policy in effect for periods

prior to the Closing to the extent the premiums therefor have been paid in full by the Company or a Seller Entity prior to the Closing.

(c) All indemnification payments made hereunder shall be treated by all parties as adjustments to the Purchase Price.

(d) Notwithstanding anything to the contrary contained in this Article 11, there shall be no recovery for any Loss or alleged Loss by the Buyer under Section 11.02, and the Loss shall not be included in meeting the Deductible hereunder, to the extent such item has been included in the calculation of the Net Working Capital Amount, including reserves and accruals, as determined pursuant to Section 2.05.

**Section 11.07 Surviving Company.** The parties acknowledge and agree that, if the Company or any Seller Entity suffers, incurs or otherwise becomes subject to any Losses as a result of or in connection with any misrepresentation or inaccuracy in or breach of any representation, warranty, covenant or agreement, then (without limiting any of the rights of the Company or Seller Entity as an Indemnitee) Buyer shall also be deemed, by virtue of its ownership of the Membership Interest, to have incurred Losses as a result of and in connection with such misrepresentation, inaccuracy or breach.

#### **Section 11.08 Limitation of Recourse.**

(a) Except for (i) claims arising from intentional or willful misrepresentation of facts that constitutes common law fraud under Applicable Laws, committed by a party hereto (ii) specific performance of obligations to be performed in accordance with the terms of this Agreement, (iii) claims by any party for equitable relief as permitted by this Agreement, and (iv) the purchase price adjustment provisions of Section 2.05 (none of which shall not be limited or impeded by this Article 11), the indemnification provided by this Article 11 shall be the sole and exclusive remedy for any Losses of the Buyer Indemnified Parties or Seller Indemnified Parties, as applicable, with respect to any misrepresentation or inaccuracy in, or breach of, any representations or warranties or any breach or failure in performance of any covenants or agreements made in this Agreement or in any Related Agreement, and except as set forth in this Article 11, the parties hereto waive any and all rights and claims they may have against the other parties hereto with respect thereto, including claims and rights for contribution, indemnity or other rights of recovery.

(b) No claim shall be brought or maintained by any party hereto or their respective successors or permitted assigns against any officer, director, employee (present or former) or Affiliate of any party hereto which is not otherwise expressly identified as a party hereto, and no recourse shall be brought or granted against any of them, by virtue of or based upon any alleged misrepresentation or inaccuracy in or breach of any of the representations, warranties or covenants of any party hereto set forth or contained in this Agreement or any exhibit or Schedule hereto or any certificate delivered hereunder.

## **ARTICLE 12 - MISCELLANEOUS**

**Section 12.01 Notices.** All notices, requests and other communications to any party hereunder shall be in writing (including by confirmed facsimile or email transmission to the extent facsimile numbers and/or email addresses are provided below or subsequently designated) and shall be given, in each case to the appropriate address(es) and facsimile number(s) set forth below (or to such other address(es) and facsimile number(s) as a party may designate by notice, given as provided herein, to the other parties hereto):

if to the Buyer, Buyer Parent or, following the Closing, the Company, then to:

Atlantic Tele-Network, Inc.  
600 Cummings Center  
Beverly, MA 01915  
Attn: Bill Kreisher, Senior Vice President of Corporate Development  
Email: legalnotices@atni.com

with a copy to (which copies shall not constitute notice):

Atlantic Tele-Network, Inc.  
600 Cummings Center  
Beverly, MA 01915  
Attn: Leonard Q. Slap, Senior Vice President & General Counsel  
Email: legalnotices@atni.com

and

Mintz Levin Cohn Ferris Glovsky and Popeo, P.C.  
One Financial Center  
Boston, MA 02111  
Attn: Matthew J. Gardella, Esq.  
Fax: (617) 542-2241

or, if to the Company, prior to the Closing, or the Parent, then to:

National Rural Utilities Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Attn: Steven L. Lilly, Senior Vice President  
Fax: (703) 467-5178

with a copy to (which copies shall not constitute notice):

National Rural Utilities Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Attn: Roberta B. Aronson, General Counsel  
Fax: (703) 467-5651

and

Norton Rose Fulbright US LLP  
2200 Ross Avenue, Suite 3600  
Dallas, Texas 75201  
Attn: Toby Gerber  
Fax: (214) 855-8200

All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received on a Business Day in the place of receipt prior to 5:00 p.m. in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding Business Day in the place of receipt.

