

CENTURYTEL INC

FORM 10-Q (Quarterly Report)

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Address	P O BOX 4065 100 CENTURYTEL DR MONROE, Louisiana 71203
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CIK	0000018926
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the quarterly period ended September 30, 2001

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

Commission File Number: 1-7784

CENTURYTEL, INC.

(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of
incorporation or organization)

72-0651161
(I.R.S. Employer
Identification No.)

100 CenturyTel Drive, Monroe, Louisiana 71203
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (318) 388-9000

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

As of October 31, 2001, there were 141,102,868 shares of common stock outstanding.

CENTURYTEL, INC.

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PART I. FINANCIAL INFORMATION

CenturyTel, Inc. CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
(Dollars, except per share amounts, and shares expressed in thousands)				
OPERATING REVENUES				
Telephone	\$ 377,747	324,608	1,116,880	877,622
Wireless	115,404	120,232	329,496	331,778
Other	46,226	37,794	127,945	109,346
Total operating revenues	539,377	482,634	1,574,321	1,318,746
OPERATING EXPENSES				
Cost of sales and operating expenses	275,357	235,835	809,260	665,053
Depreciation and amortization	120,209	99,740	351,837	270,320
Total operating expenses	395,566	335,575	1,161,097	935,373
OPERATING INCOME	143,811	147,059	413,224	383,373
OTHER INCOME (EXPENSE)				
Interest expense	(54,438)	(48,904)	(173,499)	(120,213)
Income from unconsolidated cellular entities	16,622	11,366	32,648	19,382
Minority interest	(2,819)	(2,889)	(8,731)	(8,052)
Nonrecurring gains and losses	43,543	10,683	199,971	20,593
Other income and expense	705	(4,065)	8,206	2,548
Total other income (expense)	3,613	(33,809)	58,595	(85,742)
INCOME BEFORE INCOME TAX EXPENSE	147,424	113,250	471,819	297,631
Income tax expense	55,119	46,026	178,551	123,278
NET INCOME	\$ 92,305	67,224	293,268	174,353
=====				
BASIC EARNINGS PER SHARE	\$.66	.48	2.08	1.24
=====				
DILUTED EARNINGS PER SHARE	\$.65	.47	2.06	1.23
=====				
DIVIDENDS PER COMMON SHARE	\$.05	.0475	.15	.1425
=====				
AVERAGE BASIC SHARES OUTSTANDING	140,772	140,220	140,693	139,989
=====				
AVERAGE DILUTED SHARES OUTSTANDING	142,260	141,848	142,267	141,769
=====				

See accompanying notes to consolidated financial statements.

CENTURYTEL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
(Dollars in thousands)				
Net income	\$ 92,305	67,224	293,268	174,353
Other comprehensive income, net of tax:				
Unrealized holding gains (losses) arising during period, net of (\$175), (\$15,102), \$5,385 and (\$17,796) tax	(326)	(28,047)	9,999	(33,050)
Reclassification adjustment for gains included in net income, net of (\$19,100) tax	(35,470)	-	(35,470)	-
Other comprehensive income, net of (\$19,275), (\$15,102), (\$13,715), and (\$17,796) tax	(35,796)	(28,047)	(25,471)	(33,050)
Comprehensive income	\$ 56,509	39,177	267,797	141,303

See accompanying notes to consolidated financial statements.

CENTURYTEL, INC.
CONSOLIDATED BALANCE SHEETS
(UnAUDITED)

	September 30, 2001	December 31, 2000
	(Dollars in thousands)	

ASSETS		

CURRENT ASSETS		
Cash and cash equivalents	\$ 21,372	19,039
Accounts receivable, less allowance of \$14,903 and \$12,857	308,277	307,165
Materials and supplies, at average cost	24,344	38,532
Other	9,812	11,768

Total current assets	363,805	376,504

NET PROPERTY, PLANT AND EQUIPMENT	2,985,698	2,959,293

INVESTMENTS AND OTHER ASSETS		
Excess cost of net assets acquired, less accumulated		
amortization of \$271,566 and \$219,809	2,489,276	2,509,033
Other	550,543	548,460

Total investments and other assets	3,039,819	3,057,493

TOTAL ASSETS	\$ 6,389,322	6,393,290
=====		
LIABILITIES AND EQUITY		

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 275,385	149,962
Short-term debt	39,000	276,000
Accounts payable	96,123	127,287
Accrued expenses and other liabilities		
Salaries and benefits	46,767	33,859
Taxes	189,013	40,023
Interest	55,945	52,011
Other	20,997	23,349
Advance billings and customer deposits	39,159	40,879

Total current liabilities	762,389	743,370

LONG-TERM DEBT	2,802,301	3,050,292

DEFERRED CREDITS AND OTHER LIABILITIES	536,201	567,549

STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par value, authorized 350,000,000 shares,		
issued and outstanding 141,089,386 and 140,667,251 shares	141,089	140,667
Paid-in capital	518,731	509,840
Accumulated other comprehensive income-unrealized		
holding gain on investments, net of taxes	-	25,471
Retained earnings	1,623,386	1,351,626
Unearned ESOP shares	(2,750)	(3,500)
Preferred stock - non-redeemable	7,975	7,975

Total stockholders' equity	2,288,431	2,032,079

TOTAL LIABILITIES AND EQUITY	\$ 6,389,322	6,393,290
=====		

See accompanying notes to consolidated financial statements.

CENTURYTEL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Nine months ended September 30,	
	2001	2000
	(Dollars in thousands)	
COMMON STOCK		
Balance at beginning of period	\$ 140,667	139,946
Conversion of convertible securities into common stock	254	254
Issuance of common stock through dividend reinvestment, incentive and benefit plans	168	442
Balance at end of period	141,089	140,642
PAID-IN CAPITAL		
Balance at beginning of period	509,840	493,432
Conversion of convertible securities into common stock	3,046	3,046
Issuance of common stock through dividend reinvestment, incentive and benefit plans	2,989	6,810
Amortization of unearned compensation and other	2,856	2,711
Balance at end of period	518,731	505,999
UNREALIZED HOLDING GAIN ON INVESTMENTS, NET OF TAXES		
Balance at beginning of period	25,471	64,362
Change in unrealized holding gain on investments, net of reclassification adjustment	(25,471)	(33,050)
Balance at end of period	-	31,312
RETAINED EARNINGS		
Balance at beginning of period	1,351,626	1,146,967
Net income	293,268	174,353
Cash dividends declared		
Common stock - \$.15 and \$.1425 per share, respectively	(21,209)	(19,747)
Preferred stock	(299)	(299)
Balance at end of period	1,623,386	1,301,274
UNEARNED ESOP SHARES		
Balance at beginning of period	(3,500)	(4,690)
Release of ESOP shares	750	940
Balance at end of period	(2,750)	(3,750)
PREFERRED STOCK - NON-REDEEMABLE		
Balance at beginning and end of period	7,975	7,975
TOTAL STOCKHOLDERS' EQUITY	\$2,288,431	1,983,452

See accompanying notes to consolidated financial statements.

CENTURYTEL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UnAUDITED)

	Nine months ended September 30,	
	2001	2000
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 293,268	174,353
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	351,837	270,320
Deferred income taxes	1,151	9,857
Income from unconsolidated cellular entities	(32,648)	(19,382)
Minority interest	8,731	8,052
Nonrecurring gains and losses	(199,971)	(20,593)
Changes in current assets and current liabilities:		
Accounts receivable	85,390	(33,678)
Accounts payable	(31,164)	51,217
Accrued taxes	148,990	15,204
Other current assets and other current liabilities, net	27,473	(6,400)
Change in other noncurrent assets	(55,914)	(37,182)
Change in other noncurrent liabilities	(8,498)	3,197
Other, net	18,206	22,514
Net cash provided by operating activities	606,851	437,479
INVESTING ACTIVITIES		
Payments for property, plant and equipment	(384,255)	(282,681)
Acquisitions, net of cash acquired	(47,131)	(1,540,856)
Proceeds from sales of assets	172,645	29,495
Distributions from unconsolidated cellular entities	20,188	23,115
Contribution from minority investor	-	20,000
Purchase of life insurance investment, net	(226)	(4,691)
Other, net	7,168	2,495
Net cash used in investing activities	(231,611)	(1,753,123)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	3,896	1,513,646
Payments of debt	(359,414)	(171,001)
Proceeds from issuance of common stock	3,157	7,252
Cash dividends	(21,508)	(20,046)
Other, net	962	798
Net cash provided by (used in) financing activities	(372,907)	1,330,649
Net increase in cash and cash equivalents	2,333	15,005
Cash and cash equivalents at beginning of period	19,039	56,640
Cash and cash equivalents at end of period	\$ 21,372	71,645
Supplemental cash flow information and noncash activities:		
Income taxes paid	\$ 16,877	107,401
Interest paid (net of capitalized interest of \$3,694 and \$2,887)	\$ 165,871	130,495
Note received from sale of assets (See Note 4)	\$ 86,502	-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001
(UNAUDITED)

(1) Basis of Financial Reporting

The consolidated financial statements of CenturyTel, Inc. and its subsidiaries (the "Company") include the accounts of CenturyTel, Inc. ("CenturyTel") and its majority-owned subsidiaries and partnerships. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission; however, the Company believes the disclosures which are made are adequate to make the information presented not misleading. The consolidated financial statements and footnotes included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000. Certain 2000 amounts have been reclassified to be consistent with the Company's 2001 presentation.

The unaudited financial information for the three months and nine months ended September 30, 2001 and 2000 has not been audited by independent public accountants; however, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations for the three-month and nine-month periods have been included therein. The results of operations for the first nine months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

(2) Net Property, Plant and Equipment

Net property, plant and equipment is composed of the following:

	September 30, 2001	December 31, 2000
----- (Dollars in thousands) -----		
Telephone, at original cost	\$ 5,220,236	4,999,808
Accumulated depreciation	(2,780,181)	(2,552,648)
	----- 2,440,055	----- 2,447,160

Wireless, at cost	552,586	522,684
Accumulated depreciation	(293,023)	(261,401)
	----- 259,563	----- 261,283

Other, at cost	443,038	392,024
Accumulated depreciation	(156,958)	(141,174)
	----- 286,080	----- 250,850

	\$ 2,985,698	2,959,293
	=====	

(3) Income from Unconsolidated Cellular Entities

The following summarizes the unaudited combined results of operations of the cellular entities in which the Company's investments (as of September 30, 2001 and 2000) were accounted for by the equity method:

	Nine months ended September 30,	
	2001	2000
	(Dollars in thousands)	
Results of operations		
Revenues	\$ 1,256,086	1,138,016
Operating income	\$ 354,983	364,372
Net income	\$ 355,640	354,772

(4) Nonrecurring Gains and Losses

In the third quarter of 2001, the Company recorded a pre-tax gain on the sale of its remaining common shares of Illuminet Holdings, Inc. aggregating \$54.6 million (\$35.5 million after-tax; \$.25 per diluted share). The Company also recorded a pre-tax gain of \$4.0 million (\$2.6 million after-tax; \$.02 per diluted share) on the sale of certain other assets.

In the third quarter of 2001, the Company also recorded a pre-tax charge of \$15.0 million (\$9.7 million after-tax; \$.07 per diluted share) due to the write down in the value of certain non-operating investments in which the Company owns a minority interest.

In the second quarter of 2001, the Company completed the sale of 30 PCS (Personal Communication Service) licenses to affiliates of Leap Wireless International, Inc. ("Leap") for an aggregate of \$195 million. The Company received approximately \$108 million of the purchase price in cash at closing with the remaining \$87 million in the form of a promissory note bearing interest at 10% per annum. The Company recorded a pre-tax gain aggregating \$185.1 million (\$117.7 million after-tax; \$.83 per diluted share) as a result of such transaction. In conjunction with the sale of the licenses to Leap, the Company also recorded a pre-tax charge of \$18.2 million (\$11.6 million after-tax; \$.08 per share) due to the write down in the value of certain non-operating assets. Additionally, the Company recorded its proportionate share of a gain from the sale of PCS licenses to Leap (\$2.2 million pre-tax; \$1.4 million after-tax; \$.01 per share), which is reflected in Income from Unconsolidated Cellular Entities, recorded by an entity in which the Company owns a minority interest.

In the second quarter of 2001, the Company also recorded a pre-tax charge of \$10.5 million (\$6.8 million after-tax; \$.05 per diluted share) due to the write down in the value of a non-operating investment in which the Company owns a minority interest.

During the first nine months of 2000, the Company recorded pre-tax gains aggregating \$20.6 million (\$11.6 million after-tax; \$.08 per diluted share) due to the sales of its remaining Alaska cellular operations and its minority interest in a cellular partnership.

(5) Pending Acquisitions

In October 2001, the Company signed definitive asset purchase agreements to purchase from affiliates of Verizon Communications Inc. ("Verizon") approximately 675,000 telephone access lines and related local exchange assets in Alabama and Missouri for approximately \$2.159 billion in cash, subject to certain adjustments. These acquisitions are expected to close in the second half of 2002, subject to regulatory approvals and certain other closing conditions.

(6) Business Segments

The Company has two separately reportable business segments: telephone and wireless. The Company's reportable segments are strategic business units that offer different products and services. The operating income of these segments is reviewed by the chief operating decision maker to assess performance and make business decisions. Other operations include, but are not limited to, the Company's non-regulated long distance operations, Internet operations, competitive local exchange carrier operations, fiber network business and security monitoring operations. In August 2001, the Company announced that it is exploring the potential separation of its wireless business from its other operations.

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	(Dollars in thousands)			
Operating revenues				
Telephone	\$ 377,747	324,608	1,116,880	877,622
Wireless	115,404	120,232	329,496	331,778
Other operations	46,226	37,794	127,945	109,346
Total operating revenues	\$ 539,377	482,634	1,574,321	1,318,746
Operating income				
Telephone	\$ 104,365	99,753	307,728	267,099
Wireless	32,902	39,280	88,839	91,983

Other operations	6,544	8,026	16,657	24,291
Total operating income	\$ 143,811	147,059	413,224	383,373

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
(Dollars in thousands)				
Operating income	\$ 143,811	147,059	413,224	383,373
Interest expense	(54,438)	(48,904)	(173,499)	(120,213)
Income from unconsolidated cellular entities	16,622	11,366	32,648	19,382
Minority interest	(2,819)	(2,889)	(8,731)	(8,052)
Nonrecurring gains and losses	43,543	10,683	199,971	20,593
Other income and expense	705	(4,065)	8,206	2,548
Income before income tax expense	\$ 147,424	113,250	471,819	297,631

	September 30, 2001	December 31, 2000
(Dollars in thousands)		
Assets		
Telephone segment	\$ 4,763,729	4,741,284
Wireless segment	943,058	930,406
Other operations	682,535	721,600
Total assets	\$ 6,389,322	6,393,290

CENTURYTEL, INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. The results of operations for the three months and nine months ended September 30, 2001 are not necessarily indicative of the results of operations which might be expected for the entire year.

CenturyTel, Inc. and its subsidiaries (the "Company") is a regional integrated communications company engaged primarily in providing local exchange, wireless, long distance, Internet access and data services to customers in 21 states. On July 31, 2000 and September 29, 2000, affiliates of the Company acquired over 490,000 telephone access lines and related local exchange assets in Arkansas, Missouri and Wisconsin from affiliates of Verizon Communications Inc. ("Verizon") for an aggregate of approximately \$1.5 billion cash. The operations of those acquired properties are included in the Company's results of operations beginning on the respective dates of acquisition. In February 2000, the Company sold the assets of its remaining Alaska cellular operations serving approximately 10,600 cellular subscribers. The operations of this disposed property is included in the Company's results of operations up to the date of disposition.

In addition to historical information, management's discussion and analysis includes certain forward-looking statements regarding events and financial trends that may affect the Company's future operating results and financial position. Such forward-looking statements are subject to uncertainties that could cause the Company's actual results to differ materially from such statements. Such uncertainties include but are not limited to: the Company's ability to effectively manage its growth, including integrating newly-acquired businesses into the Company's operations, successfully financing and timely consummating pending acquisitions, hiring adequate numbers of qualified staff and successfully upgrading its billing and other information systems; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the telecommunications industry; the effects of greater than anticipated competition in the Company's markets; possible changes in the demand for, or pricing of, the Company's products and services; the Company's ability to successfully introduce new product or service offerings on a timely and cost-effective basis; and the effects of more general factors such as changes in interest rates, in general market or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to the business are described in greater detail in Item 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update any of its forward-looking statements for any reason.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

Net income for the third quarter of 2001 was \$92.3 million compared to \$67.2 million during the third quarter of 2000. Diluted earnings per share increased to \$.65 during the three months ended September 30, 2001 from \$.47 during the three months ended September 30, 2000, a 38.3% increase. Net income (and diluted earnings per share) excluding nonrecurring items for the third quarter of 2001 and 2000 was \$63.9 million (\$.45) and \$66.0 million (\$.47), respectively.

The Company's net pre-tax nonrecurring items in the third quarter of 2001 of \$43.7 million (\$28.4 million after-tax) primarily relate to the sale of certain non-operating assets, substantially all of which relates to the sale of the Company's remaining interest in Illuminet Holdings, Inc. ("Illuminet"). The Company's net pre-tax nonrecurring items in the third quarter of 2000 of \$2.7 million relate to a \$10.7 million pre-tax gain on the sale of the Company's minority interest in a cellular partnership which was partially offset by a \$7.9 million pre-tax charge (reflected in "Other income and expense") related to the settlement of certain interest rate hedge contracts.

	Three months ended September 30,	
	2001	2000
	(Dollars, except per share amounts, and shares in thousands)	
Operating income		
Telephone	\$ 104,365	99,753
Wireless	32,902	39,280
Other	6,544	8,026
	143,811	147,059
Interest expense	(54,438)	(48,904)
Income from unconsolidated cellular entities	16,622	11,366
Minority interest	(2,819)	(2,889)
Nonrecurring gains and losses	43,543	10,683
Other income and expense	705	(4,065)
Income tax expense	(55,119)	(46,026)
Net income	\$ 92,305	67,224
Basic earnings per share	\$.66	.48
Diluted earnings per share	\$.65	.47
Average basic shares outstanding	140,772	140,220
Average diluted shares outstanding	142,260	141,848

Contributions to operating revenues and operating income by the Company's telephone, wireless, and other operations for the three months ended September 30, 2001 and 2000 were as follows:

	Three months ended September 30,	
	2001	2000
Operating revenues		
Telephone operations	70.0%	67.3
Wireless operations	21.4%	24.9
Other operations	8.6%	7.8
Operating income		
Telephone operations	72.6%	67.8
Wireless operations	22.9%	26.7
Other operations	4.5%	5.5

In August 2001, the Company announced that it is exploring the potential separation of its wireless business from its other operations.

Telephone Operations

Three months
ended September 30,

	2001	2000
	(Dollars in thousands)	
Operating revenues		
Local service	\$ 122,829	106,304
Network access	219,432	187,254
Other	35,486	31,050
	377,747	324,608
Operating expenses		
Plant operations	98,605	76,086
Customer operations	28,148	28,623
Corporate and other	46,293	37,766
Depreciation and amortization	100,336	82,380
	273,382	224,855
Operating income	\$ 104,365	99,753

The Company conducts its telephone operations in rural, suburban and small urban communities in 21 states. As of September 30, 2001, approximately 87% of the Company's 1.8 million access lines were in Wisconsin, Arkansas, Washington, Missouri, Michigan, Louisiana, Colorado, Ohio and Oregon.

Telephone operating income increased \$4.6 million (4.6%) due to an increase in operating revenues of \$53.1 million (16.4%) which was substantially offset by an increase in operating expenses of \$48.5 million (21.6%).

Of the \$53.1 million increase in operating revenues, \$46.4 million was attributable to the properties acquired from Verizon during the third quarter of 2000. The remaining \$6.7 million increase in revenues was partially due to a \$1.7 million increase in local service revenues primarily due to an increase in the number of customer access lines in incumbent markets and increased rates in certain jurisdictions; a \$1.4 million increase in amounts received from the federal Universal Service Fund; and a \$1.6 million increase due to the increased revenues from leasing, selling, installing, maintaining and repairing customer premise telecommunications equipment and wiring ("CPE services"). Annualized internal access line growth during the third quarter of 2001 and 2000 was 0.1% and 4.6%, respectively. The decline in internal access line growth during 2001 is substantially due to the slowing growth in the Company's service areas due to general economic conditions and the replacement of lines with high-speed data circuits.

Plant operations expenses increased \$22.5 million (29.6%) of which \$19.5 million was attributable to the properties acquired from Verizon; \$1.3 million was due to an increase in digital subscriber line ("DSL") expenses; and \$1.3 million was due to increased information technology expenses. These increases were partially offset by a \$2.6 million decrease in engineering expenses.

Customer operations expenses decreased \$475,000 (1.7%). Decreases in salaries and benefits and marketing expenses were substantially offset by a \$2.2 million increase due to the properties acquired from Verizon.

Corporate and other expenses increased \$8.5 million (22.6%) primarily due to a \$10.7 million increase due to the properties acquired from Verizon which was partially offset by a \$4.0 million decrease in the provision for doubtful accounts.

Depreciation and amortization increased \$18.0 million (21.8%), of which \$13.3 million was attributable to the properties acquired from Verizon (which included \$2.8 million of amortization of goodwill). The remainder of the increase was primarily due to higher levels of plant in service.

Wireless Operations and Income From Unconsolidated Cellular Entities

	Three months ended September 30,	
	2001	2000
	(Dollars in thousands)	
Operating income - wireless operations	\$ 32,902	39,280
Income from unconsolidated cellular entities	16,622	11,366
Minority interest	(3,449)	(3,657)
	\$ 46,075	46,989

The Company's wireless operations (discussed below) reflect 100% of the results of operations of the wireless entities in which the Company has a majority ownership interest. The minority interest owners' share of the income of such entities is reflected in the Company's Consolidated Statements of Income as an expense in "Minority interest." The Company's share of earnings from the cellular entities in which it has less than a majority interest is accounted for using the equity method and is reflected in the Company's Consolidated Statements of Income as "Income from unconsolidated cellular entities." See Income from Unconsolidated Cellular Entities for additional information.

Wireless Operations

	Three months ended September 30,	
	2001	2000
	(Dollars in thousands)	
Operating revenues		
Service	\$ 88,695	86,501
Roaming	24,036	30,361
Equipment sales	2,673	3,370
	115,404	120,232
Operating expenses		
Cost of equipment sold	6,108	7,192
System operations	19,924	19,749
General, administrative and customer service	22,250	18,796
Sales and marketing	17,466	19,081
Depreciation and amortization	16,754	16,134
	82,502	80,952
Operating income	\$ 32,902	39,280

Wireless operating income decreased \$6.4 million (16.2%) in the third quarter of 2001 to \$32.9 million from \$39.3 million in the third quarter of 2000. Wireless operating revenues decreased \$4.8 million (4.0%) while operating expenses increased \$1.6 million (1.9%).

The \$2.2 million increase in service revenues was primarily due to growth in the number of customers and increased minutes of use, both of which were partially offset by reduced rates. Roaming revenues decreased \$6.3 million (20.8%) primarily due to a reduction in roaming rates (which was partially offset by an increase in roaming minutes of use), a downward trend in rates that the Company anticipates will continue in the near future.

The following table illustrates the growth in the Company's wireless customer base in its majority-owned markets:

	Three months ended September 30,	
	2001	2000
Customers at beginning of period	779,958	749,400
Gross units added internally	86,057	75,346
Disconnects	71,351	83,563
Net units added (disconnected)	14,706	(8,217)
Customers at end of period	794,664	741,183
Average monthly churn rate (excluding prepaid customers)	2.32%	1.93

The average monthly revenue (excluding equipment sales) per customer declined to \$47 during the third quarter of 2001 from \$52 during the third quarter of 2000 primarily due to price reductions in service rates charged to the Company's customers, reductions in roaming rates charged to other cellular operators and the continued trend that a higher percentage of new subscribers tend to be lower usage customers. The average monthly revenue per customer is expected to further decline (i) as market penetration increases and additional lower usage customers are activated; (ii) as the Company continues to receive pressure from other cellular operators to reduce roaming rates and (iii) as competitive pressures from current and future wireless communications providers intensify. The Company is responding to such competitive pressures by, among other things, modifying certain of its price plans and implementing certain other plans and promotions, some of which are likely to result in lower average revenue per customer.

Cost of equipment sold decreased \$1.1 million (15.1%) substantially due to a decrease in average cost per unit which was partially offset by an increase in units sold.

System operations expenses increased \$175,000 (.9%) in the third quarter of 2001 primarily due to a \$1.3 million increase in the net amounts paid to other carriers for cellular service provided to the Company's customers who roam in such other carriers' service areas primarily due to an increase in minutes of use and a \$1.1 million increase in cell site expenses. Such increases were substantially offset by a \$2.0 million decrease in toll costs.

General, administrative and customer service expenses increased \$3.5 million (18.4%) due primarily to a \$1.0 million increase in the provision for doubtful accounts; an \$891,000 increase in operating taxes; and a \$757,000 increase in customer retention costs.

Sales and marketing expenses decreased \$1.6 million (8.5%) primarily due to a \$1.3 million decrease in advertising expense.

Depreciation and amortization increased \$620,000 (3.8%) primarily due to increased plant in service.

Other Operations

	Three months ended September 30,	
	2001	2000
	(Dollars in thousands)	
Operating revenues		
Long distance	\$ 31,050	27,075
Internet	10,561	6,138
Other	4,615	4,581
	46,226	37,794
Operating expenses		
Cost of sales and operating expenses	36,563	28,542
Depreciation and amortization	3,119	1,226
	39,682	29,768
Operating income	\$ 6,544	8,026

Other operations include the results of operations of the Company which are not included in the telephone or wireless segments, including, but not limited to, the Company's non-regulated long distance operations, Internet operations, call center operations (which ceased operations in the third quarter of 2000), competitive local exchange carrier ("CLEC") operations, fiber network business and security monitoring operations.

The \$4.0 million increase in long distance revenues was primarily attributable to the growth in the number of customers and increased minutes of use, primarily due to penetration of the newly-acquired Verizon markets. The number of long distance customers as of September 30, 2001 and 2000 was 438,700 and 347,200, respectively. Internet revenues increased \$4.4 million due primarily to growth in the number of customers, principally due to the expansion of the Company's DSL product offering.

Cost of sales and operating expenses increased \$8.0 million in the third quarter of 2001 compared to the third quarter of 2000 primarily due to (i) a \$4.1 million increase in expenses related to the provision of Internet access primarily due to the expansion of the Company's DSL product offering; (ii) a \$3.1 million increase in expenses of the Company's long distance operations due primarily to an increase in customers; and (iii) a \$2.6 million increase in expenses due to the expansion of the Company's CLEC business. Such increases were partially offset by a \$1.4 million reduction in expenses due to the planned phase-out of the Company's third party call center operations in the last half of 2000.

Depreciation and amortization increased \$1.9 million primarily due to increased depreciation expense in the Company's Internet and fiber network businesses.

The Company anticipates that future operating income for its other operations will continue to decline in relation to prior periods as it incurs increasingly larger expenses in connection with expanding its CLEC and fiber network businesses.

Interest Expense

Interest expense increased \$5.5 million in the third quarter of 2001 compared to the third quarter of 2000 primarily due to an increase in outstanding indebtedness related to the Verizon acquisitions.

Income from Unconsolidated Cellular Entities

Income from unconsolidated cellular entities, net of the amortization of associated goodwill, increased \$5.3 million (46.2%) primarily due to the Company's proportionate share (\$3.2 million) recorded in the third quarter of 2001 of a favorable depreciation adjustment made by the operator of a cellular entity in which the Company owns a minority interest. The remaining increase was primarily due to increased earnings of cellular entities in which the Company owns a minority interest.

Nonrecurring Gains and Losses

In the third quarter of 2001, the Company recorded a pre-tax gain on the sale of its remaining common shares of Illuminet aggregating \$54.6 million (\$35.5 million after-tax; \$.25 per diluted share). The Company also recorded a pre-tax gain of \$4.0 million (\$2.6 million after-tax; \$.02 per diluted share) on the sale of certain other assets.

In the third quarter of 2001, the Company also recorded a pre-tax charge of \$15.0 million (\$9.7 million after-tax; \$.07 per diluted share) due to the write down in the value of certain non-operating investments in which the Company owns a minority interest.

In the third quarter of 2000, the Company recorded a pre-tax gain of \$10.7 million (\$6.4 million after tax; \$.05 per diluted share) due to the sale of its minority interest in a cellular partnership.

Other Income and Expense

Other income and expense for the third quarter of 2001 was \$705,000 income compared to a \$4.1 million expense for the third quarter of 2000. Such increase was primarily attributable to a \$7.9 million charge in the third quarter 2000 related to the settlement of certain interest rate hedge contracts entered into in connection with financing the Verizon acquisitions. This increase was partially offset by \$3.0 million of costs incurred in the third quarter of 2001 associated with responding to an unsolicited takeover proposal.

Income Tax Expense

Income tax expense increased \$9.1 million in the third quarter of 2001 compared to the third quarter of 2000. Exclusive of the effects of income tax expense on nonrecurring items, the effective income tax rate was 38.4% and 40.3% for the three months ended September 30, 2001 and 2000, respectively. Such reduction in the effective rate was primarily due to a reduction in state income tax expense.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Net income for the first nine months of 2001 was \$293.3 million compared to \$174.4 million during the first nine months of 2000. Diluted earnings per share increased to \$2.06 during the first nine months of 2001 from \$1.23 during the first nine months of 2000. Net income (and diluted earnings per share) excluding nonrecurring items for the first nine months of 2001 and 2000 was \$165.3 million (\$1.16) and \$171.7 million (\$1.21), respectively.

Substantially all of the net nonrecurring pre-tax items in the first nine months of 2001 of \$200.3 million relate to the sale of PCS licenses to Leap Wireless International, Inc. ("Leap") and the sale of the Company's remaining common shares of Illuminet; these items were partially offset by the write down of certain non-operating assets which aggregated \$25.5 million pre-tax. Substantially all of the nonrecurring items in the first nine months of 2000 of \$6.8 million relate to pre-tax gains aggregating \$20.6 million related to the sale of the Company's remaining Alaska cellular operations and its minority interest in a cellular partnership. Such gains were partially offset by the Company's proportionate share (\$5.3 million pre-tax; \$.03 per diluted share) of non-cash charges that were recorded by two cellular entities in which the Company owns a minority interest and is reflected in "Income from Unconsolidated Cellular Entities" and a \$7.9 million pre-tax charge (reflected in "Other income and expense") related to the settlement of certain interest rate hedge contracts.

	Nine months ended September 30,	
	2001	2000
	(Dollars, except per share amounts, and shares in thousands)	
Operating income		
Telephone	\$ 307,728	267,099
Wireless	88,839	91,983
Other	16,657	24,291
	413,224	383,373
Interest expense	(173,499)	(120,213)
Income from unconsolidated cellular entities	32,648	19,382
Minority interest	(8,731)	(8,052)
Nonrecurring gains and losses	199,971	20,593
Other income and expense	8,206	2,548
Income tax expense	(178,551)	(123,278)
Net income	\$ 293,268	174,353
Basic earnings per share	\$ 2.08	1.24
Diluted earnings per share	\$ 2.06	1.23
Average basic shares outstanding	140,693	139,989
Average diluted shares outstanding	142,267	141,769

Contributions to operating revenues and operating income by the Company's telephone, wireless, and other operations for the nine months ended September 30, 2001 and 2000 were as follows:

	Nine months ended September 30,	
	2001	2000
Operating revenues		
Telephone operations	71.0%	66.5
Wireless operations	20.9%	25.2
Other operations	8.1%	8.3
Operating income		
Telephone operations	74.5%	69.7
Wireless operations	21.5%	24.0
Other operations	4.0%	6.3

In August 2001, the Company announced that it is exploring the potential separation of its wireless business from its other operations.

Telephone Operations

	Nine months ended September 30,	
	2001	2000
	(Dollars in thousands)	
Operating revenues		
Local service	\$ 367,283	284,896
Network access	645,869	510,440
Other	103,728	82,286
	1,116,880	877,622
Operating expenses		
Plant operations	285,980	198,625
Customer operations	86,219	76,893
Corporate and other	140,329	117,634
Depreciation and amortization	296,624	217,371
	809,152	610,523
Operating income	\$ 307,728	267,099

The Company conducts its telephone operations in rural, suburban and small urban communities in 21 states. As of September 30, 2001, approximately 87% of the Company's 1.8 million access lines were in Wisconsin, Arkansas, Washington, Missouri, Michigan, Louisiana, Colorado, Ohio and Oregon.

Telephone operating income increased \$40.6 million (15.2%) due to an increase in operating revenues of \$239.3 million (27.3%) which more than offset an increase in operating expenses of \$198.6 million (32.5%).

Of the \$239.3 million increase in operating revenues, \$227.4 million was attributable to the properties acquired from Verizon in the third quarter of 2000. The remaining \$11.9 million increase in revenues was primarily due to a \$5.4 million increase in amounts received from the federal Universal Service Fund; a \$5.2 million increase in revenues from CPE services; and a \$2.8 million increase in revenues associated with the provision of custom calling features. Annualized internal access line growth during the first nine months of 2001 and 2000 was 0.6% and 3.9%, respectively. The decline in internal access line growth during 2001 is substantially due to the slowing growth in the Company's service areas due to general economic conditions and the replacement of lines with high-speed data circuits.

Plant operations expenses increased \$87.4 million (44.0%) of which \$88.2 million was attributable to the properties acquired from Verizon.

Customer operations expenses increased \$9.3 million (12.1%) of which \$18.2 million was attributable to the properties acquired from Verizon. The remaining \$8.9 million decrease was primarily due to a \$3.7 million decrease in information technology expenses; a \$2.8 million decrease in salaries and benefits; and a \$1.6 million decrease in expenses associated with the provision of CPE services.

Corporate and other expenses increased \$22.7 million (19.3%) of which \$26.2 million was due to the properties acquired from Verizon. The remaining \$3.5 million decrease was primarily due to \$2.4 million decrease in the provision for doubtful accounts.

Depreciation and amortization increased \$79.3 million (36.5%), of which \$67.3 million was attributable to the properties acquired from Verizon (which included \$14.6 million of amortization of goodwill) and the remainder of which was primarily due to higher levels of plant in service.

Wireless Operations and Income From Unconsolidated Cellular Entities

	Nine months ended September 30,	
	2001	2000
	(Dollars in thousands)	
Operating income - wireless operations	\$ 88,839	91,983
Income from unconsolidated cellular entities	32,648	19,382
Minority interest	(9,150)	(8,783)
	\$ 112,337	102,582

The Company's wireless operations (discussed below) reflect 100% of the results of operations of the wireless entities in which the Company has a majority ownership interest. The minority interest owners' share of the income of such entities is reflected in the Company's Consolidated Statements of Income as an expense in "Minority interest." See Minority Interest for additional information. The Company's share of earnings from the cellular entities in which it has less than a majority interest is accounted for using the equity method and is reflected in the Company's Consolidated Statements of Income as "Income from unconsolidated cellular entities." See Income from Unconsolidated Cellular Entities for additional information.

Wireless Operations

	Nine months ended September 30,	
	2001	2000
	(Dollars in thousands)	
Operating revenues		
Service	\$ 253,886	246,890
Roaming	67,047	73,946
Equipment sales	8,563	10,942
	329,496	331,778
Operating expenses		
Cost of equipment sold	17,789	21,728
System operations	54,565	51,782
General, administrative and customer service	64,042	56,423
Sales and marketing	55,287	60,637
Depreciation and amortization	48,974	49,225
	240,657	239,795
Operating income	\$ 88,839	91,983

Wireless operating income decreased \$3.1 million (3.4%) to \$88.8 million in the first nine months of 2001 from \$92.0 million in the first nine months of 2000. Wireless operating revenues decreased \$2.3 million (.7%) while operating expenses increased \$862,000 (.4%).

The \$7.0 million increase in service revenues was primarily due to a growth in the number of customers and increased minutes of use, both of which were partially offset by reduced rates. The \$6.9 million decrease in roaming revenue was primarily due to a reduction in roaming rates (which was partially offset by an increase in roaming minutes of use), a downward trend in rates that the Company anticipates will continue in the near future.

The following table illustrates the growth in the Company's wireless customer base in its majority owned markets:

	Nine months ended September 30,	
	2001	2000
Customers at beginning of period	751,200	707,486
Gross units added internally	241,607	247,014
Disconnects	198,143	202,664
Net units added	43,464	44,350
Net effect of dispositions	-	(10,653)
Customers at end of period	794,664	741,183
Average monthly churn rate (excluding prepaid customers)	2.28%	1.88

The average monthly revenue (excluding equipment sales) per customer declined to \$46 during the first nine months of 2001 from \$49 during the first nine months of 2000 primarily due to price reductions in service rates charged to the Company's customers, reductions in roaming rates charged to other cellular operators and the continued trend that a higher percentage of new subscribers tend to be lower usage customers. The average monthly revenue per customer is expected to further decline (i) as market penetration increases and additional lower usage customers are activated; (ii) as the Company continues to receive pressure from other cellular operators to reduce roaming rates and (iii) as competitive pressures from current and future wireless communications providers intensify. The Company is responding to such competitive pressures by, among other things, modifying certain of its price plans and implementing certain other plans and promotions, some of which are likely to result in lower average revenue per customer.

Cost of equipment sold decreased \$3.9 million (18.1%) due primarily to a decrease in the number of units sold and to a decrease in average price per unit.

System operations expenses increased \$2.8 million (5.4%) in the first nine months of 2001 primarily due to a \$2.0 million increase in cell site expenses and a \$3.8 million increase in the amounts paid to other carriers for service provided to the Company's customers who roam in the other carriers' service areas primarily due to an increase in minutes of use. Such increases were partially offset by a \$3.3 million decrease in toll costs.

General, administrative and customer service expenses increased \$7.6 million (13.5%) primarily due to a \$3.0 million increase in the provision for doubtful accounts; a \$1.8 million increase in customer retention costs; and a \$1.0 million increase in operating taxes.

Sales and marketing expenses decreased \$5.4 million (8.8%) due primarily to a \$3.4 million decrease in advertising and sales promotion expenses and a \$2.0 million decrease in sales commissions paid to agents.

Other Operations

Nine months ended September 30,		
	2001	2000
(Dollars in thousands)		
Operating revenues		
Long distance	\$ 87,164	77,001
Internet	27,678	16,423
Other	13,103	15,922
	127,945	109,346
Operating expenses		
Cost of sales and operating expenses	105,049	81,331
Depreciation and amortization	6,239	3,724
	111,288	85,055
Operating income	\$ 16,657	24,291

Other operations include the results of operations of subsidiaries of the Company which are not included in the telephone or wireless segments, including, but not limited to, the Company's non-regulated long distance operations, Internet operations, call center operations (which ceased operations in the third quarter of 2000), competitive local exchange carrier ("CLEC") operations, fiber network business and security monitoring operations.

The \$10.2 million increase in long distance revenues was attributable to the growth in the number of customers and increased minutes of use, primarily due to penetration of the newly-acquired Verizon markets. The number of long distance customers as of September 30, 2001 and 2000 was 438,700 and 347,200, respectively. Internet revenues increased \$11.3 million due primarily to a \$8.5 million increase due to growth in the number of customers and a \$1.9 million increase due to Internet operations acquired in mid-2000. The \$2.8 million decrease in other revenues was primarily due to the planned phase-out of the Company's third-party call center operations during 2000.

Cost of sales and operating expenses increased \$23.7 million (29.2%) primarily due to a \$17.9 million increase in expenses related to the provision of Internet access primarily due to the expansion of the Company's DSL product offering; a \$6.8 million increase due to the expansion of the Company's CLEC business; and an increase of \$6.5 million in expenses of the Company's long distance operations primarily due to an increase in the number of customers. Such increases were partially offset by a \$6.5 million reduction in expenses due to the winding down of the Company's third party call center operations during 2000.

Depreciation and amortization increased \$2.5 million primarily due to increased depreciation expense in the Company's Internet and fiber network businesses.

The Company anticipates future operating income for its other operations will decline in relation to prior periods as it incurs increasingly larger expenses in connection with expanding its CLEC and fiber network businesses.

Interest Expense

Interest expense increased \$53.3 million in the first nine months of 2001 compared to the first nine months of 2000 primarily due to an increase in outstanding indebtedness related to the Verizon acquisition.

Income from Unconsolidated Cellular Entities

Earnings from unconsolidated cellular entities, net of the amortization of associated goodwill, increased \$13.3 million (68.4%) in the first nine months of 2001 primarily due to (i) the Company's proportionate share (\$2.2 million) recorded in the second quarter of 2001 of the gain on sale of PCS licenses to Leap by a cellular entity in which the Company owns a minority interest, (ii) the Company's proportionate share (\$3.2 million) recorded in the third quarter of 2001 of a favorable depreciation adjustment made by the operator of a cellular entity in which the Company owns a minority interest and (iii) the Company's proportionate share (\$5.3 million) of non-cash charges that were recorded in the first quarter of 2000 by two cellular entities in which the Company owns a minority interest. The remaining increase was primarily due to increased earnings of certain cellular entities in which the Company owns a minority interest.

In November 2001, the Company became aware of a non-recurring charge that will be recorded in the fourth quarter of 2001 by a cellular entity in which the Company owns a minority interest. The Company's share of such charge will approximate \$15 million pre-tax.

Minority Interest

Minority interest increased \$679,000 in the first nine months of 2001 compared to the first nine months of 2000 due primarily to increased profitability of certain of the Company's majority-owned and operated entities.

Nonrecurring Gains and Losses

During the first nine months of 2001, the Company recorded a pre-tax gain of approximately \$185.1 million (\$117.7 million after-tax; \$.83 per diluted share) due to the sale of 30 PCS licenses to Leap. In conjunction with the sale of licenses to Leap, the Company also recorded a pre-tax charge of \$18.2 million (\$11.6 million after-tax; \$.08 per share) due to the write down in the value of certain non-operating assets. Also during the first nine months of 2001, the Company recorded a pre-tax gain on the sale of its remaining shares of Illuminet common stock aggregating \$54.6 million (\$35.5 million after-tax; \$.25 diluted share) and a pre-tax gain of \$4.0 million (\$2.6 million after-tax; \$.02 per diluted share) on the sale of certain other assets.

Additionally, during the first nine months of 2001, the Company recorded pre-tax charges of \$25.5 million (\$16.6 million after-tax; \$.12 per diluted share) due to the write down in the value of certain non-operating investments in which the Company owns a minority interest.

In the first nine months of 2000, the Company recorded pre-tax gains of approximately \$20.6 million (\$11.6 million after-tax; \$.08 per diluted share) due to the sales of its remaining Alaska cellular operations and the Company's minority interest in a cellular partnership.

See Note 4 of Notes to Consolidated Financial Statements for additional information.

Other Income and Expense

Other income and expense increased \$5.7 million in the first nine months of 2001 compared to the first nine months of 2000, primarily due to a \$7.9 million charge related to the settlement of certain interest rate hedge contracts entered into in connection with financing the Verizon acquisitions in 2000 which was partially offset by \$3.0 million of costs incurred in 2001 associated with responding to an unsolicited takeover proposal.

Income Tax Expense

Income tax expense increased \$55.3 million in the first nine months of 2001 compared to the first nine months of 2000. Exclusive of the effects of income tax expense on nonrecurring items, the effective income tax rate was 39.1% and 41.0% for the nine months ended September 30, 2001 and 2000, respectively. Such reduction in the effective rate was primarily due to a reduction in state income tax expense.

LIQUIDITY AND CAPITAL RESOURCES

Excluding cash used for acquisitions, the Company relies on cash provided by operations to provide for its cash needs. The Company's operations have historically provided a stable source of cash flow which has helped the Company continue its long-term program of capital improvements.

Net cash provided by operating activities was \$606.9 million during the first nine months of 2001 compared to \$437.5 million during the first nine months of 2000. The Company's accompanying consolidated statements of cash flows identify major differences between net income and net cash provided by operating activities for each of these periods. For additional information relating to the telephone operations, wireless operations, and other operations of the Company, see Results of Operations.

Net cash used in investing activities was \$231.6 million for the nine months ended September 30, 2001 compared to \$1.753 billion for the nine months ended September 30, 2000. Cash used for acquisitions was \$1.541 billion in 2000 (substantially all of which relates to the Verizon acquisitions in 2000). Proceeds from the sale of assets were \$172.6 million in the first nine months of 2001 compared to \$29.5 million in the first nine months of 2000. Payments for property, plant and equipment were \$101.6 million more in the first nine months of 2001 than in the comparable period during 2000, principally due to the Verizon acquisitions. Capital expenditures for the nine months ended September 30, 2001 were \$248.8 million for telephone, \$52.5 million for wireless and \$82.9 million for other operations.

Revised budgeted capital expenditures for 2001 total \$400 million for telephone operations, \$70 million for wireless operations and \$90 million for other operations. Anticipated capital expenditures for 2002 are currently expected to range from \$500-\$525 million, exclusive of the impact of pending acquisitions.

Net cash used in financing activities was \$372.9 million during the first nine months of 2001. Net cash provided by financing activities was \$1.331 billion during the first nine months of 2000. Net payments of debt were \$355.5 million during the first nine months of 2001 compared to net proceeds of debt of \$1.343 billion during the first nine months of 2000 primarily due to borrowings due to the purchase of assets from Verizon.

As of September 30, 2001, CenturyTel's telephone subsidiaries had available for use \$123.0 million of commitments for long-term financing from the Rural Utilities Service and the Company had \$500.1 million of undrawn committed bank lines of credit. In addition, in October 2000 the Company implemented a commercial paper program that authorizes the Company to have outstanding up to \$1.5 billion in commercial paper at any one time. At September 30, 2001, the Company had \$39.0 million of debt outstanding under such program.

In second quarter 2001, the Company completed the sale of 30 PCS (Personal Communications Service) operating licenses for an aggregate of \$195 million to Leap. The Company received approximately \$108 million of the purchase price in cash at closing and \$48 million in cash in July 2001 under the terms of a promissory note bearing interest at 10% per annum. Subsequent to September 30, 2001, the Company received the remaining \$39 million cash owed under the note. In third quarter 2001, the Company sold its remaining shares of its investment in Illuminet common stock for an aggregate of approximately \$58.2 million. Proceeds from these sales were used to repay indebtedness.

In October 2001, the Company entered into definitive asset purchase agreements to purchase from affiliates of Verizon Communications Inc. telephone access lines (which numbered approximately 675,000 at June 30, 2001) and related local exchange assets in Missouri and Alabama for approximately \$2.159 billion in cash, subject to adjustments which are not expected to be material in the aggregate. These transactions are anticipated to close in the second half of 2002, subject to regulatory approvals and certain other closing conditions. The Company's financing plans are not yet complete and will be dependent upon the Company's review of its alternatives and market conditions. For additional information, see Item 5 of Part II of this Report.

OTHER MATTERS

Accounting for the Effects of Regulation

The Company currently accounts for its regulated telephone operations in accordance with the provisions of Statement of Financial Accounting Standards No. 71 ("SFAS 71"), "Accounting for the Effects of Certain Types of Regulation." While the ongoing applicability of SFAS 71 to the Company's telephone operations is being monitored due to the changing regulatory, competitive and legislative environments, the Company believes that SFAS 71 still applies. However, it is possible that changes in regulation, competition or the demand for regulated services or products or the Company's acquisition of new properties could result in the Company's telephone operations not being subject to SFAS 71 in the near future. In that event, implementation of Statement of Financial Accounting Standards No. 101 ("SFAS 101"), "Regulated Enterprises - Accounting for the Discontinuance of Application of FASB Statement No. 71," would require the write-off of previously established regulatory assets and liabilities, along with an adjustment of certain accumulated depreciation accounts to reflect the difference between recorded depreciation and the amount of depreciation that would have been recorded had the Company's telephone operations not been subject to rate regulation. Such discontinuance of the application of SFAS 71 would result in a material, noncash charge against earnings which would be reported as an extraordinary item. While the effect of implementing SFAS 101 cannot be precisely estimated at this time, management believes that the noncash, after-tax, extraordinary charge would be between \$400 million and \$450 million.

Regulatory Issues

On October 31, 2001, the Wisconsin Public Service Commission ("WPSC") approved a permanent rate increase of \$8.3 million annually for the local exchange properties that the Company acquired from Ameritech in December 1998. The WPSC ordered the Company to refund a portion (\$1.5 million) of the previously approved interim rates. Such refund will have the effect of a one-time reduction in revenue of approximately \$300,000 as the Company was not recording 100% of the interim rates as revenue. Separately, the WPSC ordered the Company to refund \$14.7 million related to access charges collected from interexchange carriers on the former Ameritech properties from December 1998 through 2000. The Company is challenging the refund order in Wisconsin State Court. If the appeal is unsuccessful, the Company will have to record a one-time charge of \$.03 per share.

In May 2001, the Federal Communications Commission ("FCC") modified its existing universal service support mechanism for rural telephone companies. The FCC adopted an interim mechanism for a five-year period, effective July 1, 2001, based on embedded, or historical, costs that will provide predictable levels of support to rural local exchange carriers, including substantially all of the Company's local exchange carriers. During this interim period, the Company estimates (based on current operations and considering the increase in the nationwide average cost per loop in July 2001) that such ruling will increase the Company's level of universal service support receipts by approximately \$12 million annually compared to previous levels.

In August 2001, the Company was awarded an interim access rate increase by the WPSC for the former Verizon properties in Wisconsin in an amount of approximately \$7.9 million annually. Such rates are subject to refund pending an order establishing permanent rates.

In August 2001, the Arkansas Public Service Commission approved tariff amendments that limit the number of minutes included for a flat rate in certain unlimited optional calling plans in certain of the acquired Verizon markets. Once fully implemented in January 2002, the Company anticipates that these tariff revisions will reduce the level of its operating expenses by approximately \$20 million annually.

On October 11, 2001, the FCC modified its interstate access charge rules and universal service support system for rate of return local exchange carriers. This order, among other things, (i) increases the caps on the subscriber line charges ("SLC") to the levels paid by most subscribers nationwide; (ii) allows limited SLC deaveraging, which will enhance the competitiveness of rate of return carriers by giving them pricing flexibility; (iii) lowers per minute rates the Company collects for federal access charges; (iv) creates a new explicit universal service support mechanism that will replace other implicit support mechanisms in a manner designed to ensure that rate structure changes do not affect the overall recovery of interstate access costs by rate of return carriers serving high cost areas and (v) terminates the proceeding on the represcription of the authorized rate of return, which will remain at 11.25%. The Company expects the order to be implemented on a revenue neutral basis. Other proposals submitted to the FCC by the Multi-Association Group representing rural carriers were rejected or deferred for additional comment.

Accounting Pronouncements

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 established accounting and reporting standards for derivative instruments and for hedging activities by requiring that entities recognize all derivatives as either assets or liabilities at fair value on the balance sheet. The Company had no derivative instruments outstanding at January 1, 2001 and thus no transition adjustment was recorded upon adoption of SFAS 133.

As of September 30, 2001, the Company had outstanding an interest rate swap relating to \$212.0 million of floating rate debt designed to eliminate the variability of cash flows in the payment of interest related to such debt. Since the terms of the swap match the terms of the floating rate debt, the Company does not expect fluctuations in the fair value of the swap to be recorded in its statements of income. In addition, the Company has from time to time entered into interest rate hedge contracts in anticipation of certain debt issuances to manage interest rate exposure. The Company does not utilize derivative financial instruments for trading or other speculative purposes.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations to be accounted for under the purchase method of accounting; the pooling of interest method is no longer permitted. SFAS 141 is effective for business combinations consummated after June 30, 2001. SFAS 142 requires goodwill recorded in a business combination to be reviewed for impairment and would be written down only in periods in which the recorded amount of goodwill exceeds its fair value. Systematic amortization of goodwill will cease effective January 1, 2002. The Company's amortization of goodwill for the nine months ended September 30, 2001 totaled approximately \$56.1 million. The Company is still in the process of determining the impact, if any, of the transitional goodwill impairment rules of SFAS 142.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS 144 requires long-lived assets be measured at the lower of selling amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. SFAS 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company is still in the process of determining the impact, if any, of the provisions of SFAS 144.

CENTURYTEL, INC.
QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

Market Risk

The majority of the Company's long-term debt obligations are fixed rate. At September 30, 2001, the fair value of the Company's long-term debt was estimated to be \$3.1 billion based on the overall weighted average rate of the Company's long-term debt of 6.6% and an overall weighted maturity of 10 years compared to terms and rates currently available in long-term financing markets. For purposes hereof, market risk is estimated as the potential decrease in fair value of the Company's long-term debt resulting from a hypothetical increase of 66 basis points in interest rates (which represents ten percent of the Company's overall weighted average borrowing rate). Such an increase in interest rates would result in approximately a \$101.0 million decrease in fair value of the Company's long-term debt. As of September 30, 2001, the Company owed \$339.0 million of debt on a floating-rate basis.

As of September 30, 2001, the Company had outstanding an interest rate swap relating to \$212.0 million of its floating rate debt designed to eliminate the variability of cash flows in the payment of interest related to such debt. The swap expires in August 2002. The Company realizes a fixed effective rate of 4.845% and receives or makes settlement payments based upon the 3-month London InterBank Offered Rate, with settlement and rate reset dates at three month intervals through the expiration date.

PART II. OTHER INFORMATION

CENTURYTEL, INC.

Item 2. Changes in Securities and Use of Proceeds

Between July 1 and July 11, 2001, CenturyTel sold at market prices approximately 122 shares of CenturyTel common stock to employees through its Union Group Incentive Plan and approximately six shares of CenturyTel common stock through its Security Systems, Inc. 401(k) Plan. All such shares were privately placed under Section 4(2) of the Securities Act of 1933, as amended. Since July 11, 2001, all sales under both of these plans have been registered under such Act.

Item 5. Other Information

On October 22, 2001, the Company entered into definitive agreements to purchase from affiliates of Verizon Communications Inc. ("Verizon") assets comprising all of Verizon's local telephone operations in Missouri and Alabama. In exchange, the Company has agreed to pay approximately \$2.159 billion in cash, subject to certain adjustments described below.

The assets to be purchased will include (i) all telephone access lines (which numbered approximately 369,000 as of June 30, 2001) and related property and equipment comprising Verizon's local exchange operations in 98 exchanges in predominantly rural and suburban markets throughout Missouri, several of which are adjacent to properties currently owned and operated by the Company, (ii) all telephone access lines (which numbered approximately 306,000 as of June 30, 2001) and related property and equipment comprising Verizon's local exchange operations in 90 exchanges in predominantly rural markets throughout Alabama, (iii) Verizon's assets used to provide digital subscriber line (DSL) and other high speed data services within the purchased exchanges in both states and (iv) approximately 2,800 route miles of fiber optic cable within the purchased exchanges in both states. The acquired assets will not include Verizon's cellular, PCS, long distance, dial-up Internet, or directory publishing operations, or rights under various Verizon contracts, including those relating to customer premise equipment. The Company will not assume any liabilities of Verizon other than those associated with contracts, employees, facilities and certain other assets transferred in connection with the purchases. The purchase price will be adjusted to, among other things, (i) reimburse Verizon for certain pre-closing costs and (ii) compensate the Company if Verizon fails to attain certain specified pre-closing capital expenditure targets. The aggregate effect of these adjustments is not expected to be material.

The Company's purchase of the Missouri properties is subject to the approval of the Missouri Public Service Commission, and the Company's purchase of the Alabama properties is subject to the approval of the Alabama Public Service Commission. Consummation of each transaction is also subject to, among other things, (i) the approval of the Federal Communications Commission, (ii) compliance with the notification and waiting period requirements under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (iii) the receipt of various third party consents, including releases from Verizon bondholders terminating liens on the transferred assets, and (iv) various other customary closing conditions. Neither purchase is conditioned upon the completion of the other purchase. Under each definitive agreement, the Company has agreed to pay Verizon 10% of the transaction consideration if the purchase is not consummated under certain specified conditions, including the Company's incapacity to finance the transaction.

The properties to be acquired are currently subject to price-cap regulation for interstate purposes, and the Company has no plans to change this. Because most of the Company's other telephone properties are subject to rate-of-return regulation, the Company's plans to retain price-cap regulation for the acquired properties will require it to seek a waiver of the FCC's "all or nothing" regulation that generally requires a rate-of-return company acquiring a price-cap company to convert all of its operations to price-cap regulation. Although the FCC has granted similar waivers to other carriers over the past couple of years, no assurances can be provided that the FCC will grant a waiver to the Company. The Company's failure to obtain this waiver would adversely impact the financial benefits that the Company anticipates receiving in connection with its purchases of the Verizon properties.

Additional information regarding the purchases is set forth in the Company's press release announcing the transactions and the definitive asset purchase agreements entered into on October 22, 2001, all of which are filed as Exhibits to this Report and are incorporated by reference herein.

Item 6. Exhibits and Reports on Form 8-K

- | | |
|-------|--|
| A. | Exhibits |
| 2(a) | Asset Purchase Agreement, dated as of October 22, 2001, between GTE Midwest Incorporated (d/b/a Verizon Midwest) and CenturyTel of Missouri, LLC |
| 2(b) | Asset Purchase Agreement, dated as of October 22, 2001, between Verizon South, Inc., Contel of the South, Inc. (d/b/a Verizon Mid-States) and CenturyTel of Alabama, LLC |
| 10(a) | Registrant's Employee Stock Ownership Plan, as amended and restated September 17, 2001. |
| 10(b) | Merger Agreement, dated September 18, 2001, between |

Registrant and Regions Bank of Louisiana, pursuant to which Registrant's Stock Bonus Plan and Paysop was merged into Registrant's Employee Stock Ownership Plan.

11 Computations of Earnings Per Share

99 Press Release dated October 22, 2001, announcing the Company's pending acquisition of approximately 675,000 telephone access lines from affiliates of Verizon Communications Inc. (incorporated by reference from the Company's Current Report on Form 8-K filed on October 25, 2001)

B. Reports on Form 8-K

(i) The following item was reported on Form 8-K filed July 27, 2001:

Item 5. Other events - News release announcing second quarter results of operations.

(ii) The following items were reported on Form 8-K filed August 15, 2001:

Item 5. Other events - (i) News release issuing statement in response to Alltel unsolicited proposal, dated August 14, 2001 and (ii) News release announcing that CenturyTel is exploring the separation of its wireless operations, dated August 15, 2001.

(iii) The following items were reported on Form 8-K filed August 17, 2001:

Item 5. Other events - (i) News release announcing that the Arkansas Public Service Commission has approved tariff amendments that limit the number of minutes included for a flat rate in the Company's extended area optional calling plans and (ii) correspondence sent by the Chief Executive Officer of Registrant to Scott T. Ford, President and Chief Operating Officer of ALLTEL Corporation, on August 10, 2001.

(iv) The following items were reported on Form 8-K filed August 21, 2001:

Item 5. Other events - On August 17, 2001 CenturyTel, Inc. filed a complaint against ALLTEL Corporation seeking injunction relief and damages for violation of federal and state laws.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits - Complaint filed by CenturyTel on August 17, 2001.

(v) The following item was reported on Form 8-K filed August 22, 2001:

Item 5. Other events - News release announcing that the Public Service Commission of Wisconsin has approved interim access rates for properties acquired from Verizon.

(vi) The following item was reported on Form 8-K filed August 28, 2001:

Item 5. Other events - News release of Registrant responding to a letter dated August 27, 2001, from Mr. Scott T. Ford, President and Chief Operating Officer of ALLTEL Corporation.

SIGNATURE

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.

CenturyTel, Inc.

Date: November 14, 2001

/s/ Neil A. Sweasy

Neil A. Sweasy
Vice President and Controller
(Principal Accounting Officer)

EXHIBIT 2(A)
EXECUTION - MISSOURI

ASSET PURCHASE AGREEMENT

Between

GTE MIDWEST INCORPORATED

d/b/a

VERIZON MIDWEST

and

CENTURYTEL OF MISSOURI, L.L.C.

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ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (the "Agreement") dated as of October 22, 2001, is entered into between CENTURYTEL OF MISSOURI, L.L.C., a Louisiana limited liability company (together with its permitted successors and assigns, the "Buyer"), and GTE MIDWEST INCORPORATED d/b/a VERIZON MIDWEST, a Delaware corporation ("Seller").

RECITALS

WHEREAS, Seller has been authorized by the Missouri Public Service Commission ("Commission") as an in-franchise provider of regulated local exchange, access and toll telephone service in certain exchanges within the state of Missouri as set forth on Exhibit A attached hereto (the "Seller Exchanges"); and

WHEREAS, Seller is or will be prior to Closing the owner of telephone network assets in the Seller Exchanges and, in connection therewith, is engaged in the business of marketing, selling and providing local exchange telephone service; access and intraLATA toll services presubscribed to Seller; and dedicated and special access, ATM, frame relay, digital subscriber line and other high speed data services; each within the Seller Exchanges to end users, interexchange carriers and other local exchange carriers (such business, as conducted by the Seller, is referred to herein as the "Business"); and

WHEREAS, Seller desires to sell, assign and transfer to Buyer, and Buyer desires to purchase and accept from Seller, certain of its regulated telephone properties and related assets used in the Business, upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings contained herein, and on the terms and conditions herein set forth, the parties, intending to be legally bound, agree as follows:

ARTICLE I DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth or referenced below:

"Accounts Receivable Settlement Statement" has the meaning set forth in Section 10.14.2.

"Acquired Assets" has the meaning set forth in Section 2.1.1.

"Active Employees" has the meaning set forth in Section 8.1.

"Affiliate" means as to any Person, any other Person that, directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such Person.

"Agreement" means this Asset Purchase Agreement and all Schedules and Exhibits hereto, as amended, modified or supplemented from time to time in accordance with the terms hereof.

"Ancillary Documents" means the Transition Plan Support Agreement, the License Agreement, the Publishing Agreement and the Bill of Sale, Assignment and Assumption Agreement.

"Applicable Rate" means the three-month LIBOR rate as published on Telerate Page 3750 as of 11:00 a.m., London time, on the date which is two days prior to the date such rate is determined, less 10 basis points, such rate to be reset every 90 days.

"Assigned Contracts" means Contracts to which Seller or a Seller Affiliate is a party that (i) relate primarily to the operation of the Business (other than the Excluded Contracts, Real Property Interests, Real Property Leases and Third Party Intellectual Property Contracts), and (ii) any other contract that is expressly identified on Schedule 2.1.1(e).

"Assigned Permits" means, to the extent assignable, all permits, licenses, franchises, approvals, waivers and authorizations issued or granted by any Governmental Authority to Seller or any Affiliate thereof that relate primarily to the operation of the Business, other than the FCC Licenses.

"Assumed Liabilities" has the meaning set forth in Section 2.3.1.

"Bargained Welfare Plans" has the meaning set forth in Section 8.2.3(a).

"Base Purchase Price" has the meaning set forth in Section 3.1.

"Bill of Sale, Assignment and Assumption Agreement" means the Bill of Sale, Assignment and Assumption Agreement in the form attached as Exhibit B hereto.

"Business" has the meaning set forth in the Recitals hereto.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banks in the city of New York are authorized or required to be closed.

"Buyer" has the meaning set forth in the Preamble hereto.

"Buyer Consents" has the meaning set forth in Section 4.2.3.

"Buyer Indemnatee" has the meaning set forth in Section 7.2.1.

"Buyer Pension Plan" and "Buyer Pension Plans" have the meanings set forth in Section 8.2.1(b).

"Buyer Savings Plan" and "Buyer Savings Plans" have the meanings set forth in Section 8.2.2(b).

"Buyer Welfare Plans" has the meaning set forth in Section 8.2.3(a).

"Buyer's Actuary" has the meaning set forth in Section 8.2.1(d)(ii).

"CABS" means the Carrier Access Billing System operated by Seller and its Affiliates which is utilized primarily to render bills to carriers for services provided by the Business.

"CALEA" means the Communications Assistance for Law Enforcement Act.

"Capital Expenditure Deficiency" has the meaning set forth in Section 5.1.6.

"CBSS" means the Customer Billing Support System operated by Seller and its Affiliates which is utilized primarily to render bills for services provided by the Business.

"CBSS Accounts Receivable" means accounts receivable arising primarily from the operation of the Business that are attributable to Seller's provision of service on or before the Closing Date that have been billed, or are billable, through Seller's CBSS system. CBSS Accounts Receivable shall not include amounts billed or billable through CABS or SSB. CBSS Accounts Receivable includes those categories of accounts receivable identified in Seller's systems as "current," "unpaid live" and "unpaid final," and shall include amounts resulting from billings pursuant to billing and collection agreements with third parties.

"CBSS Accounts Receivable Amount" means the aggregate amount of all CBSS Accounts Receivable as of the Closing Date, less a discount for anticipated uncollectible CBSS Accounts Receivable in an amount equal to the CBSS Uncollectible Factor multiplied by the CBSS Accounts Receivable as of the Closing Date; provided, however, that to the extent the percentage of CBSS Accounts Receivable which are classified as past due for more than ninety (90) days at Closing exceeds nine and one-half percent (9.5%) of the total CBSS Accounts Receivable, the CBSS Accounts Receivable shall be reduced to the extent of such excess for purposes of calculating the CBSS Accounts Receivable Amount.

"CBSS Uncollectible Factor" means five percent (5%).

"Closing" has the meaning set forth in Section 2.5.

"Closing Consents" has the meaning set forth in Section 2.5.

"Closing Date" has the meaning set forth in Section 2.5.

"Closing Date Payment" has the meaning set forth in Section 3.2.

"Closing Date Statement" has the meaning set forth in Section 3.3.1.

"Co-Bound Directory" has the meaning set forth in Section 9.2.2.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commission" has the meaning set forth in the Recitals hereto.

"Consent Fees" has the meaning set forth in Section 2.4.

"Construction Advances" means advances collected by Seller for the future performance of non-regulated construction in the Seller Exchanges.

"Contract" means any contract, agreement, arrangement, bond, commitment, note, loan, mortgage, lease or other agreement legally binding on the parties thereto.

"Control" (including the correlative terms "Controls," "Controlled by," "Controlling" and "under common Control with") shall mean with respect to any Person, possession of the power, directly or indirectly, either to (A) vote a majority of the voting shares or other voting interest in such Person for the election of directors of such Person or (B) direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Customer Deposits" has the meaning set forth in Section 10.16.

"Customer Prepayments" means payments arising from the operation of the Business that have been billed and collected by the Seller as of the Closing Date but which relate to the provision of service after the Closing Date.

"Debtholder Consents" has the meaning set forth in Section 5.1.4.

"Deposit" has the meaning set forth in Section 3.4.1.

"Deposit L/C" has the meaning set forth in Section 3.4.2.

"Direct Claim" has the meaning set forth in Section 7.4.2.

"Dispute Resolution Request" has the meaning set forth in Section 3.3.2.

"Employment Agreements" has the meaning set forth in Section 4.1.13(a).

"Environmental Claims" has the meaning set forth in Section 4.1.14(e).

"Environmental Laws" has the meaning set forth in Section 4.1.14(e).

"Environmental Permits" has the meaning set forth in Section 4.1.14(e).

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

"ERISA Plans" has the meaning set forth in Section 4.1.13(a).

"Estimated Non-Regulated Construction Work in Process Amount" has the meaning set forth in Section 3.2.

"Estimated Regulatory Obligation Amount" has the meaning set forth in Section 3.2.

"Excluded Assets" has the meaning set forth in Section 2.1.2.

"Excluded Contracts" means all billing and collection agreements, interconnection agreements, National Account Agreements, billing media agreements, vehicle leasing agreements and other contracts listed on Schedule 2.1.2(h).

"Excluded Marks" means all trademarks, applications for trademark registration, common law trademarks, service marks, applications for service mark registration, common law service marks, trade names, domain names and related registrations owned by Seller or an Affiliate of Seller, or licensed to Seller or an Affiliate of Seller by any Person, any derivations of the foregoing and any marks or names similar to the foregoing.

"Expiration Date" has the meaning set forth in Section 7.1.1.

"Final Closing Date Statement" has the meaning set forth in Section 3.3.2.

"Financial Statements" has the meaning set forth in Section 4.1.15(a).

"FCC" means the Federal Communications Commission.

"FCC Consents" has the meaning set forth in Section 5.3.2.

"FCC Licenses" means all licenses, certificates, permits or other authorizations granted to Seller or a Seller Affiliate by the FCC that are used primarily in the operation of the Business.

"FRP" has the meaning set forth in Section 8.2.3(d).

"Future Regulatory Obligations" has the meaning set forth in Section 2.3.1(g).

"GAAP" means United States generally accepted accounting principles.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof or any entity, including without limitation, a court, regulatory body, agency, department, authority or instrumentality exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Governmental Order" means, as to any Person, any judgment, injunction, decree, order or other determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property or assets is subject.

"Hazardous Material" has the meaning set forth in Section 4.1.14(e).

"Highly Confident Letters" has the meaning set forth in Section 4.2.4(a).

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Included Claims" has the meaning set forth in Section 7.3.2(a).

"Included Employees" has the meaning set forth in Section 8.1.

"Indemnification Payment" has the meaning set forth in Section 7.2.3(a).

"Indemnitee" has the meaning set forth in Section 7.2.3(b).

"Indemnitor" has the meaning set forth in Section 7.2.3(c).

"Intellectual Property" means all inventions (whether patentable or not and whether or not such inventions are described or claimed in any patent or patent application), designs (useful or ornamental), and works subject to copyright protection, invention disclosures, specifications, manuals, drawings, functional or system block diagrams, flow charts, circuit diagrams, design or user documentation, engineering notebooks, schematics, test programs, documented procedures, documented processes, documented flows, devices, software (in any form), firmware, or proprietary information and all intellectual property rights in or based upon the foregoing, including patents, patent applications (including continuations, continuations-in-part, divisions, reissues), reexamined patents and extensions thereof, copyrights (whether registered or unregistered), and trade secrets.

"Interim Capital Expenditure Obligations" has the meaning set forth in Section 2.3.1(h).

"Interim Reports" has the meaning set forth in Section 5.1.9.

"Inter-Unit Services Employees" has the meaning set forth in Section 8.1.

"IRS" means the Internal Revenue Service.

"June 30 Financial Data" has the meaning set forth in Section 4.1.15(c).

"Knowledge" or "knowledge" has the meaning set forth in Section 12.15.

"Labor Contracts" has the meaning set forth in Section 4.1.13(a).

"Law" or "Laws" means any statute, rule, regulation, mandate, order or ordinance of any Governmental Authority.

"Leased Real Property" means the real property leased to Seller or a Seller Affiliate in accordance with the terms of the Real Property Leases and used primarily in the operation of the Business.

"License Agreement" means the Intellectual Property License Agreement in the form attached hereto as Exhibit C.

"Licensed Intellectual Property" means Intellectual Property owned by Seller, and Third Party Intellectual Property licensed to Seller or a Seller Affiliate which Seller or Seller Affiliate has the right to sublicense to Buyer without the payment of compensation or other consideration to any Person, and which Intellectual Property and Third Party Intellectual Property are required for the use or maintenance (to the extent not provided by the owner or licensor of the Third Party Intellectual Property) of the Acquired Assets in the operation of the Business as of the Closing; provided that Licensed Intellectual Property shall at all times be an Excluded Asset.

"Lien" means any lien, charge, pledge, option, mortgage, security interest, lease obligation or other encumbrance other than Permitted Encumbrances.

"Lienholders" means those Persons holding indebtedness issued under indentures or other instruments, and identified on Schedule 4.1.5(a).

"Losses" has the meaning set forth in Section 7.2.3(d).

"Material Adverse Change" and "Material Adverse Effect" mean any change, effect or circumstance that is materially adverse to the Business or the Acquired Assets taken as a whole, but shall not include matters arising from the execution or public announcement of this Agreement, the identity of Buyer, or the effects of changes that are generally applicable (A) in the telecommunications industry generally, (B) to the United States economy or the economy generally prevailing in the geographic area of the Seller Exchanges, or (C) to the United States securities or financial markets.

"Material and Supply Inventory" means items defined in the FCC's Part 32 Uniform System of Accounts that are held for use primarily in the Business.

"Material Contracts" has the meaning set forth in Section 4.1.9(b).

"National Account Agreement" means a national service agreement pursuant to which Seller or any Affiliate provides telecommunications service in multiple exchanges (including the Seller Exchanges) to employees or other designees of a Person who is a party to such service agreement.

"Non-Disclosure Agreement" means that certain Non-Disclosure Agreement between Buyer and Verizon dated as of April 6, 2001.

"Non-Regulated Construction Work in Process" means equipment procured and construction work performed in relation to non-tariffed activities undertaken by Seller prior to the Closing Date but not yet completed or billed as of the Closing Date.

"Non-Regulated Construction Work in Process Amount" means amounts expended by Seller for Non-Regulated Construction Work in Process net of Construction Advances related to such construction work, and billable by Buyer to third parties, following the Closing Date.

"Non-Union Welfare Plans" has the meaning set forth in Section 8.2.3(a).

"Owned Real Property" means the real property owned in fee by Seller or a Seller Affiliate and used primarily in the operation of the Business, including all land, buildings, structures, appurtenances and improvements located thereon.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Pension Assets" has the meaning set forth in Section 8.2.1(d)(i).

"Permitted Encumbrances" means (A) liens for Taxes and assessments not yet delinquent, or the amount or validity of which is being contested in good faith by appropriate proceedings during which collection or enforcement against the relevant property is stayed, (B) standard utility easements, covenants and restrictions of record that do not individually or in the aggregate materially interfere with the operation of the Business as presently conducted on the Owned Real Property affected thereby, (C) mechanics', carriers', workers', repairers' and other statutory Liens, (D) existing zoning or similar Laws that do not materially interfere with the operation of the Business, (E) leases otherwise disclosed herein, and (F) any other Liens that do not materially interfere, individually or in the aggregate, with the operation of the Business or Acquired Assets in a manner consistent with the current use by Seller.

"Person" means an individual, corporation, partnership, trust, joint stock company, unincorporated association, limited liability company, joint venture, or other entity or organization.

"Phaseout Period" has the meaning set forth in Section 10.1.3(a).

"Plans" has the meaning set forth in Section 4.1.13(a).

"Proration Periods" has the meaning set forth in Section 10.4(a).

"Publisher" has the meaning set forth in Section 9.2.1.

"Publishing Agreement" means the Publishing Agreement between Buyer and Publisher substantially in the form attached as Exhibit D hereto and as more particularly described in Section 9.2.1.

"Purchase Price" has the meaning set forth in Section 3.1.

"Purchase Price Allocation" has the meaning set forth in Section 10.7(a).

"Quarterly Updates" has the meaning set forth in Section 5.2.3.

"Real Property Interests" means all easements, rights of way, licenses or other interests in real property of Seller that are used primarily in the operation of the Business, other than Owned Real Property or Leased Real Property.

"Real Property Leases" has the meaning set forth in Section 2.1.1(g).

"Regulatory Approvals" has the meaning set forth in Section 5.3.1.

"Remediation Activities" has the meaning set forth in Section 10.15.

"Regulatory Obligation Amount" has the meaning set forth in Section 3.1.

"Requirement of Law" means, as to any Person, any permit, license, judgment, order, decree, statute, law, ordinance, rule, regulation or arbitration award in each case applicable to or binding upon such Person or any of its property or assets or to which such Person or any of its property or assets is subject.

"Retained Books and Records" means, collectively, all corporate records and stock books of Seller and its Affiliates, the general ledger, all records required by Law to be retained by Seller and all books and records relating to (A) Tax Returns and Tax records, (B) Excluded Assets, (C) attorney work product, and (D) the Retained Liabilities.

"Retained Employees" has the meaning set forth in Section 8.1.

"Retained Future Regulatory Obligations" has the meaning set forth in Section 2.3.1(g).

"Retained Interim Capital Expenditure Obligation" has the meaning set forth in Section 2.3.1(h).

"Retained Liabilities" has the meaning set forth in Section 2.3.2.

"SEC Basis Financial Statements" has the meaning set forth in Section 5.1.5.

"Seller Consents" has the meaning set forth in Section 4.1.4.

"Seller Exchanges" has the meaning set forth in the Recitals hereto.

"Seller Hourly Pension Plan" has the meaning set forth in Section 8.2.1(b).

"Seller Indemnification Limit" has the meaning set forth in Section 7.3.2(a).

"Seller Indemnitee" has the meaning set forth in Section 7.2.2.

"Seller Interconnection Agreements" has the meaning set forth in Section 5.3.7.

"Seller Salaried Pension Plan" has the meaning set forth in Section 8.2.1(a)(i).

"Seller Savings Plan" has the meaning set forth in Section 8.2.2(a).

"Seller Threshold" has the meaning set forth in Section 7.3.2(a).

"Seller Welfare Plan" has the meaning set forth in Section 8.2.3(a).

"Seller's Actuary" has the meaning set forth in Section 8.2.1(d)(ii).

"SSB" means the Separate Subsidiary Billing System operated by Seller and its Affiliates which is utilized primarily to render bills for services provided by the Business.

"SSB Accounts Receivable" means accounts receivable arising primarily from the operation of the Business that are attributable to Seller's provision of service on or before the Closing Date that have been billed, or are billable, through Seller's SSB System. SSB Accounts Receivable shall not include amounts billed or billable through CABS or CBSS. SSB Accounts Receivable includes those categories of accounts receivable identified in Seller's systems as "current," "unpaid live" and "unpaid final," and shall include amounts resulting from billings pursuant to billing and collection agreements with third parties.

"SSB Accounts Receivable Amount" means the aggregate amount of all SSB Accounts Receivable as of the Closing Date, less a discount for anticipated uncollectible SSB Accounts Receivable in an amount equal to the SSB Uncollectible Factor multiplied by the SSB Accounts Receivable as of the Closing Date.

"SSB Uncollectible Factor" means one and one-half percent (1.5%).

"Switch Software" means that portion of Third Party Intellectual Property which is telephone switch software licensed to Seller which software is necessary to Seller's current operation and use of any telephone switching equipment in the Seller Exchanges and which equipment is included in Telephone Plant.

"Switch Software Vendor" means any licensor of any Switch Software.

"Tax" or "Taxes" means with respect to the Business or the Acquired Assets all taxes including, without limitation, any federal, state, local or foreign income, profits, license, severance, occupation, windfall profits, capital gains, capital stock, transfer, registration, social security, ad valorem, franchise, gross receipts, payroll, sales, use, employment, property, real property, personal property, excise, value added, stamp, alternative or add-on minimum, withholding and any other tax, with all interest, penalties and additions imposed with respect to such amounts.

"Tax Returns" means any return, declaration, report, form, certificate, claim for refund, information return or statement with respect to Taxes including any schedule, attachment or work papers thereto, and including any amendment thereof.

"Telephone Plant" means all machinery, equipment, inventory, vehicles (including, subject to Seller's performance of its obligations set forth in Section 5.1.8, leased vehicles), and all other assets and properties used primarily in the operation of the Business, including, without limitation, all plant, systems, structures, regulated construction work in progress, telephone cable (whether in service or under construction), microwave facilities (including frequency spectrum assignment), telephone line facilities, machinery, furniture, fixtures, tools, implements, conduits, stations, substations, equipment (including central office equipment, subscriber station equipment and other equipment in general), instruments, house wiring connections and other personal property used primarily in the operation of the Business, in every case whether owned by Seller or Seller's Affiliates. Without limiting the generality of the foregoing, Telephone Plant includes the assets owned by Seller that would be properly included in the fixed assets referenced in Part 32 of the FCC Rules and Regulations (47 CFR, Part 32), as such accounts are reflected in Schedule 4.1.8.

"Third Party Claim" has the meaning set forth in Section 7.4.1.

"Third Party Consents" has the meaning set forth in Section 2.4.

"Third Party Intellectual Property" means Intellectual Property owned by any Person, other than Seller, without regard as to whether Seller has any rights therein or the right to assign such rights to Buyer including any such Intellectual Property included in or with the Acquired Assets.

"Third Party Intellectual Property Contracts" has the meaning set forth in Section 10.1.4.

"Transaction Taxes" has the meaning set forth in Section 10.9.

"Transferred Books and Records" means all of Seller's customer or subscriber lists and records, accounts and billing records, plans, blueprints, specifications, drawings, surveys, engineering reports, personnel records for Transferred Employees (where applicable) and all other documents, computer data and records, in each case relating primarily to the operation of the Business, other than the Retained Books and

Records.

"Transferred Employees" has the meaning set forth in Section 8.1.

"Transition Plan Support Agreement" means the Transition Plan Support Agreement in the form attached as Exhibit D hereto.

"VADI" means Verizon Advanced Data Inc.

"VADI Assets" means those assets held as of the date of this Agreement by VADI primarily for the provision of ATM, frame relay, digital subscriber line and other high speed data services within the Seller Exchanges.

"Verizon" means Verizon Communications Inc.

1.2 Other Definitional Provisions.

(a) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

ARTICLE II PURCHASE AND SALE OF ASSETS; CLOSING

2.1 Purchase and Sale of Assets; Excluded Assets.

2.1.1 Acquired Assets. Subject to the terms and conditions hereinafter set forth, at the Closing, Seller shall sell, grant, convey, transfer, assign and deliver to Buyer and Buyer shall purchase and receive all right, title and interest of Seller and, to the extent stated, any Seller Affiliate free and clear of all Liens, other than Permitted Encumbrances, in and to the following assets, properties and rights used primarily in the operation of the Business and in existence as of the Closing Date (except as otherwise expressly set forth in Section 2.1.2), which assets, properties and rights are referred to herein as the "Acquired Assets":

(a) Telephone Plant;

(b) all Material and Supply Inventory located within the Seller Exchanges;

(c) Non-Regulated Construction Work in Process;

(d) FCC Licenses and Assigned Permits;

(e) Assigned Contracts of Seller and any Seller Affiliate including, without limitation, those Contracts set forth in Schedule 2.1.1(e);

(f) Transferred Books and Records, subject to Seller's right to retain copies thereof;

(g) all Owned Real Property and all Leased Real Property created by leases of real property under which Seller or any Seller Affiliate is a lessee (the "Real Property Leases"), together with all appurtenances thereto;

(h) all buildings, towers, facilities and other structures and improvements held by Seller and located on the Owned Real Property or Leased Real Property (but only to the extent permitted by the Real Property Leases) and which are used primarily in the Business;

(i) all Real Property Interests;

(j) upon Seller's fulfillment of the obligations set forth in Section 5.1.7, the VADI Assets;

(k) insurance proceeds relating to any loss, damage or destruction of any of the Acquired Assets prior to the Closing to the extent not replaced prior to the Closing; and

(l) all other property, assets and rights relating exclusively to the Business or the Seller Exchanges but excluding all Intellectual Property and Excluded Marks.

Notwithstanding the foregoing, those assets located within the geographic area of the Seller Exchanges, but primarily used or held for use by

Seller in an area other than the Seller Exchanges shall not be Acquired Assets.

2.1.2 Excluded Assets. Notwithstanding anything to the contrary in Section 2.1.1 or in any other provision of this Agreement, the Acquired Assets shall not include any of the following assets, properties and rights of Seller or its Affiliates (collectively, the "Excluded Assets"):

- (a) all cash, cash equivalents and marketable securities and bonds;
- (b) all rights which accrue or will accrue to Seller and its Affiliates under this Agreement, the Ancillary Documents and the certificates and other documents delivered to Seller by Buyer in connection with this Agreement;
- (c) all records prepared in connection with the sale of the Business, including bids received from third parties and analysis relating to the Business;
- (d) all rights, including all defenses, counterclaims and rights of indemnity, reimbursement and subrogation, related to the Retained Liabilities;
- (e) the Retained Books and Records;
- (f) interests in any business other than the Business, including the provision of wireless service (cellular and PCS); long distance (interLATA and intraLATA to the extent provided by Verizon Affiliates other than Seller) and internet access service or internet related services (to the extent provided by Verizon Affiliates other than Seller or VADI); air-to-ground communications (air phone service); installation, maintenance and equipment service related to the sale of telecommunications equipment by Affiliates to customers located outside the geographic area comprising the Seller Exchanges; any permits related to any of the foregoing; all assets of Seller and its Affiliates used in connection with any such business or related to any of the foregoing, including but not limited to any common or shared systems used in conjunction with other Verizon Affiliates on a national basis; and all assets used by Seller and its Affiliates in rendering services to Seller or the Business that are located outside the geographic area comprising the Seller Exchanges;
- (g) such other assets, if any, as set forth on Schedule 2.1.2(g), including, without limitation, those which are described by general category;
- (h) the Excluded Contracts including those contracts set forth on Schedule 2.1.2(h);
- (i) the Excluded Marks;
- (j) all Intellectual Property, including the Licensed Intellectual Property and Third Party Intellectual Property, and all claims against any Person for infringement or misappropriation of such Intellectual Property;
- (k) subject to the provisions of Section 2.1.1(k), all rights and claims under insurance policies of Seller or its Affiliates arising in connection with the operation of the Business or the Acquired Assets on or prior to the Closing Date;
- (l) all rights to Tax refunds and/or Tax credits (including all interest related thereto) relating to the operation of the Business or the Acquired Assets for Tax periods (or portions thereof) ending on or prior to the Closing Date; and
- (m) all rights and claims for support payments pursuant to any Universal Service or similar fund for periods of operation ending on or prior to the Closing Date.

2.2 Consideration for Transfer of the Acquired Assets. Seller shall transfer the Acquired Assets to Buyer at the Closing in exchange and in consideration for the payment by Buyer to Seller at the Closing of the Purchase Price calculated in accordance with the provisions of Section 3.1 and the assumption by Buyer of the Assumed Liabilities.

2.3 Assumption of Liabilities.

2.3.1 Assumed Liabilities. Upon the terms and subject to conditions set forth herein, Buyer shall assume, as of the Closing Date, and agrees to pay, perform and discharge, as and when due, the following liabilities, responsibilities and obligations:

- (a) all liabilities, responsibilities and obligations (including Taxes), arising out of, accruing or resulting from the operation of the Business or the use, ownership or operation of the Acquired Assets after the Closing Date;
- (b) all liabilities, responsibilities and obligations of Buyer as provided in Article VIII with respect to Transferred Employees;
- (c) all liabilities, responsibilities and obligations that arise after the Closing Date in connection with the performance of the Assigned Contracts, Real Property Interests and the Real Property Leases;
- (d) all liabilities, responsibilities and obligations to third parties that relate to arrangements and commitments between Seller and a third party

for the construction of shared transmission facilities between various switching points included in the Seller Exchanges;

(e) all liabilities, responsibilities and obligations relating to post-Closing engineering and construction required to complete scheduled construction and other capital expenditure projects for the Seller Exchanges;

(f) all liabilities, responsibilities and obligations relating to Customer Prepayments, Customer Deposits and Construction Advances;

(g) all liabilities, responsibilities and obligations, other than Interim Capital Expenditure Obligations, related to the Seller Exchanges arising out of any Law of any Governmental Authority after the Closing Date regardless of whether the action taken by the Governmental Authority is or purports to be based on conduct or actions that occurred at any time prior to the Closing Date ("Future Regulatory Obligations"); provided, however, Buyer shall not be liable for any Future Regulatory Obligation arising directly out of any (i) willful misconduct by Seller as judicially determined by a final order of a court or Governmental Authority of competent jurisdiction; or (ii) conduct by Seller that was not reasonably prudent based on then-prevailing circumstances, in either case which conduct occurred prior to the Closing Date ("Retained Future Regulatory Obligations"); and provided further, that Seller's reliance on a reasonable interpretation of existing Law or practice shall be deemed reasonably prudent;

(h) all liabilities, responsibilities and obligations related to the Seller Exchanges arising out of any Law of any Governmental Authority requiring any capital expenditure after the date of this Agreement, regardless of whether the action taken by the Governmental Authority is or purports to be based on conduct, facts or actions that occurred at any time prior to the date of this Agreement ("Interim Capital Expenditure Obligations"); provided, however, Buyer shall not be liable for any Interim Capital Expenditure Obligation arising directly out of any (i) willful misconduct by Seller as judicially determined by a final order of a court or Governmental Authority of competent jurisdiction, or (ii) conduct by Seller that was not reasonably prudent based on then-prevailing circumstances, ("Retained Interim Capital Expenditure Obligations"); and, provided further, that Seller's reliance on a reasonable interpretation of existing Law or practice shall be deemed reasonably prudent. Seller shall notify Buyer of all material Interim Capital Expenditure Obligations within a reasonable time after publication of said obligations by a Governmental Authority; and

(i) all liabilities and obligations for litigation and claims by third parties arising out of an occurrence after the Closing Date, including any claims for infringement of Third Party Intellectual Property for acts occurring after the Closing Date;

(collectively, the "Assumed Liabilities"). Notwithstanding anything in this Section 2.3.1 to the contrary, Assumed Liabilities shall not include any liabilities, responsibilities or obligations expressly included in Retained Liabilities pursuant to Section 2.3.2.

2.3.2 Retained Liabilities. Seller shall retain and shall pay, perform and discharge when due, the following liabilities, responsibilities and obligations of Seller (the "Retained Liabilities"):

(a) subject to the provisions of Section 10.4 or as expressly set forth in this Agreement, all trade payables and other payment obligations of Seller that relate to the operation of the Business on or prior to the Closing Date;

(b) all long-term debt of Seller (including indebtedness to the Lienholders) and debt of Seller owed to any one or more of its Affiliates, but excluding liabilities assumed pursuant to Article VIII hereof;

(c) subject to the provisions of Sections 10.4 and 10.9, all Taxes of Seller or its Affiliates attributable to the operation of the Business or the use, ownership or operation of the Acquired Assets for all Tax periods (or portions thereof), ending on or prior to the Closing Date;

(d) except to the extent otherwise provided in Article VIII, all liabilities and obligations arising on or prior to the Closing Date with respect to employees who, upon Closing, will be Transferred Employees, including (i) all liabilities, responsibilities and obligations relating to collective bargaining agreements or other union contracts, and (ii) any such liabilities or obligations that arise on or after the Closing Date to the extent that such liabilities and obligations relate to facts, circumstances or conditions arising or occurring on or prior to the Closing Date, but excluding any Future Regulatory Obligations with respect to the Transferred Employees;

(e) all liabilities, responsibilities and obligations for litigation and claims of third parties arising out of an occurrence on or prior to the Closing Date, other than litigation and claims related to Future Regulatory Obligations and Interim Capital Expenditure Obligations (except Retained Future Regulatory Obligations and Retained Interim Capital Expenditure Obligations which shall remain the liability of Seller); provided, however, Seller shall have no liability for claims by third parties which have not been asserted within five (5) years after the Closing Date; and

(f) all liabilities, responsibilities and obligations with respect to the Excluded Assets and Excluded Contracts.

2.4 Regarding Consents. Notwithstanding anything to the contrary contained in this Agreement, to the extent that the sale, conveyance, transfer, assignment or delivery or attempted sale, conveyance, transfer, assignment or delivery to Buyer of any Acquired Asset is prohibited by any applicable Law or would require any governmental or third-party authorizations, approvals, consents or waivers (other than authorizations, approvals, consents or waivers related to Third Party Intellectual Property, and other than required Regulatory Approvals and FCC Consents) (collectively, the "Third Party Consents") and such Third Party Consents shall not have been obtained prior to the Closing, this Agreement shall not constitute an agreement to assign same if any of the foregoing would constitute a breach thereof or be unlawful. If any

Third Party Consent shall not be obtained or if any attempted assignment would be ineffective or would impair Buyer's rights under the Acquired Asset in question so that Buyer would not acquire the benefit of all such rights, Seller, to the extent permitted by Law, shall act after the Closing as Buyer's agent in order to preserve and obtain for Buyer the benefits thereunder and shall cooperate, to the extent permitted by Law, with Buyer in any other commercially reasonable arrangement designed to provide such benefits to Buyer. For a period of ninety (90) days following the Closing, the parties shall use their commercially reasonable efforts, and shall cooperate with each other, to obtain promptly such Third Party Consents; provided, however, that should any Third Party Consent from any railroad be conditioned on the payment of any consideration therefor (the "Consent Fees") other than filing, recordation or similar fees payable to any Governmental Authority, which filing fees shall be shared equally by Seller and Buyer, Seller and Buyer agree to share on an equal basis any Consent Fee to the extent such Consent Fee is in an amount not greater than \$300; and provided, further, that Seller's aggregate obligation to share in the payment of Consent Fees shall not exceed One Hundred Thousand Dollars (\$100,000.00).

2.5 The Closing. Unless this Agreement shall have been earlier terminated in accordance with the provisions of Article XI, the closing under this Agreement (the "Closing") shall be held at 9:00 A.M. local time at the offices of Verizon Services Group, at 600 Hidden Ridge, Irving, Texas 75038, on the date agreed upon by the parties, which date shall be (a) the last Business Day of a month, and (b) at least five (5) Business Days, but not more than ninety (90) days, after the date either party notifies the other party in writing of its determination that all required Regulatory Approvals, Debtholder Consents and FCC Consents (collectively, the "Closing Consents") have been obtained, or at such other time and place as the parties may agree in writing; provided, however, the parties shall take all commercially reasonable actions to cause the Closing to occur promptly after all Closing Consents have been obtained, but in no event shall the Closing be required to occur (i) prior to June 30, 2002 or (ii) on the same date as the closing of any other transaction involving the sale or purchase of wireline assets between Affiliates of the parties hereto. The date of the Closing is referred to herein as the "Closing Date." Such Closing shall be deemed to have occurred as of 11:59 P.M. on the Closing Date.

2.6 Deliveries and Proceedings at Closing. At the Closing, and subject to the terms and conditions herein contained:

2.6.1 Deliveries by Seller. Seller shall deliver (or cause to be delivered) to Buyer:

a) subject to Permitted Encumbrances, deeds in recordable form under which Seller warrants title against all persons lawfully claiming title by, through or under Seller for each parcel of Owned Real Property to be conveyed hereunder, duly executed by Seller;

(b) the Bill of Sale, Assignment and Assumption Agreement, License Agreement and Publishing Agreement, duly executed by Seller (or the appropriate Seller Affiliate);

(c) such other instruments and documents of conveyance, assignment and transfer, duly executed by Seller and in a form reasonably satisfactory to Buyer, as shall be necessary and effective to transfer, convey and assign to Buyer all of Seller's right, title and interest in and to the Acquired Assets, including without limitation, all of Seller's rights under all Assigned Contracts, in all cases subject to Section 2.4 above;

(d) to the extent obtained, the Seller Consents in form and substance reasonably satisfactory to Buyer; and

(e) such other documents as Buyer may reasonably request.

2.6.2 Deliveries by Buyer. Buyer shall deliver (or cause to be delivered) to Seller:

(a) the Closing Date Payment in accordance with the provisions of Section 3.2;

(b) the Bill of Sale, Assignment and Assumption Agreement, License Agreement and Publishing Agreement, duly executed by Buyer; and

(c) such other documents as Seller may reasonably request.

ARTICLE III PURCHASE PRICE

3.1 Purchase Price. The purchase price for the Acquired Assets shall be the sum of (a) One Billion One Hundred Fifty Nine Million Four Hundred Thousand Dollars (\$1,159,400,000) (the "Base Purchase Price"), plus (b) amounts expended by Seller to comply with Interim Capital Expenditure Obligations (the "Regulatory Obligation Amount"), plus (c) the Non-Regulated Construction Work in Process Amount minus (d) any Capital Expenditure Deficiency (collectively, the "Purchase Price").

3.2 Closing Date Estimate. Not less than three (3) Business Days prior to the Closing Date, Seller shall deliver to Buyer a notice, setting forth Seller's good faith estimate as of the Closing Date of (a) the Regulatory Obligation Amount (the "Estimated Regulatory Obligation Amount"), (b) the Non-Regulated Construction Work in Process Amount (the "Estimated Non-Regulated Construction Work in Process Amount") and (c) any Capital Expenditure Deficiency. On the Closing Date, Buyer shall pay to Seller an amount equal to the sum of (x) the Base Purchase Price, (y) the Estimated Regulatory Obligation Amount, and (z) the Estimated Non-Regulated Construction Work in Process Amount, less the Deposit and any Capital Expenditure Deficiency (the "Closing Date Payment"). The Closing Date Payment shall be made by wire transfer of immediately available funds to such account or accounts as Seller shall designate to Buyer at least two (2) Business Days prior to the Closing

Date. Payments from Buyer to Seller for CBSS and SSB Accounts Receivable and from Seller to Buyer for Customer Prepayments and Customer Deposits will occur subsequent to Closing in accordance with Article X.

3.3 Calculation of Final Purchase Price.

3.3.1 Closing Date Statement. Within sixty (60) days after the Closing Date, Seller shall prepare and deliver to Buyer a written statement reasonably detailing the Regulatory Obligation Amount, the Non-Regulated Construction Work in Process Amount and any Capital Expenditure Deficiency, together with supporting documentation (the "Closing Date Statement"). Absent manifest error, the Closing Date Statement shall be deemed correct. Within thirty (30) days after receipt of the Closing Date Statement, Buyer shall, in a written notice to Seller, describe in reasonable detail any proposed adjustments to the Closing Date Statement and the reasons therefor. If Seller shall not have received a notice of proposed adjustments aggregating Fifty Thousand Dollars (\$50,000) or more within such thirty (30) day period, Buyer will be deemed to have accepted irrevocably such Closing Date Statement.

3.3.2 Disputes Regarding Closing Date Statement. Seller and Buyer shall negotiate in good faith to resolve any disputes over any proposed adjustments to the Closing Date Statement, during the thirty (30) days following Seller's receipt of the proposed adjustments. If the parties are unable to resolve such dispute within such thirty (30) day period, then, at the written request of either party (the "Dispute Resolution Request"), each party shall appoint a knowledgeable, responsible representative to meet in person and negotiate in good faith to resolve the disputed matters. The parties intend that these negotiations be conducted by experienced business representatives empowered to decide the issues. Such negotiations shall take place during the fifteen (15) day period following the date of the Dispute Resolution Request. If the business representatives resolve the dispute, such resolution shall be memorialized in a written agreement (the "Final Closing Date Statement"), executed within five (5) Business Days thereafter. If the business representatives do not resolve the dispute, within five (5) Business Days Buyer and Seller shall jointly select a nationally recognized independent public accounting firm (which is not the regular independent public accounting firm of either party) to resolve such disputes, which resolution shall be final and binding. Such accounting firm shall resolve such dispute by reference to the records of Seller used to calculate the amounts appearing on the Closing Date Statement, the provisions contained herein regarding items properly included in the Regulatory Obligation Amount and the Non-Regulated Construction Work in Process Amount and, based on the foregoing, such other records as such firm, in its reasonable judgment, deems appropriate. The fees and expenses of such accounting firm shall be (a) shared by Buyer and Seller in inverse proportion to the relative amounts of the disputed amount determined to be for the account of Buyer and Seller, respectively or (b) paid by the Buyer if the final amount of any adjustment is less than \$50,000.

3.3.3 Final Determination of Purchase Price. Upon the acceptance of the Closing Date Statement by Buyer, or upon resolution of any disputed amount in accordance with the provisions of Section 3.3.2 above, the parties shall, based thereupon, calculate the final Purchase Price. If the Purchase Price as finally determined is greater than the Closing Date Payment, Buyer shall promptly, but no later than three (3) Business Days after such acceptance or resolution, pay to Seller the amount of such difference. If the Purchase Price as determined above is less than the Closing Date Payment, Seller shall promptly, but no later than three (3) Business Days after such acceptance or resolution, pay to Buyer the amount of such difference.

3.3.4 Interest on Final Payment. Any amount paid pursuant to this Section 3.3 after the Closing Date shall bear interest from the Closing Date through but excluding the date of payment, at the Applicable Rate. Such interest shall accrue daily on the basis of a year of three hundred sixty-five (365) days calculated for the actual number of days for which due and shall be payable together with the amount payable pursuant to this Section 3.3.

3.3.5 Payments. All amounts payable pursuant to this Section 3.3 shall, in the case of amounts payable to Seller, be paid in accordance with the provisions set forth in Section 3.2 above and, in the case of amounts payable to Buyer, to such account of Buyer as Buyer shall designate in writing to Seller.

3.4 Performance Deposit.

3.4.1 Deposit. Concurrent with the execution and delivery hereof, and subject to the provisions of Section 3.4.2 below, Buyer shall pay to Seller by wire transfer of immediately available funds the sum of One Hundred Fifteen Million Dollars (\$115,000,000), which amount shall bear interest from the date hereof until the earlier of the Closing Date or the termination of this Agreement in accordance with the provisions of Article XI at the Applicable Rate (the "Deposit"). Such Deposit shall be held by Seller against payment of the Purchase Price and as security for the performance by Buyer of its obligations under this Agreement, and shall be nonrefundable except as described in Section 11.3.

3.4.2 Letter of Credit. Buyer may elect to deliver the Deposit to Seller in cash or in the form of an irrevocable, standby letter of credit for the same amount (the "Deposit L/C"). The Deposit L/C shall be (a) in a form reasonably acceptable to Seller, (b) issued in favor of Seller under this Agreement and (c) issued by a bank that has a long-term unsecured debt rating as of the date of issuance of at least A+ by Standard & Poor's Rating Information Services and A1 by Moody's Investors Service and that is otherwise reasonably satisfactory to Seller. The Deposit L/C (and any replacement thereof furnished in accordance with this Section 3.4.2) shall have an expiration date no earlier than the first anniversary of the date of issuance thereof and shall be automatically renewed from year to year unless stated not to be so renewed by the issuer thereof in a written notice given to the Seller not less than 30 days prior to the expiration thereof. In the event of the termination of the Deposit L/C (and any replacement thereof furnished in accordance with the provisions of this Section 3.4.2), Buyer shall deliver to Seller a replacement letter or letters of credit in lieu thereof no later than 30 days prior to the expiration of the preceding letter of credit. If Buyer shall fail to obtain any replacement of the Deposit L/C (and/or any replacement thereof furnished in accordance with the provisions of this Section 3.4.2), then Seller shall draw down the full amount of the existing Deposit L/C and retain the same as security for the covenants, agreements

and obligations of Buyer under this Agreement. Any replacement of any Deposit L/C shall be in a form reasonably acceptable to Seller. Buyer acknowledges that Seller has agreed to accept the Deposit L/C in lieu of a cash down payment against the Purchase Price solely as an accommodation to Buyer. Buyer acknowledges that, in the event Buyer elects to provide a Deposit L/C in lieu of a cash Deposit, Buyer shall not be entitled to interest at the Applicable Rate as provided in Section 3.4.1 of this Agreement.

ARTICLE IV REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties of Seller. Seller represents and warrants to Buyer as follows:

4.1.1 Corporate Organization and Related Matters. Seller is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Seller has the requisite power and authority to own its properties and to carry on the Business as it is now being conducted. Seller holds valid permits, licenses, franchises, approvals and authorizations issued or granted by any Governmental Authority and adequate for the operation of the Business as currently conducted, except to the extent absence of any such permit, license, franchise, approval or authorization would not have a Material Adverse Effect. Seller has the requisite power, authority and legal right to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Seller of this Agreement and the Ancillary Documents executed or to be executed by Seller have been duly authorized by all necessary corporate action on the part of Seller and Verizon. This Agreement has been, and the Ancillary Documents when executed will be, duly executed and delivered by Seller and any applicable Seller Affiliate and this Agreement constitutes, and the Ancillary Documents when executed and delivered will constitute, the legal, valid and binding obligations of Seller (or its Affiliate named therein), enforceable against it (or such Seller Affiliate) in accordance with their respective terms, except as such enforceability may be limited by bankruptcy laws and other similar laws affecting creditors' rights generally, and subject to the exercise of judicial discretion in accordance with principles of equity.

4.1.2 Compliance with Laws. Except as set forth in Schedule 4.1.2, Seller in its conduct of the Business has complied since January 1, 1997 in all material respects with, and is currently not in violation of, any Requirement of Law of a Governmental Authority to which the Business is subject, except for any such noncompliance or violation which would not be reasonably likely to constitute a Material Adverse Effect.

4.1.3 Litigation. Except as set forth in Schedule 4.1.3, there is no litigation, arbitration, investigation or other proceeding of or before any Governmental Authority pending or, to the Knowledge of Seller, threatened against the Seller, the Business or any of the Acquired Assets, the result of which, individually or in the aggregate, would reasonably be likely to have a Material Adverse Effect or to prevent, materially delay or impair the ability of Seller to consummate the transactions contemplated hereby. Seller is not a party to nor is it or the Business subject to the provisions of any judgment, order, writ, injunction, decree or award of any Governmental Authority which would reasonably be likely to have a Material Adverse Effect or to prevent, materially delay or impair the ability of Seller to consummate the transactions contemplated hereby.

4.1.4 Validity of Contemplated Transactions. Upon the receipt of requisite FCC Consents as described in Section 5.3.2, the Regulatory Approvals as described in Section 5.3.1, compliance with any applicable requirement of the HSR Act and the receipt of the consents set forth on Schedule

4.1.4 (the "Seller Consents"), the execution, delivery and performance of this Agreement and the Ancillary Documents by Seller do not and will not violate, conflict with, result in the creation of a Lien under or result in the breach of any term, condition or provision of, or require the consent of any other Person under, (a) the charter and other organizational documents of Seller, (b) any existing Requirement of Law to which Seller or the Business is subject, (c) any judgment, order, writ, injunction, decree or award of any Governmental Authority or any other Governmental Order or Law which is applicable to the Business, or (d) except as provided expressly in any Material Contract, any Material Contract, or give any party with rights thereunder the right to terminate, modify, accelerate or otherwise change the existing rights or obligations of Seller thereunder.

4.1.5 Title to Owned Real Property.

(a) Seller has good, valid and marketable title to all of the material Owned Real Property, free and clear of all Liens other than Permitted Encumbrances and Liens of the Lienholders identified on Schedule

4.1.5(a). Seller represents that the only lienholders (other than Permitted Encumbrances) on any of the Owned Real Property are the Lienholders identified on Schedule 4.1.5(a) except as would not reasonably be likely to be materially adverse to the Business.

(b) Schedule 4.1.5(b) lists all Owned Real Property as of the date hereof, including the address, and a description suitable to identify the property. Such Owned Real Property constitutes substantially all of the Owned Real Property used primarily in the operation of the Business as of June 30, 2001, except as such (i) has been disposed of since January 1, 2001 in the ordinary course of business or (ii) is not material to the operation of the Business.

4.1.6 Leased Real Property; Real Property Interests.

(a) Schedule 4.1.6(a) lists all of the Real Property Leases as of the date hereof. Such Leased Real Property constitutes substantially all of the Leased Real Property used primarily in the operation of the Business as of June 30, 2001, except as such (i) has been disposed of since January 1, 2001 in the ordinary course of business or (ii) is not material to the operation of the Business. Each of the Real Property Leases is enforceable in accordance with its terms, subject to bankruptcy, insolvency and other similar laws affecting the rights of creditors generally and subject to the exercise of judicial discretion in accordance with the principles of equity. Except as otherwise disclosed in Schedule 4.1.6(a), there is no material default or material breach of a covenant by Seller under any of the Real Property Leases.

(b) To the knowledge of Seller, Schedule 4.1.6(b) sets forth a true and accurate list of all its Real Property Interests within the geographic area covered by the Seller Exchanges. Such Real Property Interests constitute substantially all of the Real Property Interests used primarily in the operation of the Business as of June 30, 2001, except as such

(i) has been disposed of since January 1, 2001 in the ordinary course of business, (ii) is not material to the operation of the Business, or (iii) constitutes a right of way or similar interest licensed to Seller by Genuity Telecom Inc.

4.1.7 Tangible Assets. Except as set forth in Schedule 4.1.7, all of the material tangible Acquired Assets are in good operating condition and repair, normal wear and tear excepted, and are useable in the regular and ordinary course of business consistent with past practice. Except as set forth in Schedule 4.1.7 or elsewhere in this Agreement, Seller has, or on or prior to the Closing Date will have, good and marketable title to each of the material tangible Acquired Assets (other than office equipment subject to leases, and other than Third Party Intellectual Property included in or with the material tangible Acquired Assets) free and clear of any Lien other than Permitted Encumbrances. Except as set forth on Schedule 4.1.7, Seller has not received any written notice within the twelve (12) months prior to the date hereof of a violation of any ordinances, regulations or building, zoning and other similar Laws with respect to such assets that would have a Material Adverse Effect. **EXCEPT AS EXPRESSLY PROVIDED IN THIS SECTION 4.1.7, SELLER MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AS TO THE CONDITION OR FITNESS OF THE TANGIBLE ACQUIRED ASSETS AND HEREBY DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR WARRANTY AGAINST INFRINGEMENT.**

4.1.8 Schedules of Telephone Plant and Material and Supply Inventory. Schedule 4.1.8 sets forth a materially accurate summary of the Telephone Plant and Material and Supply Inventory as of June 30, 2001 as maintained by Seller in accordance with past practice. Such Telephone Plant constitutes substantially all of the Telephone Plant used primarily in the operation of the Business as of June 30, 2001, except as such (i) has been disposed of since January 1, 2001 in the ordinary course of business or (ii) is not material to the operation of the Business.

4.1.9 Material Contracts.

(a) Except as listed and set forth in Schedule

4.1.9(a) (such schedule to be updated on or prior to the Closing Date to identify Assigned Contracts entered into after the date hereof consistent with the provisions of Section 5.1.1 and which are required to be scheduled by the provisions of this Section 4.1.9(a)) or any other Schedule, there is no Assigned Contract (other than the Assigned Contracts entered into after the date of this Agreement consistent with the provisions of Section 5.1.1(b) hereof) that is:

(i) an agreement expressly limiting or restraining the freedom of Buyer following the Closing to compete in any material respect with respect to the Business with any Person, other than any such agreement or covenant which does not materially impair the continued operation of the Business as it is currently conducted;

(ii) an agreement granting a Lien (other than a Permitted Encumbrance or Lien of a Lienholder);

(iii) an agreement for the sale of any material Acquired Asset or grant of any preferential rights to purchase any material Acquired Asset, in each case outside the ordinary course of business;

(iv) an agreement for the lease, sublease or stand-alone co-location of any Owned Real Property or Leased Real Property by Seller to any other Person;

(v) an agreement with respect to the provision of 911 services or E911 services;

(vi) an agreement or other contractual obligation other than as set forth above with respect to which the aggregate amount to be received or paid thereunder with respect to calendar year 2001 is expected to exceed \$250,000 based on the payments which have been made under such agreement with respect to calendar year 2000 to the extent applicable;

(b) Except as set forth on Schedule 4.1.9(b), to the Knowledge of Seller, each of the Assigned Contracts listed on Schedule 4.1.9(a) in response to the foregoing (collectively, the "Material Contracts") is valid, binding and in full force and effect and is enforceable by Seller or Seller's Affiliates, as applicable, against any other party thereto in accordance with its terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law), and except for any such failure to be valid, binding, in full force and effect or enforceable that is not reasonably likely to have a Material Adverse Effect. Except as set forth on Schedule 4.1.9(b), neither Seller nor any of its Affiliates that is a party to a Material Contract is, and to the Knowledge of Seller, no other party thereto is in default in the performance, observance or fulfillment of any material obligation, covenant or condition contained in the Material Contracts, and no event has occurred which with or without the giving of notice or lapse of time, or both, would constitute a default by Seller thereunder, in each case except for such noncompliance, breaches and defaults that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect. As of the date hereof, except as disclosed on Schedule 4.1.9(b), neither Seller nor any of its Affiliates have received any written notice of the intention of any party to terminate any Material Contract. Complete and correct copies of all Material Contracts, together with all modifications and amendments thereto to the date of this Agreement, have been made available to Buyer or its representatives.

4.1.10 Insurance. The Acquired Assets of an insurable nature and of a character usually insured by companies carrying on similar businesses is insured under insurance policies or self insured in such amounts and against such losses or casualties as is usual in Seller's industry.

4.1.11 Taxes. Except as set forth on Schedule 4.1.11, and with regard to the Business and the Acquired Assets, (a) there are no Liens with respect to Taxes upon any of the Acquired Assets; (b) Seller has collected all material sales, use, excise and receipts Taxes required to be collected and has remitted, or will remit on a timely basis, such amounts to the appropriate Governmental Authority; (c) Seller has duly and timely withheld from employee salaries, wages and other compensation and paid over to the appropriate Governmental Authorities all amounts required to be so withheld and paid over for all periods under any applicable Requirement of Law; (d) Seller is not a "foreign person" within the meaning of Section 1445(b)(2) of the Code; (e) all Tax returns required to be filed by Seller or any Seller Affiliate with respect to the Business or the Acquired Assets on or before the Closing Date have been or will have been filed and all Taxes shown as due and payable have been or will be paid by Seller or such Seller Affiliate as required by Law; and (f) no deficiencies or assessments for any Taxes (other than those being disputed in good faith) have been asserted in writing to Seller or any Seller Affiliate that remain unpaid and that relate to the Business or the Acquired Assets.

4.1.12 Tariffs; FCC Licenses.

(a) Schedule 4.1.12 sets forth a list of all regulatory tariffs applicable to the Business. The regulatory tariffs applicable to the Business stand in full force and effect on the date of this Agreement in accordance with their terms, and there is no outstanding notice of cancellation or termination or, to Seller's Knowledge, any threatened cancellation or termination in connection therewith, nor is Seller subject to any restrictions or conditions applicable to its regulatory tariffs that limit or would limit the operation of the Business (other than restrictions or conditions generally applicable to tariffs of that type). Each such tariff has been duly and validly approved by the Commission or any Governmental Authority having jurisdiction thereof. Seller is not in material default under the terms and conditions of any such tariff and there is no basis for any claim of default by Seller in any material respect under any such tariff. Except as set forth in Schedule 4.1.12(a), as of the date hereof, there are no applications by Seller or complaints (other than routine or immaterial End-User complaints), or petitions by others or proceedings pending or threatened before the Commission relating to the Business or its operations or the regulatory tariffs that, in Seller's opinion, would reasonably be expected to have a Material Adverse Effect. To the Knowledge of Seller, there are no material violations by subscribers or others under any such tariff. A true and correct copy of each tariff applicable to the Business has been made available to Buyer.

(b) Schedule 4.1.12(b) identifies each of the FCC Licenses held by Seller and used in the operation of the Business. Each such FCC License is in full force and effect on the date of this Agreement in accordance with its terms, and there is no outstanding notice of cancellation or termination or, to Seller's Knowledge, any threatened cancellation or termination in connection therewith, nor are any of such FCC Licenses subject to any restrictions or conditions that limit the operation of the Business (other than restrictions or conditions generally applicable to licenses of that type). Subject to the Communications Act of 1934, as amended, and the regulations thereunder, the FCC Licenses are free from all security interests, liens, claims, or encumbrances of any nature whatsoever. There are no applications by Seller or complaints or petitions by others or proceedings pending or threatened before the FCC relating to the Business or the FCC Licenses that, in Seller's opinion, would reasonably be expected to have a Material Adverse Effect.

4.1.13 Employee Matters.

(a) Schedule 4.1.13(a) lists as of the date hereof (and identifies the sponsor of) each material "Employee Pension Benefit Plan," as that term is defined in Section 3(2) of the ERISA, each material "Employee Welfare Benefit Plan," as that term is defined in Section 3(1) of ERISA (such plans being hereinafter referred to collectively as the "ERISA Plans"), and each other material retirement, pension, profit-sharing, money purchase, deferred compensation, incentive compensation, bonus, stock option, stock purchase, severance pay, unemployment benefit, vacation pay, savings, medical, dental, post-retirement medical, accident, disability, weekly income, salary continuation, health, life or other insurance, fringe benefit, or other employee benefit plan, program, agreement, or arrangement maintained or contributed to by Seller or its Affiliates in respect of or for the benefit of any employee who, upon the Closing, will be a Transferred Employee or former employee of Seller, excluding any such plan, program, agreement, or arrangement maintained or contributed to solely in respect of or for the benefit of employees who, upon the Closing, will be Transferred Employees or former employees employed or formerly employed by Seller outside of the United States, as of the date hereof (collectively, together with the ERISA Plans, referred to hereinafter as the "Plans.") Schedule 4.1.13(a) also includes a list of (i) each material written employment, severance, termination or similar-type agreement between Seller and its Affiliates and any employee who, upon the Closing, will be a Transferred Employee (the "Employment Agreements"), and (ii) each collective bargaining agreement between Seller and its Affiliates and collective bargaining representatives for those employees who, upon the Closing, will be Transferred Employees (the "Labor Contracts"). Except for retention bonuses, if any, paid or payable in connection with the Closing of the transactions contemplated by this Agreement and except as otherwise set forth in Schedule 4.1.13(a), the execution and delivery of this Agreement by Seller and the performance of this Agreement by Seller will not directly result now or at any time in the future in the payment to any employee who, upon the Closing, will be a Transferred Employee of any severance, termination, or similar payments or benefits.

(b) Except as set forth on Schedule 4.1.13(b):

(i) Neither Seller nor any of its Affiliates, any of the ERISA Plans, any trust created thereunder, or any trustee or administrator thereof, has engaged in any transaction as a result of which Seller could be subject to any material liability pursuant to Section 409 of ERISA or to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed pursuant to Section 4975 of the Code; and

(ii) Since the effective date of ERISA, no material liability under Title IV of ERISA has been incurred or is reasonably expected to be incurred by Seller (other than liability for premiums due to the PBGC), unless such liability has been, or prior to the Closing Date will be, satisfied in

full.

(c) Except as set forth on Schedule 4.1.13(c), with

respect to the ERISA Plans, other than those ERISA Plans identified on Schedule 4.1.13(d) as "multiemployer plans":

(i) the PBGC has not instituted proceedings to terminate any Plan that is subject to Title IV of ERISA;

(ii) none of the ERISA Plans has incurred an "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of each of the ERISA Plans ended prior to the date of this Agreement;

(iii) Each of the ERISA Plans has been operated and administered in all material respects in accordance with its provisions and with all applicable Laws;

(iv) Each of the ERISA Plans that is intended to be "qualified" within the meaning of Section 401(a) of the Code and, to the extent applicable, Section 401(k) of the Code, has been determined by the IRS to be so qualified, and nothing has occurred since the date of the most recent such determination (other than the effective date of certain amendments to the Code, the remedial amendment period for which has not yet expired) that would adversely affect the qualified status of any of such ERISA Plans; and

(v) There are no pending material claims against any of the ERISA Plans by any employee or beneficiary covered under any such ERISA Plan, or otherwise involving any such ERISA Plan (other than routine claims for benefits and routine expenses).

(d) Except as set forth on Schedule 4.1.13(d), none of the ERISA Plans is a "multiemployer plan," as that term is defined in Section 3(37) of ERISA, and with respect to any such multiemployer plans (as so defined) listed in Schedule 4.1.13(d), Seller has not made or incurred, and the transactions contemplated by this Agreement will not result in Seller making or incurring, a "complete withdrawal" or a "partial withdrawal," as such terms are respectively defined in Sections 4203 and 4205 of ERISA that would result in the incurrence of a material liability by Seller.

(e) Except as set forth on Schedule 4.1.13(e), as of the date hereof, (i) none of the employees who, upon the Closing, will be Transferred Employees are represented by a labor union or labor organization, and (ii) Seller is not subject to any collective bargaining agreement covering any employee who, upon the Closing, will be a Transferred Employee. As of the date hereof, there are no strikes, slowdowns, work stoppages or lockouts by or with respect to any employee who, upon the Closing, will be a Transferred Employee covered by collective bargaining agreements. Except as set forth on Schedule 4.1.13(e), to the Knowledge of Seller, during the twelve (12) months preceding the date of this Agreement, there have not been any union organizational campaigns by or directed at employees who, upon the Closing, will be Transferred Employees.

(f) Seller will make available to Buyer, not less than five (5) days prior to the Closing Date, a list of those employees who, upon Closing, will be Transferred Employees and who are participating in or have participated in the health or dependent care reimbursement accounts of Seller, together with the elections made prior to the Closing Date with respect to such accounts through the Closing Date.

4.1.14 Environmental Matters. Except as set forth on Schedule 4.1.14 or otherwise contained in this Section 4.1.14 which exceptions, individually or in the aggregate, would not, or would not reasonably be likely to have a Material Adverse Effect or prevent, materially delay or impair the ability of Seller to consummate the transactions contemplated hereby:

(a) All Environmental Permits required pursuant to any Environmental Law for operation of the Business (i) have been obtained by the Seller and (ii) are currently in full force and effect. The Seller is in compliance with all Environmental Permits required pursuant to any Environmental Law for operation of the Business.

(b) Seller is in compliance with all Environmental Laws with respect to the operation of the Business and the ownership of the Acquired Assets. To the Knowledge of Seller, there are no events, conditions, circumstances, activities, practices or incidents related to the Business which would, or would reasonably be likely to, give rise to any Environmental Claim.

(c) There is no civil, criminal or administrative action, suit, demand, Environmental Claim, hearing, notice or demand letter, notice of violation, investigation or proceeding pending or, to the Knowledge of Seller, threatened against the Seller or the Business related to any Environmental Permit or any applicable Environmental Law or any plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder.

(d) The Seller, in the operation of the Business, has not generated, stored, used, emitted, discharged or disposed of any Hazardous Material except in material compliance with applicable Environmental Laws.