#### **Section 12.02 Amendments and Waivers.**

(a) Except as otherwise provided herein, any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by the Buyer, Buyer Parent, the Parent and the Company, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

**Section 12.03 Construction; Severability.** The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any Person. The headings of the sections and paragraphs of this Agreement have been inserted for convenience of reference only and shall in no way restrict or otherwise modify any of the terms or provisions hereof. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under Applicable Law, but if any provision of this Agreement is held to be prohibited by or invalid under Applicable Law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. Unless otherwise indicated, references in this Agreement to \$ or dollars are to U.S. dollars. The words “hereof,” “herein” and “hereunder” and words of like import used in this Agreement shall refer to this Agreement as a whole (including all of the Schedules and Exhibits) and not to any particular provision of this Agreement unless otherwise specified. The words “party” or “parties” shall refer to parties to this Agreement. References to Recitals, Articles, Sections, subsections, clauses, Schedules and Exhibits are to Recitals, Articles, Sections, Schedules and Exhibits of this Agreement unless otherwise specified. Any capitalized term used in any Schedule or Exhibit but not otherwise defined therein shall have the meaning given to such term in this Agreement. Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular, and words of one gender shall be held to include the other gender as the context requires. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation,” whether or not

they are in fact followed by those words or words of like import. “Writing,” “written” and comparable terms refer to printing, typing and other means of reproducing words (including electronic media) in a visible form. References to any Person include the successors and permitted assigns of that Person. References from or through any date mean, unless otherwise specified, from and including or through and including, respectively. Any reference to “days” means calendar days unless Business Days are expressly specified. If any action under this Agreement is required to be done or taken on a day that is not a Business Day, then such action shall be required to be done or taken not on such day but on the first succeeding Business Day thereafter. Dates and times set forth in this Agreement for the performance of the parties’ respective obligations hereunder or for the exercise of their rights hereunder shall be strictly construed, time being of the essence of this Agreement.

**Section 12.04 Expenses.** Except as set forth in Section 8.02(e), all Transaction Costs shall be paid by the party incurring such Transaction Costs, whether or not the Closing occurs. Without limiting the foregoing, all costs and expenses associated with the consents, approvals, Filings, waivers or concessions required from any Person other than any Governmental Authority and set forth on Schedule 3.03(c) shall be borne exclusively by the Parent. All Transaction Costs which are incurred by the Company and the Seller Entities and which remain unpaid as of the Closing Date will be paid at the Closing as Closing Transaction Costs. Notwithstanding anything to the contrary set forth in this Agreement, all fees and expenses of the Escrow Agent shall be borne 50% by Buyer, on the one hand, and 50% by the Company prior to Closing (and included as Closing Transaction Costs) or, following the Closing, the Parent, on the other hand.

**Section 12.05 Successors and Assigns.** The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of each other party hereto. Notwithstanding the foregoing, the Buyer may, without the prior written consent of any other party hereto, (i) assign any or all of its rights hereunder to one or more of Buyer Parent’s wholly-owned subsidiaries that are entities formed and existing in the United States, (ii) designate one or more of Buyer Parent’s wholly-owned subsidiaries that are entities formed and existing in the United States to perform its obligations hereunder, (iii) assign any or all of its rights to any Person that acquires all or substantially all of the business of the Buyer, and (iv) assign any or all of its rights hereunder to one or more financing sources; provided, that such assignment is not reasonably expected to have an adverse effect or delay on any Communications Regulatory Authority Consent; and, provided, further, that Buyer Parent may not assign its obligations under Article 4 without the Parent’s prior written consent.

**Section 12.06 Governing Law.** All issues and questions concerning the construction, validity, interpretation and enforceability of this Agreement and the exhibits and Schedules hereto shall be governed by and construed in accordance with the laws of the United States applicable thereto and the internal laws of the State of Delaware, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction.