(e) As used herein:

"Environmental Claims" means any and all administrative or judicial actions, suits, orders, claims, Liens, notices, violations or proceedings

related to any applicable Environmental Law or any Environmental Permit brought, issued or asserted by: (i) a Governmental Authority for compliance, damages, penalties, removal, response, remedial or other action pursuant to any applicable Environmental Law or Environmental Permit; or (ii) a third party seeking damages, contribution, remediation or other action for personal injury or property damage relating to any Environmental Law or resulting from the release of a Hazardous Material at, to or from any facility of Seller's Business or any real property upon which any current facility of the Seller which is primarily used in the Business is located.

"Environmental Laws" means all applicable federal, state and local laws, statutes, ordinances, codes, rules and regulations related to protection of the environment and/or the handling, presence, use, generation, treatment, storage, transportation, release, discharge, emission or disposal of Hazardous Materials in effect as of the date hereof.

"Environmental Permits" means all permits, licenses, approvals, authorizations, or consents required by any Governmental Authority under any applicable Environmental Law and includes any and all orders, consent orders or binding agreements issued or entered into by a Governmental Authority under any applicable Environmental Law.

"Hazardous Material" means any hazardous or toxic substance, material or waste which is regulated as of the Closing Date by any Governmental Authority, including, without limitation, any material or substance that is: (i) defined as a "hazardous substance" under applicable state law; (ii) petroleum; (iii) friable asbestos; (iv) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act, as amended, 33 U.S.C.ss.1251 et seq. (33 U.S.C.ss.1321); (v) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, as amended, 42 U.S.C.ss.6901 et seq. (42 U.S.C.ss.6903); (vi) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C.ss.9601 et seq. ("CERCLA"); (vii) ----- defined as a "regulated substance" pursuant to Section 9001 of the Federal Resource Conservation and Recovery Act, as amended, 42 U.S.C.ss.6901 et seq. (42 U.S.C.ss.6991); or (viii) otherwise regulated under the Toxic Substances Control Act, 15 U.S.C.ss.2601 et seq., the Clean Air Act, as amended, 42 U.S.C.ss.7401, et seq., the Hazardous Materials Transportation Act, as amended, 49 U.S.C.ss.1801, et seq., or the Federal Insecticide, Fungicide and Rodenticide Act, as amended, 7 U.S.C.ss.136, et seq.

4.1.15 Financial Statements.

(a) Schedule 4.1.15(a) contains the financial statements for the Business for the years ended December 31, 1998, December 31, 1999 and December 31, 2000 (collectively the "Financial Statements"). The Financial Statements have been prepared based on the books and records of Seller. Such books and records have been maintained in accordance with GAAP, adjusted as necessary to comply with regulatory accounting rules prescribed by the FCC and/or the Commission. However, because the Business represents only a portion of Seller, the Financial Statements reflect the use of estimates and allocations which estimates and allocations are reasonable and necessary to cause the Financial Statements to materially reflect the results of operations for the periods set forth therein.

(b) Except as set forth on Schedule 4.1.15(b), since December 31, 2000, Seller has not undertaken any transaction, transfer or assignment, the effect of which is to transfer, assign or move revenue reflected in the Financial Statements to any Seller Affiliate.

(c) Schedule 4.1.15(c) contains certain financial data for the Business for the six month period ended June 30, 2001 (the "June 30 Financial Data"). The June 30 Financial Data was prepared from Seller's systems and, to the Knowledge of Seller, is a materially accurate reflection of the items presented for the time period represented.

4.1.16 No Material Adverse Change. Except as set forth in Schedule 4.1.16 between December 31, 2000 and the date hereof there has not occurred any event or condition which has resulted, or would reasonably be expected to result, in a Material Adverse Effect.

4.1.17 Brokers. Seller has not paid or become obligated to pay any fee or commission to any broker, finder, investment banker or other intermediary in connection with the transactions contemplated by this Agreement in such a manner as to give rise to a valid claim against Buyer for any broker's or finder's fees or similar fees or expenses.

4.1.18 No Other Representations and Warranties. Except for the representations and warranties contained in this Agreement, neither Seller nor any of its Affiliates nor any other Person makes any other express or implied representation or warranty with respect to the transaction contemplated hereby.

4.2 Representations and Warranties of Buyer. Buyer represents and warrants to Seller as follows:

4.2.1 Corporate Organization and Related Matters. Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of Louisiana. Buyer has the requisite corporate power and authority to own, lease or otherwise hold the assets owned, leased or held by it. Buyer has the requisite power, authority and legal right to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Buyer of this Agreement and the Ancillary Documents executed or to be executed by Buyer have been duly authorized by all necessary corporate action on the part of Buyer. This Agreement has been, and the Ancillary Documents when executed will be, duly executed and delivered by Buyer and this Agreement constitutes, and the Ancillary Documents when executed and delivered will constitute, the legal, valid and binding obligations of Buyer, enforceable against it in accordance with their respective terms, except as such enforceability may be limited by bankruptcy laws and other similar laws affecting creditors' rights generally, and subject to the exercise of judicial discretion in accordance with principles of equity.

4.2.2 Litigation. There is no suit, action or other proceeding, or injunction or final judgment relating thereto, pending, or to the Knowledge of Buyer or its Affiliates, threatened against Buyer, before any Governmental Authority in which it is sought to restrain or prohibit or to obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby, and no investigation that would be reasonably likely to result in any such suit, action or proceeding is pending or, to the Knowledge of Buyer or its Affiliates, threatened.

4.2.3 Validity of Contemplated Transactions. Upon the receipt of requisite FCC Consents as described in Section 5.3.2, the Regulatory Approvals as described in Section 5.3.1, compliance with any applicable requirement of the HSR Act, and the receipt of the consents set forth on Schedule 4.2.3 (the "Buyer Consents"), the execution, delivery and performance of this Agreement and the Ancillary Documents by Buyer do not and will not violate, conflict with or result in the breach of any term, condition or provision of, or require the consent of any other Person under, (a) the charter and other organizational documents of Buyer, (b) any existing Requirement of Law to which Buyer is subject, or (c) any judgment, order, writ, injunction, decree or award of any Governmental Authority or any other Governmental Order which is applicable to Buyer.

4.2.4 Financial Capabilities.

(a) Except as contemplated by the next sentence, Buyer has cash or other available sources of funds sufficient to pay in full the Purchase Price in the manner specified in Sections 3.1 and 3.2, together with all related fees and expenses. In addition, if and to the extent Buyer is relying upon any financing to be provided by third parties in order to pay any part of the Purchase Price and related fees and expenses, Buyer has received letters from reputable lenders indicating they are highly confident they can arrange binding financing commitments (the "Highly Confident Letters") in amounts which, together with immediately available funds in cash or cash equivalents of Buyer are and will at the Closing be sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement. True and correct copies of the Highly Confident Letters are attached hereto as Exhibit F, and the Highly Confident Letters are current and valid and have not been modified in any respect.

(b) Buyer has sufficient financial resources to operate the Business after the Closing Date. Without limiting the generality of the foregoing, Buyer has sufficient, liquid financial resources to satisfy any applicable requirement relating to financial capacity or capital imposed by any Governmental Authority in the state in which the Business is conducted. Buyer is solvent, is able to pay its debts as they become due, and owns property that has both a fair value and a fair saleable value in excess of the amount required to pay its debts as they become due.

4.2.5 Brokers. Buyer has not paid or become obligated to pay any fee or commission to any broker, finder, investment banker or other intermediary in connection with the transactions contemplated by this Agreement in such a manner as to give rise to a valid claim against Seller for any broker's or finder's fees or similar fees or expenses.

4.2.6 Financial Statements. Without limiting the effect of Section 4.1.15 hereof, Buyer acknowledges that, with respect to the Financial Statements received from Seller (a) while based upon books and records that have been maintained in accordance with GAAP, the Financial Statements themselves may not be consistent with GAAP, or the applicable regulations of the FCC or state regulatory authorities, and (b) because the Business represents only a portion of Seller, the Buyer is not acquiring significant support elements located outside the Seller Exchanges, and Buyer will or may operate under new tariffs, carrier contracts and other conditions that will or may significantly impact the future revenue of the Business, the Financial Statements and June 30 Financial Data may not be representative of the financial performance of the Business during future periods. Except to the extent that the Financial Statements or the June 30 Financial Data reflect intentional misrepresentation or fraud, Buyer agrees not to make any claims with respect to the Financial Statements, including without limitation, any claim based on the performance of the Business after the date of the Financial Statements on the basis of a comparison to the Financial Statements.

4.2.7 Investigation; Acknowledgment. Buyer has conducted a review and analysis of the business, operations, assets, liabilities, results of operations, financial condition, software, and technology of the Business and the Acquired Assets and acknowledges that Buyer has been provided access to the personnel and facilities of Seller and Verizon and a "data room" set up for the purpose of the transaction contemplated by this Agreement. Except for the representations and warranties contained in this Agreement, Buyer acknowledges that neither Seller, any of its Affiliates nor any other Person makes any other express or implied representation or warranty with respect to the Seller, the Business, the Acquired Assets or otherwise or with respect to any other information provided to Buyer, whether on behalf of Seller or such other Persons, including as to (a) merchantability or fitness for any particular use or purpose, (b) the operation of the Business by Buyer after the Closing in any manner other than as used and operated by Seller or (c) the probable success or profitability of the ownership, use or operation of the Business or the Acquired Assets by Buyer after the Closing except for those representations and warranties set forth in this Agreement. Neither Seller nor any other Person shall have or be subject to any liability or indemnification obligation to Buyer or any other Person resulting from the distribution to Buyer, or Buyer's use of, any such information, including the Confidential Information Summary dated April, 2001 prepared by Verizon related to the Business and any information, document or material made available to Buyer in certain "data rooms," management presentations, conference calls or discussions with employees of Seller, responses to questions submitted on behalf of Buyer, whether orally or in writing, or in any other form in expectation of the transactions contemplated by this Agreement, except to the extent any such data or information is expressly contained in a representation or warranty made by Seller in Section 4.1 hereof.

4.2.8 No Other Representations and Warranties. Except for the representations and warranties contained in this Agreement, neither Buyer nor any of its Affiliates nor any other Person makes any other express or implied representation or warranty with respect to the transaction contemplated hereby.

ARTICLE V
COVENANTS AND AGREEMENTS PENDING CLOSING

5.1 Agreement of Seller Pending the Closing. From the date of this Agreement until the Closing, and except as otherwise consented to in writing by Buyer (which consent shall not be unreasonably withheld):

5.1.1 Conduct of the Business in the Ordinary Course. Seller shall conduct the Business in the ordinary course except as expressly contemplated by this Agreement or the Ancillary Agreements or as required by applicable laws, regulations, orders or decrees. Without limiting the generality of the foregoing, Seller shall:

- (a) keep available to the Business those services of Seller's Affiliates to the same extent generally available on the date hereof;
- (b) operate the Business in substantially the same manner as it is currently being conducted and, with respect to the Business, refrain from entering into any Contract that would be a Material Contract other than in the ordinary course of business;
- (c) not institute any proceeding with respect to, or otherwise materially change, amend or supplement any of its local exchange, intrastate toll or intrastate and interstate access tariffs affecting the Business (other than Verizon-wide proceedings with the FCC, subject to Seller's commercially reasonable efforts, upon Buyer's request, to exempt from such filings the Seller Exchanges) without the prior written consent of Buyer, which consent shall not be unreasonably withheld or make any other filings with the Commission except in the ordinary course of business, and except as set forth in Schedule 4.1.12(a);
- (d) maintain the tangible Acquired Assets in good repair, order and condition, reasonable wear and tear excepted;
- (e) maintain the material insurance policies with respect to the Acquired Assets consistent with past practice; provided that the parties acknowledge that Seller or Verizon may at any time cancel prospectively or not renew any of the Verizon corporate insurance programs as to coverage relating to events after the Closing Date or insured risks other than those associated with the Business on or prior to the Closing Date;
- (f) make capital expenditures as required to maintain the current operation of the Business and to support normal customer growth in a manner consistent with the provisions of Section 5.1.6 hereof;
- (g) maintain the books and records of the Business substantially in accordance with prior practice, except as changes are mandated by Governmental Authorities or required by GAAP;
- (h) not make any change in the general lines of business of the Business;
- (i) not sell, lease or dispose of, or make any contract for the sale, lease or disposition of any material Acquired Asset, nor permit the imposition of any Lien on the Acquired Assets, other than in the ordinary course of business consistent with past practice;
- (j) not materially increase the number of employees who, upon the Closing, are expected to become Transferred Employees or materially modify the benefit provided under any Plans concerning employee benefits or materially increase the general rates of compensation of its employees who, upon the Closing, will be Transferred Employees, except (i) as required by Law, (ii) pursuant to any Contract to which Seller is a party existing on the date hereof, (iii) in the ordinary course of business of Seller consistent with past practice, (iv) as ancillary to Verizon wide Plan changes, or (v) as listed or described on Schedule 5.1.1(j);
- (k) not materially amend, modify or terminate any Material Contract other than in the ordinary course of business;
- (l) except as permitted by Section 5.1.1(j) with respect to Plan changes, not enter into any new written employment agreement, or collective bargaining agreement with, or commitment to, those employees who, upon Closing, shall be Transferred Employees, provided that Seller may, after consulting with Buyer, enter into, or become bound by, any new collective bargaining agreements to the extent the new collective bargaining agreements succeed any collective bargaining agreement that expires prior to the Closing and, provided further that Seller may enter into customary agreements relating to Intellectual Property with current and new employees;
- (m) file any report or make any modification or adjustment to any procedure that would have a material adverse effect on any amounts to be received by Buyer under those matters addressed in Section 10.5.1 of the Agreement for periods after the Closing Date; (n) use commercially reasonable efforts to generally maintain service level standards consistent with past practice and maintain reasonable levels of Material and Supply Inventory;
- (o) enter into any transaction with its Affiliates (other than as expressly contemplated herein) which is not terminable, at Buyer's election, upon sixty (60) days prior written notice; and
- (p) write off its CBSS Accounts Receivable classified by Seller as "unpaid final" consistent with past practice.

5.1.2 Access. Prior to the Closing, Seller shall permit Buyer and its authorized representatives to have reasonable access, during regular

business hours and upon reasonable advance notice, to the Transferred Books and Records, Owned Real Property, Leased Real Property and other Acquired Assets, and to those employees of Seller as Buyer reasonably requests, to the extent that such access does not materially interfere with the Business; provided, that Buyer and any such representatives comply with the confidentiality and nondisclosure obligations set forth in this Agreement.

5.1.3 Consents. Seller shall use its commercially reasonable efforts, subject to the conditions set forth in Section 2.4 of this Agreement, to obtain prior to Closing the Seller Consents. Buyer agrees to cooperate in good faith with Seller in obtaining the Seller Consents.

5.1.4 Debtholder Consents. Seller shall use its commercially reasonable efforts to obtain from its Lienholders the termination or release or defeasance, at Closing, of all security agreements, mortgages and financing statements relating to the Acquired Assets (such termination or release being hereinafter referred to as the "Debtholder Consents"). Buyer agrees to cooperate in good faith with Seller in obtaining the required Debtholder Consents.

5.1.5 Financial Statements. To the extent Buyer requires the preparation and/or audit of financial statements with respect to the Business in order to comply with the reporting requirements of the Securities and Exchange Commission under Regulations S-K and S-X or as required by any Financing Commitment (the "SEC Basis Financial Statements"), Seller will, upon Buyer's request, assist Buyer in the preparation of the SEC Basis Financial Statements, and cooperate with any independent auditors chosen by Buyer to prepare and/or audit the SEC Basis Financial Statements. Seller's cooperation will include access to workpapers and other supporting documents used in the preparation of the Financial Statements or such documents as may be reasonably required by such auditors to prepare such SEC Basis Financial Statements or to render an opinion. Buyer will bear the cost of preparation of the SEC Basis Financial Statements and any audit.

5.1.6 Capital Expenditures. Seller shall be obligated to make capital expenditures with respect to the Business required to support normal maintenance and customer growth in a manner consistent with established regulatory performance objectives, which expenditures (exclusive of any Future Capital Expenditure Obligations or Future Regulatory Obligations) shall not be less than Fifty-seven Million Dollars (\$57 Million) during calendar year 2001, and not less than Fifty Million Dollars (\$50,000,000) during calendar year 2002, and which amount shall be discounted on a pro rata daily basis to the extent that the Closing Date occurs prior to December 31, 2002 (the "Capital Expenditure Amount"). The Capital Expenditure Amount shall be deemed to include and not be in addition to any USF funds designated for capital projects. The Purchase Price shall be adjusted down, on a dollar-for-dollar basis, to the extent that Seller's actual capital expenditures are less than the Capital Expenditure Amount (a "Capital Expenditure Deficiency"). In the event the Closing does not occur prior to January 1, 2003, the Capital Expenditure Amount shall be increased on a pro rata daily basis and Seller shall be obligated to make capital expenditures during fiscal year 2003 in the same relative amount, and the Purchase Price shall be adjusted in the same manner described above for any Capital Expenditure Deficiency occurring during the period after January 1, 2003. Between the date of this Agreement and the Closing Date, Seller will notify Buyer of any project involving Non-Regulated Construction Work in Process in excess of \$50,000.

5.1.7 VADI Assets. Prior to the Closing, Seller shall cause VADI to contribute to Seller all of its right, title and interest in and to the VADI Assets, and shall assume all liabilities of VADI that are Assumed Liabilities hereunder pursuant to a Contribution, Assignment and Assumption Agreement in form and substance reasonably satisfactory to Buyer. The parties acknowledge and agree that nothing in this Agreement shall be deemed to prohibit the consummation of the transfer described in this Section 5.1.7 or to constitute a breach of any provision of this Agreement, including without limitation Section 5.1.1.

5.1.8 Release of Liens. On or prior to the Closing, Seller shall cause to be satisfied and released those Liens identified in Part 1 of Schedule 4.1.7, such that Seller transfers to the Buyer, free and clear of any lease or other Liens (other than Permitted Encumbrances), the vehicles and equipment subject thereto as an Acquired Asset.

5.1.9 Interim Reports. Until the Closing or termination of this Agreement, Seller shall deliver to Buyer certain information regarding the operations of the Business and the condition of the Acquired Assets. Seller agrees to deliver the information set forth on Schedule 5.1.9 at the time intervals specified in such schedule, and such other information as Buyer reasonably requests, provided, however, that unless set forth on Schedule 5.1.9, Seller shall not be obligated to provide any information to Buyer which is not customarily provide by Seller to its own management. Such reports shall be provided to Buyer within fifteen (15) Business Days following the end of a calendar month, in the case of monthly reports, or within twenty (20) Business Days following the end of a calendar quarter, in the case of quarterly reports; provided, however, in no event shall Seller be obligated to provide quarterly reports prior to Verizon's earnings announcement for such quarter. All information provided in accordance with this Section 5.1.9 shall be subject to compliance with the Non-Disclosure Agreement and all applicable Laws.

5.2 Agreement of Buyer Pending the Closing. From the date of this Agreement until the Closing and except as otherwise consented to in writing by Seller:

5.2.1 Control of Business Pending Closing. Nothing contained in this Agreement shall give Buyer, directly or indirectly, rights to control or direct the operations of Seller or its Affiliates prior to the Closing. Prior to the Closing, Seller shall exercise, consistent with the terms and conditions of this Agreement and subject to the express limitations of Section 5.1.1, complete control and supervision of the operation of the Business.

5.2.2 Contacts by Buyer. Buyer will not without the prior consent of Seller, which shall not be unreasonably withheld, contact any employee, customer or supplier of Seller with respect to this Agreement, the transactions contemplated hereby or the Acquired Assets; provided, Buyer may contact unions representing those employees who, upon the Closing, will be Transferred Employees in accordance with Section 8.1.1.

5.2.3 Highly Confidential Letters. Upon request by Seller, which request shall be no more frequently than quarterly, from the date hereof until Closing, Buyer shall provide updated Highly Confidential Letters in form and substance satisfactory to Seller in its sole discretion (the "Quarterly Updates"). Such Quarterly Updates shall also contain a certificate from an authorized officer of Buyer certifying that the representations set forth in

Section 4.2.4 are true and correct as of the date of such certificate. Notwithstanding the foregoing, Buyer shall immediately notify Seller upon the termination or modification of any Highly Confidential Letter provided to Seller either pursuant to Section 4.2.4 or this Section 5.2.3.

5.3 Covenants of Seller and Buyer. Seller and Buyer further covenant and agree that, except as otherwise agreed to in writing by Seller and Buyer:

5.3.1 State Regulatory Approval. Promptly after the date of this Agreement, but no later than thirty (30) days after the date hereof, Buyer and Seller shall use commercially reasonable efforts to file the appropriate applications and notices with the Commission seeking orders permitting the transfer of service in the Seller Exchanges to Buyer (collectively, the "Regulatory Approvals"). Buyer shall be responsible for seeking to establish the tariff for its post-Closing operations in the Seller Exchanges. Each of Buyer and Seller shall use its commercially reasonable efforts to obtain the Regulatory Approvals and the parties agree to cooperate fully with each other and with the applicable regulatory agency to obtain the Regulatory Approvals at the earliest practicable date. In the event the Commission imposes any condition, term or restriction as more particularly described in clauses (a) and

(b) of Section 6.3.2, each of Buyer and Seller shall use its commercially reasonable efforts to seek modification or removal of such condition such that the Regulatory Approvals shall conform to the standards set forth in Section 6.3.2.

5.3.2 FCC Consents. Promptly after the date of this Agreement, but no later than thirty (30) days after the date hereof, the parties shall use their commercially reasonable efforts to obtain (a) the FCC's consent to the transfer of the FCC Licenses from Seller to Buyer and (b) the FCC waivers set forth on Schedule 5.3.2 (all such consents or waivers are collectively referred to as the "FCC Consents").

5.3.3 HSR Act Review.

(a) Within thirty (30) Business Days after the date of this Agreement, or such other time as the parties may agree, the parties will make such filings as may be required by the HSR Act with respect to the transactions contemplated by this Agreement. Thereafter, the parties will file as promptly as practicable all reports or other documents required or requested by the U.S. Federal Trade Commission or the U.S. Department of Justice pursuant to the HSR Act or otherwise including requests for additional information concerning such transactions, so that the waiting period specified in the HSR Act will expire as soon as reasonably possible after the execution and delivery of this Agreement. Without limiting the foregoing, each of Seller and Buyer shall use its commercially reasonable efforts to cooperate and oppose any preliminary injunction sought by any Governmental Authority preventing the consummation of the transactions contemplated by this Agreement. Buyer agrees to pay all application fees required in connection with any filings under the HSR Act.

(b) Seller and Buyer shall each cause their respective counsel to furnish the other party such necessary information and reasonable assistance as the other may reasonably request in connection with its preparation of necessary filings or submissions under the provisions of the HSR Act. Seller and Buyer shall each cause their respective counsel to supply to the other party copies of all correspondence, filings or written communications by such party or its Affiliates with any Governmental Authority or staff members thereof, with respect to the transactions contemplated by this Agreement and any related or contemplated transactions, except for documents filed pursuant to Item 4(c) of the Hart-Scott-Rodino Notification and Report Form or communications regarding the same, documents or information submitted in response to any request for additional information or documents pursuant to the HSR Act which reveal Seller's or Buyer's negotiating objectives or strategies or purchase price expectations.

5.3.4 Landlord Consents. Promptly after the date hereof, the parties shall use their commercially reasonable efforts to mutually seek the consent of the lessor to any Real Property Leases that require consent as a condition to an assignment of the lease which consents are identified in Schedule 4.1.6(a). If a lessor refuses to consent to a lease assignment, and if the applicable lease permits a sublease without the consent of the lessor, the parties hereto shall, effective as of the Closing, enter into a sublease upon terms and conditions as similar and comparable to an assignment of the lease as is reasonably feasible.

5.3.5 Other Agreements. Prior to or at the Closing, each of Buyer and Seller shall (and shall use commercially reasonable efforts to cause its applicable Affiliate to) execute and deliver to the counter-party the Transition Plan Support Agreement, the License Agreement, and the Publishing Agreement substantially in the forms attached hereto and such other agreements as are set forth on Schedule 5.3.5.

5.3.6 Insurance Coverage. On the Closing Date, the coverage under the insurance policies and programs applicable to the Acquired Assets will be terminated, and Buyer will be responsible for providing all insurance coverage for the Acquired Assets.

5.3.7 Interconnection Agreements. In cases in which Seller or any Affiliate is a party to a contract with a competitive local exchange carrier or an interexchange carrier for interconnection services within the Seller Exchanges (the "Seller Interconnection Agreements"), Seller and Buyer agree that until Closing and for a period of ninety (90) days after the Closing Date, each of Seller and Buyer shall use its commercially reasonable efforts to facilitate the negotiation of similar agreements and/or modifications to and assignments of the Seller Interconnection Agreements that will transfer the benefits and obligations of Seller contained in such Seller Interconnection Agreements to Buyer after Closing.

5.3.8 Designated Representative. Within fifteen (15) days of the date of this Agreement, the parties shall each appoint a knowledgeable representative with the necessary authority to respond to matters requiring such party's consent. No consent shall be valid if received from a

Person other than a party's designated representative.

ARTICLE VI

CONDITIONS PRECEDENT TO THE CLOSING

6.1 Conditions Precedent to Obligations of Buyer. The obligations of Buyer to consummate the Closing shall be subject to the fulfillment or satisfaction prior to or at the Closing, of each of the following conditions precedent which may be waived in writing in whole or in part only by Buyer:

6.1.1 Representations and Warranties True as of Closing. All of the representations and warranties of Seller contained in this Agreement shall be true and correct as of the Closing Date, other than any such representations and warranties made as of a specified date, which shall be true and correct as of such date, except to the extent that the failure to be true and correct shall not have had or would not reasonably be expected to have a Material Adverse Effect.

6.1.2 Compliance with this Agreement. Seller shall have performed and complied in all material respects (or shall have cured any material nonperformance or noncompliance) with all covenants, agreements and conditions required by this Agreement to be performed or complied with by Seller prior to or at the Closing, except to the extent that the failure to do so shall not have had or would not reasonably be expected to have a Material Adverse Effect.

6.1.3 Closing Certificate. Buyer shall have received a certificate from an authorized officer of Seller, dated the Closing Date, certifying that the conditions specified in Sections 6.1.1 and 6.1.2 have been fulfilled.

6.1.4 Other Agreements. Seller and/or its applicable Affiliate shall have tendered an executed Bill of Sale, Assignment and Assumption Agreement, the Publishing Agreement and License Agreement substantially in the forms attached hereto; together with those agreements set forth on Schedule 5.3.5.

6.2 Conditions Precedent to Obligations of Seller. The obligations of Seller to consummate the Closing shall be subject to the fulfillment or satisfaction prior to or at the Closing, of each of the following conditions precedent, which may be waived in writing in whole or in part only by Seller:

6.2.1 Representations and Warranties True as of Closing. All of the representations and warranties of Buyer contained in this Agreement shall be true and correct as of the Closing Date, other than any such representations and warranties made as of a specified date, which shall be true and correct as of such date, except to the extent that the failure to be true and correct shall not have had or would not reasonably be expected to have a material adverse effect on Seller.

6.2.2 Compliance with this Agreement. Buyer shall have performed and complied in all material respects (or shall have cured any material nonperformance or noncompliance) with all covenants, agreements and conditions required by this Agreement to be performed or complied with by Buyer prior to or at the Closing, except to the extent that the failure to do so shall not have had or would not reasonably be expected to have a material adverse effect on Seller.

6.2.3 Closing Certificate. Seller shall have received a certificate from an authorized officer of Buyer, dated the Closing Date, certifying that the conditions specified in Sections 6.2.1 and 6.2.2 have been fulfilled.

6.2.4 Purchase Price. Buyer shall have tendered to Seller, in the manner specified in Section 3.2, the Closing Date Payment.

6.2.5 Other Agreements. Buyer shall have executed and tendered the Bill of Sale, Assignment and Assumption Agreement, the Publishing Agreement, and the License Agreement substantially in the forms attached hereto, together with those agreements set forth on Schedule 5.3.5.

6.3 Conditions Precedent to the Obligations of Buyer and Seller. All obligations of Buyer and Seller under this Agreement are subject to the fulfillment or satisfaction, prior to or at the Closing, of each of the following conditions precedent:

6.3.1 HSR Act Waiting Period. All required waiting periods under the HSR Act relating to the transactions contemplated by this Agreement shall have expired or been earlier terminated.

6.3.2 Required Consents. Each of the required Debtholder Consents shall have been obtained, each of the Liens satisfied in accordance with the provisions of Section 5.1.8, and each of the required Regulatory Approvals and FCC Consents shall have been obtained; provided that such Regulatory Approvals and FCC Consents shall neither (a) require or be conditioned upon Buyer's agreement to or compliance with any term, condition or restriction that would reasonably be likely to have a Material Adverse Effect on the Business nor (b) impose any term, condition or restriction on the business or operations of Seller or its Affiliates or result in the waiver of rights asserted by any of the foregoing that would reasonably be likely to be materially adverse to Seller or its Affiliates in the reasonable judgment of Seller. For purposes of this Agreement, all such approvals and consents shall be deemed to have been obtained upon the granting thereof, and the expiration of any appeals period.

6.3.3 No Governmental Order. On the Closing Date, there shall not have been entered a preliminary or permanent injunction, temporary

restraining order or other judicial or administrative order or decree by any Governmental Authority having jurisdiction over the Business, the effect of which prohibits the Closing.

6.3.4 Assumption of Labor Contract Obligations. Buyer shall have been able to assume its obligations under Section 8.1.1 without change to the terms of any Labor Contract, but only to the extent such change has resulted, or would reasonably be expected to result, in a Material Adverse Effect.

6.3.5 No Material Adverse Effect. There shall not have occurred any event or condition which individually or in the aggregate has resulted, or would reasonably be expected to result, in a Material Adverse Effect.

ARTICLE VII INDEMNIFICATION

7.1 Survival of Representations and Warranties.

7.1.1 Survival Period. All representations and warranties made by the parties in this Agreement shall survive the Closing Date until the later of (a) one (1) year following the Closing Date or (b) the completion of Buyer's first audit cycle (the "Expiration Date"); provided, however, in no event shall the Expiration Date extend beyond fifteen (15) months following the Closing Date, and provided, further, that the representations and warranties contained in Sections 4.1.1, 4.1.17, 4.1.18, 4.2.1, 4.2.5, 4.2.7 and 4.2.8 shall survive the Closing without limitation.

7.1.2 Period for Claims. This Article VII shall survive any termination of this Agreement and the indemnification contained in this Article VII shall survive the Closing and shall remain in effect (a) with respect to any claim related to the breach of any representation and warranty, until the expiration of the applicable survival period set forth in Section 7.1.1; and (b) indefinitely (except to the extent expressly set forth in this Agreement), with respect to any claim arising under Section 2.3.2 (Retained Liabilities) or 2.3.1 (Assumed Liabilities). Unless a claim for indemnification with respect to any alleged breach of any representation or warranty is asserted by notice given as herein provided that specifically identifies a particular breach and the underlying facts relating thereto, which notice is given within the applicable period of survival for such representation or warranty, such claim may not be pursued and is irrevocably waived after such time. Without limiting the generality or effect of the foregoing, no claim for indemnification with respect to any representation or warranty will be deemed to have been properly made except (i) to the extent it is based upon a Third Party Claim made or brought prior to the expiration of the survival period for such representation or warranty, or (ii) to the extent based on Losses actually incurred by an Indemnitee prior to the expiration of the survival period for such representation or warranty.

7.2 Indemnification.

7.2.1 Indemnification Obligation of Seller. From and after the Closing, and subject to the other provisions of this Article VII, Seller shall indemnify, defend and hold harmless Buyer and its Affiliates and their respective directors, officers, agents and employees (each, a "Buyer Indemnitee" and collectively the "Buyer Indemnitees") from and against all Losses incurred or suffered by any Buyer Indemnitee relating to, resulting from or arising out of (a) any inaccuracy in any of the representations and warranties made by Seller in Section 4.1 of this Agreement, (b) a breach by Seller of any covenant of Seller contained in this Agreement, which covenant requires performance by Seller at or after the Closing, and (c) any of the Retained Liabilities.

7.2.2 Indemnification Obligation of Buyer. From and after the Closing and subject to the other provisions of this Article VII, Buyer shall indemnify, defend and hold harmless Seller and its Affiliates and their respective directors, officers, agents and employees (each a "Seller Indemnitee" and collectively the "Seller Indemnitees") from and against all Losses incurred or suffered by any Seller Indemnitee relating to, resulting from or arising out of (a) any inaccuracy in any of the representations or warranties made by Buyer in Section 4.2 of this Agreement, (b) a breach by Buyer of any covenant of Buyer contained in this Agreement, which covenant requires performance by Buyer at or after the Closing, (c) any of the Assumed Liabilities, (d) items payable under Section 10.9 of this Agreement and (e) infringement or misappropriation of Third Party Intellectual Property.

7.2.3 Definitions. For purposes of this Agreement:

(a) "Indemnification Payment" means any amount of Losses required to be paid pursuant to this Agreement;

(b) "Indemnitee" means any Person entitled to indemnification under this Agreement, either a Seller Indemnitee or a Buyer Indemnitee as the case may be;

(c) "Indemnitor" means any person or entity required to provide indemnification under this Agreement; and

(d) "Losses" means any losses, liabilities, damages, costs and expenses (including reasonable out-of-pocket attorneys' fees and expenses) actually incurred in connection with any actions, suits, demands, assessments, judgments and settlements, in any such case (i) reduced by the amount of insurance proceeds recovered from any Person with respect thereto; and
(ii) excluding any such losses, liabilities damages, costs and expenses to the extent that the underlying liability or obligation is the result of any action taken or omitted to be taken by any Indemnitee.

7.3 Limitation on Claims for Indemnifiable Losses.

7.3.1 Matters Known Prior to Closing. Notwithstanding anything to the contrary contained in this Agreement, if the Closing occurs, (i) no claim for indemnification may be asserted under Section 7.2.1 with respect to any matter discovered by or known to Buyer on or before the Closing Date, and (ii) no claim for indemnification may be asserted under Section 7.2.2 with respect to any matter discovered by or known to Seller on or before the Closing Date.

7.3.2 Limitation of Liability. Notwithstanding anything to the contrary contained herein:

(a) Seller shall not be liable for any Losses with respect to any claims by a Buyer Indemnitee under Section 7.2.1 unless, with respect to any individual claim or series of related claims, the amount of Losses (not otherwise indemnified) resulting therefrom exceeds Fifty Thousand Dollars (\$50,000) (the "Included Claims") and (ii) unless and until the total of all Included Claims for indemnity or damages with respect thereto exceeds two percent (2%) of the Purchase Price (the "Seller Threshold"), and then Seller shall be liable for all such Included Claims in excess of the Seller Threshold. The aggregate liability of Seller for indemnifiable Losses with respect to any Included Claims under Section 7.2.1 hereof shall not exceed the amount which is ten percent (10%) of the Purchase Price (the "Seller Indemnification Limit")

(b) No Indemnitor shall be liable to or obligated to indemnify any Indemnitee hereunder for any consequential, special, multiple, punitive or exemplary damages including, but not limited to, damages arising from loss or interruption of business, profits, business opportunities or goodwill, loss of use of facilities, loss of capital, claims of customers, or any cost or expense related thereto, except to the extent such damages have been recovered by a third person and are the subject of a Third Party Claim for which indemnification is available under the express terms of this Article VII.

(c) Seller and Buyer shall cooperate with each other with respect to resolving any claim or liability with respect to which one party is obligated to indemnify the other party hereunder, including by making commercially reasonable efforts to mitigate the Losses and resolve any such claim or liability.

(d) The provisions of this Section 7.3 shall not apply to obligations associated with the Assumed Liabilities or the Retained Liabilities.

7.4 Defense of Claims.

7.4.1 Third Party Claims. If any Indemnitee receives notice of the assertion of any claim or of the commencement of any action or proceeding by any entity that is not either a Buyer Indemnitee or a Seller Indemnitee (a "Third Party Claim") against such Indemnitee, with respect to which an Indemnitor is obligated to provide indemnification under this Agreement, the Indemnitee will give such Indemnitor reasonably prompt written notice thereof, but in any event not later than ten (10) calendar days after receipt of notice of such Third Party Claim; provided, however, that the failure of an Indemnitee to notify the Indemnitor within the time period set forth herein shall only relieve the Indemnitor from its obligation to indemnify to the extent that the Indemnitor is materially prejudiced by such failure or delay (whether as a result of the forfeiture of substantive rights or defenses or otherwise). Upon receipt of notification of a Third Party Claim, the Indemnitor shall be entitled, upon written notice to the Indemnitee, to assume the investigation and defense thereof with counsel reasonably satisfactory to the Indemnitee. Whether or not the Indemnitor elects to assume the investigation and defense of any Third Party Claim, the Indemnitee shall have the right to employ separate counsel and to participate in the investigation and defense thereof; provided, however, that the Indemnitee shall pay the fees and disbursements of such separate counsel unless (a) the employment of such separate counsel has been specifically authorized in writing by the Indemnitor; (b) the Indemnitor has failed to assume the defense of such Third Party Claim within a reasonable time after receipt of notice thereof with counsel reasonably satisfactory to such Indemnitee; or (c) the named parties to the proceeding in which such claim, demand, action or cause of action has been asserted include both the Indemnitor and such Indemnitee and, in the reasonable judgment of counsel to such Indemnitee, there exists one or more defenses that may be available to the Indemnitee that are in conflict with those available to the Indemnitor. Notwithstanding the foregoing, the Indemnitor shall not be liable for the fees and disbursements of more than one counsel for all Indemnitees in connection with any one proceeding or any similar or related proceedings arising from the same general allegations or circumstances. Without the prior written consent of an Indemnitee, the Indemnitor will not enter into any settlement of any Third Party Claim that would lead to liability or create any financial or other obligation on the part of the Indemnitee unless such settlement includes, as an unconditional term thereof, the release of the Indemnitee from all liability in respect of such Third Party Claim or such Third Party Claim is dismissed against the Indemnitee with prejudice and without the imposition of any financial or other obligation on the Indemnitee. If a settlement offer solely for money damages is made to resolve a Third Party Claim 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 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 hereunder shall be limited to the lesser of (x) the amount of the settlement offer that the Indemnitee declined to accept plus the Losses of the Indemnitee relating to such Third Party Claim through the date of its rejection of the settlement offer or (y) the aggregate Losses of the Indemnitee with respect to such claim.

7.4.2 Direct Claims. Any claim by an Indemnitee for Losses that do not result from a Third Party Claim (a "Direct Claim") shall be asserted by giving the Indemnitor reasonably prompt written notice thereof, but in any event not later than thirty (30) calendar days after the incurrence thereof, and the Indemnitor will have a period of thirty (30) calendar days within which to respond in writing to such Direct Claim. If the Indemnitor does not so respond within such thirty (30) calendar day period, the Indemnitor will be deemed to have rejected such claim, in which event the Indemnitee will be free to pursue such remedies as may be available to the Indemnitee on the terms and subject to the provisions of this Article VII.

7.4.3 Subrogation. If after the making of any Indemnification Payment the amount of the Losses to which such payment relates is reduced by recovery, settlement or otherwise under any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other Person, the amount of such reduction (less any costs, expenses, premiums or Taxes incurred in connection therewith) will promptly be repaid by the Indemnitor to the Indemnitor. Upon making any Indemnification Payment, the Indemnitor will, to the extent of such Indemnification Payment, be subrogated to all rights of the Indemnitor against any third party that is not an Affiliate of the Indemnitor in respect of the Losses to which the Indemnification Payment relates; provided that (a) the Indemnitor shall then be in compliance with its obligations under this Agreement in respect of such Losses, and (b) until the Indemnitor recovers full payment of its Losses, all claims of the Indemnitor against any such third party on account of said Indemnification Payment will be subrogated and subordinated in right of payment to the Indemnitor's rights against such third party. Without limiting the generality or effect of any other provision of this Article VII, each such Indemnitor and Indemnitor will duly execute upon request all instruments reasonably necessary to evidence and perfect the above-described subrogation and subordination rights.

7.5 No Indemnifiable Claims Resulting from Governmental Authority Action. Neither Buyer nor any of its Affiliates shall have any indemnifiable or otherwise compensable claim that any of Seller's representations or warranties in this Agreement are inaccurate, or that any covenant has been breached, if such claim is predicated on any action by a Governmental Authority (other than a tax authority) undertaken after Closing or any action a Governmental Authority (other than a tax authority) requires Buyer to undertake after Closing; provided, however, that such limitation shall not apply to the extent such action by a Governmental Authority (other than a tax authority) arises directly out of any (a) willful misconduct by Seller as judicially determined by a final order of a court or Governmental Authority of competent jurisdiction; or (ii) conduct by Seller that was not reasonably prudent based on then-prevailing circumstances and, provided further that Seller's reliance on a reasonable interpretation of existing Law or practice shall be deemed reasonably prudent.

7.6 Other Rights and Remedies. Following the Closing, the sole and exclusive remedy at law for Seller or Buyer for any claim (whether such claim is framed in tort, contract or otherwise) arising out of a breach of any representation, warranty, covenant or other agreement in this Agreement shall be a claim by Seller or Buyer for indemnification pursuant to this Article VII.

ARTICLE VIII EMPLOYEES AND EMPLOYEE MATTERS

8.1 Employment of Transferred Employees. Schedule 8.1 lists the Active Employees (as defined below) of the Business as of the date of this Agreement, together with their job positions, service and compensation. An employee hired by Seller or its Affiliate after the date of this Agreement who would be an Active Employee but for not being employed on the date of this Agreement shall become an Active Employee as of his or her date of hire. In hiring new employees and terminating employees of the Business, Seller and its Affiliates shall follow their usual and ordinary course of business in accordance with past practice. An Active Employee who terminates employment with Seller prior to the Closing shall no longer be considered an Active Employee (without regard to the reason or circumstance for such termination). To the extent required by the foregoing, a final updated Schedule 8.1 shall be provided to Buyer on or immediately prior to the Closing Date. All Active Employees of the Business on the Closing Date (collectively, the "Transferred Employees") shall be employed by (or become the responsibility of, as applicable) Buyer as of the Closing Date in the same or comparable positions, and at the same or comparable total compensation (including base pay and bonus), as were in effect on the Closing Date, except as otherwise provided in this Agreement. An individual shall be considered an "Active Employee" of the Business if the individual is employed by Seller or an Affiliate of Seller and (i) provides substantially all of his or her services to or for the Business or (ii) provides inter-unit support services to the Business and/or similar businesses of the Seller and its Affiliates and is designated as an "Inter-Unit Services Employee" on Schedule 8.1. The number of Inter-Unit Services Employees designated on Schedule 8.1 for each job function of the Business shall be equal to the whole number of full-time equivalent positions (as reasonably determined by Seller on the basis of a standard workweek and taking into account all employees of Seller and its Affiliates who provide more than de minimis services for the Business other than those employees listed on Schedule 8.1 pursuant to subparagraph (i) above) utilized in the Business for such job function. The determination of "Active Employees" shall include all full-time and part-time employees, employees on workers' compensation, military leave, maternity leave, leave under the Family and Medical Leave Act of 1993, short-term disability (except to the extent that any such employee subsequently goes on long-term disability due to the pre-Closing condition resulting in short-term disability leave), or layoff with recall rights, and employees on other approved leaves of absence with a legal or contractual right to reinstatement. Any individuals who would be "Transferred Employees" but for their being on long-term disability shall be offered a position by Buyer in the event they recover within twelve (12) months after the Closing Date; provided that if any such employee subsequently returns to long-term disability as a result of the pre-Closing condition resulting in such long-term disability, Seller shall be responsible for providing such coverage. Notwithstanding the foregoing, individuals who would otherwise be considered "Active Employees" but who are designated by Seller as "Retained Employees" on Schedule 8.1(a) shall not be considered "Active Employees" for purposes of this Agreement, and individuals who would not otherwise be considered "Active Employees" but who are designated by Seller as "Included Employees" on Schedule 8.1(b) shall be considered "Active Employees" for purposes of this Agreement. For a period of twelve (12) months following the Closing Date, Buyer shall not employ, and Buyer shall not permit any of its Affiliates to employ, any person who retires or otherwise terminates from any employment at or in association with the Business during the six-(6) month period beginning three (3) months before the Closing Date.

8.1.1 Assumption of Labor Contract Obligations. On and after the Closing Date, Buyer shall assume all of the employer's obligations under, and be bound by the provisions of, each Labor Contract covering Transferred Employees. Seller shall cooperate with Buyer in Buyer's efforts to contact the unions representing Transferred Employees. If a union representing Transferred Employees objects to Buyer's assumption of, or refuses to allow Buyer to assume, the provisions of any existing collective bargaining agreement that covers such Transferred Employees immediately before the Closing Date, or objects to any change in or termination of employee benefits on or after the Closing Date, Seller and its Affiliates shall have no liability or obligation to Buyer by reason of such objection or refusal.

8.1.2 Assumption of Employment and Other Agreements. On and after the Closing Date, except (a) as otherwise provided in this Agreement or in Schedule 8.1.2 or (b) to the extent arising as a result of the breach by Seller of the representations or covenants contained in Sections 4.1.9, 4.1.13 or 5.1.1 hereof, Buyer, as successor employer to Seller, shall assume all obligations under and be bound by the provisions of each offer of employment by Seller and its Affiliates relating to the Business, each Employment Agreement or any other agreement by Seller or any of its Affiliates relating to conditions of employment, Intellectual Property, employment separation, severance, or employee benefits in connection with the Business; provided, however, Seller and its Affiliates shall retain the right to enforce agreements relating to Intellectual Property. Schedule 8.1.2 lists the obligations, as of the date hereof, to be assumed by Buyer pursuant to this Section 8.1.2.

8.1.3 No Creation of Objection Rights. This Agreement does not create any right of an employee or union to object or to refuse to assent to the Seller's assignment of or Buyer's assumption of or succession to any Employment Agreement, Labor Contract, or other agreement relating to conditions of employment, employment separation, severance or employee benefits, nor shall this Agreement be construed as recognizing that any such rights exist.

8.1.4 Recognition of Transferred Employee Service. Except as otherwise provided herein, on and after the Closing Date, and subject to the provisions of any applicable collective bargaining agreement, Buyer shall recognize for all employment-related purposes the service of each Transferred Employee with Seller and its Affiliates. Schedule 8.1 shall list such service for each Transferred Employee. Except to the extent required by Section 8.2.1, Buyer shall not be required to credit any Transferred Employee with prior service for purposes of benefit accrual or contributions under any defined benefit pension plan or other retirement plan.

8.1.5 Assumption of Obligation to Pay Bonuses. Transferred Employees shall not accrue benefits under any employee benefit policies, plans, arrangements, programs, practices, or agreements of Seller or any of its Affiliates after the Closing Date. Buyer shall assume the obligation to pay to Transferred Employees a pro-rated portion of any bonuses that would have been payable to the Transferred Employees with respect to the calendar year in which the Closing Date occurs had the Transferred Employees remained employees of Seller or one of its Affiliates. Such pro-rated portion shall be equal to the portion of the bonus that would have accrued during the portion of the calendar year occurring after the Closing Date in accordance with the provisions of the applicable bonus policy, plan, arrangement, program, practice or agreement of Seller and its Affiliates. Seller shall pay the remaining pro-rated portion of such bonuses in the ordinary course and at the time such bonuses would have been paid without regard to this Agreement.

8.1.6 No Duplicate Benefits. Nothing in this Agreement shall cause duplicate benefits to be paid or provided to or with respect to a Transferred Employee under any employee benefit policies, plans, arrangements, programs, practices, or agreements. References herein to a benefit with respect to a Transferred Employee shall include, where applicable, benefits with respect to any eligible dependents and beneficiaries of such Transferred Employee under the same employee benefit policy, plan, arrangement, program, practice or agreement.

8.1.7 Affiliate Employees. If any employee identified in Schedule 8.1 is an employee of an Affiliate of Seller, he or she shall be considered a Transferred Employee and shall be treated under this Agreement in a manner that is comparable to the treatment given to the Transferred Employees who are employed by Seller. Seller and its Affiliates shall take and/or cause to be taken any action necessary to ensure that the Transferred Employees and any Included Employees are employed by or transferred to Seller no later than immediately prior to the Closing to allow Buyer to assume the employment obligations contemplated by Section 8.1.

8.2 Transferred Employee Benefit Matters.

8.2.1 Defined Benefit Plans.

(a) Management Employees. Effective immediately after the Closing Date, the Transferred Employees who participate in the Verizon GTE Service Corporation Plan for Employees' Pensions (the "Seller Salaried Pension Plan") will be eligible to participate under a tax-qualified defined benefit pension plan established or maintained by Buyer to the same extent (if any) as similarly-situated employees of Buyer. Such Transferred Employees shall receive credit for their service with Seller and its Affiliates under such Buyer pension plan for all purposes other than benefit accrual service. Other than direct rollover distributions, if any are permitted, no assets or liabilities will be transferred in connection with this Agreement from the Seller Salaried Pension Plan to Buyer or any benefit plan of buyer.

(b) Represented Employees. Buyer shall take all actions necessary and appropriate to ensure that, as soon as practicable after the Closing Date, Buyer maintains or adopts one or more pension plans (hereinafter referred to in the aggregate as the "Buyer Pension Plans" and individually as the "Buyer Pension Plan") and to ensure that each Buyer Pension Plan satisfies the following requirements as of the Closing Date: (i) the Buyer Pension Plan is a qualified, single-employer defined benefit plan under Section 401(a) of the Code; (ii) any Buyer Pension Plan that was in effect before the Closing Date shall not have any "accumulated funding deficiency," as defined in Section 302 of ERISA and Section 412 of the Code, whether or not waived, immediately before the Closing Date; (iii) the Buyer Pension Plan is not the subject of termination proceedings or a notice of termination under Title IV of ERISA; (iv) the Buyer Pension Plan does not exclude Transferred Employees who were participants in the "GTE Midwest Inc. Plan for Hourly-Paid Employees' Pensions" (the "Seller Hourly Pension Plan") on the Closing Date from eligibility to participate therein; (v) the Buyer Pension Plan does not violate the requirements of any applicable collective bargaining agreement; and (vi) with respect to Transferred Employees who were participants in the Seller Hourly Pension Plan on the Closing Date, the terms of the Buyer Pension Plan are substantially identical in all material respects to the terms of the Seller Hourly Pension Plan. Within the thirty (30) day period immediately preceding any transfer of assets and liabilities from the Seller Hourly Pension Plan to a Buyer Pension Plan pursuant to Section 8.2.1, Buyer shall provide Seller with a written certification, in a form acceptable to Seller, that the Buyer Pension Plan satisfies each of the requirements set forth in this Section 8.2.1(b).

(c) Transfer of Liabilities.

(i) Buyer shall cause the Buyer Pension Plans to accept all liabilities for benefits under the Seller Hourly Pension Plan whether or not vested, that would have been paid or payable (but for the transfer of assets and liabilities pursuant to this Section 8.2.1) to or with respect to the Transferred Employees under the terms of the Seller Hourly Pension Plan that have accrued under the Seller Hourly Pension Plan to or with respect to the Transferred Employees based on accredited service and compensation under the Seller Pension Plans as of the Closing Date.

(ii) For purposes of eligibility and vesting under the Buyer Pension Plans, each Transferred Employee whose accrued benefit is transferred from a Seller Hourly Pension Plan to a Buyer Pension Plan shall be credited with service and compensation as of the Closing Date as determined under the terms of the Seller Hourly Pension Plan. The benefit under the Buyer Pension Plan for each Transferred Employee who, on the Closing Date, participates in the Seller Hourly Pension Plan, shall be calculated under terms of the Buyer Pension Plan that are substantially identical in all material respects to the terms of the Seller Hourly Pension Plan.

(iii) As soon as practicable after the Closing Date, Seller shall deliver to Buyer a list reflecting each Transferred Employee's service and compensation under the Seller Hourly Pension Plan.

(d) Transfer of Assets.

(i) Seller shall direct the trustee of the Seller Hourly Pension Plan to transfer to the trustee or funding agent of the Buyer Pension Plan the amount required to be transferred by Section 414(1) of the Code and the regulations thereunder for all Transferred Employees whose accrued benefits are transferred to a Buyer Pension Plan pursuant to subsection

(c) of this Section 8.2.1, determined using the assumptions used by the PBGC with respect to a plan termination occurring on the Closing Date (the "Pension Assets"), as set forth on Schedule 8.2.1(d)(i), subject to any adjustment pursuant to subsection (d)(vi) of this Section 8.2. The Pension Assets shall be in the form of cash or marketable obligations. Under no circumstances shall Seller or the Seller Hourly Pension Plan be liable to transfer any additional amount to Buyer or a Buyer Pension Plan or any other Person in respect of the accrued benefits transferred to a Buyer Pension Plan pursuant to subsection (c) of this Section 8.2.1, including but not limited to any circumstance under which any Person (including a Governmental Authority) states a claim to some portion or all of the Pension Assets.

(ii) Seller shall appoint an actuary ("Seller's Actuary") to determine the amount to be transferred pursuant to subsection (d)(i) of this Section 8.2.1 and shall provide such determination to Buyer. Buyer shall appoint an actuary ("Buyer's Actuary") who shall have the right to audit and review the determination made by Seller's Actuary. Within thirty (30) days after the date Seller informs Buyer of the amount of the Pension Assets, Seller's Actuary shall provide Buyer's Actuary with a computer file containing all the employee data used by Seller's Actuary to calculate the Pension Assets. If Buyer's Actuary is unable to agree with Seller's Actuary on the amount of the transfer within sixty (60) days after Seller informs Buyer of the amount to be transferred, Seller and Buyer shall jointly select a third actuary, whose determination shall be binding on Seller and Buyer. Each of Seller and Buyer shall bear the fees, costs and expenses of their respective actuaries, and the fees, costs and expense of the third actuary shall be borne one-half by Seller and one-half by Buyer.

(iii) The Pension Assets shall be credited with interest from the Closing Date to the actual date of transfer at the assumed discount rate used in accordance with paragraph (i) of this subsection (d); provided that any Pension Assets that are distributed from the Seller Hourly Pension Plan before the date of transfer pursuant to subsection (d)(vi) of this Section 8.2.1 shall be credited with interest (such interest to be credited to the Buyer Pension Plans) only from the Closing Date to the date of distribution.

(iv) Under the terms of the Buyer Pension Plan, the accrued benefit of each Transferred Employee immediately after the transfer of assets and liabilities pursuant to this Section 8.2.1 shall not be less than the sum of each Transferred Employee's accrued benefits under the applicable Seller Hourly Pension Plan and the Buyer Pension Plan (if any) immediately before the transfer of assets and liabilities.

(v) In connection with the transfer of assets and liabilities pursuant to this Section 8.2.1, Seller and Buyer shall cooperate with each other in making all appropriate filings required by the Code or ERISA and the regulations thereunder, and the transfer of assets and liabilities pursuant to this Section 8.2.1 shall not take place until as soon as practicable after the latest of (A) the expiration of the thirty (30) day period following the filing of any required notices with the IRS pursuant to Section 6058(b) of the Code, or (B) the date Buyer has delivered to Seller (xx) a copy of the Buyer Pension Plan and a copy of the most recent determination letter from the IRS to the effect that the Buyer Pension Plan is qualified under Section 401(a) of the Code, together with documentation reasonably satisfactory to Seller of the due adoption of any amendments to the Buyer Pension Plan required by the IRS as a condition to such qualification and a certification from Buyer that no events have occurred that adversely affect the continued validity of such determination letter (apart from the enactment of any Federal law for which the remedial amendment period under Section 401(b) of the Code has not yet expired), and (yy) information enabling the enrolled actuary for the Buyer Pension Plan to issue the certification required by Section 6058(b) of the Code.

(vi) If, after the Closing Date and before the date of transfer of assets and liabilities from the Seller Hourly Pension Plan pursuant to this Section 8.2.1, the accrued benefit as of the Closing Date becomes payable under the Seller Hourly Pension Plan to or with respect to a Transferred Employee, Seller shall instruct the trustee of the Seller Hourly Pension Plan to pay such benefits, and the assets to be transferred from the Seller Hourly Pension Plan shall be reduced accordingly.

(vii) Seller, Buyer, the Seller Hourly Pension Plan and the Buyer Pensions Plans shall assist and cooperate with each other in the transfer of Pension Assets and the disposition of claims made under the Buyer Pension Plans and Sourly Hourly Pension Plan pursuant to this Section

8.2.1 and in providing each other with any record, documents or other information within its control that is reasonably requested by any other party as necessary to the disposition, settlement or defense of such claim.

8.2.2 Savings Plans.

(a) As of the date of this Agreement, Seller participates in the Verizon GTE Savings Plan and the Verizon GTE Hourly Savings Plan (collectively referred to as the "Seller Savings Plans"). Except as provided in subsection (c) below, Transferred Employees shall not be entitled to make contributions to or to benefit from matching or other contributions under the Seller Savings Plans on and after the Closing Date.

(b) Buyer shall take all action necessary and appropriate to ensure that, as of the Closing Date, Buyer maintains one or more savings plans (hereinafter referred to in the aggregate as the "Buyer Savings Plans" and individually as the "Buyer Savings Plan") that will accept rollovers from Transferred Employees who receive distributions from the Seller Savings Plans.

(c) Seller shall make all required matching contributions with respect to the Transferred Employees' contributions to the Seller Savings Plans that are (i) eligible for matching and (ii) made before the Closing Date. Such matching contributions shall be made not later than the date on which all other matching contributions are made to the Seller Savings Plans with respect to contributions made at the same time as the Transferred Employees' contributions.

8.2.3 Welfare Plans.

(a) Buyer shall take all action necessary and appropriate to ensure that, as soon as practicable after the Closing Date, Buyer maintains or adopts, as of the Closing Date, one or more employee welfare benefit plans, including medical, health, dental, flexible spending account, accident, life, short-term disability, and long-term disability and other employee welfare benefit plans for the benefit of (i) the non-bargained Transferred Employees (the "Non-Union Welfare Plans") and (ii) the union-represented Transferred Employees in accordance with the provisions of applicable collective bargaining agreements (the "Bargained Welfare Plans"). The Non-Union Welfare Plans and the Bargained Welfare Plans are hereinafter referred to collectively as the "Buyer Welfare Plans." The Buyer Welfare Plans shall provide as of the Closing Date pre-retirement benefits to Transferred Employees (and their dependents and beneficiaries) that, in the aggregate, are comparable to the pre-retirement benefits to which they were entitled under the corresponding employee welfare benefit plans maintained by Seller on the Closing Date (hereinafter referred to collectively as the "Seller Welfare Plans"). Any restrictions on coverage for pre-existing conditions or requirements for evidence of insurability under the Buyer Welfare Plans shall be waived for Transferred Employees, and Transferred Employees shall receive credit under the Buyer Welfare Plans for co-payments and payments under a deductible limit made by them and for out-of-pocket maximums applicable to them during the plan year of the Seller Welfare Plan in accordance with the corresponding Seller Welfare Plans. As soon as practicable after the Closing Date, Seller shall deliver to Buyer a list of each Transferred Employee's co-payment amounts, and deductible and out-of-pocket limits under the Seller Welfare Plans.

(b) (i) Except as otherwise provided in subsection

(b)(ii) of this Section (b) or in an applicable collective bargaining agreement, Buyer shall provide or cause to be provided retiree medical, health, and life benefits to each Transferred Employee under substantially comparable terms and conditions as apply to similarly situated employees of Buyer as of the date of this Agreement, and Seller shall have no obligation to provide retiree medical and life benefits to any Transferred Employee on or after the Closing Date.

(ii) Following the termination of employment from Buyer and its Affiliates of a Transferred Employee who is not covered by a Labor Contract and who, as of the Closing Date, has at least fifteen (15) years of accredited service (within the meaning of the Seller Salaried Pension Plan) and combined years of age and accredited service of at least 74 (within the meaning of the Seller Salaried Pension Plan), Seller shall provide or cause to be provided to each such Transferred Employee (or the dependents or beneficiaries of such Transferred Employee) retiree medical, health, and life benefits under the terms and conditions of the corresponding programs then offered by Seller to its similarly situated non-collectively bargained employees retiring at such time; provided that nothing in this subsection (b)(ii) shall be construed to prevent any such Transferred Employee (or his or her dependents or beneficiaries) from voluntarily relinquishing such benefits. Buyer shall reimburse Seller for the cost of the retiree medical, health and life coverage for which Seller is responsible and that Seller actually provides pursuant to this subsection (b)(ii). For each year for which Buyer is required to reimburse Seller under this subsection (b)(ii), Buyer shall pay Seller annually in arrears, within thirty (30) days after Seller provides a statement therefor to Buyer: (A) \$4,500 with respect to each eligible Transferred Employee who has not yet attained age 65 during the year for which the payment is made and \$4,500 with respect to each spouse who is covered with respect to an eligible Transferred Employee and who has not yet attained 65 during the year for which the payment is made, and (B) \$2,000 with respect to each eligible Transferred Employee who has attained at least age 65 during the year for which the payment is made and \$2,000 with respect to each spouse who is covered with respect to an eligible Transferred Employee and who has attained at least age 65 during the year for which the payment is made. No reimbursement shall be due with respect to any dependent, other than a spouse, covered with respect to an eligible Transferred Employee. The reimbursement obligation for partial years shall be prorated based on the portion of the year covered by the obligation.

(c) Seller, Buyer, their respective Affiliates, and the Seller Welfare Plans and the Buyer Welfare Plans shall assist and cooperate with each other in the disposition of claims made under the Seller Welfare Plans or the Buyer Welfare Plans and in providing each other with any records, documents, or other information within its control or to which it has access that is reasonably requested by any other as necessary or appropriate to the disposition, settlement, or defense of such claims.

(d) Except for the Flexible Reimbursement Plan (the "FRP") account balances described in Section 8.2.3(e), nothing in this Agreement shall

require Seller or its Affiliates to transfer assets or reserves with respect to the Seller Welfare Plans to Buyer or the Buyer Welfare Plans.

(e) As of the Closing Date, Seller shall cause the portion of the FRP applicable to Transferred Employees to be segregated into a separate component and all account balances of the Transferred Employees in the FRP shall be transferred to a flexible reimbursement plan that Buyer shall cause to be maintained for the duration of the calendar year in which the Closing Date occurs.

8.3 Severance Benefits. On and for a period of at least three (3) years after the Closing Date, Transferred Employees not subject to a collective bargaining agreement shall be eligible for benefits under a Buyer severance or separation pay policy or plans that provides a benefit of two weeks of base compensation for each year of service (plus a prorated amount for each partial year of service, such service determined by taking into account service with Seller and its Affiliates and service with Buyer and its Affiliates), up to a maximum of fifty-two (52) weeks, to employees who separate from service for any reason other than cause; provided that the amount of the severance benefit shall not be less than the executive minimum severance benefit for the employees listed on Schedule 8.3. Except as specifically provided otherwise in the relevant Seller severance pay plan, each Transferred Employee listed on Schedule 8.1 shall be treated as a "Transferred Employee" for purposes of the Seller Salaried Pension Plan and shall not be entitled to severance benefits (including under the Qualified Involuntary Separation Program) from Seller or any plan or policy it maintains. Seller shall take any actions necessary or appropriate in respect of the immediately preceding sentence.

8.4 Vacation Benefits. On or after the Closing Date, Buyer shall allow Transferred Employees to receive paid time off in the calendar year of the Closing for any unused vacation time accrued prior to the Closing Date. Seller and its Affiliates shall have no liability to Transferred Employees for the vacation payments described the immediately preceding sentence. Seller shall pay Transferred Employees any banked vacation on or as soon as practicable after the Closing Date, and Buyer shall have no liability for such banked vacation benefits. Schedule 8.1 referenced above shall list the accrued but unused vacation pay, as of the Closing Date, of each Transferred Employee for the calendar year in which the Closing Date occurs.

8.5 Employee Rights. Nothing herein expressed or implied shall confer upon any employee of Seller or its Affiliates, or Buyer or its Affiliates, or upon any legal representative of such employee, or upon any collective bargaining agent, any rights or remedies, including any right to employment or continued employment for any specified period, of any nature or kind whatsoever under or by reason of this Agreement. Nothing in this Agreement shall be deemed to confer upon any person (nor any beneficiary thereof) any rights under or with respect to any plan, program, or arrangement described in or contemplated by this Agreement, and each person (and any beneficiary thereof) shall be entitled to look only to the express terms of any such plan, program, or arrangement for his or her rights thereunder. Nothing in this Agreement shall cause Buyer or its Affiliates, nor Seller or its Affiliates to have any obligation to provide employment or any employee benefits to any individual who is not a Transferred Employee or, except as otherwise provided in Section 8.1.2 with respect to employment agreements, to continue to employ any Transferred Employee for any period of time following the Closing Date.

8.6 Successors and Assigns. In the event Buyer or any of its successors and assigns (a) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity in such consolidation or merger or (b) transfers all or substantially all of its properties and assets to any Person, then, and in each case, proper provision shall be made so that such successors and assigns of Buyer honor the obligations of Buyer and its Affiliates set forth in this Article VIII. In the event Buyer outsources any of the Transferred Employees during the three-year period described in Section 8.3, and such employees are not paid a severance benefit in accordance with Section 8.3, then, and in each case, proper provision shall be made so that the outsourcing vendor maintains a severance pay plan or policy that provides a severance benefit for each Transferred Employee who is involuntarily terminated by the outsourcing vendor during such three-year period, which benefit is the same as the severance benefits that would otherwise have been provided to such employees in accordance with Section 8.3. For purposes of this Section 8.6, a Transferred Employee shall be considered to have been outsourced if the employee is hired by the outsourcing vendor pursuant to or in connection with an agreement entered into between Buyer or any of its Affiliates and the outsourcing vendor whereby the outsourcing vendor will provide services to or for the Buyer or any of its Affiliates.

ARTICLE IX CONTINUING BUSINESS RELATIONSHIPS

9.1 Transition Plan Support Agreement. The parties agree to cooperate with one another to ensure that the transition of the ownership of the Acquired Assets proceeds with minimal disruption to the services being provided to subscribers in the Seller Exchanges. The parties agree that it may be necessary for Seller to assist Buyer in converting Seller's systems and processes with respect to the Acquired Assets to Buyer's systems and processes. Seller and Buyer agree to execute on or before the Closing Date a separate "Transition Plan Support Agreement" substantially in the form attached hereto as Exhibit E for the provision of such services.

9.2 Directory Publishing.

9.2.1 Certain Directory Publishing Agreement Rights and Obligations. Seller is party to that certain publishing agreement dated January 1, 2000 with Verizon Information Services Inc. f/k/a GTE Information Services Incorporated ("Publisher"). Pursuant to this agreement Publisher has the right to sell advertising, and the obligation to publish, print and distribute directories containing telephone numbers relating to the Seller Exchanges. Buyer and Publisher shall execute a new publishing agreement on or before the Closing Date effective as of the Closing as it relates to the Seller Exchanges, which agreement shall be substantially in the form attached hereto as Exhibit D (the "Publishing Agreement"). Such Publishing Agreement shall provide Buyer with a fifty-two percent (52%) revenue share in print directory advertising for the period after Closing for all directories in use at the time of Closing (i.e., having been published within the twelve (12) month period prior to the Closing Date), and those Verizon-branded directories in current sales campaigns or post-sales publishing cycles at Closing.

9.2.2 Co-Bound Directories Acknowledgement. Buyer acknowledges that Publisher may have a pre-existing obligation (which Publisher may choose to continue) to sell advertising, publish, print and distribute the telephone numbers of third party local exchange telephone companies in the same directory as the Seller Exchanges ("Co-Bound Directory"). Verizon Information Services Inc. has informed Seller that all such arrangements are as set forth on Schedule 9.2.2 and, to Seller's knowledge, no arrangements exist except as are identified on Schedule 9.2.2.

ARTICLE X ADDITIONAL AGREEMENTS OF THE PARTIES

10.1 Intellectual Property.

10.1.1 No License. Buyer and Seller acknowledge and agree that, except and to the extent expressly set forth in writing in the License Agreement and in Section 10.1.3, Seller has not granted any rights or licenses, express or implied, and nothing shall constitute or be construed as a license or other right by Seller under any Intellectual Property now or hereafter owned, obtained or licensable by Seller or under any Third Party Intellectual Property.

10.1.2 Infringement.

(a) Notwithstanding anything in this Agreement to the contrary, Seller shall have no obligation to defend, indemnify or hold harmless Buyer, any of its Affiliates or any of their customers, from any damages, costs or expenses resulting from any obligation, proceeding or suit based upon any claim that any activity subsequent to the Closing Date engaged in by Buyer, a customer of Buyer's, or anyone claiming under Buyer, constitutes direct or contributory infringement, misuse or misappropriation of, or inducement to infringe, any Third Party Intellectual Property.

(b) Buyer shall defend, indemnify and hold harmless Seller and its Affiliates from and against any and all Indemnifiable Losses resulting from any obligation, proceeding or suit based upon any claim alleging or asserting direct or contributory infringement, or misuse or misappropriation of, or inducement to infringe by Seller or any of its Affiliates of any Third Party Intellectual Property, to the extent that such claim is based on, or would not have arisen but for, activity conducted or engaged in subsequent to the Closing Date by Buyer, a customer of Buyer's or anyone claiming under Buyer.

10.1.3 Trademark Phaseout.

(a) Buyer acknowledges and agrees that Seller or its Affiliates are the legal and beneficial owners of Excluded Marks that qualify as Excluded Assets under Section 2.1.2. Buyer acknowledges and agrees that the Excluded Marks, or any right to or license of the Excluded Marks, including any right to use, are not being transferred or conveyed to Buyer pursuant to this Agreement. Buyer acknowledges the exclusive and proprietary rights of Seller and its Affiliates in the use of the Excluded Marks, and Buyer agrees that it shall not use the Excluded Marks (or any names, domain names, marks or indicia confusingly similar to the Excluded Marks) except and to the extent expressly set forth in this Section 10.1.3, or otherwise assert any rights or claims in such Excluded Marks (or in any names, domain names, marks or when confusingly similar to the Excluded Marks). Except as set forth in the last sentence of this Section 10.1.3(a), after the Closing, all Excluded Marks of Seller and its Affiliates shall be replaced by Buyer, at Buyer's expense, as soon as possible, but in no event later than ninety (90) days after the Closing Date (the "Phaseout Period") for items existing as of the Closing Date with Excluded Marks affixed to them which Buyer has continued to use in Buyer's operation of the Business, including buildings, vehicles, heavy equipment, hard hats, tools, tool boxes, kits (safety and others) signs, public (pay) telephones, manual covers and notebooks. After the Closing, Buyer will not use, and will immediately destroy or deliver to Seller, all items with Excluded Marks affixed to them that have no valid continuing use in Buyer's operation of the Business, including items affecting customer or employee relations or items that do not reflect Buyer's true identity. Specific items to be destroyed or returned include giveaways; order, purchase or materials forms; requisitions; invoices; statements; time sheets/labor reports; bill inserts; stationery; personalized note pads; business cards; maps; organization charts; bulletins/releases; sales/price literature; manuals or catalogs; report covers/folders; program materials; and materials such as media contact lists/cards. The Phaseout Period for replacement of Excluded Marks affixed to telephone directories that were already published or closed for publication at the Closing Date shall be extended to the expiration date of such directories.

(b) Buyer recognizes the great value of the goodwill associated with the Excluded Marks, and acknowledges and agrees that the Excluded Marks and all rights therein and the goodwill pertaining thereto belong exclusively to Seller and that the Excluded Marks have a secondary meaning in the minds of the public. Buyer further agrees that any and all permitted use of the Excluded Marks pursuant to this Agreement shall inure to the sole and exclusive benefit of Seller.

(c) Buyer agrees that any permitted use of the Excluded Marks in the operation of the Business after the Closing shall be provided in accordance with all applicable federal, state and local Laws, and to the additional terms and conditions as set forth in the License Agreement and that the same shall not reflect adversely upon the good name of Seller or its Affiliates, and that the operation of the Business will be of a high standard and skill.

(d) Buyer acknowledges that its failure to cease use of the Excluded Marks as provided in this Agreement, or its improper use of the Excluded Marks, will result in immediate and irreparable harm to Seller and its Affiliates. Buyer acknowledges and admits that there is no adequate remedy at law for such failure to terminate use of the Excluded Marks, or for such improper use of the Excluded Marks. Buyer agrees that in the event of such failure or improper use, Seller and its Affiliates shall be entitled to equitable relief by way of temporary restraining order, or preliminary or permanent injunction, or any other relief available under this Agreement.

(e) Neither Buyer nor its Affiliates shall contest the ownership or validity of any rights of Seller or its Affiliates in the Excluded Marks.

10.1.4 Third Party Software. To the extent that the transfer of Acquired Assets by Seller to Buyer under this Agreement results in the transfer of possession to Buyer of software that, at the Closing Date, is Third Party Intellectual Property, which software was located in and rightfully used by Seller in the geographical area of the Seller Exchanges prior to the Closing Date in the normal and ordinary operation of the Business pursuant to Contracts with the owners or licensors of such software ("Third Party Intellectual Property Contracts"), Seller agrees to provide reasonable assistance to Buyer in securing license rights in such Third Party Intellectual Property on terms and conditions similar to those set forth in the Third Party Intellectual Property Contracts; provided, however, Seller agrees to assign to Buyer, at Buyer's expense, the Third Party Intellectual Property Contracts with Switch Software Vendors for the Switch Software used with the Acquired Assets, to the extent Seller has the right or obtains the right to do so, and Buyer agrees to comply with the terms and conditions of such Third Party Intellectual Property Contracts and to indemnify Seller for any breaches thereof or failures to comply therewith from and after the Closing. Such Third Party Intellectual Property Contracts with Switch Software Vendors are as set forth on Schedule 10.1.4. Buyer understands and agrees that, except and to the extent the Third Party Intellectual Property Contracts for such Switch Software are assigned to Buyer, no rights or licenses to use or possess such software or any Third Party Intellectual Property are transferred to Buyer. Buyer shall properly dispose of, and shall not use, any software or other Third Party Intellectual Property of which Buyer acquires possession or control in connection with Acquired Assets unless and to the extent Buyer enters into written agreements with such third parties for the use of such software or other Third Party Intellectual Property. Seller makes no warranty or representation as to any matter relating to Third Party Intellectual Property or Third Party Intellectual Property Contracts.

10.2 Confidentiality. Whether or not the Closing occurs, the parties and their respective officers, directors, employees and representatives shall comply with the Non-Disclosure Agreement, the provisions of which are expressly incorporated herein in their entirety by this reference.

10.3 Further Assurances. For a period of one hundred eighty (180) days after the Closing, Seller shall use its commercially reasonable efforts to furnish to Buyer such other instruments and information as Buyer may reasonably request in order to convey to Buyer title to the Acquired Assets, to be delivered from time to time upon Buyer's reasonable request.

10.4 Prorations.

(a) Subject to the limitations set forth in this Section 10.4(a), any liability that calls for periodic payments shall be prorated between Seller and Buyer including, without limitation: (i) utility charges (which shall include water, sewer, electricity, gas and other utility charges) with respect to the Owned Real Property, the property subject to the Real Property Leases and customer owned equipment, (ii) rental charges (which shall include rental charges and other lease payments under the Real Property Leases), (iii) personal services (where the services charged for straddle the period both before and after the Closing Date, including charges for contract labor), and (iv) real and personal property taxes, ad valorem taxes and other similar taxes imposed on a periodic basis, (v) franchise fees, regulatory assessments or taxes and (vi) such other liability that individually calls for periodic payments in excess of Ten Thousand Dollars (\$10,000). With respect to measurement periods during which the Closing Date occurs (all such periods of time being hereinafter called "Proration Periods"). The liabilities described in clauses (i), (ii), (iii), (v) and (vi) of the preceding sentence shall be apportioned between Seller and Buyer as of the Closing Date, with Buyer bearing only the expense thereof in direct proportion to the number of days remaining in the applicable Proration Period including and following the Closing Date in comparison to the total number of days covered by such Proration Period. The liabilities described in clause (iv) of the preceding sentence shall be prorated between Buyer and Seller based on the relative periods the Acquired Assets was owned by each respective party during the fiscal period for which such taxes were imposed by the taxing jurisdiction (as such fiscal period is reflected on the bill rendered by such taxing jurisdiction). Buyer and Seller shall pay or be reimbursed for real and personal property taxes (including instances in which such property taxes have been paid before the Closing Date) on this prorated basis. If a payment on a tax bill is due after the Closing, the party that is legally required to make such payment shall make such payment and promptly forward an invoice to the other party for its pro rata share, if any. If the other party does not pay the invoice within thirty (30) calendar days of receipt, the amount of such payment shall bear interest at the Applicable Rate. Similarly, all prepayments made by Seller with respect to service or maintenance agreements with third parties or license or other fees payable to third parties and assigned to Buyer hereunder shall be prorated on an appropriate basis between Seller and Buyer.

(b) Notwithstanding the foregoing provisions of Section 10.4(a), Seller shall not be responsible to pay, or to indemnify Buyer for, any federal universal service fund charge which is due after the Closing Date with respect to the Business, and all such charges shall be the responsibility of Buyer and shall be considered to be Assumed Liabilities which are described in Section 2.3.1. For purposes of the immediately preceding sentence, the due date of a federal universal service fund charge shall be the date by which payment of such charge must be received by the Universal Service Administrative Company ("USAC"), or any successor thereto, in order to avoid late payment charges, as per the statement of account from USAC. Notwithstanding the foregoing provisions of this Section 10.4 (b), (i) Seller shall be responsible to pay and shall indemnify Buyer for any billed federal universal service fund charge with respect to the Business for every month reflected on such statement of account that ends on or prior to the Closing Date and for the pro rata portion of any month during which the Closing Date occurs; and (ii) Buyer shall be responsible to pay and shall indemnify Seller for any billed federal universal service contribution liability assessed by USAC with respect to the Business for every month reflected on such statement of account that ends after the Closing Date and for the pro rata portion of any month during which the Closing Date occurs, it being understood by Buyer that such assessments may be based on operations of the Business prior to the Closing Date.

10.5 Cost Studies/Toll and Access Settlement Matters.

10.5.1 Prior to Closing. Seller agrees that, with respect to all toll, access or other such revenues or expenses, settlements, pools, separations studies, USF funds or similar activities, Seller shall be responsible for (and shall receive the benefit or suffer the burden of) any payment adjustments to contributions, or receipt of funds resulting from any such activities that are related to the operation of the Business or the ownership or operation of the Acquired Assets on or prior to the Closing Date and as a result of this transaction, and in accordance with FCC rules and regulations in effect at the Closing Date. Specifically, this paragraph shall apply, but shall not be limited to, any matters related to USAC, the National Exchange Carrier Association ("NECA") including the Universal Service Fund ("USF"), Long Term Support ("LTS"), Local Switching Support ("LSS"), Coalition for Affordable Local and Long Distance Service ("CALLS") interstate access fund and Telecommunications Relay Services funds established by the FCC.

10.5.2 From and After Closing.

(a) Upon Closing, Seller shall direct all appropriate Persons that all payments discussed in Section 10.5.1 that relate to the operation of the Business after the Closing Date with respect to the Study Area(s) comprising the Seller Exchanges shall be paid to Buyer. In the event any such Person fails to make such payment to Buyer and pays Seller, Seller shall immediately deliver such funds to Buyer.

(b) From and after Closing, the parties shall make all data and other submissions required by FCC rules with respect to USF and other high cost reimbursement programs. The parties shall cooperate and provide any data or information related to the foregoing as may reasonably be requested by the other party hereto.

10.6 Access to Books and Records.

10.6.1 Retention Period. After the Closing, Seller shall retain all Retained Books and Records for a period of three (3) years, except for Tax returns and supporting documentation which shall be retained until sixty (60) days after the expiration of the applicable statute of limitations, and Buyer shall retain all Transferred Books and Records for a period of five (5) years.

10.6.2 Access. After the Closing, upon reasonable notice and subject to the Non-Disclosure Agreement, the parties will give to the representatives, employees, counsel and accountants of the other access, during normal business hours, to books and records relating to the Business and the Acquired Assets, and will permit such persons to examine and copy such records, in each case to the extent reasonably requested by the other party in connection with Tax and financial reporting matters (including appropriate portions of Tax Returns and related information, but not attorney work product), audits, legal proceedings, governmental investigations and other proper business purposes (including such financial information and any receipts evidencing payment of Taxes as may be requested by Seller to substantiate any claim for Tax credits or refunds); provided, however, that nothing contained herein shall obligate any party to take actions that would unreasonably disrupt the normal course of its business or violate the terms of any agreement to which it is a party or to which it or any of its assets is subject. Seller and Buyer will cooperate with each other in the conduct of any Tax audit or similar proceedings involving or otherwise relating to the Business (or the income therefrom or assets thereof) with respect to any Tax, and each will execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this Section 10.6.2.

10.7 Purchase Price Allocation.

(a) Within ninety (90) days after the Closing Date, Buyer shall provide to Seller a draft Purchase Price allocation (the "Purchase Price Allocation"). Seller shall propose to Buyer any changes in the draft Purchase Price Allocation within 30 days of the receipt thereof. In the event that no such changes are proposed in writing to Buyer within such time, Seller shall be deemed to have agreed to the Purchase Price Allocation. If any such changes are proposed, Seller and Buyer shall negotiate in good faith and shall use their reasonable efforts to agree upon the final Purchase Price Allocation. Notwithstanding the foregoing, if Seller and Buyer cannot agree upon a Purchase Price Allocation, Seller and Buyer covenant and agree to file, and cause their respective Affiliates to file, all Tax Returns consistent with each of Seller's and Buyer's good faith allocations, unless otherwise required by law. For purposes of this subsection 10.7(a), the Purchase Price Allocation shall be done in a manner consistent with section 1060 of the Code and the Treasury regulations promulgated thereunder.

(b) If Seller and Buyer reach an agreement on the Purchase Price Allocation as provided above, Seller and Buyer agree to act in accordance with such Purchase Price Allocation for all purposes, including for purposes of any Tax Return. Except as otherwise required by a Governmental Authority or by a Taxing authority pursuant to a "determination" as defined in Section 1313(a) of the Code (or any comparable provision of state, local or foreign law) or the execution of an IRS Form 870-AD, Seller and Buyer agree to report the transactions contemplated by this Agreement in a manner consistent with such Purchase Price Allocation, and agree not to take any position on any Tax Return inconsistent therewith, and to conduct any audit, Tax proceeding or Tax litigation relating thereto in a manner consistent with such Purchase Price Allocation.

(c) The Purchase Price Allocation shall be adjusted if the Purchase Price is adjusted under any provision of this Agreement.

10.8 Owned Real Property Transfers. Within ninety (90) days of the date of this Agreement, Seller shall deliver to Buyer copies of all existing title insurance policies covering the Owned Real Property. Thereafter, no later than sixty (60) days before the estimated Closing Date, Seller shall deliver (at its expense) to Buyer a preliminary title binder (on a standard form) issued by a title insurance company reasonably acceptable to Buyer, solely with respect to the Owned Real Property included in the Acquired Assets and in which Seller purports to own fee title which (a) is presently used by Seller as a central office facility, (b) is requested by Buyer as a requirement of any financing for all or a significant part

of the Purchase Price or (c) such other Owned Real Property as expressly set forth on Schedule 10.8. To the extent Buyer requests preliminary title binders for Owned Real Property in addition to the Owned Real Property identified in subparts (a) and (b) of the preceding sentence, then Seller and Buyer shall each bear fifty percent (50%) of the costs and expenses associated therewith. Such title binders shall be reasonably satisfactory to counsel for Buyer, subject to the standard exceptions set forth in the following sentence. Such title binders shall reflect that, upon consummation of the sale contemplated by this Agreement, Buyer will be vested with good, fee simple, indefeasible and insurable title to such Owned Real Property, subject only to Permitted Encumbrances. If a preliminary title binder indicates an exception other than a Permitted Encumbrance, Seller shall, at its expense, use its commercially reasonable efforts to cause such exception to be removed on or before the Closing Date. With respect to each parcel of Owned Real Property covered by a preliminary title binder, the amount of title insurance provided by Seller shall be the fair market value of the property, which shall be determined by Buyer at its sole cost and expense using commercially reasonable methods of valuation, provided that all such valuations shall be consistent with all allocations of the Purchase Price made hereunder or pursuant to this Agreement. Seller shall also deliver to Buyer (at Seller's expense and on or prior to the Closing Date) a certified current survey. By no later than forty-five (45) days after the Closing Date, Seller shall deliver to Buyer a final title insurance policy paid for by Seller covering the Owned Real Property included in the preliminary title binder.

10.9 Transaction Taxes and Tax Refunds.

(a) Buyer shall bear and be responsible for paying any sales, use, stamp, conveyance, transfer, documentary, registration, business and occupation and other similar taxes (including related penalties additions to tax and interest) imposed by any Governmental Authorities with respect to the transfer of the Business and/or the Acquired Assets to Buyer (including the Owned Real Property) ("Transaction Taxes"), regardless of whether the Governmental Authority seeks to collect such taxes from Seller or Buyer. Buyer shall also be responsible for (i) administering the payment of such Transaction Taxes, (ii) defending or pursuing any proceedings related thereto, and (iii) paying any expenses related thereto. Seller shall give prompt written notice to Buyer of any proposed adjustment or assessment of any Transaction Taxes with respect to the transaction, or of any examination of said transaction in a sales, use, transfer or similar tax audit. In any proceedings, whether formal or informal, Seller shall permit Buyer to participate and control the defense of such proceeding, and shall take all actions and execute all documents required to allow such participation. Seller shall not negotiate a settlement or compromise of any Transaction Taxes without the written consent of Buyer, which consent shall not be unreasonably withheld.

(b) Buyer shall cooperate with all reasonable requests made by Seller with respect to pursuing any Tax refund, including the filing of refund claims and of amended Tax Returns.

10.10 Bulk Sales Laws. Seller and Buyer waive compliance with applicable Laws under any version of Article 6 of the Uniform Commercial Code adopted by any state or any similar Law relating to the sale of inventory, equipment or other assets in bulk in connection with the sale of the Acquired Assets.

10.11 Prepaid Non-Regulated Maintenance Agreements. Within thirty (30) days following Closing, Seller shall provide reasonably detailed supporting documentation related to and pay to Buyer an amount equal to the pro rata portion of all prepaid but unearned revenues from Seller's customers for all non-regulated maintenance agreements assumed by Buyer hereunder as of the Closing Date.

10.12 Vehicle Registration. Buyer shall use its commercially reasonable efforts to file promptly the appropriate vehicle title applications and registrations to change the name of the titled owner on each vehicle title certificate and change the motor vehicle registration (with respect to license plate information) on each vehicle being transferred to Buyer from Seller pursuant to this Agreement. Buyer shall remove and destroy Seller's existing license plates from all vehicles received upon the later of receipt of new license plates or ninety (90) days following Closing.

10.13 CABS Accounts Receivable Transition. Seller shall render its own final bills for minutes, messages and other applicable charges billable through CABS for periods prior to and including the Closing Date. Seller shall be responsible for collecting and settling any disputes associated with its final CABS bills.

10.14 CBSS and SSB Billing and Accounts Receivable Transition. Buyer shall purchase Seller's CBSS Accounts Receivable and SSB Accounts Receivable and make payment to Seller for those accounts in the manner described below.

10.14.1 Transfer of Records. Seller shall transfer to Buyer, as soon as reasonably available after Closing, all customer account records related to CBSS and SSB as of the Closing Date. Following the Closing, Buyer will be responsible for administering those records including the application of cash receipts to customer accounts, whether related to services rendered before or after the Closing, and submission of appropriate accounts to customary collection treatment, including collection efforts by external collection agents. Seller will promptly forward to Buyer the customer payments and related remittance documents received by Seller with respect to such end-user customer accounts after the Closing for processing by Buyer.

10.14.2 Settlement of Accounts Receivable. Within twenty (20) days following the Closing, Seller shall provide an accounting to Buyer of the CBSS Accounts Receivable and SSB Accounts Receivable, the Customer Prepayments and the resulting calculation of the CBSS Accounts Receivable Amount and SSB Accounts Receivable Amount based on the CBSS Uncollectible Factor and the SSB Uncollectible Factor respectively, which shall be summarized in an accounts receivable settlement statement (the "Accounts Receivable Settlement Statement"). Within thirty (30) days following the Closing, Buyer shall remit to Seller an amount equal to eighty percent (80%) of the aggregate of the CBSS Accounts Receivable Amount and SSB Accounts Receivable Amount less the full amount of the Customer Prepayments. Within sixty (60) days following the Closing, Buyer shall remit an additional fifteen percent (15%) of the aggregate of the CBSS Accounts Receivable Amount and SSB Accounts Receivable Amount and within ninety (90) days will remit the final five percent (5%). In the event Seller fails to

deliver the Accounts Receivable Settlement Statement within the time period set forth herein, Buyer shall be entitled to delay its payment obligations pursuant to this Section 10.14 for the number of days equal to the period of Seller's delay.

10.14.3 Updated Statements. Not later than ten (10) days prior to the due dates for the payments referred to in Section 10.14.2 above, Seller shall provide Buyer with an updated Accounts Receivable Settlement Statement reflecting any adjustments based upon non-sufficient funds checks, billing adjustments or other facts that have become known after the original statement that relate to pre-closing activity.

10.14.4 Resolution of Material Discrepancies. If at any time during the ninety (90) day period following the Closing, Buyer or Seller discovers any material discrepancy in the Accounts Receivable Settlement Statement, Seller and Buyer shall use commercially reasonable efforts to resolve any discrepancy in a timely manner, and further agree to make payments related to any undisputed amounts as set forth above.

10.14.5 Exclusive Remedies. The parties agree that the provisions of this Section 10.14 set forth the sole and exclusive remedy for any claim (whether such claim is framed in tort, contract or otherwise) regarding the CBSS Accounts Receivable and SSB Accounts Receivable, and Buyer shall not be entitled to seek indemnification pursuant to Article VII for a breach of any representation, warranty, covenant or other agreement contained herein.

10.15 Environmental Remediation. Subject to the provisions of Section 2.3.2(e), in the event that any Owned Real Property, Leased Real Property and/or Real Estate Interests transferred by Seller to Buyer pursuant to this Agreement requires remediation (including as the result of regulatory action by any Governmental Authority), either as the result of a claim made by Buyer pursuant to Section 7.2 or as the result of a Retained Liability, then Seller shall determine, in its discretion, the appropriate remedial activities (the "Remediation Activities"), provided, that such Remediation Activities are in compliance with any applicable Requirement of Law, and provided further, that such Remediation Activities permit Buyer to use the affected property in a manner consistent with Seller's use of such property as of the date hereof. Buyer shall provide Seller and Seller's agents such access to the affected property as Seller reasonably requests to perform the Remediation Activities. Buyer shall sign any and all documents that Seller or its agents state are reasonably necessary to carry out the Remediation Activities, provided that such documents do not require Buyer to undertake additional obligations or liabilities (other than those obligations or liabilities for which Seller agrees to indemnify Buyer). Buyer shall not interfere with Seller's Remediation Activities or Seller's efforts to gain the approval of any Governmental Authority to perform such Remediation Activities in accordance with this Agreement.

10.16 Customer Deposits. Within thirty (30) days after Closing, Seller shall transfer to Buyer the customer deposits together with any interest accrued thereon (collectively, the "Customer Deposits") for the period ending on the Closing Date, together with all of Seller's rights and obligations to hold the Customer Deposits of the Business. Buyer shall hold and disburse such Customer Deposits so delivered to it as if it were Seller.

ARTICLE XI TERMINATION

11.1 Termination Rights. Anything herein or elsewhere notwithstanding, this Agreement may be terminated, subject to the provisions of Section 11.2 below, at any time prior to the Closing Date only as follows:

(a) by mutual written consent of Seller and Buyer;

(b) by Buyer if any of the conditions provided in Sections 6.1 and 6.3 of this Agreement have not been satisfied within twelve (12) months after the date hereof and such conditions have not been waived by Buyer; provided, however, such period shall be extended to eighteen (18) months solely with respect to the FCC Consent and/or the Regulatory Approvals on terms in accordance with the provisions of Section 6.3.2.

(c) by Seller if any of the conditions provided in Sections 6.2 and 6.3 of this Agreement have not been satisfied within twelve (12) months after the date hereof and such conditions have not been waived by Seller; provided, however, such period shall be extended to eighteen (18) months solely with respect to the FCC Consent and/or the Regulatory Approvals on terms in accordance with the provisions of Section 6.3.2.

(d) by Seller (i) if any obligations of Buyer provided in Article 3 become incapable of being fulfilled in the reasonable judgment of Seller, (ii) upon Buyer's failure or inability to comply with the provisions of Section 5.2.3 or (iii) upon Seller's receipt of the notice required by the last sentence of Section 5.2.3 and Buyer's failure to obtain substitute Highly Confidential Letters within thirty (30) days thereafter;

(e) by Buyer or Seller if any Governmental Authority (i) shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and nonappealable or (ii) shall have failed to issue by the date which is eighteen (18) months after the date hereof, an order, decree or ruling or to take any other action, as applicable, and such denial of a request to issue such order, decree, ruling or take such other action shall have become final and nonappealable, in the case of each of (i) and (ii) which is necessary to fulfill the conditions set forth in Article VI.

11.2 Good Faith Performance. Neither party shall be entitled to exercise any right of termination pursuant to section 11.1 above if such party shall not have performed diligently and in good faith the obligations required to be performed by such party hereunder prior to the date of termination or whose failure to comply with Section 5.3 has been the proximate cause of such action or inaction.

11.3 Effect of Termination.

11.3.1 Mutual Termination or Termination upon Governmental Order. If this Agreement is terminated as a result of Section 11.1(a) or 11.1(e), this Agreement shall be of no further force and effect and there shall be no further liability hereunder (except the obligations under the Non-Disclosure Agreement and the liability for breach of such obligations) on the part of either party or their respective Affiliates, directors, officers, shareholders, agents or other representatives. Upon such termination, Seller shall within five (5) Business Days deliver to Buyer either (a) the Deposit, together with interest at the Applicable Rate as provided in Section 3.4.1, or (b) the Deposit L/C.

11.3.2 Termination by Buyer. If this Agreement is terminated by Buyer pursuant to Section 11.1(b), this Agreement shall be of no further force and effect and there shall be no further obligations or liability hereunder (except the obligations under the Non-Disclosure Agreement and the liability for breach of such obligations) on the part of either party or their respective Affiliates, directors, officers, shareholders, agents or other representatives; provided, however, that no such termination shall relieve Seller of liability for any claims, damages or losses suffered by Buyer as a result of the negligent or willful failure of Seller to perform any obligations required to be performed by it hereunder on or prior to the date of termination.

11.3.3 Termination by Seller. If this Agreement is terminated by Seller pursuant to Section 11.1(c) or (d), this Agreement shall be of no further force and effect, and except as provided in this Section 11.3.3, there shall be no further obligations or liability hereunder (except the obligations under the Non-Disclosure Agreement and the liability for breach of such obligations) on the part of either party or their respective Affiliates, directors, officers, shareholders, agents or other representatives; provided, however, that no such termination shall relieve Buyer of liability for any claims, damages or losses suffered by Seller as a result of the negligent or willful failure of Buyer to perform any obligations required to be performed by it hereunder on or prior to the date of termination. Notwithstanding anything to the contrary in Section 7.3, in the event of termination pursuant to Section 11.1(d), Seller shall be entitled to retain the Deposit as liquidated damages and as Seller's exclusive remedy.

11.3.4 Compliance with Non-Disclosure Agreement. Upon any termination of the Agreement, each of the parties shall promptly comply with the obligations of the Non-Disclosure Agreement regarding return or destruction of Evaluation Material of the other party.

11.3.5 Survival. Notwithstanding anything to the contrary contained herein, the provisions of this Section 11.3 and of Sections 12.1, 12.2, 12.3, 12.8, 12.11, 12.13 and 12.14, shall survive any termination of this Agreement.

ARTICLE XII MISCELLANEOUS

12.1 Notices. All notices and other communications required or permitted hereunder shall be in writing and, unless otherwise provided in this Agreement, will be deemed to have been given when delivered in person or dispatched by electronic facsimile transfer (confirmed in writing by certified mail, concurrently dispatched) or one business day after having been dispatched for next-day delivery by a nationally recognized overnight courier service to the appropriate party at the address specified below:

(a) If to Buyer, to:

CenturyTel, Inc.
100 CenturyTel Drive
Monroe, LA 71203
Facsimile No.: 318-388-9488
Attention: R. Stewart Ewing, Jr.

With a copy to:

CenturyTel, Inc.
100 CenturyTel Drive
Monroe, LA 71203
Facsimile No.: 318-388-9488
Attention: Stacey W. Goff

(b) If to Seller, to:

Stephen E. Smith
Group Vice President - Business Development Verizon
Domestic Telecom 1717 Arch Street, 29th Floor
Philadelphia, PA 19103 Facsimile No.: 215-557-7249

With a copy to:

or to such other address or addresses as such party may from time to time designate by like notice.

12.2 Information Releases. The parties shall consult with each other (and allow the other party notice, and a reasonable time to comment) in preparing any employee announcement, press release, public announcement, news media response or other form of release of information concerning this Agreement or the transactions contemplated hereby that is intended to provide such information to the employees generally, news media or the public. Neither party shall issue or cause the publication of any press release, public announcement or media response without the prior written consent of the other party; provided, however, that, after allowing the other party notice and a reasonable time to comment prior to issuance, nothing herein will prohibit either party from making an employee announcement, or issuing or causing publication of any press release, public announcement or media response to the extent that such action is required by applicable Law or the rules of any national stock exchange applicable to such party or its Affiliates.

12.3 Expenses. Whether or not the transactions contemplated hereby are consummated, and except as otherwise expressly provided herein, each party shall pay any expenses (including attorneys' fees) incurred by it incidental to this Agreement and in consummating the transactions provided for herein.

12.4 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but is not assignable or delegable by any party without the prior written consent of the other party, which may be withheld in its sole discretion; provided, that either party may assign this Agreement to an Affiliate of such party without the consent of the other.

12.5 Amendments. This Agreement may be amended or modified only by a subsequent writing signed by authorized representatives of both parties.

12.6 Captions. The captions set forth in this Agreement are for convenience only and shall not be considered as part of this Agreement, nor as in any way limiting or amplifying the terms and provisions hereof.

12.7 Entire Agreement. This Agreement supersedes and revokes any prior discussions and representations, other agreements, commitments, arrangements or understandings of any sort whatsoever, whether written or oral, that may have been made or entered into by the parties relating to the matters contemplated hereby. This Agreement, the Non Disclosure Agreement and the Ancillary Documents constitute the entire agreement by and between the parties with respect to the subject matter hereof, and there are no representations, warranties, agreements, commitments, arrangements or understandings except as expressly set forth herein or therein.

12.8 Waiver. Except as otherwise expressly provided in this Agreement, neither the failure nor any delay on the part of any party to exercise any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise or waiver of any such right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege available to each party at law or in equity.

12.9 Third Parties. Except as expressly provided herein, nothing contained in this Agreement is intended to confer upon any Person, other than the parties hereto and their successors and permitted assigns, any rights or remedies under or by reason of this Agreement.

12.10 Counterparts. This Agreement may be executed in one or more counterparts, any or all of which shall constitute one and the same instrument.

12.11 Governing Law. This Agreement and the Ancillary Agreements shall in all respects be governed by and construed in accordance with the laws of the state of New York (except that no effect shall be given to any conflicts of law principles of the state of New York that would require the application of the laws of any other jurisdiction). The parties irrevocably submit to the exclusive jurisdiction of any New York State Court or any Federal Court located in the borough of Manhattan in the city of New York for purposes of any suit, action or other proceeding arising out of this Agreement, the Ancillary Agreements or any transaction contemplated hereby or thereby. The parties agree that service of process, summons or notice or document by U.S. registered mail to such party's respective address set forth in Section 12.1 shall be effective service of process for any action, suit or proceeding in New York with respect to any matters to which it has submitted to jurisdiction as set forth above in the immediately preceding sentence. **THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER AGREEMENT ENTERED INTO IN CONNECTION THEREWITH AND FOR ANY COUNTERCLAIM WITH RESPECT THERETO.** In the event of any breach of the provisions of this Agreement or any other agreement entered into in connection therewith, the non-breaching party shall be entitled to equitable relief, including in the form of injunctions and orders for specific performance, where the applicable legal standards for such relief in such courts are met, in addition to all other remedies available to the non-breaching party with respect thereto at law or in equity.

12.12 Further Assurances. From time to time after the Closing Date, as and when requested by one of the parties, the other party will use its commercially reasonable efforts to execute and deliver, or cause to be executed and delivered, all such documents and instruments as may be reasonably necessary or appropriate, in the reasonable opinion of counsel for Seller and Buyer, to consummate and make effective the transactions contemplated by this Agreement.

12.13 Severability. If any provision of this Agreement is determined to be invalid, illegal or unenforceable by any Governmental Authority, the remaining provisions of this Agreement to the extent permitted by law shall remain in full force and effect provided that the essential terms and conditions of this Agreement for both parties remain valid, binding and enforceable and provided that the economic and legal substance of the transactions contemplated is not affected in any manner materially adverse to any party. In the event of any such determination, the parties agree to negotiate in good faith to modify this Agreement to fulfill as closely as possible the original intents and purposes hereof. To the extent permitted by Law, the parties hereby to the same extent waive any provision of Law that renders any provision hereof prohibited or unenforceable in any respect.

12.14 Schedules; Exhibits. Each Schedule and Exhibit delivered pursuant to the terms of this Agreement shall be in writing and shall constitute a part of this Agreement, although schedules need not be attached to each copy of this Agreement. The mere inclusion of an item in a Schedule as an exception to a representation or warranty shall not be deemed an admission by Seller that such item represents an exception or material fact, event or circumstance or that such item is reasonably likely to constitute a Material Adverse Effect. Further, any fact or item which is clearly disclosed on any Schedule to this Agreement or in the Financial Statements in such a way as to make its relevance or applicability to information called for by another Schedule or other Schedules to this Agreement reasonably apparent shall be deemed to be disclosed on such other Schedule or Schedules, as the case may be, notwithstanding the omission of a reference or cross-reference thereto.

12.15 Knowledge Convention. As used herein, the phrase "knowledge of Seller" and similar phrases shall mean all matters actually known to the Group Vice President-Business Development Domestic Telecom or the Assistant General Counsel-Strategic Transactions, or actually known or that reasonably should have been known based on facts actually known to the individuals holding each of the following positions immediately prior to the date hereof -- the Director-Missouri Operations, the Sr. Vice President-Engineering & Planning, and the Executive Director-Corporate Books, Domestic Telecom, and all matters which were the subject of written notice actually received by Seller from any third party. The phrase "knowledge of Buyer" and similar phrases shall mean all matters actually known to the individuals holding each of the following positions immediately prior to the date hereof -- the Executive Vice President and Chief Financial Officer, the Vice President and Assistant General Counsel, and the Vice President - Corporate Development, and all matters which were the subject of written notice actually received by Buyer from any third party.

IN WITNESS WHEREOF, the parties, acting through their duly authorized agents, have caused this Agreement to be duly executed and delivered as of the date first above written.

**GTE MIDWEST INCORPORATED D/B/A
VERIZON MIDWEST**

By: _____
Name:
Title:

By: _____
Name:
Title:

CENTURYTEL OF MISSOURI L.L.C.

By: _____
Name:
Title:

JOINDER

CenturyTel, Inc., a Louisiana corporation and parent of Buyer, hereby joins in the execution and delivery of this Agreement for the following limited purposes:

the undersigned hereby (a) represents and warrants that it owns, directly or indirectly, all of the outstanding membership interests of the Buyer and (b) agrees to perform and to cause Buyer or any applicable Affiliate of Buyer to perform, the obligations of Buyer contained in this Agreement and the Ancillary Documents, including without limitation, those payment obligations set forth herein.

CENTURYTEL, INC.

Date: _____, 2001

By: _____
Name: _____
Title: _____

EXECUTION - ALABAMA

ASSET PURCHASE AGREEMENT

Between

VERIZON SOUTH INC.

and

CONTEL OF THE SOUTH, INC. D/B/A
VERIZON MID-STATES

and

CENTURYTEL OF ALABAMA, L.L.C.

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Exhibit C	Form of Intellectual Property License Agreement
Exhibit D	Form of Publishing Agreement
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ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (the "Agreement") dated as of October 22, 2001, is entered into by and between, on the one hand, CENTURYTEL OF ALABAMA, L.L.C., a Louisiana limited liability company (together with its permitted successors and assigns, the "Buyer"), and, on the other hand, VERIZON SOUTH INC., a Virginia corporation and CONTEL OF THE SOUTH, INC. d/b/a VERIZON MID-STATES, a Georgia corporation ("each a "Seller" and collectively, the Sellers").

RECITALS

WHEREAS, Sellers have been authorized by the Alabama Public Service Commission ("Commission") as an in-franchise provider of regulated local exchange, access and toll telephone service in certain exchanges within the state of Alabama as set forth on Exhibit A attached hereto (the "Seller Exchanges"); and

WHEREAS, Sellers are or will be prior to Closing the owner of telephone network assets in the Seller Exchanges and, in connection therewith, is engaged in the business of marketing, selling and providing local exchange telephone service; access and intraLATA toll services prescribed to Sellers; and dedicated and special access, ATM, frame relay, digital subscriber line and other high speed data services; each within the Seller Exchanges to end users, interexchange carriers and other local exchange carriers (such business, as conducted by the Sellers, is referred to herein as the "Business"); and

WHEREAS, Sellers desire to sell, assign and transfer to Buyer, and Buyer desires to purchase and accept from Sellers, certain of its regulated telephone properties and related assets used in the Business, upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings contained herein, and on the terms and conditions herein set forth, the parties, intending to be legally bound, agree as follows:

ARTICLE I DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth or referenced below:

"Accounts Receivable Settlement Statement" has the meaning set forth in

Section 10.14.2.

"Acquired Assets" has the meaning set forth in Section 2.1.1.

"Active Employees" has the meaning set forth in Section 8.1.

"Affiliate" means as to any Person, any other Person that, directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such Person.

"Agreement" means this Asset Purchase Agreement and all Schedules and Exhibits hereto, as amended, modified or supplemented from time to time in accordance with the terms hereof.

"Ancillary Documents" means the Transition Plan Support Agreement, the License Agreement, the Publishing Agreement and the Bill of Sale, Assignment and Assumption Agreement.

"Applicable Rate" means the three-month LIBOR rate as published on Telerate Page 3750 as of 11:00 a.m., London time, on the date which is two days prior to the date such rate is determined, less 10 basis points, such rate to be reset every 90 days.

"Assigned Contracts" means Contracts to which Sellers or a Sellers' Affiliate is a party that (i) relate primarily to the operation of the Business (other than the Excluded Contracts, Real Property Interests, Real Property Leases and Third Party Intellectual Property Contracts), and (ii) any other contract that is expressly identified on Schedule 2.1.1(e).

"Assigned Permits" means, to the extent assignable, all permits, licenses, franchises, approvals, waivers and authorizations issued or granted by any Governmental Authority to Sellers or any Affiliate thereof that relate primarily to the operation of the Business, other than the FCC Licenses.

"Assumed Liabilities" has the meaning set forth in Section 2.3.1.

"Bargained Welfare Plans" has the meaning set forth in Section 8.2.3(a).

"Base Purchase Price" has the meaning set forth in Section 3.1.

"Bill of Sale, Assignment and Assumption Agreement" means the Bill of Sale, Assignment and Assumption Agreement in the form attached as Exhibit B hereto.

"Business" has the meaning set forth in the Recitals hereto.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banks in the city of New York are authorized or required to be closed.

"Buyer" has the meaning set forth in the Preamble hereto.

"Buyer Consents" has the meaning set forth in Section 4.2.3.

"Buyer Indemnatee" has the meaning set forth in Section 7.2.1.

"Buyer Pension Plan" and "Buyer Pension Plans" have the meanings set forth in Section 8.2.1(b).

"Buyer Savings Plan" and "Buyer Savings Plans" have the meanings set forth in Section 8.2.2(b).

"Buyer Welfare Plans" has the meaning set forth in Section 8.2.3(a).

"Buyer's Actuary" has the meaning set forth in Section 8.2.1(d)(ii).

"CABS" means the Carrier Access Billing System operated by Sellers and their Affiliates which is utilized primarily to render bills to carriers for services provided by the Business.

"CALEA" means the Communications Assistance for Law Enforcement Act.

"Capital Expenditure Deficiency" has the meaning set forth in Section 5.1.6.

"CBSS" means the Customer Billing Support System operated by Sellers and their Affiliates which is utilized primarily to render bills for services provided by the Business.

"CBSS Accounts Receivable" means accounts receivable arising primarily from the operation of the Business that are attributable to Sellers' provision of service on or before the Closing Date that have been billed, or are billable, through Sellers' CBSS system. CBSS Accounts Receivable shall not include amounts billed or billable through CABS or SSB. CBSS Accounts Receivable includes those categories of accounts receivable identified in Sellers' systems as "current," "unpaid live" and "unpaid final," and shall include amounts resulting from billings pursuant to billing and collection agreements with third parties.

"CBSS Accounts Receivable Amount" means the aggregate amount of all CBSS Accounts Receivable as of the Closing Date, less a discount for anticipated uncollectible CBSS Accounts Receivable in an amount equal to the CBSS Uncollectible Factor multiplied by the CBSS Accounts Receivable as of the Closing Date; provided, however, that to the extent the percentage of CBSS Accounts Receivable which are classified as past due for more than ninety (90) days at Closing exceeds nine and one-half percent (9.5%) of the total CBSS Accounts Receivable, the CBSS Accounts Receivable shall be reduced to the extent of such excess for purposes of calculating the CBSS Accounts Receivable Amount.

"CBSS Uncollectible Factor" means seven percent (7%).

"Closing" has the meaning set forth in Section 2.5.

"Closing Consents" has the meaning set forth in Section 2.5.

"Closing Date" has the meaning set forth in Section 2.5.

"Closing Date Payment" has the meaning set forth in Section 3.2.

"Closing Date Statement" has the meaning set forth in Section 3.3.1.

"Co-Bound Directory" has the meaning set forth in Section 9.2.2.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commission" has the meaning set forth in the Recitals hereto.

"Consent Fees" has the meaning set forth in Section 2.4.

"Construction Advances" means advances collected by Sellers for the future performance of non-regulated construction in the Seller Exchanges.

"Contract" means any contract, agreement, arrangement, bond, commitment, note, loan, mortgage, lease or other agreement legally binding on the parties thereto.

"Control" (including the correlative terms "Controls," "Controlled by," "Controlling" and "under common Control with") shall mean with respect to any Person, possession of the power, directly or indirectly, either to (A) vote a majority of the voting shares or other voting interest in such Person for the election of directors of such Person or (B) direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Customer Deposits" has the meaning set forth in Section 10.16.

"Customer Prepayments" means payments arising from the operation of the Business that have been billed and collected by the Sellers as of the Closing Date but which relate to the provision of service after the Closing Date.

"Debtholder Consents" has the meaning set forth in Section 5.1.4.

"Deposit" has the meaning set forth in Section 3.4.1.

"Deposit L/C" has the meaning set forth in Section 3.4.2.

"Direct Claim" has the meaning set forth in Section 7.4.2.

"Dispute Resolution Request" has the meaning set forth in Section 3.3.2.

"Employment Agreements" has the meaning set forth in Section 4.1.13(a).

"Environmental Claims" has the meaning set forth in Section 4.1.14(e).

"Environmental Laws" has the meaning set forth in Section 4.1.14(e).

"Environmental Permits" has the meaning set forth in Section 4.1.14(e).

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

"ERISA Plans" has the meaning set forth in Section 4.1.13(a).

"Estimated Non-Regulated Construction Work in Process Amount" has the meaning set forth in Section 3.2.

"Estimated Regulatory Obligation Amount" has the meaning set forth in Section 3.2.

"Excluded Assets" has the meaning set forth in Section 2.1.2.

"Excluded Contracts" means all billing and collection agreements, interconnection agreements, National Account Agreements, billing media agreements, vehicle leasing agreements and other contracts listed on Schedule 2.1.2(h).

"Excluded Marks" means all trademarks, applications for trademark registration, common law trademarks, service marks, applications for service mark registration, common law service marks, trade names, domain names and related registrations owned by Sellers or an Affiliate of Sellers, or licensed to Sellers or an Affiliate of Sellers by any Person, any derivations of the foregoing and any marks or names similar to the foregoing.

"Expiration Date" has the meaning set forth in Section 7.1.1.

"Final Closing Date Statement" has the meaning set forth in Section 3.3.2.

"Financial Statements" has the meaning set forth in Section 4.1.15(a).

"FCC" means the Federal Communications Commission.

"FCC Consents" has the meaning set forth in Section 5.3.2.

"FCC Licenses" means all licenses, certificates, permits or other authorizations granted to Sellers or a Seller Affiliate by the FCC that are used primarily in the operation of the Business.

"FRP" has the meaning set forth in Section 8.2.3(d).

"Future Regulatory Obligations" has the meaning set forth in Section 2.3.1(g).

"GAAP" means United States generally accepted accounting principles.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof or any entity, including without limitation, a court, regulatory body, agency, department, authority or instrumentality exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Governmental Order" means, as to any Person, any judgment, injunction, decree, order or other determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property or assets is subject.

"Hazardous Material" has the meaning set forth in Section 4.1.14(e).

"Highly Confident Letters" has the meaning set forth in Section 4.2.4(a).

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Included Claims" has the meaning set forth in Section 7.3.2(a).

"Included Employees" has the meaning set forth in Section 8.1.

"Indemnification Payment" has the meaning set forth in Section 7.2.3(a).

"Indemnatee" has the meaning set forth in Section 7.2.3(b).

"Indemnitor" has the meaning set forth in Section 7.2.3(c).

"Intellectual Property" means all inventions (whether patentable or not and whether or not such inventions are described or claimed in any patent or patent application), designs (useful or ornamental), and works subject to copyright protection, invention disclosures, specifications, manuals, drawings, functional or system block diagrams, flow charts, circuit diagrams, design or user documentation, engineering notebooks, schematics, test programs, documented procedures, documented processes, documented flows, devices, software (in any form), firmware, or proprietary information and all intellectual property rights in or based upon the foregoing, including patents, patent applications (including continuations, continuations-in-part, divisions, reissues), reexamined patents and extensions thereof, copyrights (whether registered or unregistered), and trade secrets.

"Interim Capital Expenditure Obligations" has the meaning set forth in Section 2.3.1(h).

"Interim Reports" has the meaning set forth in Section 5.1.9.

"Inter-Unit Services Employees" has the meaning set forth in Section 8.1.

"IRS" means the Internal Revenue Service.

"June 30 Financial Data" has the meaning set forth in Section 4.1.15(c).

"Knowledge" or "knowledge" has the meaning set forth in Section 12.15.

"Labor Contracts" has the meaning set forth in Section 4.1.13(a).

"Law" or "Laws" means any statute, rule, regulation, mandate, order or ordinance of any Governmental Authority.

"Leased Real Property" means the real property leased to Sellers or a Seller Affiliate in accordance with the terms of the Real Property Leases and used primarily in the operation of the Business.

"License Agreement" means the Intellectual Property License Agreement in the form attached hereto as Exhibit C.

"Licensed Intellectual Property" means Intellectual Property owned by Sellers, and Third Party Intellectual Property licensed to Sellers or a Seller Affiliate which Sellers or Seller Affiliate has the right to sublicense to Buyer without the payment of compensation or other consideration to any Person, and which Intellectual Property and Third Party Intellectual Property are required for the use or maintenance (to the extent not provided by the owner or licensor of the Third Party Intellectual Property) of the Acquired Assets in the operation of the Business as of the Closing; provided that Licensed Intellectual Property shall at all times be an Excluded Asset.

"Lien" means any lien, charge, pledge, option, mortgage, security interest, lease obligation or other encumbrance other than Permitted Encumbrances.

"Lienholders" means those Persons holding indebtedness issued under indentures or other instruments, and identified on Schedule 4.1.5(a).

"Losses" has the meaning set forth in Section 7.2.3(d).

"Material Adverse Change" and "Material Adverse Effect" mean any change, effect or circumstance that is materially adverse to the Business or the Acquired Assets taken as a whole, but shall not include matters arising from the execution or public announcement of this Agreement, the identity of Buyer, or the effects of changes that are generally applicable (A) in the telecommunications industry generally, (B) to the United States economy or the economy generally prevailing in the geographic area of the Seller Exchanges, or (C) to the United States securities or financial markets.

"Material and Supply Inventory" means items defined in the FCC's Part 32 Uniform System of Accounts that are held for use primarily in the Business.

"Material Contracts" has the meaning set forth in Section 4.1.9(b).

"National Account Agreement" means a national service agreement pursuant to which Sellers or any Affiliate provides telecommunications service in multiple exchanges (including the Seller Exchanges) to employees or other designees of a Person who is a party to such service agreement.

"Non-Disclosure Agreement" means that certain Non-Disclosure Agreement between Buyer and Verizon dated as of April 6, 2001.

"Non-Regulated Construction Work in Process" means equipment procured and construction work performed in relation to non-tariffed activities undertaken by Sellers prior to the Closing Date but not yet completed or billed as of the Closing Date.

"Non-Regulated Construction Work in Process Amount" means amounts expended by Seller for Non-Regulated Construction Work in Process net of Construction Advances related to such construction work, and billable by Buyer to third parties, following the Closing Date.

"Non-Union Welfare Plans" has the meaning set forth in Section 8.2.3(a).

"Owned Real Property" means the real property owned in fee by Sellers or a Seller Affiliate and used primarily in the operation of the Business, including all land, buildings, structures, appurtenances and improvements located thereon.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Pension Assets" has the meaning set forth in Section 8.2.1(d)(i).

"Permitted Encumbrances" means (A) liens for Taxes and assessments not yet delinquent, or the amount or validity of which is being contested in good faith by appropriate proceedings during which collection or enforcement against the relevant property is stayed, (B) standard utility easements, covenants and restrictions of record that do not individually or in the aggregate materially interfere with the operation of the Business as presently conducted on the Owned Real Property affected thereby, (C) mechanics', carriers', workers', repairers' and other statutory Liens, (D) existing zoning or similar Laws that do not materially interfere with the operation of the Business, (E) leases otherwise disclosed herein, and (F) any other Liens that do not materially interfere, individually or in the aggregate, with the operation of the Business or Acquired Assets in a manner consistent with the current use by Sellers.

"Person" means an individual, corporation, partnership, trust, joint stock company, unincorporated association, limited liability company, joint venture, or other entity or organization.

"Phaseout Period" has the meaning set forth in Section 10.1.3(a).

"Plans" has the meaning set forth in Section 4.1.13(a).

"Proration Periods" has the meaning set forth in Section 10.4(a).

"Publisher" has the meaning set forth in Section 9.2.1.

"Publishing Agreement" means the Publishing Agreement between Buyer and Publisher substantially in the form attached as Exhibit D hereto and as more particularly described in Section 9.2.1.

"Purchase Price" has the meaning set forth in Section 3.1.

"Purchase Price Allocation" has the meaning set forth in Section 10.7(a).

"Quarterly Updates" has the meaning set forth in Section 5.2.3.

"Real Property Interests" means all easements, rights of way, licenses or other interests in real property of Sellers that are used primarily in the operation of the Business, other than Owned Real Property or Leased Real Property.

"Real Property Leases" has the meaning set forth in Section 2.1.1(g).

"Regulatory Approvals" has the meaning set forth in Section 5.3.1.

"Remediation Activities" has the meaning set forth in Section 10.15.

"Regulatory Obligation Amount" has the meaning set forth in Section 3.1.

"Requirement of Law" means, as to any Person, any permit, license, judgment, order, decree, statute, law, ordinance, rule, regulation or

arbitration award in each case applicable to or binding upon such Person or any of its property or assets or to which such Person or any of its property or assets is subject.

"Retained Books and Records" means, collectively, all corporate records and stock books of Sellers and their Affiliates, the general ledger, all records required by Law to be retained by Sellers and all books and records relating to (A) Tax Returns and Tax records, (B) Excluded Assets, (C) attorney work product, and (D) the Retained Liabilities.

"Retained Employees" has the meaning set forth in Section 8.1.

"Retained Future Regulatory Obligations" has the meaning set forth in Section 2.3.1(g).

"Retained Interim Capital Expenditure Obligation" has the meaning set forth in Section 2.3.1(h).

"Retained Liabilities" has the meaning set forth in Section 2.3.2.

"SEC Basis Financial Statements" has the meaning set forth in Section 5.1.5.

"Seller Consents" has the meaning set forth in Section 4.1.4.

"Seller Exchanges" has the meaning set forth in the Recitals hereto.

"Seller Hourly Pension Plan" has the meaning set forth in Section 8.2.1(b).

"Seller Indemnification Limit" has the meaning set forth in Section 7.3.2(a).

"Seller Indemnatee" has the meaning set forth in Section 7.2.2.

"Seller Interconnection Agreements" has the meaning set forth in Section 5.3.7.

"Seller Salaried Pension Plan" has the meaning set forth in Section 8.2.1(a)(i).

"Seller Savings Plan" has the meaning set forth in Section 8.2.2(a).

"Seller Threshold" has the meaning set forth in Section 7.3.2(a).

"Seller Welfare Plan" has the meaning set forth in Section 8.2.3(a).

"Sellers' Actuary" has the meaning set forth in Section 8.2.1(d)(ii).

"SSB" means the Separate Subsidiary Billing System operated by Sellers and their Affiliates which is utilized primarily to render bills for services provided by the Business.