**Section 12.07 Jurisdiction; Venue.** All Actions arising out of or relating to this Agreement shall be heard and determined in any state or federal court sitting in the State of Delaware. Each of the parties to this Agreement irrevocably submits to the exclusive jurisdiction of the state courts of Delaware and to the jurisdiction of the United States District Court for the District of Delaware, for the purpose of any Action arising out of or relating to this Agreement and each of the parties to this Agreement irrevocably agrees that all claims in respect of such Action may be heard and determined exclusively in any Delaware state or federal court sitting in the State of Delaware. Each of the parties to this Agreement consents to service of process by delivery pursuant to Section 12.01 and agrees that a final judgment in any Action shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law.

**Section 12.08 Waiver of Jury Trial.** EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE RELATED AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

**Section 12.09 Specific Performance, Remedies Not Exclusive.** The parties acknowledge that the Buyer and Buyer Parent, on the one hand, and the Sellers, on the other hand, would be irreparably damaged if the provisions of this Agreement are not performed by the other parties hereto in accordance with their specific terms and that any breach of this Agreement by a party could not be adequately compensated in all cases by monetary damages alone. Accordingly, the Buyer and Buyer Parent (in the event of such a breach by the Sellers) and the Sellers (in the event of such a breach by the Buyer or Buyer Parent) shall be entitled to a decree of specific performance pursuant to which the Buyer and Buyer Parent or the Sellers, respectively, are ordered to affirmatively carry out their obligations under this Agreement, whether before or after the Closing, and each party hereto hereby waives any defense to the effect that a remedy at law would be an adequate remedy for such breach. Any requirements for the securing or posting of any bond by a party hereto with such equitable remedy are hereby waived.

**Section 12.10 Prevailing Party.** If any litigation or other court action, arbitration or similar adjudicatory proceeding is commenced by any party hereto to enforce its rights under this Agreement against any other party, all fees, costs and expenses, including, without limitation, reasonable attorneys' fees and court costs, incurred by the prevailing party in such litigation, action, arbitration or proceeding shall be reimbursed by the losing party; provided, that if a party to such litigation, action, arbitration or proceeding prevails in part, and loses in part, the court, arbitrator or other adjudicator presiding over such litigation, action, arbitration or proceeding shall award a reimbursement of the fees, costs and expenses incurred by such party on an equitable basis.

**Section 12.11 Counterparts; Third Party Beneficiaries.** This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto. Except as otherwise specifically set forth herein, no provision of this Agreement (including specifically, but not limited to, Sections 7.02, 11.01, 11.02 and 11.03) is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

**Section 12.12 Entire Agreement.** This Agreement and the documents referred to herein (including the Confidentiality Agreement) contain the complete agreement between the parties hereto and supersede any other prior understandings, agreements or representations by or between the parties, written or oral, which may have related to the subject matter hereof in any way.

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

**COMPANY:**

CARIBBEAN ASSET HOLDINGS, LLC

By: National Rural Utilities Cooperative Finance  
Corporation, its sole and managing member

By: /s/ STEVEN L. LILLY

Name: Steven L. Lilly

Title: Senior Vice President

**PARENT:**

NATURAL RURAL UTILITIES COOPERATIVE  
FINANCE CORPORATION

By: /s/ STEVEN L. LILLY

Name: Steven L. Lilly

Title: Senior Vice President

**BUYER:**

ATN VI HOLDINGS, LLC

By:

Name:

Title:

**BUYER PARENT:**

ATLANTIC TELE-NETWORK, INC.

By:

Name:

Title:

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

**COMPANY:**

CARIBBEAN ASSET HOLDINGS, LLC

By: National Rural Utilities Cooperative Finance  
Corporation, its sole and managing member

By:  
Name:  
Title:

**PARENT:**

NATURAL RURAL UTILITIES COOPERATIVE  
FINANCE CORPORATION

By:  
Name:  
Title:

**BUYER:**

ATN VI HOLDINGS, LLC

By: /s/ MICHAEL T. PRIOR  
Name: Michael T. Prior  
Title: Chief Executive Officer

**BUYER PARENT:**

ATLANTIC TELE-NETWORK, INC.