"SSB Accounts Receivable" means accounts receivable arising primarily from the operation of the Business that are attributable to Seller's provision of service on or before the Closing Date that have been billed, or are billable, through Seller's SSB System. SSB Accounts Receivable shall not include amounts billed or billable through CABS or CBSS. SSB Accounts Receivable includes those categories of accounts receivable identified in Seller's systems as "current," "unpaid live" and "unpaid final," and shall include amounts resulting from billings pursuant to billing and collection agreements with third parties.

"SSB Accounts Receivable Amount" means the aggregate amount of all SSB Accounts Receivable as of the Closing Date, less a discount for anticipated uncollectible SSB Accounts Receivable in an amount equal to the SSB Uncollectible Factor multiplied by the SSB Accounts Receivable as of the Closing Date.

"SSB Uncollectible Factor" means nine-tenths of one percent (0.9%).

"Switch Software" means that portion of Third Party Intellectual Property which is telephone switch software licensed to Sellers which software is necessary to Sellers' current operation and use of any telephone switching equipment in the Seller Exchanges and which equipment is included in Telephone Plant.

"Switch Software Vendor" means any licensor of any Switch Software.

"Tax" or "Taxes" means with respect to the Business or the Acquired Assets all taxes including, without limitation, any federal, state, local or foreign income, profits, license, severance, occupation, windfall profits, capital gains, capital stock, transfer, registration, social security, ad valorem, franchise, gross receipts, payroll, sales, use, employment, property, real property, personal property, excise, value added, stamp, alternative or add-on minimum, withholding and any other tax, with all interest, penalties and additions imposed with respect to such amounts.

"Tax Returns" means any return, declaration, report, form, certificate, claim for refund, information return or statement with respect to Taxes including any schedule, attachment or work papers thereto, and including any amendment thereof.

"Telephone Plant" means all machinery, equipment, inventory, vehicles (including, subject to Sellers' performance of their obligations set forth in Section 5.1.8, leased vehicles), and all other assets and properties used primarily in the operation of the Business, including, without limitation, all plant, systems, structures, regulated construction work in progress, telephone cable (whether in service or under construction), microwave facilities (including frequency spectrum assignment), telephone line facilities, machinery, furniture, fixtures, tools, implements, conduits, stations, substations, equipment (including central office equipment, subscriber station equipment and other equipment in general), instruments, house wiring connections and other personal property used primarily in the operation of the Business, in every case whether owned by Sellers or Sellers' Affiliates. Without limiting the generality of the foregoing, Telephone Plant includes the assets owned by Sellers that would be properly included in the fixed assets referenced in Part 32 of the FCC Rules and Regulations (47 CFR, Part 32), as such accounts are reflected in Schedule 4.1.8.

"Third Party Claim" has the meaning set forth in Section 7.4.1.

"Third Party Consents" has the meaning set forth in Section 2.4.

"Third Party Intellectual Property" means Intellectual Property owned by any Person, other than Sellers, without regard as to whether Sellers have any rights therein or the right to assign such rights to Buyer including any such Intellectual Property included in or with the Acquired Assets.

"Third Party Intellectual Property Contracts" has the meaning set forth in Section 10.1.4.

"Transaction Taxes" has the meaning set forth in Section 10.9.

"Transferred Books and Records" means all of Sellers' customer or subscriber lists and records, accounts and billing records, plans, blueprints, specifications, drawings, surveys, engineering reports, personnel records for Transferred Employees (where applicable) and all other documents, computer data and records, in each case relating primarily to the operation of the Business, other than the Retained Books and Records.

"Transferred Employees" has the meaning set forth in Section 8.1.

"Transition Plan Support Agreement" means the Transition Plan Support Agreement in the form attached as Exhibit D hereto.

"VADI" means Verizon Advanced Data Inc.

"VADI Assets" means those assets held as of the date of this Agreement by VADI primarily for the provision of ATM, frame relay, digital subscriber line and other high speed data services within the Seller Exchanges.

"Verizon" means Verizon Communications Inc.

1.2 Other Definitional Provisions.

(a) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

ARTICLE II PURCHASE AND SALE OF ASSETS; CLOSING

2.1 Purchase and Sale of Assets; Excluded Assets.

2.1.1 Acquired Assets. Subject to the terms and conditions hereinafter set forth, at the Closing, Sellers shall sell, grant, convey, transfer, assign

and deliver to Buyer and Buyer shall purchase and receive all right, title and interest of Sellers and, to the extent stated, any Seller Affiliate free and clear of all Liens, other than Permitted Encumbrances, in and to the following assets, properties and rights used primarily in the operation of the Business and in existence as of the Closing Date (except as otherwise expressly set forth in Section 2.1.2), which assets, properties and rights are referred to herein as the "Acquired Assets":

- (a) Telephone Plant;
- (b) all Material and Supply Inventory located within the Seller Exchanges;
- (c) Non-Regulated Construction Work in Process;
- (d) FCC Licenses and Assigned Permits;
- (e) Assigned Contracts of Sellers and any Seller Affiliate including, without limitation, those Contracts set forth in Schedule 2.1.1(e);
- (f) Transferred Books and Records, subject to Sellers' right to retain copies thereof;
- (g) all Owned Real Property and all Leased Real Property created by leases of real property under which either Seller or any Seller Affiliate is a lessee (the "Real Property Leases"), together with all appurtenances thereto;
- (h) all buildings, towers, facilities and other structures and improvements held by Sellers and located on the Owned Real Property or Leased Real Property (but only to the extent permitted by the Real Property Leases) and which are used primarily in the Business;
- (i) all Real Property Interests;
- (j) upon Sellers' fulfillment of the obligations set forth in Section 5.1.7, the VADI Assets;
- (k) insurance proceeds relating to any loss, damage or destruction of any of the Acquired Assets prior to the Closing to the extent not replaced prior to the Closing; and
- (l) all other property, assets and rights relating exclusively to the Business or the Seller Exchanges but excluding all Intellectual Property and Excluded Marks.

2.1.2 Excluded Assets. Notwithstanding anything to the contrary in Section 2.1.1 or in any other provision of this Agreement, the Acquired Assets shall not include any of the following assets, properties and rights of Sellers or their Affiliates (collectively, the "Excluded Assets"):

- (a) all cash, cash equivalents and marketable securities and bonds;
- (b) all rights which accrue or will accrue to Sellers and their Affiliates under this Agreement, the Ancillary Documents and the certificates and other documents delivered to Sellers by Buyer in connection with this Agreement;
- (c) all records prepared in connection with the sale of the Business, including bids received from third parties and analysis relating to the Business;
- (d) all rights, including all defenses, counterclaims and rights of indemnity, reimbursement and subrogation, related to the Retained Liabilities;
- (e) the Retained Books and Records;
- (f) interests in any business other than the Business, including the provision of wireless service (cellular and PCS); long distance (interLATA and intraLATA to the extent provided by Verizon Affiliates other than Sellers) and internet access service or internet related services (to the extent provided by Verizon Affiliates other than Sellers or VADI); air-to-ground communications (air phone service); installation, maintenance and equipment service related to the sale of telecommunications equipment by Affiliates to customers located outside the geographic area comprising the Seller Exchanges; any permits related to any of the foregoing; all assets of Sellers and their Affiliates used in connection with any such business or related to any of the foregoing, including but not limited to any common or shared systems used in conjunction with other Verizon Affiliates on a national basis; and all assets used by Sellers and their Affiliates in rendering services to Sellers or the Business that are located outside the geographic area comprising the Seller Exchanges;
- (g) such other assets, if any, as set forth on Schedule 2.1.2(g), including, without limitation, those which are described by general category;
- (h) the Excluded Contracts including those contracts set forth on Schedule 2.1.2(h);

(i) the Excluded Marks;

(j) all Intellectual Property, including the Licensed

Intellectual Property and Third Party Intellectual Property, and all claims against any Person for infringement or misappropriation of such Intellectual Property;

(k) subject to the provisions of Section 2.1.1(k), all rights and claims under insurance policies of Sellers or their Affiliates arising in connection with the operation of the Business or the Acquired Assets on or prior to the Closing Date;

(l) all rights to Tax refunds and/or Tax credits (including all interest related thereto) relating to the operation of the Business or the Acquired Assets for Tax periods (or portions thereof) ending on or prior to the Closing Date; and

(m) all rights and claims for support payments pursuant to any Universal Service or similar fund for periods of operation ending on or prior to the Closing Date.

2.2 Consideration for Transfer of the Acquired Assets. Sellers

shall transfer the Acquired Assets to Buyer at the Closing in exchange and in consideration for the payment by Buyer to Sellers at the Closing of the Purchase Price calculated in accordance with the provisions of Section 3.1 and the assumption by Buyer of the Assumed Liabilities.

2.3 Assumption of Liabilities.

2.3.1 Assumed Liabilities. Upon the terms and subject to

conditions set forth herein, Buyer shall assume, as of the Closing Date, and agrees to pay, perform and discharge, as and when due, the following liabilities, responsibilities and obligations:

(a) all liabilities, responsibilities and obligations (including Taxes), arising out of, accruing or resulting from the operation of the Business or the use, ownership or operation of the Acquired Assets after the Closing Date;

(b) all liabilities, responsibilities and obligations of Buyer as provided in Article VIII with respect to Transferred Employees;

(c) all liabilities, responsibilities and obligations that arise after the Closing Date in connection with the performance of the Assigned Contracts, Real Property Interests and the Real Property Leases;

(d) all liabilities, responsibilities and obligations to third parties that relate to arrangements and commitments between Sellers and a third party for the construction of shared transmission facilities between various switching points included in the Seller Exchanges;

(e) all liabilities, responsibilities and obligations relating to post-Closing engineering and construction required to complete scheduled construction and other capital expenditure projects for the Seller Exchanges;

(f) all liabilities, responsibilities and obligations relating to Customer Prepayments, Customer Deposits and Construction Advances;

(g) all liabilities, responsibilities and obligations, other than Interim Capital Expenditure Obligations, related to the Seller Exchanges arising out of any Law of any Governmental Authority after the Closing Date regardless of whether the action taken by the Governmental Authority is or purports to be based on conduct or actions that occurred at any time prior to the Closing Date ("Future Regulatory Obligations"); provided, however, Buyer shall not be liable for any Future Regulatory Obligation arising directly out of any (i) willful misconduct by Sellers as judicially determined by a final order of a court or Governmental Authority of competent jurisdiction; or (ii) conduct by Sellers that was not reasonably prudent based on then-prevailing circumstances, in either case which conduct occurred prior to the Closing Date ("Retained Future Regulatory Obligations"); and provided further, that Sellers' reliance on a reasonable interpretation of existing Law or practice shall be deemed reasonably prudent;

(h) all liabilities, responsibilities and obligations related to the Seller Exchanges arising out of any Law of any Governmental Authority requiring any capital expenditure after the date of this Agreement, regardless of whether the action taken by the Governmental Authority is or purports to be based on conduct, facts or actions that occurred at any time prior to the date of this Agreement ("Interim Capital Expenditure Obligations"); provided, however, Buyer shall not be liable for any Interim Capital Expenditure Obligation arising directly out of any (i) willful misconduct by Sellers as judicially determined by a final order of a court or Governmental Authority of competent jurisdiction, or (ii) conduct by Sellers that was not reasonably prudent based on then-prevailing circumstances, ("Retained Interim Capital Expenditure Obligations"); and, provided further, that Sellers' reliance on a reasonable interpretation of existing Law or practice shall be deemed reasonably prudent. Sellers shall notify Buyer of all material Interim Capital Expenditure Obligations within a reasonable time after publication of said obligations by a Governmental Authority; and

(i) all liabilities and obligations for litigation and claims by third parties arising out of an occurrence after the Closing Date, including any claims for infringement of Third Party Intellectual Property for acts occurring after the Closing Date;

(collectively, the "Assumed Liabilities"). Notwithstanding anything in this Section 2.3.1 to the contrary, Assumed Liabilities shall not include any liabilities, responsibilities or obligations expressly included in Retained Liabilities pursuant to Section 2.3.2.

2.3.2 Retained Liabilities. Each Seller shall retain and shall pay, perform and discharge when due, the following liabilities, responsibilities and obligations of such Seller (the "Retained Liabilities"):

(a) subject to the provisions of Section 10.4 or as expressly set forth in this Agreement, all trade payables and other payment obligations of Sellers that relate to the operation of the Business on or prior to the Closing Date;

(b) all long-term debt of Sellers (including indebtedness to the Lienholders) and debt of Sellers owed to any one or more of its Affiliates, but excluding liabilities assumed pursuant to Article VIII hereof;

(c) subject to the provisions of Sections 10.4 and 10.9, all Taxes of Sellers or their Affiliates attributable to the operation of the Business or the use, ownership or operation of the Acquired Assets for all Tax periods (or portions thereof), ending on or prior to the Closing Date;

(d) except to the extent otherwise provided in Article VIII, all liabilities and obligations arising on or prior to the Closing Date with respect to employees who, upon Closing, will be Transferred Employees, including (i) all liabilities, responsibilities and obligations relating to collective bargaining agreements or other union contracts, and (ii) any such liabilities or obligations that arise on or after the Closing Date to the extent that such liabilities and obligations relate to facts, circumstances or conditions arising or occurring on or prior to the Closing Date, but excluding any Future Regulatory Obligations with respect to the Transferred Employees;

(e) all liabilities, responsibilities and obligations for litigation and claims of third parties arising out of an occurrence on or prior to the Closing Date, other than litigation and claims related to Future Regulatory Obligations and Interim Capital Expenditure Obligations (except Retained Future Regulatory Obligations and Retained Interim Capital Expenditure Obligations which shall remain the liability of Sellers); provided, however, Sellers shall have no liability for claims by third parties which have not been asserted within five (5) years after the Closing Date; and

(f) all liabilities, responsibilities and obligations with respect to the Excluded Assets and Excluded Contracts.

2.4 Regarding Consents. Notwithstanding anything to the contrary contained in this Agreement, to the extent that the sale, conveyance, transfer, assignment or delivery or attempted sale, conveyance, transfer, assignment or delivery to Buyer of any Acquired Asset is prohibited by any applicable Law or would require any governmental or third-party authorizations, approvals, consents or waivers (other than authorizations, approvals, consents or waivers related to Third Party Intellectual Property, and other than required Regulatory Approvals and FCC Consents) (collectively, the "Third Party Consents") and such Third Party Consents shall not have been obtained prior to the Closing, this Agreement shall not constitute an agreement to assign same if any of the foregoing would constitute a breach thereof or be unlawful. If any Third Party Consent shall not be obtained or if any attempted assignment would be ineffective or would impair Buyer's rights under the Acquired Asset in question so that Buyer would not acquire the benefit of all such rights, Sellers, to the extent permitted by Law, shall act after the Closing as Buyer's agent in order to preserve and obtain for Buyer the benefits thereunder and shall cooperate, to the extent permitted by Law, with Buyer in any other commercially reasonable arrangement designed to provide such benefits to Buyer. For a period of ninety (90) days following the Closing, the parties shall use their commercially reasonable efforts, and shall cooperate with one another, to obtain promptly such Third Party Consents; provided, however, that should any Third Party Consent from any railroad be conditioned on the payment of any consideration therefor (the Consent Fees") other than filing, recordation or similar fees payable to any Governmental Authority, which filing fees shall be shared equally by Sellers and Buyer, Sellers and Buyer agree to share on an equal basis any Consent Fee to the extent such Consent Fee is in an amount not greater than \$300; and provided, further, that Sellers' aggregate obligation to share in the payment of Consent Fees shall not exceed One Hundred Thousand Dollars (\$100,000.00).

2.5 The Closing. Unless this Agreement shall have been earlier terminated in accordance with the provisions of Article XI, the closing under this Agreement (the "Closing") shall be held at 9:00 A.M. local time at the offices of Verizon Services Group, at 600 Hidden Ridge, Irving, Texas 75038, on the date agreed upon by the parties, which date shall be (a) the last Business Day of a month, and (b) at least five (5) Business Days, but not more than ninety (90) days, after the date either party notifies the other party in writing of its determination that all required Regulatory Approvals, Debtholder Consents and FCC Consents (collectively, the "Closing Consents") have been obtained, or at such other time and place as the parties may agree in writing; provided, however, the parties shall take all commercially reasonable actions to cause the Closing to occur promptly after all Closing Consents have been obtained, but in no event shall the Closing be required to occur (i) prior to June 30, 2002 or (ii) on the same date as the closing of any other transaction involving the sale or purchase of wireline assets between Affiliates of the parties hereto. The date of the Closing is referred to herein as the "Closing Date." Such Closing shall be deemed to have occurred as of 11:59 P.M. on the Closing Date.

2.6 Deliveries and Proceedings at Closing. At the Closing, and subject to the terms and conditions herein contained:

2.6.1 Deliveries by Seller. Sellers shall deliver (or cause to be delivered) to Buyer:

- (a) subject to Permitted Encumbrances, deeds in recordable form under which each Seller warrants title against all persons lawfully claiming title by, through or under such Seller for each parcel of Owned Real Property to be conveyed hereunder, duly executed by such Seller;
- (b) the Bill of Sale, Assignment and Assumption Agreement, License Agreement and Publishing Agreement, duly executed by Sellers (or the appropriate Seller Affiliate);
- (c) such other instruments and documents of conveyance, assignment and transfer, duly executed by Sellers and in a form reasonably satisfactory to Buyer, as shall be necessary and effective to transfer, convey and assign to Buyer all of Sellers' right, title and interest in and to the Acquired Assets, including without limitation, all of Sellers' rights under all Assigned Contracts, in all cases subject to Section 2.4 above;
- (d) to the extent obtained, the Seller Consents in form and substance reasonably satisfactory to Buyer; and
- (e) such other documents as Buyer may reasonably request.

2.6.2 Deliveries by Buyer. Buyer shall deliver (or cause to be delivered) to Sellers:

- (a) the Closing Date Payment in accordance with the provisions of Section 3.2;
- (b) the Bill of Sale, Assignment and Assumption Agreement, License Agreement and Publishing Agreement, duly executed by Buyer; and
- (c) such other documents as Sellers may reasonably request.

ARTICLE III PURCHASE PRICE

3.1 Purchase Price. The purchase price for the Acquired Assets shall be the sum of (a) One Billion Dollars (\$1,000,000,000) (the "Base Purchase Price"), plus (b) amounts expended by Sellers to comply with Interim Capital Expenditure Obligations (the "Regulatory Obligation Amount"), plus (c) the Non-Regulated Construction Work in Process Amount minus (d) any Capital Expenditure Deficiency (collectively, the "Purchase Price").

3.2 Closing Date Estimate. Not less than three (3) Business Days prior to the Closing Date, Sellers shall deliver to Buyer a notice, setting forth Sellers' good faith estimate as of the Closing Date of (a) the Regulatory Obligation Amount (the "Estimated Regulatory Obligation Amount"), (b) the Non-Regulated Construction Work in Process Amount (the "Estimated Non-Regulated Construction Work in Process Amount") and (c) any Capital Expenditure Deficiency. On the Closing Date, Buyer shall pay to Sellers an amount equal to the sum of (x) the Base Purchase Price, (y) the Estimated Regulatory Obligation Amount, and (z) the Estimated Non-Regulated Construction Work in Process Amount, less the Deposit and any Capital Expenditure Deficiency (the "Closing Date Payment"). The Closing Date Payment shall be made by wire transfer of immediately available funds to such account or accounts as Sellers shall designate to Buyer at least two (2) Business Days prior to the Closing Date. Payments from Buyer to Sellers for CBSS and SSB Accounts Receivable and from Sellers to Buyer for Customer Prepayments and Customer Deposits will occur subsequent to Closing in accordance with Article X.

3.3 Calculation of Final Purchase Price.

3.3.1 Closing Date Statement. Within sixty (60) days after the Closing Date, Sellers shall prepare and deliver to Buyer a written statement reasonably detailing the Regulatory Obligation Amount, the Non-Regulated Construction Work in Process Amount and any Capital Expenditure Deficiency, together with supporting documentation (the "Closing Date Statement"). Absent manifest error, the Closing Date Statement shall be deemed correct. Within thirty (30) days after receipt of the Closing Date Statement, Buyer shall, in a written notice to Sellers, describe in reasonable detail any proposed adjustments to the Closing Date Statement and the reasons therefor. If Sellers shall not have received a notice of proposed adjustments aggregating Fifty Thousand Dollars (\$50,000) or more within such thirty (30) day period, Buyer will be deemed to have accepted irrevocably such Closing Date Statement.

3.3.2 Disputes Regarding Closing Date Statement. Each Seller and Buyer shall negotiate in good faith to resolve any disputes over any proposed adjustments to the Closing Date Statement, during the thirty (30) days following Sellers' receipt of the proposed adjustments. If the parties are unable to resolve such dispute within such thirty (30) day period, then, at the written request of either party (the "Dispute Resolution Request"), each party shall appoint a knowledgeable, responsible representative to meet in person and negotiate in good faith to resolve the disputed matters. The parties intend that these negotiations be conducted by experienced business representatives empowered to decide the issues. Such negotiations shall take place during the fifteen (15) day period following the date of the Dispute Resolution Request. If the business representatives resolve the dispute, such resolution shall be memorialized in a written agreement (the "Final Closing Date Statement"), executed within five (5) Business Days thereafter. If the business representatives do not resolve the dispute, within five (5) Business Days, Buyer and Sellers shall jointly select a nationally recognized independent public accounting firm (which is not the regular independent public accounting firm of either party) to resolve such disputes, which resolution shall be final and binding. Such accounting firm shall resolve such dispute by reference to the records of Seller used to calculate the amounts appearing on the Closing Date Statement, the provisions contained herein regarding items properly included in the Regulatory Obligation Amount and the Non-Regulated Construction Work in Process Amount and, based on the foregoing, such other records as such firm, in its reasonable judgment, deems appropriate. The fees and expenses of such accounting firm shall be (a) shared by Buyer and Sellers in inverse proportion to the relative amounts of the disputed amount determined to be

for the account of Buyer and Sellers, respectively or (b) paid by the Buyer if the final amount of any adjustment is less than \$50,000.

3.3.3 Final Determination of Purchase Price. Upon the acceptance of the Closing Date Statement by Buyer, or upon resolution of any disputed amount in accordance with the provisions of Section 3.3.2 above, the parties shall, based thereupon, calculate the final Purchase Price. If the Purchase Price as finally determined is greater than the Closing Date Payment, Buyer shall promptly, but no later than three (3) Business Days after such acceptance or resolution, pay to Sellers the amount of such difference. If the Purchase Price as determined above is less than the Closing Date Payment, Sellers shall promptly, but no later than three (3) Business Days after such acceptance or resolution, pay to Buyer the amount of such difference.

3.3.4 Interest on Final Payment. Any amount paid pursuant to this Section 3.3 after the Closing Date shall bear interest from the Closing Date through but excluding the date of payment, at the Applicable Rate. Such interest shall accrue daily on the basis of a year of three hundred sixty-five (365) days calculated for the actual number of days for which due and shall be payable together with the amount payable pursuant to this Section 3.3.

3.3.5 Payments. All amounts payable pursuant to this Section 3.3 shall, in the case of amounts payable to Sellers, be paid in accordance with the provisions set forth in Section 3.2 above and, in the case of amounts payable to Buyer, to such account of Buyer as Buyer shall designate in writing to Sellers.

3.4 Performance Deposit.

3.4.1 Deposit. Concurrent with the execution and delivery hereof, and subject to the provisions of Section 3.4.2 below, Buyer shall pay to Sellers by wire transfer of immediately available funds the sum of One Hundred Million Dollars (\$100,000,000), an amount equal to ten percent (10%) of the Base Purchase Price, which amount shall bear interest from the date hereof until the earlier of the Closing Date or the termination of this Agreement in accordance with the provisions of Article XI at the Applicable Rate (the "Deposit"). Such Deposit shall be held by Sellers against payment of the Purchase Price and as security for the performance by Buyer of its obligations under this Agreement, and shall be nonrefundable except as described in Section 11.3.

3.4.2 Letter of Credit. Buyer may elect to deliver the Deposit to Sellers in cash or in the form of an irrevocable, standby letter of credit for the same amount (the "Deposit L/C"). The Deposit L/C shall be (a) in a form reasonably acceptable to Sellers, (b) issued in favor of Seller under this Agreement and (c) issued by a bank that has a long-term unsecured debt rating as of the date of issuance of at least A+ by Standard & Poor's Rating Information Services and A1 by Moody's Investors Service and that is otherwise reasonably satisfactory to Sellers. The Deposit L/C (and any replacement thereof furnished in accordance with this Section 3.4.2) shall have an expiration date no earlier than the first anniversary of the date of issuance thereof and shall be automatically renewed from year to year unless stated not to be so renewed by the issuer thereof in a written notice given to the Sellers not less than 30 days prior to the expiration thereof. In the event of the termination of the Deposit L/C (and any replacement thereof furnished in accordance with the provisions of this Section 3.4.2), Buyer shall deliver to Sellers a replacement letter or letters of credit in lieu thereof no later than 30 days prior to the expiration of the preceding letter of credit. If Buyer shall fail to obtain any replacement of the Deposit L/C (and/or any replacement thereof furnished in accordance with the provisions of this Section 3.4.2), then Sellers shall draw down the full amount of the existing Deposit L/C and retain the same as security for the covenants, agreements and obligations of Buyer under this Agreement. Any replacement of any Deposit L/C shall be in a form reasonably acceptable to Sellers. Buyer acknowledges that Sellers have agreed to accept the Deposit L/C in lieu of a cash down payment against the Purchase Price solely as an accommodation to Buyer. Buyer acknowledges that, in the event Buyer elects to provide a Deposit L/C in lieu of a cash Deposit, Buyer shall not be entitled to interest at the Applicable Rate as provided in Section 3.4.1 of this Agreement.

ARTICLE IV REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties of Seller. Sellers represent and warrant to Buyer as follows:

4.1.1 Corporate Organization and Related Matters. Each Seller is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Each Seller has the requisite power and authority to own its properties and to carry on the Business as it is now being conducted. Sellers hold valid permits, licenses, franchises, approvals and authorizations issued or granted by any Governmental Authority and adequate for the operation of the Business as currently conducted, except to the extent absence of any such permit, license, franchise, approval or authorization would not have a Material Adverse Effect. Sellers have the requisite power, authority and legal right to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Sellers of this Agreement and the Ancillary Documents executed or to be executed by Sellers have been duly authorized by all necessary corporate action on the part of Sellers and Verizon. This Agreement has been, and the Ancillary Documents when executed will be, duly executed and delivered by Sellers and any applicable Seller Affiliate and this Agreement constitutes, and the Ancillary Documents when executed and delivered will constitute, the legal, valid and binding obligations of Sellers (or their Affiliate named therein), enforceable against either of them (or such Seller Affiliate) in accordance with their respective terms, except as such enforceability may be limited by bankruptcy laws and other similar laws affecting creditors' rights generally, and subject to the exercise of judicial discretion in accordance with principles of equity.

4.1.2 Compliance with Laws. Except as set forth in Schedule 4.1.2, Sellers in their conduct of the Business have complied since January 1, 1997 in all material respects with, and are currently not in violation of, any Requirement of Law of a Governmental Authority to which the

Business is subject, except for any such noncompliance or violation which would not be reasonably likely to constitute a Material Adverse Effect.

4.1.3 Litigation. Except as set forth in Schedule 4.1.3, there is no litigation, arbitration, investigation or other proceeding of or before any Governmental Authority pending or, to the Knowledge of Sellers, threatened against the Sellers, the Business or any of the Acquired Assets, the result of which, individually or in the aggregate, would reasonably be likely to have a Material Adverse Effect or to prevent, materially delay or impair the ability of Sellers to consummate the transactions contemplated hereby. Neither Seller is a party to nor is either Seller or the Business subject to the provisions of any judgment, order, writ, injunction, decree or award of any Governmental Authority which would reasonably be likely to have a Material Adverse Effect or to prevent, materially delay or impair the ability of Sellers to consummate the transactions contemplated hereby.

4.1.4 Validity of Contemplated Transactions. Upon the receipt of requisite FCC Consents as described in Section 5.3.2, the Regulatory Approvals as described in Section 5.3.1, compliance with any applicable requirement of the HSR Act and the receipt of the consents set forth on Schedule

4.1.4 (the "Seller Consents"), the execution, delivery and performance of this Agreement and the Ancillary Documents by Sellers do not and will not violate, conflict with, result in the creation of a Lien under or result in the breach of any term, condition or provision of, or require the consent of any other Person under, (a) the charter and other organizational documents of Sellers, (b) any existing Requirement of Law to which Sellers or the Business is subject, (c) any judgment, order, writ, injunction, decree or award of any Governmental Authority or any other Governmental Order or Law which is applicable to the Business, or

(d) except as provided expressly in any Material Contract, any Material Contract, or give any party with rights thereunder the right to terminate, modify, accelerate or otherwise change the existing rights or obligations of Sellers thereunder.

4.1.5 Title to Owned Real Property.

(a) Each Seller has good, valid and marketable title to all of its material Owned Real Property, free and clear of all Liens other than Permitted Encumbrances and Liens of the Lienholders identified on Schedule

4.1.5(a). Sellers represent that the only lienholders (other than Permitted Encumbrances) on any of the Owned Real Property are the Lienholders identified on Schedule 4.1.5(a) except as would not reasonably be likely to be materially adverse to the Business.

(b) Schedule 4.1.5(b) lists all Owned Real Property as of the date hereof, including the address, and a description suitable to identify the property. Such Owned Real Property constitutes substantially all of the Owned Real Property used primarily in the operation of the Business as of June 30, 2001, except as such (i) has been disposed of since January 1, 2001 in the ordinary course of business or (ii) is not material to the operation of the Business.

4.1.6 Leased Real Property; Real Property Interests.

(a) Schedule 4.1.6(a) lists all of the Real Property Leases as of the date hereof. Such Leased Real Property constitutes substantially all of the Leased Real Property used primarily in the operation of the Business as of June 30, 2001, except as such (i) has been disposed of since January 1, 2001 in the ordinary course of business or (ii) is not material to the operation of the Business. Each of the Real Property Leases is enforceable in accordance with its terms, subject to bankruptcy, insolvency and other similar laws affecting the rights of creditors generally and subject to the exercise of judicial discretion in accordance with the principles of equity. Except as otherwise disclosed in Schedule 4.1.6(a), there is no material default or material breach of a covenant by Sellers under any of the Real Property Leases.

(b) To the knowledge of Sellers, Schedule 4.1.6(b) sets forth a true and accurate list of all its Real Property Interests within the geographic area covered by the Seller Exchanges. Such Real Property Interests constitute substantially all of the Real Property Interests used primarily in the operation of the Business as of June 30, 2001, except as such

(i) has been disposed of since January 1, 2001 in the ordinary course of business or (ii) is not material to the operation of the Business.

4.1.7 Tangible Assets. Except as set forth in Schedule 4.1.7, all of the material tangible Acquired Assets are in good operating condition and repair, normal wear and tear excepted, and are useable in the regular and ordinary course of business consistent with past practice. Except as set forth in Schedule 4.1.7 or elsewhere in this Agreement, Sellers have, or on or prior to the Closing Date will have, good and marketable title to each of the material tangible Acquired Assets (other than office equipment subject to leases, and other than Third Party Intellectual Property included in or with the material tangible Acquired Assets) free and clear of any Lien other than Permitted Encumbrances. Except as set forth on Schedule 4.1.7, Sellers have not received any written notice within the twelve (12) months prior to the date hereof of a violation of any ordinances, regulations or building, zoning and other similar Laws with respect to such assets that would have a Material Adverse Effect. EXCEPT AS EXPRESSLY PROVIDED IN THIS SECTION 4.1.7, SELLERS MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AS TO THE CONDITION OR FITNESS OF THE TANGIBLE ACQUIRED ASSETS AND HEREBY DISCLAIM ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR WARRANTY AGAINST INFRINGEMENT.

4.1.8 Schedules of Telephone Plant and Material and Supply Inventory. Schedule 4.1.8 sets forth a materially accurate summary of the Telephone Plant and Material and Supply Inventory as of June 30, 2001 as maintained by Sellers in accordance with past practice. Such Telephone Plant constitutes substantially all of the Telephone Plant used primarily in the operation of the Business as of June 30, 2001, except as such (i) has been disposed of since January 1, 2001 in the ordinary course of business or (ii) is not material to the operation of the Business.

4.1.9 Material Contracts.

(a) Except as listed and set forth in Schedule

4.1.9(a) (such schedule to be updated on or prior to the Closing Date to identify Assigned Contracts entered into after the date hereof consistent with the provisions of Section 5.1.1 and which are required to be scheduled by the provisions of this Section 4.1.9(a)) or any other Schedule, there is no Assigned Contract (other than the Assigned Contracts entered into after the date of this Agreement consistent with the provisions of Section 5.1.1(b) hereof) that is:

(i) an agreement expressly limiting or restraining the freedom of Buyer following the Closing to compete in any material respect with respect to the Business with any Person, other than any such agreement or covenant which does not materially impair the continued operation of the Business as it is currently conducted;

(ii) an agreement granting a Lien (other than a Permitted Encumbrance or Lien of a Lienholder);

(iii) an agreement for the sale of any material Acquired Asset or grant of any preferential rights to purchase any material Acquired Asset, in each case outside the ordinary course of business;

(iv) an agreement for the lease, sublease or stand-alone co-location of any Owned Real Property or Leased Real Property by Sellers to any other Person;

(v) an agreement with respect to the provision of 911 services or E911 services;

(vi) an agreement or other contractual obligation other than as set forth above with respect to which the aggregate amount to be received or paid thereunder with respect to calendar year 2001 is expected to exceed \$250,000 based on the payments which have been made under such agreement with respect to calendar year 2000 to the extent applicable;

(b) Except as set forth on Schedule 4.1.9(b), to the Knowledge of Sellers, each of the Assigned Contracts listed on Schedule 4.1.9(a) in response to the foregoing (collectively, the "Material Contracts") is valid, binding and in full force and effect and is enforceable by Sellers or Sellers' Affiliates, as applicable, against any other party thereto in accordance with its terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law), and except for any such failure to be valid, binding, in full force and effect or enforceable that is not reasonably likely to have a Material Adverse Effect. Except as set forth on Schedule 4.1.9(b), neither Sellers nor any of their Affiliates that is a party to a Material Contract is, and to the Knowledge of Sellers, no other party thereto is in default in the performance, observance or fulfillment of any material obligation, covenant or condition contained in the Material Contracts, and no event has occurred which with or without the giving of notice or lapse of time, or both, would constitute a default by Sellers thereunder, in each case except for such noncompliance, breaches and defaults that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect. As of the date hereof, except as disclosed on Schedule 4.1.9(b), neither Seller nor any of their Affiliates have received any written notice of the intention of any party to terminate any Material Contract. Complete and correct copies of all Material Contracts, together with all modifications and amendments thereto to the date of this Agreement, have been made available to Buyer or its representatives.

4.1.10 Insurance. The Acquired Assets of an insurable nature and of a character usually insured by companies carrying on similar businesses is insured under insurance policies or self insured in such amounts and against such losses or casualties as is usual in Sellers' industry.

4.1.11 Taxes. Except as set forth on Schedule 4.1.11, and with regard to the Business and the Acquired Assets, (a) there are no Liens with respect to Taxes upon any of the Acquired Assets; (b) Sellers have collected all material sales, use, excise and receipts Taxes required to be collected and has remitted, or will remit on a timely basis, such amounts to the appropriate Governmental Authority; (c) Sellers have duly and timely withheld from employee salaries, wages and other compensation and paid over to the appropriate Governmental Authorities all amounts required to be so withheld and paid over for all periods under any applicable Requirement of Law; (d) neither Seller is a "foreign person" within the meaning of Section 1445(b)(2) of the Code; (e) all Tax returns required to be filed by Sellers or any Seller Affiliate with respect to the Business or the Acquired Assets on or before the Closing Date have been or will have been filed and all Taxes shown as due and payable have been or will be paid by Sellers or such Seller Affiliate as required by Law; and (f) no deficiencies or assessments for any Taxes (other than those being disputed in good faith) have been asserted in writing to Sellers or any Seller Affiliate that remain unpaid and that relate to the Business or the Acquired Assets.

4.1.12 Tariffs; FCC Licenses.

(a) Schedule 4.1.12 sets forth a list of all regulatory tariffs applicable to the Business. The regulatory tariffs applicable to the Business stand in full force and effect on the date of this Agreement in accordance with their terms, and there is no outstanding notice of cancellation or termination or, to Sellers' Knowledge, any threatened cancellation or termination in connection therewith, nor are Sellers subject to any restrictions or conditions applicable to its regulatory tariffs that limit or would limit the operation of the Business (other than restrictions or conditions generally applicable to tariffs of that type). Each such tariff has been duly and validly approved by the Commission or any Governmental Authority having jurisdiction thereof. Sellers are not in material default under the terms and conditions of any such tariff and there is no basis for any claim of default by Sellers in any material respect under any such tariff. Except as set forth in Schedule 4.1.12(a), as of

the date hereof, there are no applications by Sellers or complaints (other than routine or immaterial End-User complaints), or petitions by others or proceedings pending or threatened before the Commission relating to the Business or its operations or the regulatory tariffs that, in Sellers' opinion, would reasonably be expected to have a Material Adverse Effect. To the Knowledge of Sellers, there are no material violations by subscribers or others under any such tariff. A true and correct copy of each tariff applicable to the Business has been made available to Buyer.

(b) Schedule 4.1.12(b) identifies each of the FCC Licenses held by Sellers and used in the operation of the Business. Each such FCC License is in full force and effect on the date of this Agreement in accordance with its terms, and there is no outstanding notice of cancellation or termination or, to Sellers' Knowledge, any threatened cancellation or termination in connection therewith, nor are any of such FCC Licenses subject to any restrictions or conditions that limit the operation of the Business (other than restrictions or conditions generally applicable to licenses of that type). Subject to the Communications Act of 1934, as amended, and the regulations thereunder, the FCC Licenses are free from all security interests, liens, claims, or encumbrances of any nature whatsoever. There are no applications by Sellers or complaints or petitions by others or proceedings pending or threatened before the FCC relating to the Business or the FCC Licenses that, in Sellers' opinion, would reasonably be expected to have a Material Adverse Effect.

4.1.13 Employee Matters.

(a) Schedule 4.1.13(a) lists as of the date hereof (and identifies the sponsor of) each material "Employee Pension Benefit Plan," as that term is defined in Section 3(2) of the ERISA, each material "Employee Welfare Benefit Plan," as that term is defined in Section 3(1) of ERISA (such plans being hereinafter referred to collectively as the "ERISA Plans"), and each other material retirement, pension, profit-sharing, money purchase, deferred compensation, incentive compensation, bonus, stock option, stock purchase, severance pay, unemployment benefit, vacation pay, savings, medical, dental, post-retirement medical, accident, disability, weekly income, salary continuation, health, life or other insurance, fringe benefit, or other employee benefit plan, program, agreement, or arrangement maintained or contributed to by Sellers or their Affiliates in respect of or for the benefit of any employee who, upon the Closing, will be a Transferred Employee or former employee of Sellers, excluding any such plan, program, agreement, or arrangement maintained or contributed to solely in respect of or for the benefit of employees who, upon the Closing, will be Transferred Employees or former employees employed or formerly employed by Sellers outside of the United States, as of the date hereof (collectively, together with the ERISA Plans, referred to hereinafter as the "Plans.") Schedule 4.1.13(a) also includes a list of (i) each material written employment, severance, termination or similar-type agreement between Sellers and their Affiliates and any employee who, upon the Closing, will be a Transferred Employee (the "Employment Agreements"), and (ii) each collective bargaining agreement between Sellers and their Affiliates and collective bargaining representatives for those employees who, upon the Closing, will be Transferred Employees (the "Labor Contracts"). Except for retention bonuses, if any, paid or payable in connection with the Closing of the transactions contemplated by this Agreement and except as otherwise set forth in Schedule 4.1.13(a), the execution and delivery of this Agreement by Sellers and the performance of this Agreement by Sellers will not directly result now or at any time in the future in the payment to any employee who, upon the Closing, will be a Transferred Employee of any severance, termination, or similar payments or benefits.

(b) Except as set forth on Schedule 4.1.13(b):

(i) Neither Seller nor any of their Affiliates, any of the ERISA Plans, any trust created thereunder, or any trustee or administrator thereof, has engaged in any transaction as a result of which Sellers could be subject to any material liability pursuant to Section 409 of ERISA or to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed pursuant to Section 4975 of the Code; and

(ii) Since the effective date of ERISA, no material liability under Title IV of ERISA has been incurred or is reasonably expected to be incurred by Sellers (other than liability for premiums due to the PBGC), unless such liability has been, or prior to the Closing Date will be, satisfied in full.

(c) Except as set forth on Schedule 4.1.13(c), with respect to the ERISA Plans, other than those ERISA Plans identified on Schedule 4.1.13(d) as "multiemployer plans":

(i) the PBGC has not instituted proceedings to terminate any Plan that is subject to Title IV of ERISA;

(ii) none of the ERISA Plans has incurred an "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of each of the ERISA Plans ended prior to the date of this Agreement;

(iii) Each of the ERISA Plans has been operated and administered in all material respects in accordance with its provisions and with all applicable Laws;

(iv) Each of the ERISA Plans that is intended to be "qualified" within the meaning of Section 401(a) of the Code and, to the extent applicable, Section 401(k) of the Code, has been determined by the IRS to be so qualified, and nothing has occurred since the date of the most recent such determination (other than the effective date of certain amendments to the Code, the remedial amendment period for which has not yet expired) that would adversely affect the qualified status of any of such ERISA Plans; and

(v) There are no pending material claims against any of the ERISA Plans by any employee or beneficiary covered under any such ERISA Plan, or otherwise involving any such ERISA Plan (other than routine claims for benefits and routine expenses).

(d) Except as set forth on Schedule 4.1.13(d), none of the ERISA Plans is a "multiemployer plan," as that term is defined in Section 3(37) of ERISA, and with respect to any such multiemployer plans (as so defined) listed in Schedule 4.1.13(d), Sellers have not made or incurred, and the transactions contemplated by this Agreement will not result in Sellers making or incurring, a "complete withdrawal" or a "partial withdrawal," as such terms are respectively defined in Sections 4203 and 4205 of ERISA that would result in the incurrence of a material liability by Sellers.

(e) Except as set forth on Schedule 4.1.13(e), as of the date hereof, (i) none of the employees who, upon the Closing, will be Transferred Employees are represented by a labor union or labor organization, and (ii) Sellers are not subject to any collective bargaining agreement covering any employee who, upon the Closing, will be a Transferred Employee. As of the date hereof, there are no strikes, slowdowns, work stoppages or lockouts by or with respect to any employee who, upon the Closing, will be a Transferred Employee covered by collective bargaining agreements. Except as set forth on Schedule 4.1.13(e), to the Knowledge of Sellers, during the twelve (12) months preceding the date of this Agreement, there have not been any union organizational campaigns by or directed at employees who, upon the Closing, will be Transferred Employees.

(f) Sellers will make available to Buyer, not less than five (5) days prior to the Closing Date, a list of those employees who, upon Closing, will be Transferred Employees and who are participating in or have participated in the health or dependent care reimbursement accounts of Sellers, together with the elections made prior to the Closing Date with respect to such accounts through the Closing Date.

4.1.14 Environmental Matters. Except as set forth on Schedule 4.1.14 or otherwise contained in this Section 4.1.14 which exceptions, individually or in the aggregate, would not, or would not reasonably be likely to have a Material Adverse Effect or prevent, materially delay or impair the ability of Sellers to consummate the transactions contemplated hereby:

(a) All Environmental Permits required pursuant to any Environmental Law for operation of the Business (i) have been obtained by the Sellers and (ii) are currently in full force and effect. The Sellers are in compliance with all Environmental Permits required pursuant to any Environmental Law for operation of the Business.

(b) Sellers are in compliance with all Environmental Laws with respect to the operation of the Business and the ownership of the Acquired Assets. To the Knowledge of Sellers, there are no events, conditions, circumstances, activities, practices or incidents related to the Business which would, or would reasonably be likely to, give rise to any Environmental Claim.

(c) There is no civil, criminal or administrative action, suit, demand, Environmental Claim, hearing, notice or demand letter, notice of violation, investigation or proceeding pending or, to the Knowledge of Sellers, threatened against the Sellers or the Business related to any Environmental Permit or any applicable Environmental Law or any plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder.

(d) The Sellers, in the operation of the Business, have not generated, stored, used, emitted, discharged or disposed of any Hazardous Material except in material compliance with applicable Environmental Laws.

(e) As used herein:

"Environmental Claims" means any and all administrative or judicial actions, suits, orders, claims, Liens, notices, violations or proceedings related to any applicable Environmental Law or any Environmental Permit brought, issued or asserted by: (i) a Governmental Authority for compliance, damages, penalties, removal, response, remedial or other action pursuant to any applicable Environmental Law or Environmental Permit; or (ii) a third party seeking damages, contribution, remediation or other action for personal injury or property damage relating to any Environmental Law or resulting from the release of a Hazardous Material at, to or from any facility of Sellers' Business or any real property upon which any current facility of the Sellers which is primarily used in the Business is located.

"Environmental Laws" means all applicable federal, state and local laws, statutes, ordinances, codes, rules and regulations related to protection of the environment and/or the handling, presence, use, generation, treatment, storage, transportation, release, discharge, emission or disposal of Hazardous Materials in effect as of the date hereof.

"Environmental Permits" means all permits, licenses, approvals, authorizations, or consents required by any Governmental Authority under any applicable Environmental Law and includes any and all orders, consent orders or binding agreements issued or entered into by a Governmental Authority under any applicable Environmental Law.

"Hazardous Material" means any hazardous or toxic substance, material or waste which is regulated as of the Closing Date by any Governmental Authority, including, without limitation, any material or substance that is: (i) defined as a "hazardous substance" under applicable state law; (ii) petroleum; (iii) friable asbestos; (iv) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act, as amended, 33 U.S.C. 1251 et seq. (33 U.S.C. 1321); (v) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, as amended, 42 U.S.C. 6901 et seq. (42 U.S.C. 6903); (vi) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. 9601 et seq. ("CERCLA"); (vii) defined as a "regulated substance" pursuant to Section 9001 of the Federal Resource Conservation and Recovery Act, as amended, 42 U.S.C. 6901 et seq. (42 U.S.C. 6991); or (viii) otherwise regulated under the Toxic Substances Control Act, 15 U.S.C. 2601 et seq., the Clean Air Act, as amended, 42 U.S.C. 7401, et seq., the Hazardous Materials Transportation Act, as amended, 49

4.1.15 Financial Statements.

(a) Schedule 4.1.15(a) contains the financial statements for the Business for the years ended December 31, 1998, December 31, 1999 and December 31, 2000 (collectively the "Financial Statements"). The Financial Statements have been prepared based on the books and records of Sellers. Such books and records have been maintained in accordance with GAAP, adjusted as necessary to comply with regulatory accounting rules prescribed by the FCC and/or the Commission. However, because the Business represents only a portion of Sellers, the Financial Statements reflect the use of estimates and allocations which estimates and allocations are reasonable and necessary to cause the Financial Statements to materially reflect the results of operations for the periods set forth therein.

(b) Except as set forth on Schedule 4.1.15(b), since December 31, 2000, Sellers have not undertaken any transaction, transfer or assignment, the effect of which is to transfer, assign or move revenue reflected in the Financial Statements to any Seller Affiliate.

(c) Schedule 4.1.15(c) contains certain financial data for the Business for the six month period ended June 30, 2001 (the "June 30 Financial Data"). The June 30 Financial Data was prepared from Sellers' systems and, to the Knowledge of Sellers, is a materially accurate reflection of the items presented for the time period represented.

4.1.16 No Material Adverse Change. Except as set forth in Schedule 4.1.16 between December 31, 2000 and the date hereof there has not occurred any event or condition which has resulted, or would reasonably be expected to result, in a Material Adverse Effect.

4.1.17 Brokers. Sellers have not paid or become obligated to pay any fee or commission to any broker, finder, investment banker or other intermediary in connection with the transactions contemplated by this Agreement in such a manner as to give rise to a valid claim against Buyer for any broker's or finder's fees or similar fees or expenses.

4.1.18 No Other Representations and Warranties. Except for the representations and warranties contained in this Agreement, neither Seller nor any of their Affiliates nor any other Person makes any other express or implied representation or warranty with respect to the transaction contemplated hereby.

4.2 Representations and Warranties of Buyer. Buyer represents and warrants to Sellers as follows:

4.2.1 Corporate Organization and Related Matters. Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of Louisiana. Buyer has the requisite corporate power and authority to own, lease or otherwise hold the assets owned, leased or held by it. Buyer has the requisite power, authority and legal right to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Buyer of this Agreement and the Ancillary Documents executed or to be executed by Buyer have been duly authorized by all necessary corporate action on the part of Buyer. This Agreement has been, and the Ancillary Documents when executed will be, duly executed and delivered by Buyer and this Agreement constitutes, and the Ancillary Documents when executed and delivered will constitute, the legal, valid and binding obligations of Buyer, enforceable against it in accordance with their respective terms, except as such enforceability may be limited by bankruptcy laws and other similar laws affecting creditors' rights generally, and subject to the exercise of judicial discretion in accordance with principles of equity.

4.2.2 Litigation. There is no suit, action or other proceeding, or injunction or final judgment relating thereto, pending, or to the Knowledge of Buyer or its Affiliates, threatened against Buyer, before any Governmental Authority in which it is sought to restrain or prohibit or to obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby, and no investigation that would be reasonably likely to result in any such suit, action or proceeding is pending or, to the Knowledge of Buyer or its Affiliates, threatened.

4.2.3 Validity of Contemplated Transactions. Upon the receipt of requisite FCC Consents as described in Section 5.3.2, the Regulatory Approvals as described in Section 5.3.1, compliance with any applicable requirement of the HSR Act, and the receipt of the consents set forth on Schedule 4.2.3 (the "Buyer Consents"), the execution, delivery and performance of this Agreement and the Ancillary Documents by Buyer do not and will not violate, conflict with or result in the breach of any term, condition or provision of, or require the consent of any other Person under, (a) the charter and other organizational documents of Buyer, (b) any existing Requirement of Law to which Buyer is subject, or (c) any judgment, order, writ, injunction, decree or award of any Governmental Authority or any other Governmental Order which is applicable to Buyer.

4.2.4 Financial Capabilities.

(a) Except as contemplated by the next sentence, Buyer has cash or other available sources of funds sufficient to pay in full the Purchase Price in the manner specified in Sections 3.1 and 3.2, together with all related fees and expenses. In addition, if and to the extent Buyer is relying upon any financing to be provided by third parties in order to pay any part of the Purchase Price and related fees and expenses, Buyer has received letters from reputable lenders indicating they are highly confident they can arrange binding financing commitments (the "Highly Confident Letters") in amounts which, together with immediately available funds in cash or cash equivalents of Buyer are and will at the Closing be sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement. True and correct copies of the Highly Confident Letters are attached hereto as Exhibit F, and the

Highly Confidential Letters are current and valid and have not been modified in any respect.

(b) Buyer has sufficient financial resources to operate the Business after the Closing Date. Without limiting the generality of the foregoing, Buyer has sufficient, liquid financial resources to satisfy any applicable requirement relating to financial capacity or capital imposed by any Governmental Authority in the state in which the Business is conducted. Buyer is solvent, is able to pay its debts as they become due, and owns property that has both a fair value and a fair saleable value in excess of the amount required to pay its debts as they become due.

4.2.5 Brokers. Buyer has not paid or become obligated to pay any fee or commission to any broker, finder, investment banker or other intermediary in connection with the transactions contemplated by this Agreement in such a manner as to give rise to a valid claim against Sellers for any broker's or finder's fees or similar fees or expenses.

4.2.6 Financial Statements. Without limiting the effect of Section 4.1.15 hereof, Buyer acknowledges that, with respect to the Financial Statements received from Sellers (a) while based upon books and records that have been maintained in accordance with GAAP, the Financial Statements themselves may not be consistent with GAAP, or the applicable regulations of the FCC or state regulatory authorities, and (b) because the Business represents only a portion of Sellers, the Buyer is not acquiring significant support elements located outside the Seller Exchanges, and Buyer will or may operate under new tariffs, carrier contracts and other conditions that will or may significantly impact the future revenue of the Business, the Financial Statements and June 30 Financial Data may not be representative of the financial performance of the Business during future periods. Except to the extent that the Financial Statements or the June 30 Financial Data reflect intentional misrepresentation or fraud, Buyer agrees not to make any claims with respect to the Financial Statements, including without limitation, any claim based on the performance of the Business after the date of the Financial Statements on the basis of a comparison to the Financial Statements.

4.2.7 Investigation; Acknowledgment. Buyer has conducted a review and analysis of the business, operations, assets, liabilities, results of operations, financial condition, software, and technology of the Business and the Acquired Assets and acknowledges that Buyer has been provided access to the personnel and facilities of Sellers and Verizon and a "data room" set up for the purpose of the transaction contemplated by this Agreement. Except for the representations and warranties contained in this Agreement, Buyer acknowledges that neither Seller, any of their Affiliates nor any other Person makes any other express or implied representation or warranty with respect to the Sellers, the Business, the Acquired Assets or otherwise or with respect to any other information provided to Buyer, whether on behalf of Sellers or such other Persons, including as to (a) merchantability or fitness for any particular use or purpose, (b) the operation of the Business by Buyer after the Closing in any manner other than as used and operated by Sellers or (c) the probable success or profitability of the ownership, use or operation of the Business or the Acquired Assets by Buyer after the Closing except for those representations and warranties set forth in this Agreement. Neither Seller nor any other Person shall have or be subject to any liability or indemnification obligation to Buyer or any other Person resulting from the distribution to Buyer, or Buyer's use of, any such information, including the Confidential Information Summary dated April, 2001 prepared by Verizon related to the Business and any information, document or material made available to Buyer in certain "data rooms," management presentations, conference calls or discussions with employees of Sellers, responses to questions submitted on behalf of Buyer, whether orally or in writing, or in any other form in expectation of the transactions contemplated by this Agreement, except to the extent any such data or information is expressly contained in a representation or warranty made by Sellers in Section 4.1 hereof.

4.2.8 No Other Representations and Warranties. Except for the representations and warranties contained in this Agreement, neither Buyer nor any of its Affiliates nor any other Person makes any other express or implied representation or warranty with respect to the transaction contemplated hereby.

ARTICLE V COVENANTS AND AGREEMENTS PENDING CLOSING

5.1 Agreement of Sellers Pending the Closing. From the date of this Agreement until the Closing, and except as otherwise consented to in writing by Buyer (which consent shall not be unreasonably withheld):

5.1.1 Conduct of the Business in the Ordinary Course. Sellers shall conduct the Business in the ordinary course except as expressly contemplated by this Agreement or the Ancillary Agreements or as required by applicable laws, regulations, orders or decrees. Without limiting the generality of the foregoing, Sellers shall:

(a) keep available to the Business those services of Sellers' Affiliates to the same extent generally available on the date hereof;

(b) operate the Business in substantially the same manner as it is currently being conducted and, with respect to the Business, refrain from entering into any Contract that would be a Material Contract other than in the ordinary course of business;

(c) not institute any proceeding with respect to, or otherwise materially change, amend or supplement any of its local exchange, intrastate toll or intrastate and interstate access tariffs affecting the Business (other than Verizon-wide proceedings with the FCC, subject to Sellers' commercially reasonable efforts, upon Buyer's request, to exempt from such filings the Seller Exchanges) without the prior written consent of Buyer, which consent shall not be unreasonably withheld or make any other filings with the Commission except in the ordinary course of business, and except as set forth in Schedule 4.1.12(a);

(d) maintain the tangible Acquired Assets in good repair, order and condition, reasonable wear and tear excepted;

(e) maintain the material insurance policies with respect to the Acquired Assets consistent with past practice; provided that the parties acknowledge that Sellers or Verizon may at any time cancel prospectively or not renew any of the Verizon corporate insurance programs as to coverage relating to events after the Closing Date or insured risks other than those associated with the Business on or prior to the Closing Date;

(f) make capital expenditures as required to maintain the current operation of the Business and to support normal customer growth in a manner consistent with the provisions of Section 5.1.6 hereof;

(g) maintain the books and records of the Business substantially in accordance with prior practice, except as changes are mandated by Governmental Authorities or required by GAAP;

(h) not make any change in the general lines of business of the Business;

(i) not sell, lease or dispose of, or make any contract for the sale, lease or disposition of any material Acquired Asset, nor permit the imposition of any Lien on the Acquired Assets, other than in the ordinary course of business consistent with past practice;

(j) not materially increase the number of employees who, upon the Closing, are expected to become Transferred Employees or materially modify the benefit provided under any Plans concerning employee benefits or materially increase the general rates of compensation of its employees who, upon the Closing, will be Transferred Employees, except (i) as required by Law, (ii) pursuant to any Contract to which either Seller is a party existing on the date hereof, (iii) in the ordinary course of business of Sellers consistent with past practice, (iv) as ancillary to Verizon wide Plan changes, or (v) as listed or described on Schedule 5.1.1(j);

(k) not materially amend, modify or terminate any Material Contract other than in the ordinary course of business;

(l) except as permitted by Section 5.1.1(j) with respect to Plan changes, not enter into any new written employment agreement, or collective bargaining agreement with, or commitment to, those employees who, upon Closing, shall be Transferred Employees, provided that Sellers may, after consulting with Buyer, enter into, or become bound by, any new collective bargaining agreements to the extent the new collective bargaining agreements succeed any collective bargaining agreement that expires prior to the Closing and, provided further that Sellers may enter into customary agreements relating to Intellectual Property with current and new employees;

(m) file any report or make any modification or adjustment to any procedure that would have a material adverse effect on any amounts to be received by Buyer under those matters addressed in Section 10.5.1 of the Agreement for periods after the Closing Date; (n) use commercially reasonable efforts to generally maintain service level standards consistent with past practice and maintain reasonable levels of Material and Supply Inventory;

(o) enter into any transaction with its Affiliates (other than as expressly contemplated herein) which is not terminable, at Buyer's election, upon sixty (60) days prior written notice; and

(p) write off its CBSS Accounts Receivable classified by Sellers as "unpaid final" consistent with past practice.

5.1.2 Access. Prior to the Closing, Sellers shall permit Buyer and its authorized representatives to have reasonable access, during regular business hours and upon reasonable advance notice, to the Transferred Books and Records, Owned Real Property, Leased Real Property and other Acquired Assets, and to those employees of Sellers as Buyer reasonably requests, to the extent that such access does not materially interfere with the Business; provided, that Buyer and any such representatives comply with the confidentiality and nondisclosure obligations set forth in this Agreement.

5.1.3 Consents. Sellers shall use their commercially reasonable efforts, subject to the conditions set forth in Section 2.4 of this Agreement, to obtain prior to Closing the Seller Consents. Buyer agrees to cooperate in good faith with Sellers in obtaining the Seller Consents.

5.1.4 Debtholder Consents. Sellers shall use their commercially reasonable efforts to obtain from its Lienholders the termination or release or defeasance, at Closing, of all security agreements, mortgages and financing statements relating to the Acquired Assets (such termination or release being hereinafter referred to as the "Debtholder Consents"). Buyer agrees to cooperate in good faith with Sellers in obtaining the required Debtholder Consents.

5.1.5 Financial Statements. To the extent Buyer requires the preparation and/or audit of financial statements with respect to the Business in order to comply with the reporting requirements of the Securities and Exchange Commission under Regulations S-K and S-X or as required by any Financing Commitment (the "SEC Basis Financial Statements"), Sellers will, upon Buyer's request, assist Buyer in the preparation of the SEC Basis Financial Statements, and cooperate with any independent auditors chosen by Buyer to prepare and/or audit the SEC Basis Financial Statements. Sellers' cooperation will include access to workpapers and other supporting documents used in the preparation of the Financial Statements or such documents as may be reasonably required by such auditors to prepare such SEC Basis Financial Statements or to render an opinion. Buyer will bear the cost of preparation of the SEC Basis Financial Statements and any audit.

5.1.6 Capital Expenditures. Sellers shall be obligated to make capital expenditures with respect to the Business required to support normal maintenance and customer growth in a manner consistent with established regulatory performance objectives, which expenditures (exclusive of

any Future Capital Expenditure Obligations or Future Regulatory Obligations) shall not be less than Fifty-five Million Dollars (\$55 Million) in the aggregate during calendar year 2001, and not less than Forty-Three Million Dollars (\$43,000,000) in the aggregate, during calendar year 2002, and which amount shall be discounted on a pro rata daily basis to the extent that the Closing Date occurs prior to December 31, 2002 (the "Capital Expenditure Amount"). The Capital Expenditure Amount shall be deemed to include and not be in addition to any USF funds designated for capital projects. The Purchase Price shall be adjusted down, on a dollar-for-dollar basis, to the extent that Sellers' actual aggregate capital expenditures are less than the Capital Expenditure Amount (a "Capital Expenditure Deficiency"). In the event the Closing does not occur prior to January 1, 2003, the Capital Expenditure Amount shall be increased on a pro rata daily basis and Sellers shall be obligated to make capital expenditures during fiscal year 2003 in the same relative amount, and the Purchase Price shall be adjusted in the same manner described above for any Capital Expenditure Deficiency occurring during the period after January 1, 2003. Between the date of this Agreement and the Closing Date, Sellers will notify Buyer of any project involving Non-Regulated Construction Work in Process in excess of \$50,000.

5.1.7 VADI Assets. Prior to the Closing, Sellers shall cause VADI to contribute to Sellers all of its right, title and interest in and to the VADI Assets, and shall assume all liabilities of VADI that are Assumed Liabilities hereunder pursuant to a Contribution, Assignment and Assumption Agreement in form and substance reasonably satisfactory to Buyer. The parties acknowledge and agree that nothing in this Agreement shall be deemed to prohibit the consummation of the transfer described in this Section 5.1.7 or to constitute a breach of any provision of this Agreement, including without limitation Section 5.1.1.

5.1.8 Release of Liens. On or prior to the Closing, Sellers shall cause to be satisfied and released those Liens identified in Part 1 of Schedule 4.1.7, such that Sellers transfer to the Buyer, free and clear of any lease or other Liens (other than Permitted Encumbrances), the vehicles and equipment subject thereto as an Acquired Asset.

5.1.9 Interim Reports. Until the Closing or termination of this Agreement, Sellers shall deliver to Buyer certain information regarding the operations of the Business and the condition of the Acquired Assets. Sellers agree to deliver the information set forth on Schedule 5.1.9 at the time intervals specified in such schedule, and such other information as Buyer reasonably requests, provided, however, that unless set forth on Schedule 5.1.9, Sellers shall not be obligated to provide any information to Buyer which is not customarily provide by Sellers to its own management. Such reports shall be provided to Buyer within fifteen (15) Business Days following the end of a calendar month, in the case of monthly reports, or within twenty (20) Business Days following the end of a calendar quarter, in the case of quarterly reports; provided, however, in no event shall Sellers be obligated to provide quarterly reports prior to Verizon's earnings announcement for such quarter. All information provided in accordance with this Section 5.1.9 shall be subject to compliance with the Non-Disclosure Agreement and all applicable Laws.

5.2 Agreement of Buyer Pending the Closing. From the date of this Agreement until the Closing and except as otherwise consented to in writing by Sellers:

5.2.1 Control of Business Pending Closing. Nothing contained in this Agreement shall give Buyer, directly or indirectly, rights to control or direct the operations of Sellers or their Affiliates prior to the Closing. Prior to the Closing, Sellers shall exercise, consistent with the terms and conditions of this Agreement and subject to the express limitations of Section 5.1.1, complete control and supervision of the operation of the Business.

5.2.2 Contacts by Buyer. Buyer will not without the prior consent of Sellers, which shall not be unreasonably withheld, contact any employee, customer or supplier of Sellers with respect to this Agreement, the transactions contemplated hereby or the Acquired Assets; provided, Buyer may contact unions representing those employees who, upon the Closing, will be Transferred Employees in accordance with Section 8.1.1.

5.2.3 Highly Confidential Letters. Upon request by Sellers, which request shall be no more frequently than quarterly, from the date hereof until Closing, Buyer shall provide updated Highly Confidential Letters in form and substance satisfactory to Sellers in their sole discretion (the "Quarterly Updates"). Such Quarterly Updates shall also contain a certificate from an authorized officer of Buyer certifying that the representations set forth in Section 4.2.4 are true and correct as of the date of such certificate. Notwithstanding the foregoing, Buyer shall immediately notify Sellers upon the termination or modification of any Highly Confidential Letter provided to Sellers either pursuant to Section 4.2.4 or this Section 5.2.3.

5.3 Covenants of Seller and Buyer. Sellers and Buyer further covenant and agree that, except as otherwise agreed to in writing by Sellers and Buyer:

5.3.1 State Regulatory Approval. Promptly after the date of this Agreement, but no later than thirty (30) days after the date hereof, Buyer and Sellers shall use commercially reasonable efforts to file the appropriate applications and notices with the Commission seeking orders permitting the transfer of service in the Seller Exchanges to Buyer (collectively, the "Regulatory Approvals"). Buyer shall be responsible for seeking to establish the tariff for its post-Closing operations in the Seller Exchanges. Each of Buyer and Sellers shall use its commercially reasonable efforts to obtain the Regulatory Approvals and the parties agree to cooperate fully with each other and with the applicable regulatory agency to obtain the Regulatory Approvals at the earliest practicable date. In the event the Commission imposes any condition, term or restriction as more particularly described in clauses (a) and (b) of Section 6.3.2, each of Buyer and Sellers shall use its commercially reasonable efforts to seek modification or removal of such condition such that the Regulatory Approvals shall conform to the standards set forth in Section 6.3.2.

5.3.2 FCC Consents. Promptly after the date of this Agreement, but no later than thirty (30) days after the date hereof, the parties shall use their

commercially reasonable efforts to obtain (a) the FCC's consent to the transfer of the FCC Licenses from Sellers to Buyer and (b) the FCC waivers set forth on Schedule 5.3.2 (all such consents or waivers are collectively referred to as the "FCC Consents").

5.3.3 HSR Act Review.

(a) Within thirty (30) Business Days after the date of this Agreement, or such other time as the parties may agree, the parties will make such filings as may be required by the HSR Act with respect to the transactions contemplated by this Agreement. Thereafter, the parties will file as promptly as practicable all reports or other documents required or requested by the U.S. Federal Trade Commission or the U.S. Department of Justice pursuant to the HSR Act or otherwise including requests for additional information concerning such transactions, so that the waiting period specified in the HSR Act will expire as soon as reasonably possible after the execution and delivery of this Agreement. Without limiting the foregoing, each of Sellers and Buyer shall use its commercially reasonable efforts to cooperate and oppose any preliminary injunction sought by any Governmental Authority preventing the consummation of the transactions contemplated by this Agreement. Buyer agrees to pay all application fees required in connection with any filings under the HSR Act.

(b) Sellers and Buyer shall each cause their respective counsel to furnish the other party such necessary information and reasonable assistance as the other may reasonably request in connection with its preparation of necessary filings or submissions under the provisions of the HSR Act. Sellers and Buyer shall each cause their respective counsel to supply to the other party copies of all correspondence, filings or written communications by such party or its Affiliates with any Governmental Authority or staff members thereof, with respect to the transactions contemplated by this Agreement and any related or contemplated transactions, except for documents filed pursuant to Item 4(c) of the Hart-Scott-Rodino Notification and Report Form or communications regarding the same, documents or information submitted in response to any request for additional information or documents pursuant to the HSR Act which reveal Sellers' or Buyer's negotiating objectives or strategies or purchase price expectations.

5.3.4 Landlord Consents. Promptly after the date hereof, the parties shall use their commercially reasonable efforts to mutually seek the consent of the lessor to any Real Property Leases that require consent as a condition to an assignment of the lease which consents are identified in Schedule 4.1.6(a). If a lessor refuses to consent to a lease assignment, and if the applicable lease permits a sublease without the consent of the lessor, the parties hereto shall, effective as of the Closing, enter into a sublease upon terms and conditions as similar and comparable to an assignment of the lease as is reasonably feasible.

5.3.5 Other Agreements. Prior to or at the Closing, each of Buyer and Sellers shall (and shall use commercially reasonable efforts to cause its applicable Affiliate to) execute and deliver to the counter-party the License Agreement, and the Publishing Agreement substantially in the forms attached hereto and such other agreements as are set forth on Schedule 5.3.5.

5.3.6 Insurance Coverage. On the Closing Date, the coverage under the insurance policies and programs applicable to the Acquired Assets will be terminated, and Buyer will be responsible for providing all insurance coverage for the Acquired Assets.

5.3.7 Interconnection Agreements. In cases in which either Seller or any Affiliate is a party to a contract with a competitive local exchange carrier or an interexchange carrier for interconnection services within the Seller Exchanges (the "Seller Interconnection Agreements"), Sellers and Buyer agree that until Closing and for a period of ninety (90) days after the Closing Date, each of Sellers and Buyer shall use its commercially reasonable efforts to facilitate the negotiation of similar agreements and/or modifications to and assignments of the Seller Interconnection Agreements that will transfer the benefits and obligations of Sellers contained in such Seller Interconnection Agreements to Buyer after Closing.

5.3.8 Designated Representative. Within fifteen (15) days of the date of this Agreement, the parties shall each appoint a knowledgeable representative with the necessary authority to respond to matters requiring such party's consent. No consent shall be valid if received from a Person other than a party's designated representative.

ARTICLE VI CONDITIONS PRECEDENT TO THE CLOSING

6.1 Conditions Precedent to Obligations of Buyer. The obligations of Buyer to consummate the Closing shall be subject to the fulfillment or satisfaction prior to or at the Closing, of each of the following conditions precedent which may be waived in writing in whole or in part only by Buyer:

6.1.1 Representations and Warranties True as of Closing. All of the representations and warranties of Sellers contained in this Agreement shall be true and correct as of the Closing Date, other than any such representations and warranties made as of a specified date, which shall be true and correct as of such date, except to the extent that the failure to be true and correct shall not have had or would not reasonably be expected to have a Material Adverse Effect.

6.1.2 Compliance with this Agreement. Sellers shall have performed and complied in all material respects (or shall have cured any material nonperformance or noncompliance) with all covenants, agreements and conditions required by this Agreement to be performed or complied with by Sellers prior to or at the Closing, except to the extent that the failure to do so shall not have had or would not reasonably be expected to have a Material Adverse Effect.

6.1.3 Closing Certificate. Buyer shall have received a certificate from an authorized officer of each Seller, dated the Closing Date, certifying that the conditions specified in Sections 6.1.1 and 6.1.2 have been fulfilled.

6.1.4 Other Agreements. Sellers and/or their applicable Affiliate shall have tendered an executed Bill of Sale, Assignment and Assumption Agreement, the Publishing Agreement and License Agreement substantially in the forms attached hereto; together with those agreements set forth on Schedule 5.3.5.

6.2 Conditions Precedent to Obligations of Seller. The obligations of Sellers to consummate the Closing shall be subject to the fulfillment or satisfaction prior to or at the Closing, of each of the following conditions precedent, which may be waived in writing in whole or in part only by Sellers:

6.2.1 Representations and Warranties True as of Closing. All of the representations and warranties of Buyer contained in this Agreement shall be true and correct as of the Closing Date, other than any such representations and warranties made as of a specified date, which shall be true and correct as of such date, except to the extent that the failure to be true and correct shall not have had or would not reasonably be expected to have a material adverse effect on Sellers.

6.2.2 Compliance with this Agreement. Buyer shall have performed and complied in all material respects (or shall have cured any material nonperformance or noncompliance) with all covenants, agreements and conditions required by this Agreement to be performed or complied with by Buyer prior to or at the Closing, except to the extent that the failure to do so shall not have had or would not reasonably be expected to have a material adverse effect on Sellers.

6.2.3 Closing Certificate. Sellers shall have received a certificate from an authorized officer of Buyer, dated the Closing Date, certifying that the conditions specified in Sections 6.2.1 and 6.2.2 have been fulfilled.

6.2.4 Purchase Price. Buyer shall have tendered to Sellers, in the manner specified in Section 3.2, the Closing Date Payment.

6.2.5 Other Agreements. Buyer shall have executed and tendered the Bill of Sale, Assignment and Assumption Agreement, the Publishing Agreement, and the License Agreement substantially in the forms attached hereto, together with those agreements set forth on Schedule 5.3.5.

6.3 Conditions Precedent to the Obligations of Buyer and Seller. All obligations of Buyer and Sellers under this Agreement are subject to the fulfillment or satisfaction, prior to or at the Closing, of each of the following conditions precedent:

6.3.1 HSR Act Waiting Period. All required waiting periods under the HSR Act relating to the transactions contemplated by this Agreement shall have expired or been earlier terminated.

6.3.2 Required Consents. Each of the required Debtholder Consents shall have been obtained, each of the Liens satisfied in accordance with the provisions of Section 5.1.8, and each of the required Regulatory Approvals and FCC Consents shall have been obtained; provided that such Regulatory Approvals and FCC Consents shall neither (a) require or be conditioned upon Buyer's agreement to or compliance with any term, condition or restriction that would reasonably be likely to have a Material Adverse Effect on the Business nor (b) impose any term, condition or restriction on the business or operations of Sellers or their Affiliates or result in the waiver of rights asserted by any of the foregoing that would reasonably be likely to be materially adverse to Sellers or their Affiliates in the reasonable judgment of Sellers. For purposes of this Agreement, all such approvals and consents shall be deemed to have been obtained upon the granting thereof, and the expiration of any appeals period.

6.3.3 No Governmental Order. On the Closing Date, there shall not have been entered a preliminary or permanent injunction, temporary restraining order or other judicial or administrative order or decree by any Governmental Authority having jurisdiction over the Business, the effect of which prohibits the Closing.

6.3.4 Assumption of Labor Contract Obligations. Buyer shall have been able to assume its obligations under Section 8.1.1 without change to the terms of any Labor Contract, but only to the extent such change has resulted, or would reasonably be expected to result, in a Material Adverse Effect.

6.3.5 No Material Adverse Effect. There shall not have occurred any event or condition which individually or in the aggregate has resulted, or would reasonably be expected to result, in a Material Adverse Effect.

ARTICLE VII INDEMNIFICATION

7.1 Survival of Representations and Warranties.

7.1.1 Survival Period. All representations and warranties made by the parties in this Agreement shall survive the Closing Date until the later of (a) one (1) year following the Closing Date or (b) the completion of Buyer's first audit cycle (the "Expiration Date"); provided, however, in no event shall the Expiration Date extend beyond fifteen (15) months following the Closing Date, and provided, further, that the representations

and warranties contained in Sections 4.1.1, 4.1.17, 4.1.18, 4.2.1, 4.2.5, 4.2.7 and 4.2.8 shall survive the Closing without limitation.

7.1.2 Period for Claims. This Article VII shall survive any termination of this Agreement and the indemnification contained in this Article VII shall survive the Closing and shall remain in effect (a) with respect to any claim related to the breach of any representation and warranty, until the expiration of the applicable survival period set forth in Section 7.1.1; and (b) indefinitely (except to the extent expressly set forth in this Agreement), with respect to any claim arising under Section 2.3.2 (Retained Liabilities) or 2.3.1 (Assumed Liabilities). Unless a claim for indemnification with respect to any alleged breach of any representation or warranty is asserted by notice given as herein provided that specifically identifies a particular breach and the underlying facts relating thereto, which notice is given within the applicable period of survival for such representation or warranty, such claim may not be pursued and is irrevocably waived after such time. Without limiting the generality or effect of the foregoing, no claim for indemnification with respect to any representation or warranty will be deemed to have been properly made except (i) to the extent it is based upon a Third Party Claim made or brought prior to the expiration of the survival period for such representation or warranty, or (ii) to the extent based on Losses actually incurred by an Indemnitee prior to the expiration of the survival period for such representation or warranty.

7.2 Indemnification.

7.2.1 Indemnification Obligation of Sellers. From and after the Closing, and subject to the other provisions of this Article VII, Sellers shall indemnify, defend and hold harmless Buyer and its Affiliates and their respective directors, officers, agents and employees (each, a "Buyer Indemnitee" and collectively the "Buyer Indemnites") from and against all Losses incurred or suffered by any Buyer Indemnitee relating to, resulting from or arising out of (a) any inaccuracy in any of the representations and warranties made by Seller in Section 4.1 of this Agreement, (b) a breach by Sellers of any covenant of Sellers contained in this Agreement, which covenant requires performance by such Seller at or after the Closing, and (c) any of the Retained Liabilities.

7.2.2 Indemnification Obligation of Buyer. From and after the Closing and subject to the other provisions of this Article VII, Buyer shall indemnify, defend and hold harmless Sellers and their Affiliates and their respective directors, officers, agents and employees (each a "Seller Indemnitee" and collectively the "Seller Indemnites") from and against all Losses incurred or suffered by any Seller Indemnitee relating to, resulting from or arising out of (a) any inaccuracy in any of the representations or warranties made by Buyer in Section 4.2 of this Agreement, (b) a breach by Buyer of any covenant of Buyer contained in this Agreement, which covenant requires performance by Buyer at or after the Closing, (c) any of the Assumed Liabilities, (d) items payable under Section 10.9 of this Agreement and (e) infringement or misappropriation of Third Party Intellectual Property.

7.2.3 Definitions For purposes of this Agreement:

(a) "Indemnification Payment" means any amount of Losses required to be paid pursuant to this Agreement;

(b) "Indemnitee" means any Person entitled to indemnification under this Agreement, either a Seller Indemnitee or a Buyer Indemnitee as the case may be;

(c) "Indemnitor" means any person or entity required to provide indemnification under this Agreement; and

(d) "Losses" means any losses, liabilities, damages, costs and expenses (including reasonable out-of-pocket attorneys' fees and expenses) actually incurred in connection with any actions, suits, demands, assessments, judgments and settlements, in any such case (i) reduced by the amount of insurance proceeds recovered from any Person with respect thereto; and
(ii) excluding any such losses, liabilities damages, costs and expenses to the extent that the underlying liability or obligation is the result of any action taken or omitted to be taken by any Indemnitee.

7.3 Limitation on Claims for Indemnifiable Losses.

7.3.1 Matters Known Prior to Closing. Notwithstanding anything to the contrary contained in this Agreement, if the Closing occurs, (i) no claim for indemnification may be asserted under Section 7.2.1 with respect to any matter discovered by or known to Buyer on or before the Closing Date, and (ii) no claim for indemnification may be asserted under Section 7.2.2 with respect to any matter discovered by or known to Sellers on or before the Closing Date.

7.3.2 Limitation of Liability. Notwithstanding anything to the contrary contained herein:

(a) Sellers shall not be liable for any Losses with respect to any claims by a Buyer Indemnitee under Section 7.2.1 unless, with respect to any individual claim or series of related claims, the amount of Losses (not otherwise indemnified) resulting therefrom exceeds Fifty Thousand Dollars (\$50,000) (the "Included Claims") and (ii) unless and until the total of all Included Claims for indemnity or damages with respect thereto exceeds two percent (2%) of the Purchase Price (the "Seller Threshold"), and then Sellers shall be liable for all such Included Claims in excess of the Seller Threshold. The aggregate liability of Sellers for indemnifiable Losses with respect to any Included Claims under Section 7.2.1 hereof shall not exceed the amount which is ten percent (10%) of the Purchase Price (the "Seller Indemnification Limit")

(b) No Indemnitor shall be liable to or obligated to indemnify any Indemnitee hereunder for any consequential, special, multiple, punitive or exemplary damages including, but not limited to, damages arising from loss or interruption of business, profits, business opportunities or

goodwill, loss of use of facilities, loss of capital, claims of customers, or any cost or expense related thereto, except to the extent such damages have been recovered by a third person and are the subject of a Third Party Claim for which indemnification is available under the express terms of this Article VII.

(c) Sellers and Buyer shall cooperate with each other with respect to resolving any claim or liability with respect to which one party is obligated to indemnify the other party hereunder, including by making commercially reasonable efforts to mitigate the Losses and resolve any such claim or liability.

(d) The provisions of this Section 7.3 shall not apply to obligations associated with the Assumed Liabilities or the Retained Liabilities.

7.4 Defense of Claims.

7.4.1 Third Party Claims. If any Indemnitee receives notice of the assertion of any claim or of the commencement of any action or proceeding by any entity that is not either a Buyer Indemnitee or a Seller Indemnitee (a "Third Party Claim") against such Indemnitee, with respect to which an Indemnitor is obligated to provide indemnification under this Agreement, the Indemnitee will give such Indemnitor reasonably prompt written notice thereof, but in any event not later than ten (10) calendar days after receipt of notice of such Third Party Claim; provided, however, that the failure of an Indemnitee to notify the Indemnitor within the time period set forth herein shall only relieve the Indemnitor from its obligation to indemnify to the extent that the Indemnitor is materially prejudiced by such failure or delay (whether as a result of the forfeiture of substantive rights or defenses or otherwise). Upon receipt of notification of a Third Party Claim, the Indemnitor shall be entitled, upon written notice to the Indemnitee, to assume the investigation and defense thereof with counsel reasonably satisfactory to the Indemnitee. Whether or not the Indemnitor elects to assume the investigation and defense of any Third Party Claim, the Indemnitee shall have the right to employ separate counsel and to participate in the investigation and defense thereof; provided, however, that the Indemnitee shall pay the fees and disbursements of such separate counsel unless (a) the employment of such separate counsel has been specifically authorized in writing by the Indemnitor; (b) the Indemnitor has failed to assume the defense of such Third Party Claim within a reasonable time after receipt of notice thereof with counsel reasonably satisfactory to such Indemnitee; or (c) the named parties to the proceeding in which such claim, demand, action or cause of action has been asserted include both the Indemnitor and such Indemnitee and, in the reasonable judgment of counsel to such Indemnitee, there exists one or more defenses that may be available to the Indemnitee that are in conflict with those available to the Indemnitor. Notwithstanding the foregoing, the Indemnitor shall not be liable for the fees and disbursements of more than one counsel for all Indemnitees in connection with any one proceeding or any similar or related proceedings arising from the same general allegations or circumstances. Without the prior written consent of an Indemnitee, the Indemnitor will not enter into any settlement of any Third Party Claim that would lead to liability or create any financial or other obligation on the part of the Indemnitee unless such settlement includes, as an unconditional term thereof, the release of the Indemnitee from all liability in respect of such Third Party Claim or such Third Party Claim is dismissed against the Indemnitee with prejudice and without the imposition of any financial or other obligation on the Indemnitee. If a settlement offer solely for money damages is made to resolve a Third Party Claim 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 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 hereunder shall be limited to the lesser of (x) the amount of the settlement offer that the Indemnitee declined to accept plus the Losses of the Indemnitee relating to such Third Party Claim through the date of its rejection of the settlement offer or (y) the aggregate Losses of the Indemnitee with respect to such claim.

7.4.2 Direct Claims. Any claim by an Indemnitee for Losses that do not result from a Third Party Claim (a "Direct Claim") shall be asserted by giving the Indemnitor reasonably prompt written notice thereof, but in any event not later than thirty (30) calendar days after the incurrence thereof, and the Indemnitor will have a period of thirty (30) calendar days within which to respond in writing to such Direct Claim. If the Indemnitor does not so respond within such thirty (30) calendar day period, the Indemnitor will be deemed to have rejected such claim, in which event the Indemnitee will be free to pursue such remedies as may be available to the Indemnitee on the terms and subject to the provisions of this Article VII.

7.4.3 Subrogation. If after the making of any Indemnification Payment the amount of the Losses to which such payment relates is reduced by recovery, settlement or otherwise under any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other Person, the amount of such reduction (less any costs, expenses, premiums or Taxes incurred in connection therewith) will promptly be repaid by the Indemnitee to the Indemnitor. Upon making any Indemnification Payment, the Indemnitor will, to the extent of such Indemnification Payment, be subrogated to all rights of the Indemnitee against any third party that is not an Affiliate of the Indemnitee in respect of the Losses to which the Indemnification Payment relates; provided that (a) the Indemnitor shall then be in compliance with its obligations under this Agreement in respect of such Losses, and (b) until the Indemnitee recovers full payment of its Losses, all claims of the Indemnitor against any such third party on account of said Indemnification Payment will be subrogated and subordinated in right of payment to the Indemnitee's rights against such third party. Without limiting the generality or effect of any other provision of this Article VII, each such Indemnitee and Indemnitor will duly execute upon request all instruments reasonably necessary to evidence and perfect the above-described subrogation and subordination rights.

7.5 No Indemnifiable Claims Resulting from Governmental Authority Action. Neither Buyer nor any of its Affiliates shall have any indemnifiable or otherwise compensable claim that any of Sellers' representations or warranties in this Agreement are inaccurate, or that any covenant has been breached, if such claim is predicated on any action by a Governmental Authority (other than a tax authority) undertaken after Closing or any action a Governmental Authority (other than a tax authority) requires Buyer to undertake after Closing; provided, however, that such limitation shall not apply to the extent such action by a Governmental Authority (other than a tax authority) arises directly out of any (a) willful misconduct by Sellers as judicially determined by a final order of a court or Governmental Authority of competent jurisdiction; or (ii) conduct by Sellers that was not reasonably prudent based on then-prevailing circumstances and, provided further that Sellers' reliance on a

reasonable interpretation of existing Law or practice shall be deemed reasonably prudent.

7.6 Other Rights and Remedies. Following the Closing, the sole and exclusive remedy at law for Sellers or Buyer for any claim (whether such claim is framed in tort, contract or otherwise) arising out of a breach of any representation, warranty, covenant or other agreement in this Agreement shall be a claim by Sellers or Buyer for indemnification pursuant to this Article VII.

ARTICLE VIII EMPLOYEES AND EMPLOYEE MATTERS

8.1 Employment of Transferred Employees. Schedule 8.1 lists the Active Employees (as defined below) of the Business as of the date of this Agreement, together with their job positions, service and compensation. An employee hired by Sellers or their Affiliate after the date of this Agreement who would be an Active Employee but for not being employed on the date of this Agreement shall become an Active Employee as of his or her date of hire. In hiring new employees and terminating employees of the Business, Sellers and their Affiliates shall follow their usual and ordinary course of business in accordance with past practice. An Active Employee who terminates employment with Sellers prior to the Closing shall no longer be considered an Active Employee (without regard to the reason or circumstance for such termination). To the extent required by the foregoing, a final updated Schedule 8.1 shall be provided to Buyer on or immediately prior to the Closing Date. All Active Employees of the Business on the Closing Date (collectively, the "Transferred Employees") shall be employed by (or become the responsibility of, as applicable) Buyer as of the Closing Date in the same or comparable positions, and at the same or comparable total compensation (including base pay and bonus), as were in effect on the Closing Date, except as otherwise provided in this Agreement. An individual shall be considered an "Active Employee" of the Business if the individual is employed by Sellers or an Affiliate of Sellers and (i) provides substantially all of his or her services to or for the Business or (ii) provides inter-unit support services to the Business and/or similar businesses of the Sellers and their Affiliates and is designated as an "Inter-Unit Services Employee" on Schedule 8.1. The number of Inter-Unit Services Employees designated on Schedule 8.1 for each job function of the Business shall be equal to the whole number of full-time equivalent positions (as reasonably determined by Sellers on the basis of a standard workweek and taking into account all employees of Sellers and their Affiliates who provide more than de minimis services for the Business other than those employees listed on Schedule 8.1 pursuant to subparagraph (i) above) utilized in the Business for such job function. The determination of "Active Employees" shall include all full-time and part-time employees, employees on workers' compensation, military leave, maternity leave, leave under the Family and Medical Leave Act of 1993, short-term disability (except to the extent that any such employee subsequently goes on long-term disability due to the pre-Closing condition resulting in short-term disability leave), or layoff with recall rights, and employees on other approved leaves of absence with a legal or contractual right to reinstatement. Any individuals who would be "Transferred Employees" but for their being on long-term disability shall be offered a position by Buyer in the event they recover within twelve (12) months after the Closing Date; provided that if any such employee subsequently returns to long-term disability as a result of the pre-Closing condition resulting in such long-term disability, Sellers shall be responsible for providing such coverage. Notwithstanding the foregoing, individuals who would otherwise be considered "Active Employees" but who are designated by Sellers as "Retained Employees" on Schedule 8.1(a) shall not be considered "Active Employees" for purposes of this Agreement, and individuals who would not otherwise be considered "Active Employees" but who are designated by Sellers as "Included Employees" on Schedule 8.1(b) shall be considered "Active Employees" for purposes of this Agreement. For a period of twelve (12) months following the Closing Date, Buyer shall not employ, and Buyer shall not permit any of its Affiliates to employ, any person who retires or otherwise terminates from any employment at or in association with the Business during the six-(6) month period beginning three (3) months before the Closing Date.

8.1.1 Assumption of Labor Contract Obligations. On and after the Closing Date, Buyer shall assume all of the employer's obligations under, and be bound by the provisions of, each Labor Contract covering Transferred Employees. Sellers shall cooperate with Buyer in Buyer's efforts to contact the unions representing Transferred Employees. If a union representing Transferred Employees objects to Buyer's assumption of, or refuses to allow Buyer to assume, the provisions of any existing collective bargaining agreement that covers such Transferred Employees immediately before the Closing Date, or objects to any change in or termination of employee benefits on or after the Closing Date, Sellers and their Affiliates shall have no liability or obligation to Buyer by reason of such objection or refusal.

8.1.2 Assumption of Employment and Other Agreements. On and after the Closing Date, except (a) as otherwise provided in this Agreement or in Schedule 8.1.2 or (b) to the extent arising as a result of the breach by Sellers of the representations or covenants contained in Sections 4.1.9, 4.1.13 or 5.1.1 hereof, Buyer, as successor employer to Sellers, shall assume all obligations under and be bound by the provisions of each offer of employment by Sellers and their Affiliates relating to the Business, each Employment Agreement or any other agreement by Sellers or any of their Affiliates relating to conditions of employment, Intellectual Property, employment separation, severance, or employee benefits in connection with the Business; provided, however, Sellers and their Affiliates shall retain the right to enforce agreements relating to Intellectual Property. Schedule 8.1.2 lists the obligations, as of the date hereof, to be assumed by Buyer pursuant to this Section 8.1.2.

8.1.3 No Creation of Objection Rights. This Agreement does not create any right of an employee or union to object or to refuse to assent to the Sellers' assignment of or Buyer's assumption of or succession to any Employment Agreement, Labor Contract, or other agreement relating to conditions of employment, employment separation, severance or employee benefits, nor shall this Agreement be construed as recognizing that any such rights exist.

8.1.4 Recognition of Transferred Employee Service. Except as otherwise provided herein, on and after the Closing Date, and subject to the provisions of any applicable collective bargaining agreement, Buyer shall recognize for all employment-related purposes the service of each Transferred Employee with Sellers and their Affiliates. Schedule 8.1 shall list such service for each Transferred Employee. Except to the extent required by Section 8.2.1, Buyer shall not be required to credit any Transferred Employee with prior service for purposes of benefit accrual or contributions under any defined benefit pension plan or other retirement plan.

8.1.5 Assumption of Obligation to Pay Bonuses. Transferred Employees shall not accrue benefits under any employee benefit policies, plans, arrangements, programs, practices, or agreements of Sellers or any of their Affiliates after the Closing Date. Buyer shall assume the obligation to pay to Transferred Employees a pro-rated portion of any bonuses that would have been payable to the Transferred Employees with respect to the calendar year in which the Closing Date occurs had the Transferred Employees remained employees of Sellers or one of their Affiliates. Such pro-rated portion shall be equal to the portion of the bonus that would have accrued during the portion of the calendar year occurring after the Closing Date in accordance with the provisions of the applicable bonus policy, plan, arrangement, program, practice or agreement of Sellers and their Affiliates. Sellers shall pay the remaining pro-rated portion of such bonuses in the ordinary course and at the time such bonuses would have been paid without regard to this Agreement.

8.1.6 No Duplicate Benefits. Nothing in this Agreement shall cause duplicate benefits to be paid or provided to or with respect to a Transferred Employee under any employee benefit policies, plans, arrangements, programs, practices, or agreements. References herein to a benefit with respect to a Transferred Employee shall include, where applicable, benefits with respect to any eligible dependents and beneficiaries of such Transferred Employee under the same employee benefit policy, plan, arrangement, program, practice or agreement.

8.1.7 Affiliate Employees. If any employee identified in Schedule 8.1 is an employee of an Affiliate of Sellers, he or she shall be considered a Transferred Employee and shall be treated under this Agreement in a manner that is comparable to the treatment given to the Transferred Employees who are employed by Sellers. Sellers and their Affiliates shall take and/or cause to be taken any action necessary to ensure that the Transferred Employees and any Included Employees are employed by or transferred to Sellers no later than immediately prior to the Closing to allow Buyer to assume the employment obligations contemplated by Section 8.1.

8.2 Transferred Employee Benefit Matters.

8.2.1 Defined Benefit Plans.

(a) Management Employees. Effective immediately after

the Closing Date, the Transferred Employees who participate in the Verizon GTE Service Corporation Plan for Employees' Pensions (the "Seller Salaried Pension Plan") will be eligible to participate under a tax-qualified defined benefit pension plan established or maintained by Buyer to the same extent (if any) as similarly-situated employees of Buyer. Such Transferred Employees shall receive credit for their service with Sellers and their Affiliates under such Buyer pension plan for all purposes other than benefit accrual service. Other than direct rollover distributions, if any are permitted, no assets or liabilities will be transferred in connection with this Agreement from the Seller Salaried Pension Plan to Buyer or any benefit plan of buyer.

(b) Represented Employees. Buyer shall take all actions necessary and appropriate to ensure that, as soon as practicable after the Closing Date, Buyer maintains or adopts one or more pension plans (hereinafter referred to in the aggregate as the "Buyer Pension Plans" and individually as the "Buyer Pension Plan") and to ensure that each Buyer Pension Plan satisfies the following requirements as of the Closing Date: (i) the Buyer Pension Plan is a qualified, single-employer defined benefit plan under Section 401(a) of the Code; (ii) any Buyer Pension Plan that was in effect before the Closing Date shall not have any "accumulated funding deficiency," as defined in Section 302 of ERISA and Section 412 of the Code, whether or not waived, immediately before the Closing Date; (iii) the Buyer Pension Plan is not the subject of termination proceedings or a notice of termination under Title IV of ERISA; (iv) the Buyer Pension Plan does not exclude Transferred Employees who were participants in the "GTE South, Inc. (Southeast) Plan for Hourly-Paid Employees' Pensions" (the "Seller Hourly Pension Plan") on the Closing Date from eligibility to participate therein; (v) the Buyer Pension Plan does not violate the requirements of any applicable collective bargaining agreement; and (vi) with respect to Transferred Employees who were participants in the Seller Hourly Pension Plan on the Closing Date, the terms of the Buyer Pension Plan are substantially identical in all material respects to the terms of the Seller Hourly Pension Plan. Within the thirty (30) day period immediately preceding any transfer of assets and liabilities from the Seller Hourly Pension Plan to a Buyer Pension Plan pursuant to Section 8.2.1, Buyer shall provide Sellers with a written certification, in a form acceptable to Sellers, that the Buyer Pension Plan satisfies each of the requirements set forth in this Section 8.2.1(b).

(c) Transfer of Liabilities.

(i) Buyer shall cause the Buyer Pension Plans to accept all liabilities for benefits under the Seller Hourly Pension Plan whether or not vested, that would have been paid or payable (but for the transfer of assets and liabilities pursuant to this Section 8.2.1) to or with respect to the Transferred Employees under the terms of the Seller Hourly Pension Plan that have accrued under the Seller Hourly Pension Plan to or with respect to the Transferred Employees based on accredited service and compensation under the Seller Pension Plans as of the Closing Date.

(ii) For purposes of eligibility and vesting under the Buyer Pension Plans, each Transferred Employee whose accrued benefit is transferred from a Seller Hourly Pension Plan to a Buyer Pension Plan shall be credited with service and compensation as of the Closing Date as determined under the terms of the Seller Hourly Pension Plan. The benefit under the Buyer Pension Plan for each Transferred Employee who, on the Closing Date, participates in the Seller Hourly Pension Plan, shall be calculated under terms of the Buyer Pension Plan that are substantially identical in all material respects to the terms of the Seller Hourly Pension Plan.

(iii) As soon as practicable after the Closing Date, Sellers shall deliver to Buyer a list reflecting each Transferred Employee's service and compensation under the Seller Hourly Pension Plan.

(d) Transfer of Assets.

- (i) Sellers shall direct the trustee of the Seller Hourly Pension Plan to transfer to the trustee or funding agent of the Buyer Pension Plan the amount required to be transferred by Section 414(1) of the Code and the regulations thereunder for all Transferred Employees whose accrued benefits are transferred to a Buyer Pension Plan pursuant to subsection (c) of this Section 8.2.1, determined using the assumptions used by the PBGC with respect to a plan termination occurring on the Closing Date (the "Pension Assets"), as set forth on Schedule 8.2.1(d)(i), subject to any adjustment pursuant to subsection (d)(vi) of this Section 8.2. The Pension Assets shall be in the form of cash or marketable obligations. Under no circumstances shall Sellers or the Seller Hourly Pension Plan be liable to transfer any additional amount to Buyer or a Buyer Pension Plan or any other Person in respect of the accrued benefits transferred to a Buyer Pension Plan pursuant to subsection (c) of this Section 8.2.1, including but not limited to any circumstance under which any Person (including a Governmental Authority) states a claim to some portion or all of the Pension Assets.
- (ii) Sellers shall appoint an actuary ("Sellers' Actuary") to determine the amount to be transferred pursuant to subsection (d)(i) of this Section 8.2.1 and shall provide such determination to Buyer. Buyer shall appoint an actuary ("Buyer's Actuary") who shall have the right to audit and review the determination made by Sellers' Actuary. Within thirty (30) days after the date Sellers inform Buyer of the amount of the Pension Assets, Sellers' Actuary shall provide Buyer's Actuary with a computer file containing all the employee data used by Sellers' Actuary to calculate the Pension Assets. If Buyer's Actuary is unable to agree with Sellers' Actuary on the amount of the transfer within sixty (60) days after Sellers inform Buyer of the amount to be transferred, Sellers and Buyer shall jointly select a third actuary, whose determination shall be binding on Sellers and Buyer. Each of Sellers and Buyer shall bear the fees, costs and expenses of their respective actuaries, and the fees, costs and expense of the third actuary shall be borne one-half by Sellers and one-half by Buyer.
- (iii) The Pension Assets shall be credited with interest from the Closing Date to the actual date of transfer at the assumed discount rate used in accordance with paragraph (i) of this subsection (d); provided that any Pension Assets that are distributed from the Seller Hourly Pension Plan before the date of transfer pursuant to subsection (d)(vi) of this Section 8.2.1 shall be credited with interest (such interest to be credited to the Buyer Pension Plans) only from the Closing Date to the date of distribution.
- (iv) Under the terms of the Buyer Pension Plan, the accrued benefit of each Transferred Employee immediately after the transfer of assets and liabilities pursuant to this Section 8.2.1 shall not be less than the sum of each Transferred Employee's accrued benefits under the applicable Seller Hourly Pension Plan and the Buyer Pension Plan (if any) immediately before the transfer of assets and liabilities.
- (v) In connection with the transfer of assets and liabilities pursuant to this Section 8.2.1, Sellers and Buyer shall cooperate with each other in making all appropriate filings required by the Code or ERISA and the regulations thereunder, and the transfer of assets and liabilities pursuant to this Section 8.2.1 shall not take place until as soon as practicable after the latest of (A) the expiration of the thirty (30) day period following the filing of any required notices with the IRS pursuant to Section 6058(b) of the Code, or (B) the date Buyer has delivered to Sellers (xx) a copy of the Buyer Pension Plan and a copy of the most recent determination letter from the IRS to the effect that the Buyer Pension Plan is qualified under Section 401(a) of the Code, together with documentation reasonably satisfactory to Sellers of the due adoption of any amendments to the Buyer Pension Plan required by the IRS as a condition to such qualification and a certification from Buyer that no events have occurred that adversely affect the continued validity of such determination letter (apart from the enactment of any Federal law for which the remedial amendment period under Section 401(b) of the Code has not yet expired), and (yy) information enabling the enrolled actuary for the Buyer Pension Plan to issue the certification required by Section 6058(b) of the Code.
- (vi) If, after the Closing Date and before the date of transfer of assets and liabilities from the Seller Hourly Pension Plan pursuant to this Section 8.2.1, the accrued benefit as of the Closing Date becomes payable under the Seller Hourly Pension Plan to or with respect to a Transferred Employee, Sellers shall instruct the trustee of the Seller Hourly Pension Plan to pay such benefits, and the assets to be transferred from the Seller Hourly Pension Plan shall be reduced accordingly.
- (vii) Sellers, Buyer, the Seller Hourly Pension Plan and the Buyer Pensions Plans shall assist and cooperate with each other in the transfer of Pension Assets and the disposition of claims made under the Buyer Pension Plans and Sourly Hourly Pension Plan pursuant to this Section 8.2.1 and in providing each other with any record, documents or other information within its control that is reasonably requested by any other party as necessary to the disposition, settlement or defense of such claim.

8.2.2 Savings Plans.

- (a) As of the date of this Agreement, Sellers participate in the Verizon GTE Savings Plan and the Verizon GTE Hourly Savings Plan (collectively referred to as the "Seller Savings Plans"). Except as provided in subsection (c) below, Transferred Employees shall not be entitled to make contributions to or to benefit from matching or other contributions under the Seller Savings Plans on and after the Closing Date.
- (b) Buyer shall take all action necessary and appropriate to ensure that, as of the Closing Date, Buyer maintains one or more savings plans (hereinafter referred to in the aggregate as the "Buyer Savings Plans" and individually as the "Buyer Savings Plan") that will accept rollovers from Transferred Employees who receive distributions from the Seller Savings Plans.
- (c) Sellers shall make all required matching contributions with respect to the Transferred Employees' contributions to the Seller Savings Plans that are (i) eligible for matching and (ii) made before the Closing Date. Such matching contributions shall be made not later than the date on which all other matching contributions are made to the Seller Savings Plans with respect to contributions made at the same time as the Transferred Employees' contributions.

8.2.3 Welfare Plans.

(a) Buyer shall take all action necessary and appropriate to ensure that, as soon as practicable after the Closing Date, Buyer maintains or adopts, as of the Closing Date, one or more employee welfare benefit plans, including medical, health, dental, flexible spending account, accident, life, short-term disability, and long-term disability and other employee welfare benefit plans for the benefit of (i) the non-bargained Transferred Employees (the "Non-Union Welfare Plans") and (ii) the union-represented Transferred Employees in accordance with the provisions of applicable collective bargaining agreements (the "Bargained Welfare Plans"). The Non-Union Welfare Plans and the Bargained Welfare Plans are hereinafter referred to collectively as the "Buyer Welfare Plans." The Buyer Welfare Plans shall provide as of the Closing Date pre-retirement benefits to Transferred Employees (and their dependents and beneficiaries) that, in the aggregate, are comparable to the pre-retirement benefits to which they were entitled under the corresponding employee welfare benefit plans maintained by Sellers on the Closing Date (hereinafter referred to collectively as the "Seller Welfare Plans"). Any restrictions on coverage for pre-existing conditions or requirements for evidence of insurability under the Buyer Welfare Plans shall be waived for Transferred Employees, and Transferred Employees shall receive credit under the Buyer Welfare Plans for co-payments and payments under a deductible limit made by them and for out-of-pocket maximums applicable to them during the plan year of the Seller Welfare Plan in accordance with the corresponding Seller Welfare Plans. As soon as practicable after the Closing Date, Sellers shall deliver to Buyer a list of each Transferred Employee's co-payment amounts, and deductible and out-of-pocket limits under the Seller Welfare Plans.

(b) (i) Except as otherwise provided in subsection

(b)(ii) of this Section (b) or in an applicable collective bargaining agreement, Buyer shall provide or cause to be provided retiree medical, health, and life benefits to each Transferred Employee under substantially comparable terms and conditions as apply to similarly situated employees of Buyer as of the date of this Agreement, and Sellers shall have no obligation to provide retiree medical and life benefits to any Transferred Employee on or after the Closing Date.

(ii) Following the termination of employment from Buyer and its Affiliates of a Transferred Employee who is not covered by a Labor Contract and who, as of the Closing Date, has at least fifteen (15) years of accredited service (within the meaning of the Seller Salaried Pension Plan) and combined years of age and accredited service of at least 74 (within the meaning of the Seller Salaried Pension Plan), Sellers shall provide or cause to be provided to each such Transferred Employee (or the dependents or beneficiaries of such Transferred Employee) retiree medical, health, and life benefits under the terms and conditions of the corresponding programs then offered by Sellers to its similarly situated non-collectively bargained employees retiring at such time; provided that nothing in this subsection

(b)(ii) shall be construed to prevent any such Transferred Employee (or his or her dependents or beneficiaries) from voluntarily relinquishing such benefits. Buyer shall reimburse Sellers for the cost of the retiree medical, health and life coverage for which Sellers are responsible and that Sellers actually provide pursuant to this subsection (b)(ii). For each year for which Buyer is required to reimburse Sellers under this subsection (b)(ii), Buyer shall pay Sellers annually in arrears, within thirty (30) days after Sellers provide a statement therefor to Buyer: (A) \$4,500 with respect to each eligible Transferred Employee who has not yet attained age 65 during the year for which the payment is made and \$4,500 with respect to each spouse who is covered with respect to an eligible Transferred Employee and who has not yet attained 65 during the year for which the payment is made, and (B) \$2,000 with respect to each eligible Transferred Employee who has attained at least age 65 during the year for which the payment is made and \$2,000 with respect to each spouse who is covered with respect to an eligible Transferred Employee and who has attained at least age 65 during the year for which the payment is made. No reimbursement shall be due with respect to any dependent, other than a spouse, covered with respect to an eligible Transferred Employee. The reimbursement obligation for partial years shall be prorated based on the portion of the year covered by the obligation.

(c) Sellers, Buyer, their respective Affiliates, and the Seller Welfare Plans and the Buyer Welfare Plans shall assist and cooperate with each other in the disposition of claims made under the Seller Welfare Plans or the Buyer Welfare Plans and in providing each other with any records, documents, or other information within its control or to which it has access that is reasonably requested by any other as necessary or appropriate to the disposition, settlement, or defense of such claims.

(d) Except for the Flexible Reimbursement Plan (the "FRP") account balances described in Section 8.2.3(e), nothing in this Agreement shall require Sellers or their Affiliates to transfer assets or reserves with respect to the Seller Welfare Plans to Buyer or the Buyer Welfare Plans.

(e) As of the Closing Date, Sellers shall cause the portion of the FRP applicable to Transferred Employees to be segregated into a separate component and all account balances of the Transferred Employees in the FRP shall be transferred to a flexible reimbursement plan that Buyer shall cause to be maintained for the duration of the calendar year in which the Closing Date occurs.

8.3 Severance Benefits. On and for a period of at least three (3) years after the Closing Date, Transferred Employees not subject to a collective bargaining agreement shall be eligible for benefits under a Buyer severance or separation pay policy or plans that provides a benefit of two weeks of base compensation for each year of service (plus a prorated amount for each partial year of service, such service determined by taking into account service with Sellers and their Affiliates and service with Buyer and its Affiliates), up to a maximum of fifty-two (52) weeks, to employees who separate from service for any reason other than cause; provided that the amount of the severance benefit shall not be less than the executive minimum severance benefit for the employees listed on Schedule 8.3. Except as specifically provided otherwise in the relevant Seller severance pay plan, each Transferred Employee listed on Schedule 8.1 shall be treated as a "Transferred Employee" for purposes of the Seller Salaried Pension Plan and shall not be entitled to severance benefits (including under the Qualified Involuntary Separation Program) from Sellers or any plan or policy it maintains. Sellers shall take any actions necessary or appropriate in respect of the immediately preceding sentence.

8.4 Vacation Benefits. On or after the Closing Date, Buyer shall allow Transferred Employees to receive paid time off in the calendar year of

the Closing for any unused vacation time accrued prior to the Closing Date. Sellers and their Affiliates shall have no liability to Transferred Employees for the vacation payments described in the immediately preceding sentence. Sellers shall pay Transferred Employees any banked vacation on or as soon as practicable after the Closing Date, and Buyer shall have no liability for such banked vacation benefits. Schedule 8.1 referenced above shall list the accrued but unused vacation pay, as of the Closing Date, of each Transferred Employee for the calendar year in which the Closing Date occurs.

8.5 Employee Rights. Nothing herein expressed or implied shall confer upon any employee of Sellers or their Affiliates, or Buyer or its Affiliates, or upon any legal representative of such employee, or upon any collective bargaining agent, any rights or remedies, including any right to employment or continued employment for any specified period, of any nature or kind whatsoever under or by reason of this Agreement. Nothing in this Agreement shall be deemed to confer upon any person (nor any beneficiary thereof) any rights under or with respect to any plan, program, or arrangement described in or contemplated by this Agreement, and each person (and any beneficiary thereof) shall be entitled to look only to the express terms of any such plan, program, or arrangement for his or her rights thereunder. Nothing in this Agreement shall cause Buyer or its Affiliates, nor Sellers or their Affiliates to have any obligation to provide employment or any employee benefits to any individual who is not a Transferred Employee or, except as otherwise provided in Section 8.1.2 with respect to employment agreements, to continue to employ any Transferred Employee for any period of time following the Closing Date.

8.6 Successors and Assigns. In the event Buyer or any of its successors and assigns (a) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity in such consolidation or merger or (b) transfers all or substantially all of its properties and assets to any Person, then, and in each case, proper provision shall be made so that such successors and assigns of Buyer honor the obligations of Buyer and its Affiliates set forth in this Article VIII. In the event Buyer outsources any of the Transferred Employees during the three-year period described in Section 8.3, and such employees are not paid a severance benefit in accordance with Section 8.3, then, and in each case, proper provision shall be made so that the outsourcing vendor maintains a severance pay plan or policy that provides a severance benefit for each Transferred Employee who is involuntarily terminated by the outsourcing vendor during such three-year period, which benefit is the same as the severance benefits that would otherwise have been provided to such employees in accordance with Section 8.3. For purposes of this Section 8.6, a Transferred Employee shall be considered to have been outsourced if the employee is hired by the outsourcing vendor pursuant to or in connection with an agreement entered into between Buyer or any of its Affiliates and the outsourcing vendor whereby the outsourcing vendor will provide services to or for the Buyer or any of its Affiliates.

ARTICLE IX CONTINUING BUSINESS RELATIONSHIPS

9.1 Transition Plan Support Agreement. The parties agree to cooperate with one another to ensure that the transition of the ownership of the Acquired Assets proceeds with minimal disruption to the services being provided to subscribers in the Seller Exchanges. The parties agree that it may be necessary for Seller to assist Buyer in converting Seller's systems and processes with respect to the Acquired Assets to Buyer's systems and processes. Seller and Buyer agree to execute on or before the Closing Date a separate "Transition Plan Support Agreement" substantially in the form attached hereto as Exhibit E for the provision of such services.

9.2 Directory Publishing.

9.2.1 Certain Directory Publishing Agreement Rights and Obligations. Sellers are party to that certain publishing agreement dated January 1, 2000 with Verizon Information Services Inc. f/k/a GTE Information Services Incorporated ("Publisher"). Pursuant to this agreement Publisher has the right to sell advertising, and the obligation to publish, print and distribute directories containing telephone numbers relating to the Seller Exchanges. Buyer and Publisher shall execute a new publishing agreement on or before the Closing Date effective as of the Closing as it relates to the Seller Exchanges, which agreement shall be substantially in the form attached hereto as Exhibit D (the "Publishing Agreement"). Such Publishing Agreement shall provide Buyer with a fifty-two percent (52%) revenue share in print directory advertising relating to the period after Closing for all directories in use at the time of Closing (i.e., having been published within the twelve (12) month period prior to the Closing Date), and those Verizon-branded directories in current sales campaigns or post-sales publishing cycle at Closing.

9.2.2 Co-Bound Directories Acknowledgement. Buyer acknowledges that Publisher may have a pre-existing obligation (which Publisher may choose to continue) to sell advertising, publish, print and distribute the telephone numbers of third party local exchange telephone companies in the same directory as the Seller Exchanges ("Co-Bound Directory"). Verizon Information Services Inc. has informed Seller that all such arrangements are as set forth on Schedule 9.2.2 and, to Sellers' knowledge, no arrangements exist except as are identified on Schedule 9.2.2.

ARTICLE X ADDITIONAL AGREEMENTS OF THE PARTIES

10.1 Intellectual Property.

10.1.1 No License. Buyer and Sellers acknowledge and agree that, except and to the extent expressly set forth in writing in the License Agreement and in Section 10.1.3, Sellers have not granted any rights or licenses, express or implied, and nothing shall constitute or be construed as a license or other right by Sellers under any Intellectual Property now or hereafter owned, obtained or licensable by Sellers or under any Third Party Intellectual Property.

10.1.2 Infringement.

(a) Notwithstanding anything in this Agreement to the contrary, Sellers shall have no obligation to defend, indemnify or hold harmless Buyer, any of its Affiliates or any of their customers, from any damages, costs or expenses resulting from any obligation, proceeding or suit based upon any claim that any activity subsequent to the Closing Date engaged in by Buyer, a customer of Buyer's, or anyone claiming under Buyer, constitutes direct or contributory infringement, misuse or misappropriation of, or inducement to infringe, any Third Party Intellectual Property.

(b) Buyer shall defend, indemnify and hold harmless Sellers and their Affiliates from and against any and all Indemnifiable Losses resulting from any obligation, proceeding or suit based upon any claim alleging or asserting direct or contributory infringement, or misuse or misappropriation of, or inducement to infringe by Sellers or any of their Affiliates of any Third Party Intellectual Property, to the extent that such claim is based on, or would not have arisen but for, activity conducted or engaged in subsequent to the Closing Date by Buyer, a customer of Buyer's or anyone claiming under Buyer.

10.1.3 Trademark Phaseout.

(a) Buyer acknowledges and agrees that Sellers or their Affiliates are the legal and beneficial owners of Excluded Marks that qualify as Excluded Assets under Section 2.1.2. Buyer acknowledges and agrees that the Excluded Marks, or any right to or license of the Excluded Marks, including any right to use, are not being transferred or conveyed to Buyer pursuant to this Agreement. Buyer acknowledges the exclusive and proprietary rights of Sellers and their Affiliates in the use of the Excluded Marks, and Buyer agrees that it shall not use the Excluded Marks (or any names, domain names, marks or indicia confusingly similar to the Excluded Marks) except and to the extent expressly set forth in this Section 10.1.3, or otherwise assert any rights or claims in such Excluded Marks (or in any names, domain names, marks or when confusingly similar to the Excluded Marks). Except as set forth in the last sentence of this Section 10.1.3(a), after the Closing, all Excluded Marks of Sellers and their Affiliates shall be replaced by Buyer, at Buyer's expense, as soon as possible, but in no event later than ninety (90) days after the Closing Date (the "Phaseout Period") for items existing as of the Closing Date with Excluded Marks affixed to them which Buyer has continued to use in Buyer's operation of the Business, including buildings, vehicles, heavy equipment, hard hats, tools, tool boxes, kits (safety and others) signs, public (pay) telephones, manual covers and notebooks. After the Closing, Buyer will not use, and will immediately destroy or deliver to Sellers, all items with Excluded Marks affixed to them that have no valid continuing use in Buyer's operation of the Business, including items affecting customer or employee relations or items that do not reflect Buyer's true identity. Specific items to be destroyed or returned include giveaways; order, purchase or materials forms; requisitions; invoices; statements; time sheets/labor reports; bill inserts; stationery; personalized note pads; business cards; maps; organization charts; bulletins/releases; sales/price literature; manuals or catalogs; report covers/folders; program materials; and materials such as media contact lists/cards. The Phaseout Period for replacement of Excluded Marks affixed to telephone directories that were already published or closed for publication at the Closing Date shall be extended to the expiration date of such directories.

(b) Buyer recognizes the great value of the goodwill associated with the Excluded Marks, and acknowledges and agrees that the Excluded Marks and all rights therein and the goodwill pertaining thereto belong exclusively to Sellers and that the Excluded Marks have a secondary meaning in the minds of the public. Buyer further agrees that any and all permitted use of the Excluded Marks pursuant to this Agreement shall inure to the sole and exclusive benefit of Sellers.

(c) Buyer agrees that any permitted use of the Excluded Marks in the operation of the Business after the Closing shall be provided in accordance with all applicable federal, state and local Laws, and to the additional terms and conditions as set forth in the License Agreement and that the same shall not reflect adversely upon the good name of Sellers or their Affiliates, and that the operation of the Business will be of a high standard and skill.

(d) Buyer acknowledges that its failure to cease use of the Excluded Marks as provided in this Agreement, or its improper use of the Excluded Marks, will result in immediate and irreparable harm to Sellers and their Affiliates. Buyer acknowledges and admits that there is no adequate remedy at law for such failure to terminate use of the Excluded Marks, or for such improper use of the Excluded Marks. Buyer agrees that in the event of such failure or improper use, Sellers and their Affiliates shall be entitled to equitable relief by way of temporary restraining order, or preliminary or permanent injunction, or any other relief available under this Agreement.

(e) Neither Buyer nor its Affiliates shall contest the ownership or validity of any rights of Sellers or their Affiliates in the Excluded Marks.

10.1.4 Third Party Software. To the extent that the transfer of Acquired Assets by Sellers to Buyer under this Agreement results in the transfer of possession to Buyer of software that, at the Closing Date, is Third Party Intellectual Property, which software was located in and rightfully used by Sellers in the geographical area of the Seller Exchanges prior to the Closing Date in the normal and ordinary operation of the Business pursuant to Contracts with the owners or licensors of such software ("Third Party Intellectual Property Contracts"), Sellers agree to provide reasonable assistance to Buyer in securing license rights in such Third Party Intellectual Property on terms and conditions similar to those set forth in the Third Party Intellectual Property Contracts; provided, however, Sellers agree to assign to Buyer, at Buyer's expense, the Third Party Intellectual Property Contracts with Switch Software Vendors for the Switch Software used with the Acquired Assets, to the extent Sellers have the right or obtain the right to do so, and Buyer agrees to comply with the terms and conditions of such Third Party Intellectual Property Contracts and to indemnify Sellers for any breaches thereof or failures to comply therewith from and after the Closing. Such Third Party Intellectual Property Contracts with Switch Software Vendors are as set forth on Schedule

10.1.4. Buyer understands and agrees that, except and to the extent the Third Party Intellectual Property Contracts for such Switch Software are assigned to Buyer, no rights or licenses to use or possess such software or any Third Party Intellectual Property are transferred to Buyer. Buyer shall properly dispose of, and shall not use, any software or other Third Party Intellectual Property of which Buyer acquires possession or control in connection with Acquired Assets unless and to the extent Buyer enters into written agreements with such third parties for the use of such software or other Third Party Intellectual Property. Sellers make no warranty or representation as to any matter relating to Third Party

Intellectual Property or Third Party Intellectual Property Contracts.

10.2 Confidentiality. Whether or not the Closing occurs, the parties and their respective officers, directors, employees and representatives shall comply with the Non-Disclosure Agreement, the provisions of which are expressly incorporated herein in their entirety by this reference.

10.3 Further Assurances. For a period of one hundred eighty (180) days after the Closing, Sellers shall use their commercially reasonable efforts to furnish to Buyer such other instruments and information as Buyer may reasonably request in order to convey to Buyer title to the Acquired Assets, to be delivered from time to time upon Buyer's reasonable request.

10.4 Prorations.

(a) Subject to the limitations set forth in this Section 10.4(a), any liability that calls for periodic payments shall be prorated between Sellers and Buyer including, without limitation: (i) utility charges (which shall include water, sewer, electricity, gas and other utility charges) with respect to the Owned Real Property, the property subject to the Real Property Leases and customer owned equipment, (ii) rental charges (which shall include rental charges and other lease payments under the Real Property Leases), (iii) personal services (where the services charged for straddle the period both before and after the Closing Date, including charges for contract labor), and (iv) real and personal property taxes, ad valorem taxes and other similar taxes imposed on a periodic basis, (v) franchise fees, regulatory assessments or taxes and (vi) such other liability that individually calls for periodic payments in excess of Ten Thousand Dollars (\$10,000). With respect to measurement periods during which the Closing Date occurs (all such periods of time being hereinafter called "Proration Periods"). The liabilities described in clauses (i), (ii), (iii), (v) and (vi) of the preceding sentence shall be apportioned between Sellers and Buyer as of the Closing Date, with Buyer bearing only the expense thereof in direct proportion to the number of days remaining in the applicable Proration Period including and following the Closing Date in comparison to the total number of days covered by such Proration Period. The liabilities described in clause (iv) of the preceding sentence shall be prorated between Buyer and Sellers based on the relative periods the Acquired Assets was owned by each respective party during the fiscal period for which such taxes were imposed by the taxing jurisdiction (as such fiscal period is reflected on the bill rendered by such taxing jurisdiction). Buyer and Sellers shall pay or be reimbursed for real and personal property taxes (including instances in which such property taxes have been paid before the Closing Date) on this prorated basis. If a payment on a tax bill is due after the Closing, the party that is legally required to make such payment shall make such payment and promptly forward an invoice to the other party for its pro rata share, if any. If the other party does not pay the invoice within thirty (30) calendar days of receipt, the amount of such payment shall bear interest at the Applicable Rate. Similarly, all prepayments made by Sellers with respect to service or maintenance agreements with third parties or license or other fees payable to third parties and assigned to Buyer hereunder shall be prorated on an appropriate basis between Sellers and Buyer.