By: /s/ MICHAEL T. PRIOR  
Name: Michael T. Prior  
Title: Chief Executive Officer

## NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

## Computation of Ratio of Earnings to Fixed Charges

(Dollars in thousands)	Three Months Ended August 31,	Years Ended May 31,				
	2015	2015	2014	2013	2012	2011
<b>Earnings:</b>						
Net income (loss) .....	\$ 43,095	\$ (18,927)	\$ 192,926	\$ 358,087	\$ (148,797)	\$ 151,215
Add: Fixed charges .....	165,700	635,684	654,655	692,025	761,849	841,288
Less: Interest capitalized <sup>(2)</sup> ...	—	—	—	—	(71)	(208)
Income available for fixed charges .....	<u>\$ 208,795</u>	<u>\$ 616,757</u>	<u>\$ 847,581</u>	<u>\$ 1,050,112</u>	<u>\$ 612,981</u>	<u>\$ 992,295</u>
<b>Fixed charges:</b>						
Interest on all borrowings <sup>(3)</sup> ..	\$ 165,700	\$ 635,684	\$ 654,655	\$ 692,025	\$ 761,778	\$ 841,080
Interest capitalized .....	—	—	—	—	71	208
Total fixed charges .....	<u>\$ 165,700</u>	<u>\$ 635,684</u>	<u>\$ 654,655</u>	<u>\$ 692,025</u>	<u>\$ 761,849</u>	<u>\$ 841,288</u>
Ratio of earnings to fixed charges <sup>(1)</sup> .....	<u>1.26</u>	<u>0.97</u>	<u>1.29</u>	<u>1.52</u>	<u>0.80</u>	<u>1.18</u>

<sup>(1)</sup>Earnings available to cover fixed charges were insufficient by \$19 million and \$149 million in fiscal years ended May 31, 2015 and 2012, respectively.

<sup>(2)</sup>Interest capitalized consists of interest paid in connection with financing the construction of our new headquarters building during the construction period.

<sup>(3)</sup>Interest expense includes the amortization of discounts and issuance costs.

**National Rural Utilities Cooperative Finance Corporation**  
**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**  
**(18 U.S.C. Section 1350)**

I, Sheldon C. Petersen, certify that:

1. I have reviewed this report on Form 10-Q of National Rural Utilities Cooperative Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's board of directors:
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 14, 2015

By: /s/ SHELDON C. PETERSEN

Sheldon C. Petersen

Chief Executive Officer

A signed original of this written statement required by Section 302 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**National Rural Utilities Cooperative Finance Corporation**  
**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**  
**(18 U.S.C. Section 1350)**

I, J. Andrew Don, certify that:

1. I have reviewed this report on Form 10-Q of National Rural Utilities Cooperative Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's board of directors:
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 14, 2015

By: /s/ J. ANDREW DON  
J. Andrew Don  
Chief Financial Officer

A signed original of this written statement required by Section 302 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**National Rural Utilities Cooperative Finance Corporation**  
**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(18 U.S.C. Section 1350)**

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), I, the Chief Executive Officer of National Rural Utilities Cooperative Finance Corporation ("CFC"), hereby certify to the best of my knowledge as follows:

1. CFC's Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2015 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CFC.

Date: October 14, 2015

By: /s/ SHELDON C. PETERSEN

Sheldon C. Petersen  
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.



**National Rural Utilities Cooperative Finance Corporation  
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(18 U.S.C. Section 1350)**

Pursuant to the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sections 1350(a) and (b)), I, the Chief Financial Officer of National Rural Utilities Cooperative Finance Corporation ("CFC"), hereby certify to the best of my knowledge as follows:

1. CFC's Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2015 filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CFC.

Date: October 14, 2015

By: /s/ J. ANDREW DON

J. Andrew Don

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to National Rural Utilities Cooperative Finance Corporation and will be retained by National Rural Utilities Cooperative Finance Corporation and furnished to the Securities and Exchange Commission or its staff upon request.