(b) Notwithstanding the foregoing provisions of Section 10.4(a), Sellers shall not be responsible to pay, or to indemnify Buyer for, any federal universal service fund charge which is due after the Closing Date with respect to the Business, and all such charges shall be the responsibility of Buyer and shall be considered to be Assumed Liabilities which are described in Section 2.3.1. For purposes of the immediately preceding sentence, the due date of a federal universal service fund charge shall be the date by which payment of such charge must be received by the Universal Service Administrative Company ("USAC"), or any successor thereto, in order to avoid late payment charges, as per the statement of account from USAC. Notwithstanding the foregoing provisions of this Section 10.4 (b), (i) Sellers shall be responsible to pay and shall indemnify Buyer for any billed federal universal service fund charge with respect to the Business for every month reflected on such statement of account that ends on or prior to the Closing Date and for the pro rata portion of any month during which the Closing Date occurs; and (ii) Buyer shall be responsible to pay and shall indemnify Sellers for any billed federal universal service contribution liability assessed by USAC with respect to the Business for every month reflected on such statement of account that ends after the Closing Date and for the pro rata portion of any month during which the Closing Date occurs, it being understood by Buyer that such assessments may be based on operations of the Business prior to the Closing Date.

10.5 Cost Studies/Toll and Access Settlement Matters.

10.5.1 Prior to Closing. Sellers agree that, with respect to all toll, access or other such revenues or expenses, settlements, pools, separations studies, USF funds or similar activities, Sellers shall be responsible for (and shall receive the benefit or suffer the burden of) any payment adjustments to contributions, or receipt of funds resulting from any such activities that are related to the operation of the Business or the ownership or operation of the Acquired Assets on or prior to the Closing Date and as a result of this transaction, and in accordance with FCC rules and regulations in effect at the Closing Date. Specifically, this paragraph shall apply, but shall not be limited to, any matters related to USAC, the National Exchange Carrier Association ("NECA") including the Universal Service Fund ("USF"), Long Term Support ("LTS"), Local Switching Support ("LSS"), Coalition for Affordable Local and Long Distance Service ("CALLS") interstate access fund and Telecommunications Relay Services funds established by the FCC.

10.5.2 From and After Closing.

(a) Upon Closing, Sellers shall direct all appropriate Persons that all payments discussed in Section 10.5.1 that relate to the operation of the Business after the Closing Date with respect to the Study Area(s) comprising the Seller Exchanges shall be paid to Buyer. In the event any such Person fails to make such payment to Buyer and pays Sellers, Sellers shall immediately deliver such funds to Buyer.

(b) From and after Closing, the parties shall make all data and other submissions required by FCC rules with respect to USF and other high cost

reimbursement programs. The parties shall cooperate and provide any data or information related to the foregoing as may reasonably be requested by the other party hereto.

10.6 Access to Books and Records.

10.6.1 Retention Period. After the Closing, Sellers shall retain all Retained Books and Records for a period of three (3) years, except for Tax returns and supporting documentation which shall be retained until sixty (60) days after the expiration of the applicable statute of limitations, and Buyer shall retain all Transferred Books and Records for a period of five (5) years.

10.6.2 Access. After the Closing, upon reasonable notice and subject to the Non-Disclosure Agreement, the parties will give to the representatives, employees, counsel and accountants of the other access, during normal business hours, to books and records relating to the Business and the Acquired Assets, and will permit such persons to examine and copy such records, in each case to the extent reasonably requested by the other party in connection with Tax and financial reporting matters (including appropriate portions of Tax Returns and related information, but not attorney work product), audits, legal proceedings, governmental investigations and other proper business purposes (including such financial information and any receipts evidencing payment of Taxes as may be requested by Sellers to substantiate any claim for Tax credits or refunds); provided, however, that nothing contained herein shall obligate any party to take actions that would unreasonably disrupt the normal course of its business or violate the terms of any agreement to which it is a party or to which it or any of its assets is subject. Sellers and Buyer will cooperate with each other in the conduct of any Tax audit or similar proceedings involving or otherwise relating to the Business (or the income therefrom or assets thereof) with respect to any Tax, and each will execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this Section 10.6.2.

10.7 Purchase Price Allocation.

(a) Within ninety (90) days after the Closing Date, Buyer shall provide to Sellers a draft Purchase Price allocation (the "Purchase Price Allocation"). Sellers shall propose to Buyer any changes in the draft Purchase Price Allocation within 30 days of the receipt thereof. In the event that no such changes are proposed in writing to Buyer within such time, Sellers shall be deemed to have agreed to the Purchase Price Allocation. If any such changes are proposed, Sellers and Buyer shall negotiate in good faith and shall use their reasonable efforts to agree upon the final Purchase Price Allocation. Notwithstanding the foregoing, if Sellers and Buyer cannot agree upon a Purchase Price Allocation, Sellers and Buyer covenant and agree to file, and cause their respective Affiliates to file, all Tax Returns consistent with each of Sellers' and Buyer's good faith allocations, unless otherwise required by law. For purposes of this subsection 10.7(a), the Purchase Price Allocation shall be done in a manner consistent with section 1060 of the Code and the Treasury regulations promulgated thereunder.

(b) If Sellers and Buyer reach an agreement on the Purchase Price Allocation as provided above, Sellers and Buyer agree to act in accordance with such Purchase Price Allocation for all purposes, including for purposes of any Tax Return. Except as otherwise required by a Governmental Authority or by a Taxing authority pursuant to a "determination" as defined in Section 1313(a) of the Code (or any comparable provision of state, local or foreign law) or the execution of an IRS Form 870-AD, Sellers and Buyer agree to report the transactions contemplated by this Agreement in a manner consistent with such Purchase Price Allocation, and agree not to take any position on any Tax Return inconsistent therewith, and to conduct any audit, Tax proceeding or Tax litigation relating thereto in a manner consistent with such Purchase Price Allocation.

(c) The Purchase Price Allocation shall be adjusted if the Purchase Price is adjusted under any provision of this Agreement.

10.8 Owned Real Property Transfers. Within ninety (90) days of the date of this Agreement, Sellers shall deliver to Buyer copies of all existing title insurance policies covering the Owned Real Property. Thereafter, no later than sixty (60) days before the estimated Closing Date, Sellers shall deliver

(at their expense) to Buyer a preliminary title binder (on a standard form) issued by a title insurance company reasonably acceptable to Buyer, solely with respect to the Owned Real Property included in the Acquired Assets and in which Sellers purport to own fee title which (a) is presently used by either Seller as a central office facility, (b) is requested by Buyer as a requirement of any financing for all or a significant part of the Purchase Price or (c) such other Owned Real Property as expressly set forth on Schedule 10.8. To the extent Buyer requests preliminary title binders for Owned Real Property in addition to the Owned Real Property identified in subparts (a) and (b) of the preceding sentence, then Sellers and Buyer shall each bear fifty percent (50%) of the costs and expenses associated therewith. Such title binders shall be reasonably satisfactory to counsel for Buyer, subject to the standard exceptions set forth in the following sentence. Such title binders shall reflect that, upon consummation of the sale contemplated by this Agreement, Buyer will be vested with good, fee simple, indefeasible and insurable title to such Owned Real Property, subject only to Permitted Encumbrances. If a preliminary title binder indicates an exception other than a Permitted Encumbrance, Sellers shall, at their expense, use their commercially reasonable efforts to cause such exception to be removed on or before the Closing Date. With respect to each parcel of Owned Real Property covered by a preliminary title binder, the amount of title insurance provided by Sellers shall be the fair market value of the property, which shall be determined by Buyer at its sole cost and expense using commercially reasonable methods of valuation, provided that all such valuations shall be consistent with all allocations of the Purchase Price made hereunder or pursuant to this Agreement. Sellers shall also deliver to Buyer (at Sellers' expense and on or prior to the Closing Date) a certified current survey. By no later than forty-five (45) days after the Closing Date, Sellers shall deliver to Buyer a final title insurance policy paid for by Sellers covering the Owned Real Property included in the preliminary title binder.

10.9 Transaction Taxes and Tax Refunds.

(a) Buyer shall bear and be responsible for paying any sales, use, stamp, conveyance, transfer, documentary, registration, business and occupation and other similar taxes (including related penalties additions to tax and interest) imposed by any Governmental Authorities with respect to the transfer of the Business and/or the Acquired Assets to Buyer (including the Owned Real Property) ("Transaction Taxes"), regardless of whether the Governmental Authority seeks to collect such taxes from Sellers or Buyer. Buyer shall also be responsible for (i) administering the payment of such Transaction Taxes, (ii) defending or pursuing any proceedings related thereto, and (iii) paying any expenses related thereto. Sellers shall give prompt written notice to Buyer of any proposed adjustment or assessment of any Transaction Taxes with respect to the transaction, or of any examination of said transaction in a sales, use, transfer or similar tax audit. In any proceedings, whether formal or informal, Sellers shall permit Buyer to participate and control the defense of such proceeding, and shall take all actions and execute all documents required to allow such participation. Sellers shall not negotiate a settlement or compromise of any Transaction Taxes without the written consent of Buyer, which consent shall not be unreasonably withheld.

(b) Buyer shall cooperate with all reasonable requests made by Sellers with respect to pursuing any Tax refund, including the filing of refund claims and of amended Tax Returns.

10.10 Bulk Sales Laws. Sellers and Buyer waive compliance with applicable Laws under any version of Article 6 of the Uniform Commercial Code adopted by any state or any similar Law relating to the sale of inventory, equipment or other assets in bulk in connection with the sale of the Acquired Assets.

10.11 Prepaid Non-Regulated Maintenance Agreements. Within thirty (30) days following Closing, Sellers shall provide reasonably detailed supporting documentation related to and pay to Buyer an amount equal to the pro rata portion of all prepaid but unearned revenues from Sellers' customers for all non-regulated maintenance agreements assumed by Buyer hereunder as of the Closing Date.

10.12 Vehicle Registration. Buyer shall use its commercially reasonable efforts to file promptly the appropriate vehicle title applications and registrations to change the name of the titled owner on each vehicle title certificate and change the motor vehicle registration (with respect to license plate information) on each vehicle being transferred to Buyer from Seller pursuant to this Agreement. Buyer shall remove and destroy Sellers' existing license plates from all vehicles received upon the later of receipt of new license plates or ninety (90) days following Closing.

10.13 CABS Accounts Receivable Transition. Sellers shall render their own final bills for minutes, messages and other applicable charges billable through CABS for periods prior to and including the Closing Date. Sellers shall be responsible for collecting and settling any disputes associated with its final CABS bills.

10.14 CBSS and SSB Billing and Accounts Receivable Transition. Buyer shall purchase Sellers' CBSS Accounts Receivable and SSB Accounts Receivable and make payment to Seller for those accounts in the manner described below.

10.14.1 Transfer of Records. Sellers shall transfer to Buyer, as soon as reasonably available after Closing, all customer account records related to CBSS and SSB as of the Closing Date. Following the Closing, Buyer will be responsible for administering those records including the application of cash receipts to customer accounts, whether related to services rendered before or after the Closing, and submission of appropriate accounts to customary collection treatment, including collection efforts by external collection agents. Sellers will promptly forward to Buyer the customer payments and related remittance documents received by Sellers with respect to such end-user customer accounts after the Closing for processing by Buyer.

10.14.2 Settlement of Accounts Receivable. Within twenty (20) days following the Closing, Sellers shall provide an accounting to Buyer of the CBSS Accounts Receivable and SSB Accounts Receivable, the Customer Prepayments and the resulting calculation of the CBSS Accounts Receivable Amount and SSB Accounts Receivable Amount based on the CBSS Uncollectible Factor and the SSB Uncollectible Factor respectively, which shall be summarized in an accounts receivable settlement statement (the "Accounts Receivable Settlement Statement"). Within thirty (30) days following the Closing, Buyer shall remit to Sellers an amount equal to eighty percent (80%) of the aggregate of the CBSS Accounts Receivable Amount and SSB Accounts Receivable Amount less the full amount of the Customer Prepayments. Within sixty (60) days following the Closing, Buyer shall remit an additional fifteen percent (15%) of the aggregate of the CBSS Accounts Receivable Amount and SSB Accounts Receivable Amount and within ninety (90) days will remit the final five percent (5%). In the event Sellers fail to deliver the Accounts Receivable Settlement Statement within the time period set forth herein, Buyer shall be entitled to delay its payment obligations pursuant to this Section 10.14 for the number of days equal to the period of Sellers' delay.

10.14.3 Updated Statements. Not later than ten (10) days prior to the due dates for the payments referred to in Section 10.14.2 above, Sellers shall provide Buyer with an updated Accounts Receivable Settlement Statement reflecting any adjustments based upon non-sufficient funds checks, billing adjustments or other facts that have become known after the original statement that relate to pre-closing activity.

10.14.4 Resolution of Material Discrepancies. If at any time during the ninety (90) day period following the Closing, Buyer or Sellers discover any material discrepancy in the Accounts Receivable Settlement Statement, Sellers and Buyer shall use commercially reasonable efforts to resolve any discrepancy in a timely manner, and further agree to make payments related to any undisputed amounts as set forth above.

10.14.5 Exclusive Remedies. The parties agree that the provisions of this Section 10.14 set forth the sole and exclusive remedy for any claim (whether such claim is framed in tort, contract or otherwise) regarding the CBSS Accounts Receivable and SSB Accounts Receivable, and Buyer shall not be entitled to seek indemnification pursuant to Article VII for a breach of any representation, warranty, covenant or other agreement contained herein.

10.15 Environmental Remediation. Subject to the provisions of Section 2.3.2(e), in the event that any Owned Real Property, Leased Real Property and/or Real Estate Interests transferred by Sellers to Buyer pursuant to this Agreement requires remediation (including as the result of regulatory action by any Governmental Authority), either as the result of a claim made by Buyer pursuant to Section 7.2 or as the result of a Retained Liability, then Sellers shall determine, in their discretion, the appropriate remedial activities (the "Remediation Activities"), provided, that such Remediation Activities are in compliance with any applicable Requirement of Law, and provided further, that such Remediation Activities permit Buyer to use the affected property in a manner consistent with Sellers' use of such property as of the date hereof. Buyer shall provide Sellers and Sellers' agents such access to the affected property as Sellers reasonably request to perform the Remediation Activities. Buyer shall sign any and all documents that Sellers or their agents state are reasonably necessary to carry out the Remediation Activities, provided that such documents do not require Buyer to undertake additional obligations or liabilities (other than those obligations or liabilities for which Sellers agree to indemnify Buyer). Buyer shall not interfere with Sellers' Remediation Activities or Sellers' efforts to gain the approval of any Governmental Authority to perform such Remediation Activities in accordance with this Agreement.

10.16 Customer Deposits. Within thirty (30) days after Closing, Sellers shall transfer to Buyer the customer deposits together with any interest accrued thereon (collectively, the "Customer Deposits") for the period ending on the Closing Date, together with all of Sellers' rights and obligations to hold the Customer Deposits of the Business. Buyer shall hold and disburse such Customer Deposits so delivered to it as if it were Sellers.

ARTICLE XI TERMINATION

11.1 Termination Rights. Anything herein or elsewhere notwithstanding, this Agreement may be terminated, subject to the provisions of Section 11.2 below, at any time prior to the Closing Date only as follows:

(a) by mutual written consent of Sellers and Buyer;

(b) by Buyer if any of the conditions provided in Sections

6.1 and 6.3 of this Agreement have not been satisfied within twelve (12) months after the date hereof and such conditions have not been waived by Buyer; provided, however, such period shall be extended to eighteen (18) months solely with respect to the FCC Consent and/or the Regulatory Approvals on terms in accordance with the provisions of Section 6.3.2.

(c) by Sellers if any of the conditions provided in Sections 6.2 and 6.3 of this Agreement have not been satisfied within twelve (12) months after the date hereof and such conditions have not been waived by Sellers; provided, however, such period shall be extended to eighteen (18) months solely with respect to the FCC Consent and/or the Regulatory Approvals on terms in accordance with the provisions of Section 6.3.2.

(d) by Sellers (i) if any obligations of Buyer provided in Article 3 become incapable of being fulfilled in the reasonable judgment of Sellers, (ii) upon Buyer's failure or inability to comply with the provisions of Section 5.2.3 or (iii) upon Sellers' receipt of the notice required by the last sentence of Section 5.2.3 and Buyer's failure to obtain substitute Highly Confidential Letters within thirty (30) days thereafter;

(e) by Buyer or Sellers if any Governmental Authority (i) shall have issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and nonappealable or (ii) shall have failed to issue by the date which is eighteen (18) months after the date hereof, an order, decree or ruling or to take any other action, as applicable, and such denial of a request to issue such order, decree, ruling or take such other action shall have become final and nonappealable, in the case of each of (i) and (ii) which is necessary to fulfill the conditions set forth in Article VI.

11.2 Good Faith Performance. No party shall be entitled to exercise any right of termination pursuant to section 11.1 above if such party shall not have performed diligently and in good faith the obligations required to be performed by such party hereunder prior to the date of termination or whose failure to comply with Section 5.3 has been the proximate cause of such action or inaction.

11.3 Effect of Termination.

11.3.1 Mutual Termination or Termination upon Governmental Order. If this Agreement is terminated as a result of Section 11.1(a) or 11.1(e), this Agreement shall be of no further force and effect and there shall be no further liability hereunder (except the obligations under the Non-Disclosure Agreement and the liability for breach of such obligations) on the part of any party or their respective Affiliates, directors, officers, shareholders, agents or other representatives. Upon such termination, Sellers shall within five (5) Business Days deliver to Buyer either (a) the Deposit, together with interest at the Applicable Rate as provided in Section 3.4.1, or
(b) the Deposit L/C.

11.3.2 Termination by Buyer. If this Agreement is terminated by Buyer pursuant to Section 11.1(b), this Agreement shall be of no further force and effect and there shall be no further obligations or liability hereunder (except the obligations under the Non-Disclosure Agreement and the liability for breach of such obligations) on the part of any party or their respective Affiliates, directors, officers, shareholders, agents or other representatives; provided, however, that no such termination shall relieve Sellers of liability for any claims, damages or losses suffered by

Buyer as a result of the negligent or willful failure of Sellers to perform any obligations required to be performed by it hereunder on or prior to the date of termination.

11.3.3 Termination by Seller. If this Agreement is terminated by Sellers pursuant to Section 11.1(c) or (d), this Agreement shall be of no further force and effect, and except as provided in this Section 11.3.3, there shall be no further obligations or liability hereunder (except the obligations under the Non-Disclosure Agreement and the liability for breach of such obligations) on the part of any party or their respective Affiliates, directors, officers, shareholders, agents or other representatives; provided, however, that no such termination shall relieve Buyer of liability for any claims, damages or losses suffered by Sellers as a result of the negligent or willful failure of Buyer to perform any obligations required to be performed by it hereunder on or prior to the date of termination. Notwithstanding anything to the contrary in Section 7.3, in the event of termination pursuant to Section 11.1(d), Sellers shall be entitled to retain the Deposit as liquidated damages and as Sellers' exclusive remedy.

11.3.4 Compliance with Non-Disclosure Agreement. Upon any termination of the Agreement, each of the parties shall promptly comply with the obligations of the Non-Disclosure Agreement regarding return or destruction of Evaluation Material of the other party.

11.3.5 Survival. Notwithstanding anything to the contrary contained herein, the provisions of this Section 11.3 and of Sections 12.1, 12.2, 12.3, 12.8, 12.11, 12.13 and 12.14, shall survive any termination of this Agreement.

ARTICLE XII MISCELLANEOUS

12.1 Notices. All notices and other communications required or permitted hereunder shall be in writing and, unless otherwise provided in this Agreement, will be deemed to have been given when delivered in person or dispatched by electronic facsimile transfer (confirmed in writing by certified mail, concurrently dispatched) or one business day after having been dispatched for next-day delivery by a nationally recognized overnight courier service to the appropriate party at the address specified below:

(a) If to Buyer, to:

CenturyTel, Inc.
100 CenturyTel Drive
Monroe, LA 71203
Facsimile No.: 318-388-9488
Attention: R. Stewart Ewing, Jr.

With a copy to:

CenturyTel, Inc.
100 CenturyTel Drive
Monroe, LA 71203
Facsimile No.: 318-388-9488
Attention: Stacey W. Goff

(b) If to Sellers, to:

Stephen E. Smith
Group Vice President - Business Development
Verizon Domestic Telecom
1717 Arch Street, 29th Floor
Philadelphia, PA 19103
Facsimile No.: 215-557-7249

With a copy to:

Dana B. Bourland
Assistant General Counsel
Verizon Services Group
600 Hidden Ridge, HQE02H45
Irving, TX 75038
Facsimile No.: 972-719-0028

or to such other address or addresses as such party may from time to time designate by like notice.

12.2 Information Releases. The parties shall consult with each other (and allow the other party notice, and a reasonable time to comment) in preparing any employee announcement, press release, public announcement, news media response or other form of release of information concerning this Agreement or the transactions contemplated hereby that is intended to provide such information to the employees generally, news media or the public. No party shall issue or cause the publication of any press release, public announcement or media response without the prior written consent of the other parties; provided, however, that, after allowing the other parties notice and a reasonable time to comment prior to issuance, nothing herein will prohibit any party from making an employee announcement, or issuing or causing publication of any press release, public announcement or media response to the extent that such action is required by applicable Law or the rules of any national stock exchange applicable to such party or its Affiliates.

12.3 Expenses. Whether or not the transactions contemplated hereby are consummated, and except as otherwise expressly provided herein, each party shall pay any expenses (including attorneys' fees) incurred by it incidental to this Agreement and in consummating the transactions provided for herein.

12.4 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but is not assignable or delegable by any party without the prior written consent of the other parties, which may be withheld in such party's sole discretion; provided, that any party may assign this Agreement to an Affiliate of such party without the consent of the other parties.

12.5 Amendments. This Agreement may be amended or modified only by a subsequent writing signed by authorized representatives of both parties.

12.6 Captions. The captions set forth in this Agreement are for convenience only and shall not be considered as part of this Agreement, nor as in any way limiting or amplifying the terms and provisions hereof.

12.7 Entire Agreement. This Agreement supersedes and revokes any prior discussions and representations, other agreements, commitments, arrangements or understandings of any sort whatsoever, whether written or oral, that may have been made or entered into by the parties relating to the matters contemplated hereby. This Agreement, the Non Disclosure Agreement and the Ancillary Documents constitute the entire agreement by and between the parties with respect to the subject matter hereof, and there are no representations, warranties, agreements, commitments, arrangements or understandings except as expressly set forth herein or therein.

12.8 Waiver. Except as otherwise expressly provided in this Agreement, neither the failure nor any delay on the part of any party to exercise any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise or waiver of any such right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege available to each party at law or in equity.

12.9 Third Parties. Except as expressly provided herein, nothing contained in this Agreement is intended to confer upon any Person, other than the parties hereto and their successors and permitted assigns, any rights or remedies under or by reason of this Agreement.

12.10 Counterparts. This Agreement may be executed in one or more counterparts, any or all of which shall constitute one and the same instrument.

12.11 Governing Law. This Agreement and the Ancillary Agreements shall in all respects be governed by and construed in accordance with the laws of the state of New York (except that no effect shall be given to any conflicts of law principles of the state of New York that would require the application of the laws of any other jurisdiction). The parties irrevocably submit to the exclusive jurisdiction of any New York State Court or any Federal Court located in the borough of Manhattan in the city of New York for purposes of any suit, action or other proceeding arising out of this Agreement, the Ancillary Agreements or any transaction contemplated hereby or thereby. The parties agree that service of process, summons or notice or document by U.S. registered mail to such party's respective address set forth in Section 12.1 shall be effective service of process for any action, suit or proceeding in New York with respect to any matters to which it has submitted to jurisdiction as set forth above in the immediately preceding sentence. **THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER AGREEMENT ENTERED INTO IN CONNECTION THEREWITH AND FOR ANY COUNTERCLAIM WITH RESPECT THERETO.** In the event of any breach of the provisions of this Agreement or any other agreement entered into in connection therewith, the non-breaching party shall be entitled to equitable relief, including in the form of injunctions and orders for specific performance, where the applicable legal standards for such relief in such courts are met, in addition to all other remedies available to the non-breaching party with respect thereto at law or in equity.

12.12 Further Assurances. From time to time after the Closing Date, as and when requested by one of the parties, the other parties will use their commercially reasonable efforts to execute and deliver, or cause to be executed and delivered, all such documents and instruments as may be reasonably necessary or appropriate, in the reasonable opinion of counsel for Sellers and Buyer, to consummate and make effective the transactions contemplated by this Agreement.

12.13 Severability. If any provision of this Agreement is determined to be invalid, illegal or unenforceable by any Governmental Authority, the remaining provisions of this Agreement to the extent permitted by law shall remain in full force and effect provided that the essential terms and conditions of this Agreement for both parties remain valid, binding and enforceable and provided that the economic and legal substance of the transactions contemplated is not affected in any manner materially adverse to any party. In the event of any such determination, the parties agree to

negotiate in good faith to modify this Agreement to fulfill as closely as possible the original intents and purposes hereof. To the extent permitted by Law, the parties hereby to the same extent waive any provision of Law that renders any provision hereof prohibited or unenforceable in any respect.

12.14 Schedules; Exhibits. Each Schedule and Exhibit delivered pursuant to the terms of this Agreement shall be in writing and shall constitute a part of this Agreement, although schedules need not be attached to each copy of this Agreement. The mere inclusion of an item in a Schedule as an exception to a representation or warranty shall not be deemed an admission by Seller that such item represents an exception or material fact, event or circumstance or that such item is reasonably likely to constitute a Material Adverse Effect. Further, any fact or item which is clearly disclosed on any Schedule to this Agreement or in the Financial Statements in such a way as to make its relevance or applicability to information called for by another Schedule or other Schedules to this Agreement reasonably apparent shall be deemed to be disclosed on such other Schedule or Schedules, as the case may be, notwithstanding the omission of a reference or cross-reference thereto.

12.15 Knowledge Convention. As used herein, the phrase "knowledge of Sellers" and similar phrases shall mean all matters actually known to the Group Vice President-Business Development Domestic Telecom or the Assistant General Counsel-Strategic Transactions, or actually known or that reasonably should have been known based on facts actually known to the individuals holding each of the following positions immediately prior to the date hereof - the Director -Alabama Operations, the Sr. Vice President-Engineering & Planning, and the Executive Director-Corporate Books, Domestic Telecom, and all matters which were the subject of written notice actually received by Sellers from any third party. The phrase "knowledge of Buyer" and similar phrases shall mean all matters actually known to the individuals holding each of the following positions immediately prior to the date hereof - the Executive Vice President and Chief Financial Officer, the Vice President and Assistant General Counsel, and the Vice President-Corporate Development, and all matters which were the subject of written notice actually received by Buyer from any third party.

IN WITNESS WHEREOF, the parties, acting through their duly authorized agents, have caused this Agreement to be duly executed and delivered as of the date first above written.

VERIZON SOUTH INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

**CONTEL OF THE SOUTH, INC. D/B/A
VERIZON MID-STATES**

By: _____
Name:
Title:

By: _____
Name:
Title:

CENTURYTEL OF ALABAMA, L.L.C.

By: _____
Name:
Title:

JOINDER

CenturyTel, Inc., a Louisiana corporation and parent of Buyer, hereby joins in the execution and delivery of this Agreement for the following limited purposes:

the undersigned hereby (a) represents and warrants that it owns, directly or indirectly, all of the outstanding membership interests of the Buyer and (b) agrees to perform and to cause Buyer or any applicable Affiliate of Buyer to perform, the obligations of Buyer contained in this Agreement and the Ancillary Documents, including without limitation, those payment obligations set forth herein.

CENTURYTEL, INC.

Date: _____, 2001

By: _____

Name: _____
Title: _____

CENTURYTEL, INC.
EMPLOYEE STOCK OWNERSHIP PLAN

(As Amended and Restated September 17, 2001 to incorporate prior amendments and to separate the Plan and Trust into two documents)

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STATE OF LOUISIANA
PARISH OF OUACHITA

BE IT KNOWN that on this 17 day of September, 2001, before me, Notary Public, duly commissioned and qualified in and for the Parish of Ouachita, State of Louisiana, therein residing and in the presence of the undersigned witnesses:

PERSONALLY CAME AND APPEARED:

CENTURYTEL, INC., represented herein by its Executive Vice President and Chief Financial Officer, R.Stewart Ewing, Jr., as Plan Sponsor.

The Plan Sponsor appoints Regions Bank of Louisiana as Trustee.

WHEREAS, the Plan Sponsor has previously established the CenturyTel, Inc. Employee Stock Ownership Plan and Trust; and

WHEREAS, the Plan Sponsor desires to incorporate in this document various amendments, whether previously made or authorized, to its Employee Stock Ownership Plan and Trust; and

WHEREAS, the Plan Sponsor desires to amend and restate its Employee Stock Ownership Plan and Trust to separate the provisions of the Trust contained therein into a separate trust document; and

WHEREAS, the Plan Sponsor desires that the Employee Stock Ownership Plan and Trust, as amended and restated, shall constitute a qualified employee benefit plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code") for the exclusive benefit of employees who participate herein, and shall constitute an employee stock ownership plan under Section 4975(e)(7) of the Code; and

WHEREAS, the Plan Sponsor desires that the separate trust provided for herein shall constitute an exempt trust under Section 501(a) of the Code;

NOW, THEREFORE, effective September ___, 2001, except as may be indicated in specific Sections hereof, the Settler hereby amends and restates its Employee Stock Ownership Plan and Trust, upon the terms and conditions as provided herein. The primary purpose of the Employee Stock Ownership Plan is to invest in employer securities.

SECTION 1 DEFINITIONS

1.1 Account.

The Regular Account, the Merger Account, the Rollover Account, and the Suspense Account of a Participant, whether or not such accounts have been combined into one account.

1.2 Active Participant.

A Participant who has completed a Year of Service within the Plan Year ending on the Adjustment Date, whether or not the Participant is employed on such date.

1.3 Adjustment Date.

The last day of each Plan Year.

1.4 Approved Absence.

An absence from work not exceeding one year, including absence due to temporary disability, granted to and/or approved for the Employee by an Employer in a uniform and nondiscriminatory manner; or an absence from work for service in the Armed Forces or other government services, provided that, and only so long as, reemployment rights are protected by law.

1.5 Break in Service.

A twelve (12) consecutive month period (computation period) during which a Participant does not complete more than five hundred (500) Hours of Service with the Employer. Any Break in Service shall be deemed to have commenced on the first day of the Plan Year in which it occurs. No Break in Service shall be deemed to occur during an Employee's initial Eligibility Computation Period solely because of the failure of the Employee to complete more than five hundred (500) Hours of Service during any one Plan Year occurring in part during such twelve-month period if the Employee completes a Year of Service during such initial Eligibility Computation Period. A Break in Service shall not be deemed to have occurred during any period of Approved Absence if the Employee returns to the service of the Employer on or before the last day of the Approved Absence.

1.6 Company Stock.

Shares of voting common stock, \$1.00 par value, issued by the Employer.

1.7 Compensation.

Compensation will mean compensation as that term is defined in Section 4.12(b) of the Plan, and will include any amount which is contributed by the Employee pursuant to a salary reduction agreement and which is not includible in the gross income of the Employee under Sections 125, 402(e)(3), 402(h)(1)(B) or 403(b) of the Code.

Notwithstanding the foregoing, Compensation for purposes of this Section shall not include: (i) reimbursements or other expense allowances, fringe benefits (cash or noncash), moving expenses, deferred compensation, and welfare benefits; (ii) overtime; (iii) completion bonuses and Christmas bonuses; (iv) restricted stock awards under the Restricted Stock Plan or the Key Employee Incentive Compensation Plan; and (v) stock options, performance shares and similar forms of compensation.

For Plan Years beginning on or after January 1, 1989, and before January 1, 1994, the annual compensation of each Participant taken into account for determining all benefits provided under the Plan for any Plan Year shall not exceed \$200,000. This limitation shall be adjusted by the Secretary at the same time and in the same manner as under Section 415(d) of the Code, except that the dollar increase in effect on January 1 of any calendar year is effective for Plan Years beginning in such calendar year and the first adjustment to the \$200,000 limitation is effective

on January 1, 1990. For Plan Years beginning on or after January 1, 1994, the annual compensation of each Participant taken into account for determining all benefits provided under the Plan for any Plan Year shall not exceed \$150,000, as adjusted for increases in the cost-of-living in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment in effect for a calendar year applies to any determination period beginning in such calendar year.

If a determination period consists of fewer than 12 months, the annual compensation limit is an amount equal to the otherwise applicable annual compensation limit multiplied by a fraction, the numerator of which is the number of months in the short determination period, and the denominator of which is 12.

In determining the compensation of a Participant for purposes of this limitation, the rules of Section 414(q)(6) of the Code shall apply, except in applying such rules, the term "family" shall include only the spouse of the Participant and any lineal descendants of the Participant who have not attained age 19 before the close of the year. If, as a result of the application of such rules the adjusted annual compensation limitation is exceeded, then (except for purposes of determining the portion of compensation up to the integration level if this Plan provides for permitted disparity), the limitation shall be prorated among the affected individuals in proportion to each such individual's compensation as determined under this Section prior to the application of this limitation.

If compensation for any prior determination period is taken into account in determining a Participant's allocations for the current Plan Year, the compensation for such prior determination period is subject to the applicable annual compensation limit in effect for that prior period. For this purpose, in determining allocations in Plan Years beginning on or after January 1, 1989, the annual compensation limit in effect for determination periods beginning before that date is \$200,000. In addition, in determining allocations in Plan Years beginning on or after January 1, 1994, the annual compensation limit in effect for determination periods beginning before that date is \$150,000.

In addition to other applicable limitations set forth in the Plan, and notwithstanding any other provision of the Plan to the contrary, for Plan Years beginning on or after January 1, 1994, the annual Compensation of each Employee taken into account under the Plan shall not exceed the OBRA '93 annual compensation limit. The OBRA '93 annual compensation limit is \$150,000, as adjusted by the Commissioner for increases in the cost of living in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding twelve (12) months, over which compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than twelve (12) months, the OBRA '93 annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is twelve (12).

For plan years beginning on or after January 1, 1994, any reference in this Plan to the limitation under Section 401(a)(17) of the Code shall mean the OBRA '93 annual compensation limit set forth in this provision.

If Compensation for any prior determination period is taken into account in determining an Employee's benefits accruing in the current Plan Year, the Compensation for that prior determination period is subject to the OBRA '93 annual compensation limit in effect for that prior determination period. For this purpose, for determination periods beginning before the first day of the first Plan Year beginning on or after January 1, 1994, the OBRA '93 annual compensation limit is \$150,000.

For any self-employed individual covered under the Plan, compensation will mean earned income. Compensation shall include only that compensation which is actually paid to the Participant during the determination period. Except as provided elsewhere in this plan, the determination period shall be the Plan Year.

For employees of San Marcos Telephone Company, Inc., SM Telecorp, Inc., and subsidiaries thereof, who become participants in the Plan on or after June 20, 1993, compensation for the Plan Year ending December 31, 1993 shall be recognized commencing as of the effective date of participation of each such employee pursuant to Section 2.1.

1.8 Date of Employment.

The date on which an Employee first performs an Hour of Service for the Employer.

1.9 Date of Reemployment

Break in Service on which he performs an Hour of Service.

1.10 Disability.

A Participant shall be considered disabled if the Participant cannot

perform each of the material duties of his regular occupation and is likely to remain thus incapacitated continuously and permanently.

1.11 Eligibility Computation Periods.

In determining Years of Service and Breaks in Service for purposes of eligibility, the initial Eligibility Computation Period is the twelve (12) consecutive month period beginning on an Employee's Date of Employment or Date of Reemployment. Subsequent Eligibility Computation Periods shall be twelve (12) consecutive month periods beginning on the first anniversary of an Employee's Date of Employment or Date of Reemployment and succeeding anniversaries thereof.

Years of Service, and Breaks in Service, for eligibility purposes will be measured on the same Eligibility Computation Period.

1.12 Employee.

Those persons regularly employed by the Employer, including employees of any other employer required to be aggregated with the Employer under Sections

414(b), (c), (m) or (o) of the Code. The term Employee shall also include any leased employee deemed to be an employee of the Employer as provided in Sections 414(n) or (o) of the Code. The term Employee shall not include any owner-employee, as defined in Code Section 401(c) (3).

The term Employee shall not include an employee who is retained by the Employer pursuant to a contract or agreement that specifies that the employee is not eligible to participate in the Plan, an individual whose basic compensation for services rendered is not paid by or on behalf of the Employer, or an individual who is not classified as a common-law employee by the Employer, regardless of any subsequent reclassification of such individual as a "common-law employee" of the Employer by the Employer, any governmental agency, or any court.

1.13 Employer.

CenturyTel, Inc.

1.14 Entry Date.

(a) The January 1 or July 1 on which or immediately following the date

on which an Employee satisfies the requirements of Section 2.1; or

(b) In the case of an Employee whose Years of Service are disregarded pursuant to Section 1.30(c), such Employee will be treated as a new Employee for eligibility purposes. If an Employee's Years of Service may not be disregarded pursuant to Section 1.30(c), such Employee shall continue to participate in the Plan, or, if terminated, shall participate immediately upon his Date of Reemployment.

1.15 Highly Compensated Employee.

A highly compensated active employee includes any Employee who performs service for the Employer during the determination year and who, during the look-back year: (i) received compensation from the Employer in excess of \$75,000 (as adjusted pursuant to Section 415(d) of the Code); (ii) received compensation from the Employer in excess of \$50,000 (as adjusted pursuant to Section 415(d) of the Code) and was a member of the top-paid group for such year; or (iii) was an officer of the Employer and received compensation during such year that is greater than fifty percent (50%) of the dollar limitation in effect under Section 415(b)(1)(A) of the Code. The term Highly Compensated Employee also includes: (i) Employees who are both described in the preceding sentence if the term "determination year" is substituted for the term "look-back year" and the Employee is one of the one hundred (100) Employees who received the most compensation from the Employer during the determination year; and (ii) Employees who are five percent (5%) owners at any time during the look-back year or determination year.

The term Highly Compensated Employee includes highly compensated active employees and highly compensated former employees.

If no officer has satisfied the compensation requirement of (iii) above during either a determination year or look-back year, the highest paid officer for such year shall be treated as a Highly Compensated Employee.

For this purpose, the determination year shall be the Plan Year. The look-back year shall be the twelve-month period immediately preceding the determination year.

A highly compensated former employee includes any Employee who separated from service (or was deemed to have separated) prior to the determination year, performs no service for the Employer during the determination year, and was a Highly Compensated Employee for either the separation year or any determination year ending on or after the Employee's fifty-fifth (55th) birthday.

If an Employee is, during a determination year or look-back year, a family member of either a five percent (5%) owner who is an active or former Employee or a Highly Compensated Employee who is one of the ten (10) most Highly Compensated Employees ranked on the basis of compensation paid by the Employer during such year, then the family member and the five percent (5%) owner or top-ten Highly Compensated Employee shall be aggregated. In such case, the family member and the five percent (5%) owner or top-ten Highly Compensated Employee shall be treated as a single Employee receiving compensation and plan contributions or benefits equal to the sum of such compensation and contributions or benefits of the family member and the five percent (5%) owner or top-ten Highly Compensated Employee. For purposes of this Section, family members include the spouse, lineal ascendants and descendants of the Employee or former Employee and the spouses of such lineal ascendants and descendants.

The determination of who is a Highly Compensated Employee, including the determination of the number and identity of Employees in the top-paid group, the top one hundred (100) Employees, the number of Employees treated as officers, and the compensation that is considered, will be made in accordance with Section 414(q) of the Code and the regulations thereunder.

1.16 Hour of Service.

Each hour for an Employee under (a) through (c), determined from the employment records of the Employer. Any ambiguity which may arise shall be resolved in favor of crediting Employees with an Hour of Service.

(a) Each hour for which an Employee is paid, or entitled to payment, for the performance of duties for the Employer. These hours will be credited to the Employee for the computation period in which the duties are performed;

(b) Each hour for which an Employee is paid, or entitled to payment, by the Employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty, leave of absence or paid time off (PTO). No more than five hundred one (501) Hours of Service will be credited under this paragraph for any single continuous period (whether or not such period occurs in a single computation period). Hours under this paragraph will be calculated and credited pursuant to Section 2530.200(b) of the Department of Labor Regulations, which is incorporated herein by this reference; and

(c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service will not be credited both under paragraph (a) and (b), as the case may be, and under this paragraph (c). These hours will be credited to the Employee for the computation period or periods to which the award or agreement pertains rather than the computation period in which the award, agreement or payment is made.

Notwithstanding the above, (i) an hour for which an Employee is directly or indirectly paid, or entitled to payment, on account of a period during which no duties are performed is not required to be credited to the Employee if such payment is made or due under a plan maintained solely for the purpose of complying with applicable worker's compensation, unemployment compensation or disability insurance laws; and (ii) Hours of Service are not required to be credited for a payment which solely reimburses an Employee for medical or medically-related expenses incurred by the Employee.

Hours of Service will be credited for employment with other members of an affiliated service group (under Section 414(m)), a controlled group of corporations (under Section 414(b)), or a group of trades or businesses under common control (under Section 414(c)) of which the Employer is a member, and any other entity required to be aggregated with the Employer pursuant to Section 414(o) and the regulations thereunder.

Hours of Service will also be credited for any individual considered an Employee for purposes of this Plan under Section 414(n) or Section 414(o) and the regulations thereunder.

Solely for purposes of determining whether a Break in Service, as defined in Section 1.5, for participation and vesting purposes has occurred in a computation period, an individual who is absent from work for maternity or paternity reasons shall receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence, or in any case in which such hours cannot be determined, eight Hours of Service per day of such absence. For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence (1) by reason of the pregnancy of the individual, (2) by reason of the birth of a child of the individual, (3) by reason of the placement of a child with the individual in connection with the adoption of such child by the individual, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this paragraph shall be credited (1) in the computation period in which the absence begins if the crediting is necessary to prevent a Break in Service in that period, or (2) in all other cases, in the following computation period.

Hours of Service shall be determined under the terms of the Family and Medical Leave Act of 1993 and the Uniformed Services Employment and Reemployment Rights Act of 1994.

1.17 Leased Employee.

(a) Any person (other than an employee of the recipient) who pursuant to an agreement between the recipient and any other person ("leasing organization") has performed services for the recipient (or for the recipient and related persons determined in accordance with Code Section 414(n)(6)) on a substantially full time basis for a period of at least one year, and such services are of a type historically performed by employees in the business field of the recipient employer. Contributions or benefits provided a leased employee by the leasing organization which are attributable to services performed for the recipient employer shall be treated as provided by the recipient employer.

(b) A leased employee shall not be considered an employee of the recipient if: (i) such employee is covered by a money purchase pension plan providing: (1) a nonintegrated employer contribution rate of at least ten percent (10%) of compensation, as defined in Code Section 415(c)(3), but including amounts contributed pursuant to a salary reduction agreement which are excludable from the leased employee's gross income under Section 125, Section 402(e)(3), Section 402(h)(1)(B) or Section 403(b) of the Code, (2) immediate participation, and (3) full and immediate vesting; and (ii) leased employees do not constitute more than twenty percent (20%) of the recipient's nonhighly compensated workforce.

1.18 Limitation Year.

The Plan Year unless any other twelve (12) consecutive month period is designated pursuant to a written resolution adopted by the Employer.

1.19 Merger Account.

The account maintained for a Participant with respect to a plan which has merged with this Plan or transferred its assets to this Plan, in accordance with Section 9.2.

1.20 Normal Retirement Age.

The fifty-fifth (55th) birthday of a Participant, at which time the Participant shall become fully vested.

1.21 Plan Administrator.

The Committee referred to in Section 13 of this Plan.

1.22 Plan Year.

The calendar year.

1.23 Regular Account.

The individual account maintained for a Participant to which is credited

his share of Employer contributions and forfeitures, adjusted as herein provided for investment income, gain or loss.

1.24 Rollover Account.

The account maintained in accordance with Section 14.1 for each Participant who has made a rollover contribution.

1.25 Suspense Account.

The account maintained in accordance with Section 4.8.

1.26 Top Heavy Valuation Date.

The date specified in Section 16.9 of this Plan.

1.27 Trust.

The CenturyTel, Inc. Employee Stock Ownership Trust, created in accordance with Section 3.3.

1.28 Trustee.

Regions Bank of Louisiana.

1.29 Valuation Date.

The date on which the Trustee shall make a revaluation of the trust fund

pursuant to Section 4.4.

1.30 Vesting Computation Period.

For purposes of determining Years of Service and Breaks in Service for computing an Employee's nonforfeitable right to the Account balance derived from Employer contributions, the computation period shall be the Plan Year.

1.31 Year of Service.

A twelve (12) consecutive month period (computation period) during which an Employee completes at least five hundred (500) Hours of Service. Effective January 1, 1994, a Year of Service is a twelve-consecutive month period (computation period) during which an Employee completes at least one thousand (1,000) Hours of Service. All of an Employee's Years of Service shall be counted, subject to the following qualifications and exceptions:

(a) A Year of Service will not be credited for any period of Approved Absence after the Employee incurs a Break in Service during such absence from the service of the Employer;

(b) Service performed prior to a Break in Service shall not be taken into account until the Employee has completed a Year of Service after such Break in Service. Such Year of Service will be measured by the twelve (12) consecutive month period beginning on the Employee's Date of Reemployment and, if necessary, subsequent twelve (12) consecutive month periods beginning on anniversaries of the Employee's Date of

Reemployment;

(c) In the case of an Employee who does not have any nonforfeitable right to his Regular Account, Years of Service, whether or not consecutive, before a period of consecutive one (1) year Breaks in Service shall not be taken into account if the number of consecutive one-year Breaks in Service in such period equals or exceeds the greater of five (5) or the aggregate number of Years of Service. Such aggregate number of Years of Service will not include any Years of Service disregarded under the preceding sentence by reason of prior Breaks in Service;

(d) In the case of a Participant who has five (5) or more consecutive one-year Breaks in Service, all service after such Breaks in Service will be disregarded for purposes of vesting the Employer-derived Account balance that accrued before such Breaks in Service. Such Participant's pre-break service will count in vesting the post-break Employer-derived Account balance only if either:

(i) such Participant has any nonforfeitable interest in the Account balance attributable to Employer contributions at the time of separation from service; or

(ii) upon returning to service the number of consecutive one-year Breaks in Service is less than the number of Years of Service.

Separate accounts will be maintained for the Participant's pre-break and post-break Employer-derived Account balance. Both accounts will share in the earnings and losses of the trust; and

(e) Any Employee who was employed by Central Telephone of Ohio ("Central") on March 31, 1992 and who was not a member of Local 4370 of the Communications Workers of America at such time, who became employed by the Employer on or about April 1, 1992 pursuant to an offer of employment by the Employer, shall be credited for all purposes under this Plan with service performed prior to April 1, 1992 for Centel Corporation, Central, or any member of a controlled group in which Centel Corporation and Central were members.

(f) Service with San Marcos Telephone Company, Inc., SM Telecorp, Inc., and subsidiaries thereof, and any successors thereto by merger or otherwise, shall be counted for all purposes under this Plan.

SECTION 2 ELIGIBILITY

2.1 Participation.

Every Participant in the Plan prior to this Amendment and Restatement shall continue to participate in the Plan as of the effective date hereof. Additionally, every Employee who has completed one (1) Year of Service during an Eligibility Computation Period, shall become a Participant in the Plan as of the Entry Date. However, Employees whose terms of employment are subject to a collective bargaining agreement, which does not provide for their coverage under this Plan, as well as Employees for whom union representation negotiations have begun, which negotiations do not provide for their coverage under this Plan, are not eligible to participate. In addition, Employees employed by Century Business Communications, LLC (formerly Century Business Communications, Inc., and formerly Century Printing & Publishing, Inc.), CenturyTel Interactive Company (formerly Century Interactive Communications, Inc., and formerly Interactive Communications, Inc.), CenturyTel Security Systems, Inc., CenturyTel of Northwest Arkansas, LLC, CenturyTel of Central Arkansas, LLC, CenturyTel of Central Wisconsin, LLC, Telephone USA of Wisconsin, LLC and Spectra Communications Group, LLC, and any wholly-owned subsidiaries or affiliates of any of the foregoing, are not eligible to participate in the Plan.

Employees of CenturyTel of Pecoco, Inc.(formerly Pecoco, Inc.) and its subsidiaries are eligible to participate in the Plan as of April 27, 1997. Non-represented Employees of CenturyTel of the Northwest, Inc.(formerly Pacific Telecom, Inc.) and Pacific Telecom Cellular, Inc., their subsidiaries, and their Affiliates prior to the acquisition of Pacific Telecom, Inc.by Century Telephone Enterprises, Inc.or an Affiliate thereof are eligible to participate in the Plan as of January 1, 1999.

2.2 Determination of Eligibility.

The Plan Administrator shall determine the eligibility of each Employee for participation in the Plan. Such determination shall be conclusive and binding upon all persons.

2.3 Election Not to Participate.

An Employee may, subject to the approval of the Employer, elect voluntarily not to participate in the Plan. The election not to participate must be communicated to the Employer, in writing, at least thirty (30) days before the beginning of a Plan Year. The foregoing election not to participate shall not be available with respect to partners in a partnership.

SECTION 3 CONTRIBUTIONS

3.1 Contributions by Employer.

For the current Plan Year and for each Plan Year thereafter, the Employer may make a contribution to the Trust in cash or shares of Company

Stock. The Employer's contribution for any Plan Year shall not exceed the maximum amount allowable as a deduction to the Employer under Section 404 of the Code.

Notwithstanding the foregoing, the Employer shall make a contribution to the extent necessary to provide the top heavy minimum allocations under Section 16.14, even if such contribution exceeds current or accumulated net profits or the maximum amount deductible from the Employer's income for the year.

3.2 Determination of Contribution.

The Employer shall determine the amount of any contributions to be made by it to the Trust under the terms of this Agreement. The Employer's determination of such contributions shall be binding on all Participants and the Trustee.

The Trustee shall have no right or duty to inquire into the amount of the Employer's annual contribution or the method used in determining the amount of the Employer's contribution, but shall be accountable only for funds actually received by it.

3.3 Establishment of Trust.

Benefits under this Plan shall be funded through the CenturyTel, Inc. Employee Stock Ownership Trust, established by agreement between CenturyTel, Inc. and Regions Bank of Louisiana. The Trustee shall receive Employer contributions, hold and invest the Trust fund in accordance with the Trust agreement, and distribute benefits to Participants in accordance with this Plan and directions of the Committee.

3.4 Time of Payment of Contribution.

The Employer shall pay to the Trustee its contribution for each Plan Year within the time prescribed by law, including extensions of time, for the filing of its Federal income tax return for such year.

3.5 Exclusive Benefit.

Any and all contributions made by the Employer to the Trust shall be irrevocable, and neither such contributions nor any income therefrom shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants or their beneficiaries under the Plan.

3.6 Return of Contributions.

Any contribution made by the Employer because of a mistake of fact must be returned to the Employer within one year of the contribution.

In the event that the Commissioner of Internal Revenue determines that the Plan is not initially qualified under the Internal Revenue Code, any contribution made incident to that initial qualification by the Employer must be returned to the Employer within one year after the date the initial qualification is denied, but only if the application for qualification is made by the time prescribed by law for filing the Employer's return for the taxable year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe.

In the event the deduction of a contribution made by the Employer is disallowed under Section 404 of the Code, such contribution (to the extent disallowed) must be returned to the Employer within one year of the disallowance of the deduction.

SECTION 4 ACCOUNTS OF PARTICIPANTS

4.1 Individual Accounts for Each Participant.

The Plan Administrator or, if the Plan Administrator so determines, the Trustee, shall maintain a Regular Account for each Participant. With respect to a Participant who incurs five (5) consecutive one-year Breaks in Service before receiving a distribution, the vested portion of such Participant's Regular Account shall remain in his Regular Account, and the nonvested portion of the Participant's Regular Account shall be forfeited as provided in Section 7.2.

4.2 Allocation of Employer Contributions.

Contributions made by the Employer for a Plan Year shall, as of the Adjustment Date occurring within such Plan Year, be allocated among and posted to the Regular Account of each Active Participant in the proportion which the Compensation paid to such Active Participant for such year bears to the total Compensation of all Active Participants for such year.

4.3 Allocation of Forfeitures.

The amount of forfeitures determined under Section 7.2 shall be reallocated as of the Adjustment Date on which forfeitures occurred to the Regular Accounts of Active Participants by adding the total amount of forfeitures to the Employer's contribution for the year and allocating the sum thereof in accordance with Section 4.2. If there were no Employer contributions for the year, the forfeitures shall be allocated in accordance with Section 4.2.

4.4 Year-End Valuation of Accounts.

The Trustee, as of each Adjustment Date, shall determine the net worth of the assets of the trust fund. In determining such net worth, the Trustee shall value the assets of the trust fund at their fair market value as of such Adjustment Date, and shall deduct all liabilities of the Plan and all expenses payable from the trust fund for which the Trustee has not yet obtained reimbursement. Such valuation shall not include any contribution for the year made by the Employer as of the Valuation Date.

As of each Adjustment Date, before allocation of forfeitures and Employer contributions for the year, the Trustee shall adjust the net credit balance in the Accounts of all Participants (whether or not active) upward or downward, pro-rata, so that the total of such net credit balances will equal the net worth of the trust fund as of the Adjustment Date. As used herein the term "net credit balance" means the balance to the credit of each Participant as of the immediately preceding Adjustment Date or Interim Valuation Date, if later, as reduced for payments from the Accounts and forfeitures on or subsequent to such date.

4.5 Interim Valuation of Accounts.

As of the end of any month, the Plan Administrator may request the Trustee to determine, in accordance with the rules of Section 4.4, the then net worth of the assets constituting the trust fund. The last day of each month as of which the Plan Administrator has requested the Trustee to determine the aforementioned net worth is referred to herein as an "Interim Valuation Date."

All distributions which are to be made as of or after any such Interim Valuation Date, but prior to the next succeeding Adjustment Date, or, if earlier, the next succeeding Interim Valuation Date, shall be made as if the credit balances to all Participants' Accounts had actually been credited or debited so that the total credit balances to all Accounts would equal the net worth of the assets constituting the trust fund as of such Interim Valuation Date.

4.6 Debiting of Distributions.

The amounts, if any, paid to or on behalf of a Participant at any time shall, concurrent with such payment, be debited against his Account.

4.7 Effective Date of Entries.

Each Account entry which, in accordance with the provisions hereof, needs to be made shall be considered as having been made on the date herein specified regardless of the date of actual entry.

LIMIT ON ANNUAL ADDITIONS

4.8 Coverage Under This Plan Only.

(a) If the Participant does not participate in, and has never participated in another qualified plan maintained by the Employer, or a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer, or an individual medical account, as defined in Section 415 (l)(2) of the Code, maintained by the Employer, or a simplified employee pension, as defined in Section 408(k) of the Code, maintained by the Employer, which provides an annual addition as defined in Section 4.12, the amount of annual additions which may be credited to the Participant's Account for any Limitation Year will not exceed the lesser of the maximum permissible amount or any other limitation contained in this Plan. If the Employer contribution that would otherwise be contributed or allocated to the Participant's Account would cause the annual additions for the Limitation Year to exceed the maximum permissible amount, the amount contributed or allocated will be reduced so that the annual additions for the Limitation Year will equal the maximum permissible amount.

(b) Prior to determining the Participant's actual compensation for the Limitation Year, the Employer may determine the maximum permissible amount for a Participant on the basis of a reasonable estimate of the Participant's compensation for the Limitation Year, uniformly determined for all Participants similarly situated.

(c) As soon as is administratively feasible after the end of the Limitation Year, the maximum permissible amount for the Limitation Year will be determined on the basis of the Participant's actual compensation for the Limitation Year.

(d) If, pursuant to Section 4.8(c) or as a result of the allocation of forfeitures, there is an excess amount, the excess will be disposed of as follows:

(i) Any nondeductible voluntary employee contributions, to the extent they would reduce the excess amount, will be returned to the Participant;

(ii) If after the application of paragraph (i) an excess amount still exists, and the Participant is covered by the Plan at the end of the Limitation Year, the excess amount in the Participant's Account will be used to reduce Employer contributions (including any allocation of forfeitures) for such Participant in the next Limitation Year, and each succeeding Limitation Year if necessary;

(iii) If after the application of paragraphs (i) and (ii) an excess amount still exists, and the Participant is not covered by the Plan at the end of a

Limitation Year, the excess amount will be held unallocated in a Suspense Account. The Suspense Account will be applied to reduce future Employer contributions for all remaining Participants in the next Limitation Year, and each succeeding Limitation Year if necessary;

(iv) If a Suspense Account is in existence at any time during a Limitation Year pursuant to this Section, it will not participate in the allocation of the Trust's investment gains and losses. If a Suspense Account is in existence at any time during a particular Limitation Year, all amounts in the Suspense Account must be allocated and reallocated to Participants' Accounts before any Employer or any Employee contributions may be made to the Plan for that Limitation Year. Excess amounts may not be distributed to Participants or former Participants.

4.9 Coverage Under A Prototype Plan.

(a) This Section applies if, in addition to this Plan, the Participant is covered under a qualified master or prototype defined contribution plan maintained by the Employer, a welfare benefit fund maintained by the Employer, an individual medical account maintained by the Employer, or a simplified employee pension maintained by the Employer that provides an annual addition as defined in Section 4.12 during any Limitation Year. The annual additions which may be credited to a Participant's Account under this Plan for any such Limitation Year will not exceed the maximum permissible amount reduced by the annual additions credited to a Participant's account under the other qualified master or prototype defined contribution plans, and welfare benefit funds for the same Limitation Year. If the annual additions with respect to the Participant under other qualified master or prototype defined contribution plans, welfare benefit funds, individual medical accounts, and simplified employee pensions maintained by the Employer are less than the maximum permissible amount and the Employer contribution that would otherwise be contributed or allocated to the Participant's Account under this Plan would cause the annual additions for the Limitation Year to exceed this limitation, the amount contributed or allocated will be reduced so that the annual additions under all such plans and funds for the Limitation Year will equal the maximum permissible amount. If the annual additions with respect to the Participant under such other qualified master or prototype defined contribution plans, welfare benefit funds, individual medical accounts, and simplified employee pensions in the aggregate are equal to or greater than the maximum permissible amount, no amount will be contributed or allocated to the Participant's Account under this Plan for the Limitation Year.

(b) Prior to determining the Participant's actual compensation for the Limitation Year, the Employer may determine the maximum permissible amount for a Participant in the manner described in Section 4.8(b).

(c) As soon as is administratively feasible after the end of the Limitation Year, the maximum permissible amount for the Limitation Year will be determined on the basis of the Participant's actual compensation for the Limitation Year.

(d) If, pursuant to Section 4.9(c) or as a result of the allocation of forfeitures, a Participant's annual additions under this Plan and such other plans would result in an excess amount for a Limitation Year, the excess amount will be deemed to consist of the annual additions last allocated, except that annual additions attributable to a simplified employee pension will be deemed to have been allocated first, followed by annual additions to a welfare benefit fund or individual medical account, regardless of the actual allocation date.

(e) If an excess amount was allocated to a Participant on an allocation date of this Plan which coincides with an allocation date of another plan, the excess amount attributed to this Plan will be the product of:

(i) the total excess amount allocated as of such date, times

(ii) the ratio of (A) the annual additions allocated to the Participant for the Limitation Year as of such date under this Plan to (B) the total annual additions allocated to the Participant for the Limitation Year as of such date under this and all the other qualified master or prototype defined contribution plans.

(f) Any excess amount attributed to this Plan will be disposed in the manner described in Section 4.8(d).

4.10 Coverage Under A Non-Prototype Plan.

If the Participant is covered under another qualified defined contribution plan maintained by the Employer which is not a master or prototype plan, annual additions which may be credited to the Participant's Account under this Plan for any Limitation Year will be limited in accordance with Section 4.9 as though the other plan were a master or prototype plan.

4.11 Combined Limits.

If the Employer maintains, or at any time maintained, a qualified defined benefit plan covering any Participant in this Plan, the sum of the Participant's defined benefit plan fraction and defined contribution plan fraction will not exceed 1.0 in any Limitation Year. If the sum of the defined benefit plan fraction and the defined contribution plan fraction shall exceed 1.0 in any Limitation Year for any Participant in this Plan, the Plan Administrator shall adjust the numerator of the defined benefit plan fraction so that the sum of both fractions shall not exceed 1.0 in any Limitation Year for such Participant.

4.12 Definitions.

(a) Annual additions: The sum of the following amounts credited to a Participant's Account for the Limitation Year:

- (i) Employer contributions;
- (ii) Employee contributions;

(iii) Forfeitures;

(iv) Amounts allocated, after March 31, 1984, to an individual medical account, as defined in Section 415(l)(2) of the Code, which is part of a pension or annuity plan maintained by the Employer are treated as annual additions to a defined contribution plan. Also amounts derived from contributions paid or accrued after December 31, 1985, in taxable years ending after such date, which are attributable to post-retirement medical benefits, allocated to the separate account of a key employee, as defined in Section 419A(d)(3) of the Code, under a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer are treated as annual additions to a defined contribution plan; and

(v) Allocations under a simplified employee pension. For this purpose, any excess amount applied under Sections 4.8(d) or 4.9(f) in the Limitation Year to reduce Employer contributions will be considered annual additions for such Limitation Year.

(b) Compensation: For purposes of this Section, compensation shall mean

Section 415 safe-harbor compensation. Compensation is defined as all of a Participant's wages, salaries, and fees for professional services and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer maintaining the Plan to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements, or other expense allowances under a nonaccountable plan [as described in Section 1.61-2(c)]), and excluding the following:

(i) Employer contributions to a plan of deferred compensation which are not includible in the Employee's gross income for the taxable year in which contributed, or Employer contributions under a simplified employee pension plan, or any distributions from a plan of deferred compensation;

(ii) Amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(iii) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

(iv) Other amounts which received special tax benefits, or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity described in Section 403(b) of the Code (whether or not the amounts are actually excludable from the gross income of the Employee).

For any self-employed individual, compensation will mean earned income. For purposes of applying the limitations of this Section, compensation for a Limitation Year is the compensation actually paid or includable in gross income during such Limitation Year.

Notwithstanding the preceding sentence, compensation for a Participant in a defined contribution plan who is permanently and totally disabled (as defined in Section 22(e)(3) of the Code) is the compensation such Participant would have received for the Limitation Year if the Participant had been paid at the rate of compensation paid immediately before becoming permanently and totally disabled; such imputed compensation for the disabled Participant may be taken into account only if the Participant is not a highly compensated employee (as defined in Section 414(q) of the Code) and contributions made on behalf of such Participant are nonforfeitable when made.

(c) Defined benefit fraction: A fraction, the numerator of which is the sum of the Participant's projected annual benefits under all defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of one hundred twenty-five percent (125%) of the dollar limitation determined for the Limitation Year under Sections 415(b) and (d) of the Code or one hundred forty percent (140%) of the highest average compensation, including any adjustments under Section 415(b) of the Code.

Notwithstanding the above, if the Participant was a participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than one hundred twenty-five percent (125%) of the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Section 415 of the Code for all Limitation Years beginning before January 1, 1987.

(d) Defined contribution dollar limitation: \$30,000 or if greater, one-fourth of the defined benefit dollar limitation set forth in Section 415(b)(1) of the Code as in effect for the Limitation Year.

(e) Defined contribution fraction: A fraction, the numerator of which is the sum of the annual additions to the Participant's account under all defined contribution plans (whether or not terminated) maintained by the Employer for the current and all prior limitation years (including the

annual additions attributable to the Participant's nondeductible employee contributions to all defined benefit plans, whether or not terminated, maintained by the Employer, and the annual additions attributable to all welfare benefit funds, individual medical accounts, and simplified employee pensions maintained by the Employer), and the denominator of which is the sum of the maximum aggregate amounts for the current and all prior limitation years of service with the Employer (regardless of whether a defined contribution plan was maintained by the Employer). The maximum aggregate amount in any limitation year is the lesser of one hundred twenty-five percent (125%) of the dollar limitation determined under Sections 415(b) and (d) of the Code in effect under Section 415(c)(1)(A) of the Code or thirty-five percent (35%) of the Participant's compensation for such year. If the Employee was a participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (1) the excess of the sum of the fractions over 1.0, times (2) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the Code Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

The annual addition for any Limitation Year beginning before January 1, 1987, shall not be recomputed to treat all Employee contributions as annual additions.

(f) Employer: For purposes of this Section, Employer shall mean the Employer and all members of a controlled group of corporations (as defined in Section 414(b) of the Code as modified by Section 415(h)), all commonly controlled trades or businesses (as defined in Section 414(c) of the Code as modified by Section 415(h)) or affiliated service groups (as defined in Section 414(m) of the Code) of which the Employer is a part, and any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code.

(g) Excess amount: The excess of the Participant's annual additions for the Limitation Year over the maximum permissible amount.

(h) Highest average compensation: The average compensation for the three consecutive Years of Service with the Employer that produces the highest average. A Year of Service with the Employer is the twelve (12) consecutive month period defined in Section 1.29 of this Plan.

(i) Limitation year: The calendar year. All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is amended to a different twelve (12) consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

(j) Master or prototype plan: A plan the form of which is the subject of a favorable opinion letter from the Internal Revenue Service.

(k) Maximum permissible amount: The maximum annual addition that may be contributed or allocated to a Participant's Account under the Plan for any Limitation Year shall not exceed the lesser of:

(i) the defined contribution dollar limitation, or

(ii) 25 percent of the Participant's compensation for the Limitation Year.

The compensation limitation referred to in (ii) shall not apply to any contribution for medical benefits (within the meaning of Section 401(h) or Section 419A(f)(2) of the Code) which is otherwise treated as an annual addition under Section 415(l)(1) or 419A(d)(2) of the Code.

If a short Limitation Year is created because of an amendment changing the Limitation Year to a different twelve (12) consecutive month period, the maximum permissible amount will not exceed the defined contribution dollar limitation multiplied by the following fraction:

Number of months in the short Limitation Year

12

(l) Projected annual benefit: The annual retirement benefit (adjusted to an actuarially equivalent straight life annuity if such benefit is expressed in a form other than a straight life annuity or qualified joint and survivor annuity) to which the Participant would be entitled under the terms of the Plan assuming:

(i) the Participant will continue employment until Normal Retirement Age under the Plan (or current age, if later), and

(ii) the Participant's compensation for the current Limitation Year and all other relevant factors used to determine benefits under the Plan will remain constant for all future Limitation Years.

SECTION 5 BENEFITS PAYABLE AFTER NORMAL RETIREMENT

5.1 Optional Methods of Payment Available at Retirement.

All sums credited to a Participant's Account shall become fully vested upon attainment of Normal Retirement Age. Upon actual retirement at or after Normal Retirement Age, a Participant shall be entitled to receive the full amount credited to his Account as of the Valuation Date or Interim Valuation Date immediately preceding the month in which payment is to be made, which amount shall be paid to the Participant in one lump sum: (i) within sixty (60) days after the close of the Plan Year in which the Participant retires, or (ii) within sixty (60) days after the distributable amount has been determined retroactive to the date in 5.1(i), unless prior to the date of his retirement he elects, in the manner prescribed by the Plan Administrator, any one of the following method or methods:

- (a) Payment of the entire amount of the Participant's Account in one lump sum at some future date, not later than one year after Normal Retirement Date;
- (b) Payment in substantially equal annual, quarterly or monthly installments (including net investment income, gain or loss) until the value of such Participant's Account is exhausted. Unless the Participant elects otherwise, the payment period shall not exceed five (5) years. This five (5) year period shall be extended by one (1) year, up to five (5) additional years, for each \$113,980 (or fraction thereof) by which such Participant's Account balance exceeds \$569,900 (the dollar amounts herein are subject to cost of living adjustments prescribed by the Secretary of the Treasury); or
- (c) Any combination of the foregoing.

Notwithstanding anything contained in this Section 5.1, lump sum, installment or any other benefits may not be paid directly from the Plan in any form of a life annuity or through the distribution of property in any form of a life annuity.

In addition, if the Participant's spouse is not the designated beneficiary, the method of distribution selected must assure that at least fifty percent (50%) of the present value of the amount available for distribution is paid within the life expectancy of the Participant.

All distributions required under this Section shall be determined and made in accordance with the proposed regulations under Section 401(a)(9) of the Code, including the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed regulations.

Any distribution under this Section 5.1 shall comply with the consent requirements contained in Section 7.3.

5.2 Manner of Payment Following Commencement of Payments

Following the commencement of payments under Section 5.1, a Participant and the Plan Administrator may, notwithstanding the fact that periodic benefits are being paid, agree that as of any subsequent date the balance credited to such Participant's Account shall be paid to or applied for the benefit of the Participant in accordance with any other payout method of Section 5.1.

5.3 Required Beginning Date.

The entire interest of a Participant must be distributed or begin to be distributed no later than the Participant's required beginning date, as defined in Section 6.2(f). 5.4 Determination of Amount to be Distributed Each Year.

If a Participant's interest is to be distributed in other than a single-sum, the following minimum distribution rules shall apply on or after the required beginning date:

- (a) If a Participant's benefit is to be distributed over (1) a period not extending beyond the life expectancy of the Participant or the joint life and last survivor expectancy of the Participant and the Participant's designated beneficiary or (2) a period not extending beyond the life expectancy of the designated beneficiary, the amount required to be distributed for each calendar year, beginning with distributions for the first distribution calendar year, must at least equal the quotient obtained by dividing the Participant's benefit by the applicable life expectancy.
- (b) For calendar years beginning before January 1, 1989, if the Participant's spouse is not the designated beneficiary, the method of distribution selected must assure that at least fifty percent (50%) of the present value of the amount available for distribution is paid within the life expectancy of the Participant.
- (c) For calendar years beginning after December 31, 1988, the amount to be distributed each year, beginning with distributions for the first distribution calendar year shall not be less than the quotient obtained by dividing the Participant's benefit by the lesser of (1) the applicable life expectancy or (2) if the Participant's spouse is not the designated beneficiary, the applicable divisor determined from the table set forth in Q&A-4 of Section 1.401(a)(9)-2 of the proposed regulations. Distributions after the death of the Participant shall be distributed using the applicable life expectancy in Section 5.4(a) above as the relevant divisor without regard to proposed regulations Section 1.401(a)(9)-2.
- (d) The minimum distribution required for the Participant's first distribution calendar year must be made on or before the Participant's required beginning date. The minimum distribution for other calendar years, including the minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, must be made on or before December 31 of that distribution calendar year. 5.5 Age 65 Distributions.

Upon the attainment of the age of 65 years, a Participant shall be entitled to elect a distribution of all or a portion of his Account in the Plan. A Participant who elects to receive a distribution pursuant to this Section 5.5 shall continue to be eligible to participate in the Plan on the same basis as any other Participant.

5.6 Definitions. For purposes of this Section, the definitions contained in Section 6.2 shall apply.

5.7 Small Accounts.

Any provision of the Plan to the contrary notwithstanding, the Administrator shall have the authority to direct the settlement of any Account having a balance of less than \$5,000.00 by the payment of one lump sum.

SECTION 6 BENEFITS PAYABLE IN THE EVENT OF DEATH OR DISABILITY

6.1 Death Distribution Provisions.

Upon the death of a Participant, his or her beneficiary shall be entitled to receive the full amount credited to his Account. Upon the death of a Participant, the following distribution provisions shall take effect:

(a) If the Participant dies after distribution of his or her interest has begun, the remaining portion of such interest will continue to be distributed at least as rapidly as under the method of distribution being used prior to the Participant's death.

(b) If the Participant dies before distribution of his or her interest begins, distribution of the Participant's entire interest shall be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death except to the extent that an election is made to receive distributions in accordance with (i) or (ii) below:

(i) if any portion of the Participant's interest is payable to a designated beneficiary, distributions may be made over the life expectancy or over a period certain not greater than the life expectancy of the designated beneficiary commencing on or before December 31 of the calendar year immediately following the calendar year in which the Participant died;

(ii) if the designated beneficiary is the Participant's surviving spouse, the date distributions are required to begin in accordance with (i) above shall not be earlier than the later of (1) December 31 of the calendar year in which the Participant died and (2) December 31 of the calendar year in which the Participant would have attained age 70 1/2.

If the Participant has not made an election pursuant to this Section 6.1(b) by the time of his or her death, the Participant's designated beneficiary must elect the method of distribution no later than the earlier of (1) December 31 of the calendar year in which distributions would be required to begin under this Section, or (2) December 31 of the calendar year which contains the fifth anniversary of the date of death of the Participant. If the Participant has no designated beneficiary, or if the designated beneficiary does not elect a method of distribution, distribution of the Participant's entire interest must be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) For purposes of Section 6.1(b) above, if the surviving spouse dies after the Participant, but before payments to such spouse begin, the provisions of Section 6.1(b), with the exception of paragraph (ii) therein, shall be applied as if the surviving spouse were the Participant.

(d) For purposes of this Section 6.1, any amount paid to a child of the Participant will be treated as if it had been paid to the surviving spouse if the amount becomes payable to the surviving spouse when the child reaches the age of majority.

(e) For the purposes of this Section 6, distribution of a Participant's interest is considered to begin on the Participant's required beginning date (or, if Section 6.1(c) above is applicable, the date distribution is required to begin to the surviving spouse pursuant to Section 6.1(b) above). If distribution in the form of an annuity irrevocably commences to the Participant before the required beginning date, the date distribution is considered to begin is the date distribution actually commences.

6.2 Definitions.

For purposes of this Section and Section 5, the following definitions shall apply:

(a) Applicable life expectancy. The life expectancy (or joint and last survivor expectancy) calculated using the attained age of the Participant (or designated beneficiary) as of the Participant's (or designated beneficiary's) birthday in the applicable calendar year reduced by one for each calendar year which has elapsed since the date life expectancy was first calculated. If life expectancy is being recalculated, the applicable life expectancy shall be the life expectancy as so recalculated. The applicable calendar year shall be the first distribution calendar year, and if life expectancy is being recalculated such succeeding calendar year.

(b) Designated beneficiary. The individual who is designated as the beneficiary under the Plan in accordance with Section 401(a)(9) and the proposed regulations thereunder.

(c) Distribution calendar year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin pursuant to this Section 6.1 above.

(d) Life expectancy. Life expectancy and joint and last survivor expectancy are computed by use of the expected return multiples in Tables V and VI of Section 1.72-9 of the income tax regulations.

Unless otherwise elected by the Participant (or spouse, in the case of distributions described in Section 6.1(b)(ii) above) by the time distributions are required to begin, life expectancies shall be recalculated annually. Such election shall be irrevocable as to the Participant (or spouse) and shall apply to all subsequent years. The life expectancy of a nonspouse beneficiary may not be recalculated.

(e) Participant's benefit.

(i) The Account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions or forfeitures allocated to the Account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date.

(ii) Exception for second distribution calendar year. For purposes of paragraph (i) above, if any portion of the minimum distribution for the first distribution calendar year is made in the second distribution calendar year on or before the required beginning date, the amount of the minimum distribution made in the second distribution calendar year shall be treated as if it had been made in the immediately preceding distribution calendar year.

(f) Required beginning date.

(i) General rule. The required beginning date of a Participant is the first day of April of the calendar year following the calendar year in which the Participant attains age 70 1/2.

(ii) Transitional rules. The required beginning date of a Participant who attains age 70 1/2 before January 1, 1988, shall be determined in accordance with (A) or (B) below:

(A) Non-5-percent owners. The required beginning date of a Participant who is not a 5-percent owner is the first day of April of the calendar year following the calendar year in which the later of retirement or attainment of age 70 1/2 occurs.

(B) 5-percent owners. The required beginning date of a Participant who is a 5-percent owner during any year beginning after December 31, 1979, is the first day of April following the later of:

(1) the calendar year in which the Participant attains age 70 1/2, or

(2) the earlier of the calendar year with or within which ends the Plan Year in which the Participant becomes a 5-percent owner, or the calendar year in which the Participant retires.

The required beginning date of a Participant who is not a 5-percent owner who attains age 70 1/2 during 1988 and who has not retired as of January 1, 1989, is April 1, 1990.

(iii) 5-percent owner. A Participant is treated as a 5-percent owner for purposes of this Section if such Participant is a 5-percent owner as defined in Section 416(i) of the Code (determined in accordance with Section 416 but without regard to whether the Plan is top-heavy) at any time during the Plan Year ending with or within the calendar year in which such owner attains age 66 1/2 or any subsequent Plan Year.

(iv) Once distributions have begun to a 5-percent owner under this Section, they must continue to be distributed, even if the Participant ceases to be a 5-percent owner in a subsequent year.

6.3 Designation of Beneficiary.

A Participant at the time he joins the Plan shall designate a beneficiary or beneficiaries to receive the sums credited to his Account in the event of his death, which designation may be changed by the Participant from time to time. To be effective, the original designation of beneficiaries and any subsequent change must be in writing on the form provided for that purpose by the Plan Administrator.

The beneficiary of a Participant who is married at the time of his death shall be his surviving spouse unless his surviving spouse consents in writing on the form provided for that purpose by the Plan Administrator to the designation of another beneficiary. A consent by a Participant's spouse shall not be effective unless such consent is witnessed by the Plan Administrator or a Notary Public.

6.4 Failure to Designate a Beneficiary or Select a Method of Payment

In the event that no beneficiary is properly designated or in the event that a beneficiary designated by the Participant predeceased the Participant and no new designation of beneficiary is made, the Plan Administrator, in its discretion, may direct the Trustee to make payment of all sums to which the deceased Participant is entitled to either:

- (a) any one or more of the next of kin (including the surviving spouse) of the Participant and in such proportions as the Plan Administrator may determine; or
- (b) the legal representative or representatives of the estate of the last to die of the Participant or his beneficiary.

If a Participant who is married at the time of his death has not properly designated a beneficiary other than his spouse in accordance with the last paragraph of Section 6.3, the Participant's beneficiary shall be his surviving spouse.

6.5 Disability of a Participant.

In the event of the Disability of a Participant prior to attaining Normal Retirement Age, such Participant shall be entitled to receive the entire amount credited to his Account. Payment shall begin not later than the sixtieth (60th) day after the close of the Plan Year in which the Administrator receives proof of the Participant's Disability, and shall be made in accordance with any of the methods provided in Section 5, as selected by the Participant. Any distribution hereunder shall comply with the consent requirements contained in Section 7.3.

6.6 Transitional Rule.

Notwithstanding the other requirements of this Section, distribution on behalf of any Employee, including a 5-percent owner, may be made in accordance with all of the following requirements (regardless of when such distribution commences):

- (a) The distribution by the Plan is one which would not have disqualified such Plan under Section 401(a)(9) of the Code as in effect prior to amendment by the Deficit Reduction Act of 1984.
- (b) The distribution is in accordance with a method of distribution designated by the Employee whose interest in the Plan is being distributed or, if the Employee is deceased, by a beneficiary of such Employee.
- (c) Such designation was in writing, was signed by the Employee or the beneficiary, and was made before January 1, 1984.
- (d) The Employee had accrued a benefit under the plan as of December 31, 1983.
- (e) The method of distribution designated by the Employee or the beneficiary specifies the time at which distribution will commence, the period over which distributions will be made, and in the case of any distribution upon the Employee's death, the beneficiaries of the Employee listed in order of priority.

A distribution upon death will not be covered by this transitional rule unless the information in the designation contains the required information described above with respect to the distributions to be made upon the death of the Employee.

For any distribution which commences before January 1, 1984, but continues after December 31, 1983, the Employee, or the beneficiary to whom such distribution is being made, will be presumed to have designated the method of distribution under which the distribution is being made if the method of distribution was specified in writing and the distribution satisfies the requirements in (a) and (e) above.

If a designation is revoked any subsequent distribution must satisfy the requirements of Section 401(a)(9) of the Code and the proposed regulations thereunder. If a designation is revoked subsequent to the date distributions are required to begin, the Plan must distribute by the end of the calendar year following the calendar year in which the revocation occurs the total amount not yet distributed which would have been required to have been distributed to satisfy Section 401(a)(9) of the Code and the proposed regulations thereunder, but for the Section 242(b)(2) election. For calendar years beginning after December 31, 1988, such distributions must meet the minimum distribution incidental benefit requirements in Section 1.401(a)(9)-2 of the proposed regulations. Any changes in the designation will be considered to be a revocation of the designation. However, the mere substitution or addition of another beneficiary (one not named in the designation) under the designation will not be considered to be a revocation of the designation, so long as such substitution or addition does not alter the period over which distributions are to be made under the designation, directly or indirectly (for example, by altering the relevant measuring life). In the case in which an amount is transferred or rolled over from one plan to another plan, the rules in Q&A J-2 and Q&A J-3 shall apply.

SECTION 7

BENEFITS PAYABLE UPON BREAK IN SERVICE

OR EMPLOYMENT TERMINATION

7.1 Vesting Schedule.

Any Participant who incurs a Break in Service during a vesting computation period for reasons other than his retirement, death or disability shall be entitled to receive at the time and in the manner described hereinafter that percentage of the amount credited to his Account as of the Valuation Date or Interim Valuation Date coincident with or immediately preceding the Break in Service, determined as follows:

(a) A Regular Account shall be vested in accordance with the following schedule:

YEARS OF SERVICE	VESTED PERCENTAGE
less than 5	0
5 or more	100

(b) A Rollover Account shall be fully vested at all times.

Notwithstanding the above provisions of this Section 7.1, a Participant's vested interest shall not be less than it was before this amendment and restatement. Also, notwithstanding the above vesting schedule, an Employee's right to his or her Account balance is nonforfeitable upon the attainment of Normal Retirement Age.

Finally, notwithstanding the above vesting schedule, an Employee's right to his or her Account balance shall fully vest and become nonforfeitable automatically upon the occurrence of any of the following events, each of which shall constitute a "Change of Control": (i) the acquisition by any person of beneficial ownership of 30% or more of the outstanding shares of the Company Stock, or 30% or more of the combined voting power of the Employer's then outstanding securities entitled to vote generally in the election of directors; provided, however, that for purposes of this sub-item (i), the following acquisitions shall not constitute a Change of Control: (a) any acquisition (other than a Business Combination (as defined below) which constitutes a Change of Control under sub-item (iii) hereof) of Company Stock directly from the Employer, (b) any acquisition of Company Stock by the Employer or its subsidiaries, (c) any acquisition of Company Stock by any employee benefit plan (or related trust) sponsored or maintained by the Employer or any corporation controlled by the Employer, or (d) any acquisition of Company Stock by any corporation pursuant to a Business Combination that does not constitute a Change of Control under sub-item (iii) hereof; or (ii) individuals who, as of January 1, 2000, constitute the Board of Directors of the Employer (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that any individual becoming a director subsequent to such date whose election, or nomination for election by the Employer's shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board shall be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Incumbent Board; or (iii) consummation of a reorganization, share exchange, merger or consolidation (including any such transaction involving any direct or indirect subsidiary of the Employer), or sale or other disposition of all or substantially all of the assets of the Employer (a "Business Combination"); provided, however, that in no such case shall any such transaction constitute a Change of Control if immediately following such Business Combination: (a) the individuals and entities who were the beneficial owners of the Employer's outstanding Company Stock and the Employer's voting securities entitled to vote generally in the election of directors immediately prior to such Business Combination have direct or indirect beneficial ownership, respectively, of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the surviving or successor corporation, or, if applicable, the ultimate parent company thereof (the "Post-Transaction Corporation"), and (b) except to the extent that such ownership existed prior to the Business Combination, no person (excluding the Post-Transaction Corporation and any employee benefit plan or related trust of either the Employer, the Post-Transaction Corporation or any subsidiary of either corporation) beneficially owns, directly or indirectly, 20% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or 20% or more of the combined voting power of the then outstanding voting securities of such corporation, and (c) at least a majority of the members of the board of directors of the Post-Transaction Corporation were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination; or (iv) approval by the shareholders of the Employer of a complete liquidation or dissolution of the Employer. For purposes of the immediately preceding sentence, the term "person" shall mean a natural person or entity, and shall also mean the group or syndicate created when two or more persons act as a syndicate or other group (including, without limitation, a partnership or limited partnership) for the purpose of acquiring, holding, or disposing of a security, except that "person" shall not include an underwriter temporarily holding a security pursuant to an offering of the security.

7.2 Distributions.

(a) If an Employee terminates service, and the value of the Employee's vested Account balance derived from Employer and Employee contributions is not greater than \$5,000, the Employee will receive a distribution of the value of the entire vested portion of such Account balance and the nonvested portion will be treated as a forfeiture. For purposes of this Section, if the value of an Employee's vested Account balance is zero, the Employee shall be deemed to have received a distribution of such vested Account balance. A Participant's vested Account balance shall not include accumulated deductible employee contributions within the meaning of Section 72(o)(5)(B) of the Code for Plan Years beginning prior to January 1, 1989.

(b) If an Employee terminates service, and elects, in accordance with the requirements of this Section 7, to receive the value of the Employee's

vested Account balance, the nonvested portion will be treated as a forfeiture. If the Employee elects to have distributed less than the entire vested portion of the Account balance derived from Employer contributions, the part of the nonvested portion that will be treated as a forfeiture is the total nonvested portion multiplied by a fraction, the numerator of which is the amount of the distribution attributable to Employer contributions and the denominator of which is the total value of the vested Employer-derived Account balance.

(c) If an Employee receives or is deemed to receive a distribution pursuant to this Section and the Employee resumes employment covered under this Plan, the Employee's Employer-derived Account balance will be restored to the amount on the date of distribution if the Employee repays to the Plan the full amount of the distribution attributable to Employer contributions before the earlier of five (5) years after the first date on which the Participant is subsequently re-employed by the Employer, or the date the Participant incurs five (5) consecutive one-year Breaks in Service following the date of the distribution. If an Employee is deemed to receive a distribution pursuant to this Section, and the Employee resumes employment covered under this Plan before the date the Participant incurs five (5) consecutive one-year Breaks in Service, upon the reemployment of such Employee, the Employer-derived Account balance of the Employee will be restored to the amount on the date of such deemed distribution.

In the event restoration is required under this Section 7.2(c), the sources of restoration, in the order listed, shall be:

(i) Forfeitures. To the extent used for restoration, they shall not be reallocated, or used to reduce the Employer contribution, as normally provided in Section 4.3.

(ii) Employer contribution. Notwithstanding Section 3.1, the Employer shall make any contribution required for restoration.

Such restoration shall be made for the year in which repayment occurs within the time prescribed by law, including extensions of time, for the filing of the Employer's Federal income tax return for such year.

For purposes of applying the limitations of Code Sections 415(c) and

(e), and Section 4.8 and 4.9 of this Plan, the repayment by the Participant and the restoration provided for above shall not be treated as annual additions.

7.3 Restrictions on Immediate Distributions.

(a) If the value of a Participant's vested Account balance derived from Employer and Employee contributions exceeds (or at the time of any prior distribution exceeded) \$5,000, and the Account balance is immediately distributable, the Participant must consent to any distribution of such Account balance. The Plan Administrator shall notify the Participant of the right to defer any distribution until the Participant's Account balance is no longer immediately distributable. Such notification shall include a general description of the material features, and an explanation of the relative values of, the optional forms of benefit available under the Plan in a manner that would satisfy the notice requirements of Section 417(a)(3), and shall be provided no less than thirty (30) days and no more than ninety (90) days prior to the annuity starting date. However, distribution may commence less than thirty (30) days after the notice described in the preceding sentence is given, provided the distribution is one to which Sections 401(a)(11) and 417 of the Code do not apply, the Plan Administrator clearly informs the Participant that the Participant has a right to a period of at least thirty (30) days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and the Participant, after receiving the notice, affirmatively elects a distribution.

(b) The consent of the Participant shall not be required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code. In addition, upon termination of this Plan if the Plan does not offer an annuity option (purchased from a commercial provider) and if the Employer or any entity within the same controlled group as the Employer does not maintain another defined contribution plan (other than an employee stock ownership plan as defined in Section 4975(e)(7) of the Code), the Participant's Account balance will, without the Participant's consent, be distributed to the Participant. However, if any entity within the same controlled group as the Employer maintains another defined contribution plan (other than an employee stock ownership plan as defined in Section 4975 (e)(7) of the Code) then the Participant's account balance will be transferred, without the Participant's consent, to the other plan if the Participant does not consent to an immediate distribution.

(c) An Account balance is immediately distributable if any part of the Account balance could be distributed to the Participant (or surviving spouse) before the Participant attains (or would have attained if not deceased) the later of Normal Retirement Age or age 62.

(d) For purposes of determining the applicability of the foregoing consent requirements to distributions made before the first day of the first Plan Year beginning after December 31, 1988, the Participant's vested Account balance shall not include amounts attributable to accumulated deductible employee contributions within the meaning of Section 72(o)(5)(B) of the Code.

7.4 Payment of Account Balance.

Unless the Participant elects otherwise, distribution of benefits will begin no later than the 60th day after the latest of the close of the Plan Year in which:

(a) the Participant attains age 65 (or Normal Retirement Age, if earlier);

(b) occurs the 10th anniversary of the year in which the Participant commenced participation in the Plan; or

(c) the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant to consent to a distribution while a benefit is immediately distributable, within the meaning of Section 7.3 of the Plan, shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this Section.

7.5 Treatment of Accounts in Pay Status.

If payments are to be made under Section 5.1(b) or (c), at the election of the Plan Administrator:

(a) The Participant's Account shall continue to share in the annual and interim valuations of the trust fund and in the adjustment of the accounts for investment income, gains or losses as provided in Sections 4.4 and 4.5; or

(b) The Plan Administrator may instruct the trustee to segregate the Participant's Account which shall then be separately valued and adjusted each year to reflect the actual income derived thereon and any distributions made therefrom under this Plan.

7.6 Direct Rollovers.

(a) This Section applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the Plan to the contrary that would otherwise limit distributee's election under this Section, a distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an eligible rollover distribution that is equal to at least \$500 paid directly to an eligible retirement plan specified by the distributee in a direct rollover. The distributee may select only one (1) eligible retirement plan to which a direct rollover may be made.

(b) Definitions

(i) Eligible rollover distribution: An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; the portion of any other distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and any other distribution(s) that is reasonably expected to total less than \$200 during a year.

(ii) Eligible retirement plan: An eligible retirement plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified plan described in Section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

(iii) Distributee: A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse.

(iv) Direct rollover: A direct rollover is a payment by the Plan to the eligible retirement plan specified by the distributee.

7.7 Amendment of Vesting Schedule.

If the Plan's vesting schedule is amended, or the Plan is amended in any way that directly or indirectly affects the computation of the Participant's nonforfeitable percentage or if the Plan is deemed amended by an automatic change to or from a top-heavy vesting schedule, each Participant with at least three (3) Years of Service with the Employer may elect, within a reasonable period after the adoption of the amendment or change, to have the nonforfeitable percentage computed under the Plan without regard to such amendment or change. For Participants who do not have at least one (1) Hour of Service in any Plan Year beginning after December 31, 1988, the preceding sentence shall be applied by substituting "five (5) Years of Service" for "three (3) Years of Service" where such language appears.

The period during which the election may be made shall commence with the date the amendment is adopted or deemed to be made and shall end on the latest of:

(a) 60 days after the amendment is adopted;

(b) 60 days after the amendment becomes effective; or

(c) 60 days after the Participant is issued written notice of the amendment by the Employer or Plan Administrator.

SECTION 8 FORM OF DISTRIBUTION

8.1 Payment in Shares or Cash.

Any distributions under Sections 5, 6, and 7 shall be made by the Trustee by distributing whole shares of Company Stock, as determined by the Trustee, at the market value of such shares on a national securities exchange or a national quotation system, with the value of any fractional shares paid in cash.

The Trustee may, with the consent of the Participant or if the Participant is deceased, his beneficiary, make distributions under Sections 5, 6 and 7 in cash. The amount of cash to be distributed to a Participant for shares actually allocated to his Account shall be determined based on the market value of the shares of Company Stock as of the trading date immediately preceding the distribution.

8.2 Dividends.

Cash dividends on shares of Company Stock allocated to Participants' Accounts may be paid to Participants currently, or at such time as payment is otherwise due under Sections 5, 6, and 7, as determined in the sole discretion of the Plan Administrator, exercised in a uniform and nondiscriminatory manner.

SECTION 9 MERGER OR CONSOLIDATION

9.1 Merger or Consolidation.

In the event of a merger or consolidation of this Plan with any other plan, or in the event of a transfer of assets or liabilities of this Plan to any other plan, each Participant in the Plan will receive a benefit immediately after the merger, consolidation, or transfer (as if the Plan then terminated) which is at least equal to the benefit the Participant would have been entitled to immediately before such merger, consolidation, or transfer (as if the Plan had then terminated).

9.2 Merger Accounts.

In the event any other plan transfers its assets to this Plan or merges with this Plan, this Plan being the surviving plan, the Plan Administrator, or if the Plan Administrator so determines, the Trustee, shall create a "Merger Account" for each Participant whose accounts are transferred to this Plan. A Participant's Merger Account shall be paid to the Participant or his beneficiaries in accordance with Sections 5, 6, 7 and 8. Merger Accounts shall participate in the earnings and losses in the fund and in forfeitures and Employer contributions in the same manner as Regular Accounts.

9.3 Merger Agreement or Agreement Relating to Transfer of Assets.

Upon instructions of the Plan Administrator, the Trustee shall enter into a merger agreement with any other plan or shall enter into an agreement respecting the transfer of assets of this Plan to another plan or from any other plan to this Plan; however, if this Plan is a profit-sharing plan which does not provide for a life annuity form of payment to Participants, the Plan Administrator shall not enter into any agreement for the transfer of assets from another plan to this Plan if the proposed transferor plan is a defined benefit plan, money purchase pension plan (including a target benefit plan), stock bonus, or profit sharing plan which would otherwise provide for a life annuity form of payment to the participants in such plan.

SECTION 10 CLAIMS PROCEDURE

10.1 Filing of a Claim for Benefits.

(a) Every Participant and beneficiary (the claimant) who thinks he is entitled to a benefit under the Plan or who is not satisfied that the correct benefit is being paid shall have the right to file a claim for such benefit at any time.

(b) Such claim must be filed in writing with the Plan Administrator. The claim shall set forth the grounds on which it is based, but no particular form of written claim is required.

10.2 Notification to Claimant of Decision.

(a) The Plan Administrator shall furnish notice of its decision (to grant the claim or to deny it in whole or in part) to the claimant within sixty (60) days after the claim is filed. If the Plan Administrator fails to give notice within sixty (60) days after the claim is filed, it shall be considered wholly denied.

(b) If the claim is denied in whole or in part, the notice of denial by the Plan Administrator to the claimant shall set forth in writing in a manner calculated to be understood by the claimant:

(i) The specific reason or reasons for the denial;

(ii) Specific reference to pertinent plan provisions on which the denial is based;

(iii) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(iv) An explanation of the Plan's claim review procedure as set forth in Section 10.3.

10.3 Review Procedure.

(a) A claimant may appeal the denial of a claim, including a claim

considered denied, to the Plan Administrator for a full and fair review of the claim.

(b) A request for review of a denied claim must be made in writing to the Plan Administrator within sixty (60) days after the date of the notice denying the claim or within sixty (60) days after the date on which the claim is considered denied.

(c) The claimant or his authorized representative shall have the right, during the review procedure, to review all pertinent documents and to submit issues and comments in writing to the Plan Administrator.

10.4 Decision on Review.

(a) A decision on review shall be made promptly by the Plan Administrator and not later than sixty (60) days after it receives the request for review.

(b) The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant and specific references to pertinent Plan provisions on which the decision is based.

10.5 Agent for Service of Process.

In any action against the Plan or Trust, the Plan Administrator, whose address is 100 CenturyTel Drive, Monroe, Louisiana 71203, shall be the agent for service of process of the Plan and Trust.

SECTION 11 ADOPTION BY OTHER COMPANIES

11.1 Rights of Other Companies to Participate

Any other corporation, association, joint venture, proprietorship or partnership (hereinafter called adopting companies) may adopt the terms of this Plan by a resolution of the Board of Directors of such entity in the form specified by the Plan Administrator, provided that the Board of Directors of the Employer and the Plan Administrator both approve such participation. Unless otherwise provided in the Plan or in a separate written agreement, all subsidiaries of the Employer shall be deemed to be adopting companies participating in the Plan. A newly formed subsidiary, or a subsidiary acquired by the Employer, shall be deemed to be an adopting company as of the date of formation or acquisition, as the case may be, unless otherwise provided in the Plan or in a separate written agreement.

11.2 Control of Plan by the Employer.

The administrative powers and control of the Employer as provided in the Plan, shall not be deemed diminished under the Plan by reason of participation of adopting companies in the Plan, and such administrative powers and control specifically granted herein to the Employer with respect to the appointment of the Plan Administrator and Trustee and other matters shall apply only with respect to the Employer. The Plan Administrator, under the control of the Employer, shall also be the Plan Administrator for the adopting companies.

11.3 Allocations of Contributions and Forfeitures.

The amounts forfeited by Employees of the Employer and adopting companies shall be allocated across company lines in accordance with the provisions of Section 4.3 hereof to all Participants who were Employees of the Employer and applicable adopting companies during the Plan Year in which such forfeitures occurred and the contributions made by the Employer and each adopting company shall be allocated across company lines in accordance with the provisions of Section 4.2 hereof to Participants who were Employees of the Employer and applicable adopting companies during the Plan Year for which each contribution is made. One member of an affiliated group may make contributions on behalf of another member of such group in accordance with Regulations Section 1.404(a)-10, as amended.

11.4 Withdrawal of Employer or Adopting Companies

The Employer or adopting company may withdraw at any time without affecting the others in the Plan. Such withdrawal may be accompanied by such amendments to the Plan as the withdrawing Employer or adopting company shall deem proper to continue a plan for its Employees separate and distinct from this Plan, but, if such withdrawing party does not provide for the continuance of a separate plan for its Employees, such withdrawal shall constitute a termination of this Plan with respect to that withdrawing party. The Employer may in its absolute discretion terminate any adopting company's participation at any time. Withdrawal from the Plan by any party shall not affect the continued operation of the Plan with respect to the other participating parties.

11.5 Amendment of Plan.

The participation in the Plan of adopting companies shall not limit the power of the Employer under Trust Section 4.1; provided, however, that the Employer shall deliver notice of each amendment to the Plan to each adopting company within thirty (30) days of such amendment. Amendments by the Employer shall be binding upon all adopting companies to the extent accepted by such adopting companies. Acceptance by each such company shall be presumed unless the Employer and Trustee are given written notice of refusal to accept within sixty (60) days after the date of the amendment. The Employer and each adopting company may modify the provisions of the Plan as it pertains only to its own Employees by the adoption of an amendment to the Plan specifying such modifications which shall pertain only to its Employees except to the extent that Employer amendments are presumed accepted by the adopting companies, and shall not affect the continued operation of the Plan with respect to any other party.

11.6 Termination of One or More Parties.

The Plan may be terminated by all parties at any time in the manner described in Trust Section 4.2, on the part of each party. The Plan may be terminated in the manner described above with respect to one, but less than all the parties hereto and the Plan continued for the remaining parties. 11.7 Reference to Employer in Plan.

Except as provided in this Section 11 and unless the context indicates otherwise, references to "Employer" in this Plan shall mean the Employer and all adopting companies.

SECTION 12 PROVISIONS RELATING TO PARTICIPANTS

12.1 Information Required of Participants.

Each Participant shall furnish to the Plan Administrator such information as the Plan Administrator shall deem necessary and desirable for purposes of administering the Plan.

Any notice or information which, according to the provisions of the Plan, must be filed with the Plan Administrator shall be deemed so filed if addressed to 100 CenturyTel Drive, Monroe, Louisiana 71203, and either delivered in person or mailed to such address, postage fully paid.

SECTION 13 PLAN ADMINISTRATOR

13.1 Administration by Plan Administrator.

This Plan shall be administered by a Committee, which shall be the "Plan Administrator" and "named fiduciary."

13.2 Appointment of Committee.

The Board of Directors of the Employer shall fix the number of persons to be members of the Committee (which number of voting members shall always be an odd number) and shall appoint persons from among the officers and Employees of the Employer to serve as members of the Committee. The Committee shall have complete control of the administration of the Plan. Members of the Committee shall serve without remuneration for so long as it is mutually agreeable to them and to the Employer but they shall be reimbursed for all expenses incurred by them in the performance of their duties. Any member may resign by delivering his written resignation to the Employer and to the other members of the committee. The Board of Directors of the Employer may remove or replace any member of the Committee, or fill any vacancy, no matter how created, by notifying the member concerned and the other members of the Committee in writing.

13.3 Majority Action.

Action taken by a majority of the members of the Committee shall, to the extent lawful, be binding upon the Employees, Participants, and all persons claiming any right under the Plan through any Employee or Participant. The Committee may act by vote, at a meeting, or in writing, without a meeting. Any act of the Committee shall be sufficiently evidenced if certified to by any two members thereof or by any person not a member of the Committee but who is designated, in writing, as the Secretary of the Committee by a majority thereof. A member of the Committee who is a Participant shall not vote on any question relating specifically to himself, and in the event the remaining members of the Committee are unable to agree to a determination of such question, another person shall be selected by the Board of Directors of the Employer

for the purpose of making such determination.

13.4 Powers of the Plan Administrator.

The Committee as Plan Administrator shall have the following powers:

(a) To make rules and regulations for the administration of the Plan

which are not inconsistent with the terms and provisions hereof;

(b) To construe all terms, provisions, conditions and limitations of this Plan;

(c) To correct any defect or supply any omission or reconcile any inconsistency that may appear in the Plan, in such manner and to such extent as it shall deem expedient to carry this Plan into effect for the greatest benefit of all interested parties;

(d) To select, employ and compensate from time to time such consultants, actuaries, accounts, attorneys, and other agents and Employees as the Plan Administrator may deem necessary or advisable in the proper and efficient administration of this Plan and Trust to carry out nonfiduciary and fiduciary responsibilities (other than trustee responsibilities as defined in Section 405(c)(3) of ERISA);

(e) To determine all questions relating to the eligibility of Employees to become Participants, and to determine the amount of compensation upon which the allocation of each Participant shall be calculated;

(f) To make all determination and computations concerning the benefits, credits and debits to which any Participant or beneficiary is entitled under the Plan;

(g) To determine all questions relating to the administration of this Plan and Trust (1) when differences of opinion arise between the Employer, the Trustee, a Participant, or any of them, and (2) whenever it is deemed advisable to determine such questions in order to promote the uniform administration of the Plan for the greatest benefit of all parties concerned;

(h) To appoint any Employee of the Employer to act as secretary for the Plan Administrator, and to authorize the secretary so appointed to act for the Plan Administrator in all routine matters connected with the administration of the Plan;

(i) To determine whether a Participant is disabled for the purposes of Section 6.5 hereof;

(j) To appoint an investment manager or managers (as defined in Section 3(38) of ERISA) to manage (including the power to acquire and dispose of) all or any part of the assets of the Plan; and

(k) To provide for the allocation of fiduciary responsibilities (other than trustee responsibilities as defined in Section 405(c)(3) of ERISA). Actions dealing with fiduciary responsibilities shall be taken in writing and the performance of agents, counsel, and fiduciaries to whom fiduciary responsibilities have been delegated shall be reviewed periodically.

The foregoing list of express powers is not intended to be either complete or conclusive, but the Plan Administrator shall, in addition, have such powers as it may reasonably determine to be necessary to the performance of its duties under the Plan and Trust. The decision or judgment of the Plan Administrator on any question arising in connection with the exercise of any of its powers or any matter of the Plan administration or the determination of benefits shall be final, binding and conclusive upon all parties concerned.

13.5 Duties of the Plan Administrator.

The Committee as Plan Administrator shall, as a part of its general duty to supervise and administer the Plan:

(a) Establish and maintain the Accounts described herein and direct the maintenance of such other records and the preparation of such forms as are required for the efficient administration of the Plan;

(b) Give the Trustee specific directions in writing in respect to:

(i) The making of distribution payments, giving the names of the payees, the amounts to be paid and the time or times when payments shall be made; and

(ii) The making of any other payments which the Trustee is not

by the terms of the trust agreement authorized to make
without a direction in writing by the Plan Administrator;
and

(c) Prepare an annual report, as of the end of the Plan Year.

13.6 Expenses.

The Employer shall reimburse the trust fund for all expenses (other than

normal brokerage charges which are included in the cost of securities purchased or charged to proceeds in the case of sales) incurred in the administration of the Plan under Trust Section 1.5, including the expenses and fees of the Trustee, except that any such expenses not so reimbursed by the Employer shall be paid from the trust fund.

SECTION 14 ROLLOVERS

14.1 Rollover Contributions.

If the Plan Administrator instructs the Trustee in writing to accept Rollover Contributions, any Employee who is a Participant or who will become a Participant if he completes a Year of Service in an Eligibility Computation Period may make a Rollover Contribution at any time. The Trustee shall credit the fair market value of any Rollover Contribution to a Rollover Account of the contributing Participant as of the date the Rollover Contribution is made. A Rollover Account shall be fully vested and shall be paid to the Participant or his beneficiaries in accordance with Section 5, 6, 7 and 8. Rollover Accounts shall participate in the earnings and losses of the Trust Fund, but not in forfeitures or Employer contributions.

14.2 Definition of Rollover Contribution.

The term Rollover Contribution is defined as the contribution of a Rollover Amount as defined in Section 14.3 to the Trustee on or before the sixtieth (60th) day immediately following the day the contributing Participant receives the Rollover Amount.

14.3 Definition of Rollover Amount.

The term Rollover Amount is defined as a distribution which meets the following requirements:

- (a) the amount distributed to the Participant is deposited to the Plan no later than the sixtieth day after such distribution was received by the Participant;
- (b) the amount distributed is not one of a series of substantially equal periodic payments made for the life (or life expectancy) of the Participant or the joint lives (or joint life expectancies) of the Participant and the Participant's designated beneficiary, or for a specified period of ten years or more;
- (c) the amount distributed is not required under Code Section 401(a)(9);
- (d) if the amount distributed included property such property is rolled over, or if sold the proceeds of such property may be rolled over;
- (e) the amount distributed is includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

In addition, if the Plan Administrator so instructs the Trustee in writing, the Plan will accept any eligible rollover distribution (as defined in Section 7.6) directly to the Plan.

Rollover Amounts which relate to distributions prior to January 1, 1993, must be made in accordance with paragraphs (a) through (e) and additionally meet the requirements of paragraph (f):

- (f) The distribution from the qualified plan constituted the Participant's entire interest in such Plan and was distributed within one taxable year to the Participant:
 - (i) on account of separation from service, a Plan termination, or in the case of a profit-sharing or stock bonus plan, a complete discontinuance of contributions under such plan within the meaning of Code Section 402(a)(6)(A), or
 - (ii) in one or more distributions which constitute a qualified

lump sum distribution within the meaning of Code Section 402(e)(4)(A), determined without reference to subparagraphs (B) and (H).

14.4 Conduit Rollovers.

Rollover Contribution may also be made through an individual retirement

account (IRA) qualified under Code Section 408 where the IRA was used as a conduit from a qualified plan, the Rollover Contribution is made in accordance with the rules provided under paragraphs (a) through (e) and the Rollover Contribution does not include any regular IRA contributions, or earnings thereon, which the Participant may have made to the IRA. Rollover Contributions, which relate to distributions prior to January 1, 1993, may be made through an IRA in accordance with paragraphs (a) through (f) and additional requirements as provided in the previous sentence. The Trustee shall not be held responsible for determining the tax free status of any Rollover Contribution made under this Plan.

SECTION 15 TRADES OR BUSINESSES UNDER COMMON CONTROL

15.1 Definitions.

All employees of all corporations which are members of a controlled group of corporations (as defined in Section 414(b) of the Code) and all employees of all trades or businesses (whether or not incorporated) which are under common control (as defined in Section 414(c) of the Code) will be treated as employed by a single employer.

Such other trades or businesses in a group with the Employer are hereinafter called "Associated Employer." The term "transferred participant" means an Employee of the Employer who was a Participant in this Plan and who is employed by an Associated Employer after his services with the Employer are terminated.

In addition to the foregoing, Hours of Service will also be credited for any individual required under Section 414(m) or 414(n) of the Code to be considered an employee of any employer aggregated under Section 414(b), (c), or (m) or the Code.

Any Leased Employee as defined in Section 1.17(a), excluding any Leased Employee described in Section 1.17(b), shall be treated as an employee of the recipient employer.

15.2 Allocation.

No Employee shall be credited with any compensation for a year under Section 4.2 of this Plan except with respect to compensation actually paid to him by the Employer or accrued by the Employer with respect to him.

15.3 Participation and Vesting.

All of an Employee's service with an Associated Employer shall be counted as service with the Employer for all purposes of this Plan, except as otherwise provided in the Plan or in a separate written agreement.

15.4 Vesting and Distributions.

In determining whether a transferred participant incurs a Break in Service under this Plan, his service with the Employer shall be combined with his service with an Associated Employer. In determining whether a transferred participant subsequently incurs a Break in Service with the Employer for vesting and distribution purposes, his Hours of Service with Associated Employers shall be counted.

SECTION 16 TOP HEAVY PLAN RULES

16.1 Key Employee.

Any Employee or former Employee (and the beneficiaries of such Employee) who at any time during the determination period was an officer of the Employer if such individual's annual compensation exceeds fifty percent (50%) of the dollar limitation under Section 415(b)(1)(A) of the Code, an owner (or considered an owner under Section 318 of the Code) of one of the ten largest interests in the Employer if such individual's compensation exceeds one hundred percent (100%) of the dollar limitation under Section 415(c)(1)(A) of the Code, a five percent (5%) owner of the Employer, or a one percent (1%) owner of the Employer who has an annual compensation of more than \$150,000. Annual compensation means compensation as defined in Section 415(c)(3) of the Code, but including amounts contributed by the Employer pursuant to a salary reduction agreement which are excludable from the Employee's gross income under Section 125, Section 402(e)(3), Section 402(h)(1)(B) or Section 403(b) of the Code. The determination period is the Plan Year containing the determination date and the four (4) preceding Plan Years.

The determination of who is a Key Employee will be made in accordance with Section 416(i)(1) of the Code and the regulations thereunder.

16.2 Non-Key Employee.

Any Employee who is not a Key Employee.

16.3 Super Top Heavy Plan.

For any Plan Year beginning after December 31, 1983, this Plan is a

Super Top Heavy Plan if any of the following conditions exists:

- (a) If the top heavy ratio for this Plan exceeds ninety percent (90%) and this Plan is not part of any required aggregation group or permissive aggregation group of plans.
- (b) If this Plan is a part of a required aggregation group of plans but not part of a permissive aggregation group and the top heavy ratio for the group of plans exceeds ninety percent (90%).
- (c) If this Plan is a part of a required aggregation group and part of a permissive aggregation group of plans and the top heavy ratio for the permissive aggregation group exceeds ninety percent (90%).

16.4 Top Heavy Plan.

For any Plan Year beginning after December 31, 1983, this Plan is a Top Heavy Plan if any of the following conditions exists:

- (a) If the top heavy ratio for this Plan exceeds sixty percent (60%) and this Plan is not part of any required aggregation group or permissive aggregation group of plans.
- (b) If this Plan is a part of a required aggregation group of plans but not part of a permissive aggregation group and the top heavy ratio for the group of plans exceeds sixty percent (60%).
- (c) If this Plan is a part of a required aggregation group and part of a permissive aggregation group of plans and the top heavy ratio for the permissive aggregation group exceeds sixty percent (60%).

16.5 Top Heavy Ratio.

- (a) If the Employer maintains one or more defined contribution plans (including any Simplified Employee Pension Plan) and the Employer has not maintained any defined benefit plan which during the five (5) year period ending on the determination date(s) has or had accrued benefits, the top heavy ratio for this Plan alone or for the required or permissive aggregation group as appropriate is a fraction, the numerator of which is the sum of the account balances of all Key Employees as of the determination date(s) (including any part of any account balance distributed in the five (5) year period ending on the determination date(s)), and the denominator of which is the sum of all Account balances (including any part of any Account balance distributed in the five (5) year period ending on the determination date(s)), both computed in accordance with Section 416 of the Code and the regulations thereunder. Both the numerator and denominator of the top heavy ratio are adjusted to reflect any contribution not actually made as of the determination date, but which is required to be taken into account on that date under Section 416 of the Code and the regulations thereunder.
- (b) If the Employer maintains one or more defined contribution plans (including any Simplified Employee Pension Plan) and the Employer maintains or has maintained one or more defined benefit plans which during the five (5) year period ending on the determination date(s) has or has had any accrued benefits, the top heavy ratio for any required or permissive aggregation group as appropriate is a fraction, the numerator of which is the sum of account balances under the aggregated defined contribution plan or plans for all Key Employees, determined in accordance with (a) above, and the present value of accrued benefits under the aggregated defined benefit plan or plans for all Key Employees as of the determination date(s), and the denominator of which is the sum of the account balances under the aggregated defined contribution plan or plans for all Participants determined in accordance with (a) above, and the present value of accrued benefits under the defined benefit plan or plans for all Participants as of the determination date(s), all determined in accordance with Section 416 of the Code and the regulations thereunder. The accrued benefits under a defined benefit plan in both the numerator and denominator of the top heavy ratio are increased for any distribution of an accrued benefit made in the five (5) year period ending on the determination date.
- (c) For purposes of (a) and (b) above, the value of account balances and the present value of accrued benefits will be determined as of the most recent valuation date that falls within or ends with the twelve (12) month period ending on the determination date, except as provided in Section 416 of the Code and the regulations thereunder for the first and second plan years of a defined benefit plan. The account balances and accrued benefits of a Participant (1) who is not a Key Employee but who was a Key Employee in a prior year, or (2) who has not been credited with at least one Hour of Service with any employer maintaining the Plan at any time during the five (5) year period ending on the determination date will be disregarded. The calculation of the top heavy ratio, and to the extent to which distributions, rollovers, and transfers are taken into account will be made in accordance with Section 416 of the Code and the regulations thereunder. Deductible employee contributions will not be taken into account for purposes of computing the top heavy ratio. When aggregating plans the value of account balances and accrued benefits will be calculated with reference to the determination dates that fall within the same calendar year.

The accrued benefit of a Participant other than a Key Employee shall be determined under (a) the method, if any, that uniformly applies for accrual purposes under all defined benefit plans maintained by the Employer, or (b) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule of Section 411(b)(1)(C) of the Code. 16.6 Top Heavy Plan Year.

For a particular Plan Year commencing after December 31, 1983, the Plan is a Top Heavy Plan.

16.7 Top Heavy Compensation.

For any Top Heavy Plan Year, compensation as defined in Code Section 415(c)(3) and Regs. Section 1.415-2(d), not in excess of \$200,000 (or such other amounts as the Secretary of Treasury or his delegate may designate), which shall be considered as compensation for all purposes of Section 16 of this Plan.

The last day of the preceding Plan Year, or, in the case of the first Plan Year, the last day of such Plan Year.

16.9 Valuation Date.

The last day of the Plan Year, on which Account balances or accrued benefits are valued for purposes of calculating the Top Heavy Ratio.

16.10 Aggregation Group.

Either a Required Aggregation Group or a Permissive Aggregation Group as hereinafter determined.

(a) Required Aggregation Group: (i) Each qualified plan of the Employer in which at least one Key Employee participates or participated at any time during the determination period (regardless of whether the Plan has terminated), and (ii) any other qualified plan of the Employer which enables a plan described in (i) to meet the requirements of Sections 401(a)(4) or 410 of the Code.

In the case of a Required Aggregation Group, each plan in the group will be considered a Top Heavy Plan if the Required Aggregation Group is a Top Heavy Group. No plan in the Required Aggregation Group will be considered a Top Heavy Plan if the Required Aggregation Group is not a Top Heavy Group.

(b) Permissive Aggregation Group: The required aggregation group of plans plus any other plan or plans of the Employer which, when considered as a group with the required aggregation group, would continue to satisfy the requirements of Sections 401(a)(4) and 410 of the Code.

In the case of a Permissive Aggregation Group, only a plan that is part of the Required Aggregation Group will be considered a Top Heavy Plan if the Permissive Aggregation Group is a Top Heavy Group. No plan in the Permissive Aggregation Group will be considered a Top Heavy Plan if the Permissive Aggregation Group is not a Top Heavy Group.

16.11 Present Value of Accrued Benefits.

The present value of an accrued benefit under a defined benefit plan shall be based on the interest and mortality rates specified in such defined benefit plan.

TOP HEAVY REQUIREMENTS

16.12 Top Heavy Plan Requirements.

If the Plan is or becomes top heavy in any Plan Year beginning after December 31, 1983, the provisions of this Section 16 will supersede any conflicting provisions in the Plan.

(a) In Section 4.9(a), 1.0 shall be substituted for 1.25 unless the extra minimum allocation is being made pursuant to Section 16.14. However, for any Plan Year in which this Plan is a Super Top Heavy Plan, 1.0 shall be substituted for 1.25 in any event.

(b) \$41,500 shall be substituted for \$51,875 in determining the "transition fraction" of Section 4.9(b).

16.14 Minimum Allocations.

(a) Except as otherwise provided in (c) and (d) below, the Employer contributions and forfeitures allocated on behalf of any Participant who is not a Key Employee shall not be less than the lesser of three percent of such Participant's compensation or in the case where the Employer has no defined benefit plan which designates this Plan to satisfy Section 401 of the Code, the largest percentage of Employer contributions and forfeitures, as a percentage of the Key Employee's compensation, as limited by Section 401(a)(17) of the Code, allocated on behalf of any Key Employee for that year. The minimum allocation is determined without regard to any Social Security contribution. This minimum allocation shall be made even though, under other Plan provisions, the Participant would not otherwise be entitled to receive an allocation, or would have received a lesser allocation for the year because of (i) the Participant's failure to complete 1,000 Hours of Service (or any equivalent provided in the Plan), or (ii) the Participant's failure to make mandatory employee contributions to the Plan, or (iii) compensation less than a stated amount.

- (b) For purposes of computing the minimum allocation, compensation will mean compensation as defined in Section 1.7 of the Plan.
- (c) The provision in (a) above shall not apply to any Participant who was not employed by the Employer on the last day of the Plan Year.
- (d) The provision in (a) above shall not apply to any Participant to the extent the Participant is covered under any other plan or plans of the Employer and the Employer has elected that the minimum allocation or benefit requirement applicable to top heavy plans will be met in the other plan or plans.
- (e) The minimum allocation required (to the extent required to be nonforfeitable under Section 416(b) of the Code) may not be forfeited under Section 411(a)(3)(B) or 411(a)(3)(D) of the Code.

16.15 Top Heavy Vesting.

For any Plan Year in which this Plan is top-heavy, the following vesting schedule will automatically apply to the Plan, but only if the application of such schedule results in a higher vested percentage for the Participant:

YEARS OF SERVICE	VESTED PERCENTAGE
2	20%
3	40%
4	60%
5	80%
6	100%

The minimum vesting schedule applies to all benefits within the meaning of Section 411(a)(7) of the Code except those attributable to employee contributions, including benefits accrued before the effective date of Section 416 of the Code and benefits accrued before the Plan became top-heavy. Further, no decrease in a Participant's nonforfeitable percentage may occur in the event the Plan's status as top-heavy changes for any Plan Year. However, this Section does not apply to the Account balance of any Employee who does not have an Hour of Service after the Plan has initially become top-heavy and such Employee's Account balance attributable to Employer contributions and forfeitures will be determined without regard to this Section.

16.16 Minimum Required Distribution.

A Key Employee's benefits shall be distributed to him or begin to be distributed to him under Section 5 no later than the taxable year in which he attains age 70 1/2 regardless of when he retires.

16.17 Alternative Effective Date.

Notwithstanding any other provision of this Plan and Trust, the effective date otherwise provided for the application of this Section 16 shall be extended in accordance with any legislative act of Congress.

SECTION 17 ESOP PROVISIONS

17.1 Exempt Loans.

- (a) Subject to the provisions of this Section 17.1, the Trustee may incur installment obligations from time to time to finance the acquisition of Company Stock for the Trust or to repay a prior loan. Any such loan which is made or guaranteed, directly or indirectly, by a disqualified person or party in interest is referred to herein as an "exempt loan".
- (b) An exempt loan must be primarily for the benefit of the Participants and beneficiaries of this Plan. At the time the loan is made, the interest rate and price of Company Stock to be acquired with loan proceeds should not be such that the Plan assets might be drained off. The terms of a loan must, at the time the loan is made, be at least as favorable to the Plan as the terms of a comparable loan resulting from arms length negotiations between independent parties.
- (c) The proceeds of an exempt loan must be used within a reasonable time after receipt by the Plan and Trust only for any or all of the following purposes:
- (i) To acquire Company Stock;
 - (ii) To repay such loan; or
 - (iii) To repay a prior exempt loan. A new loan the proceeds of which are so used must satisfy the provisions of this paragraph (c).

Except as otherwise provided in this section 17, or as otherwise required by applicable law, no Company Stock acquired with the proceeds of

an exempt loan may be subject to a put, call, or other option, or buy-sell or similar arrangement while held by and when distributed from this Plan, whether or not this Plan is then an ESOP.

(d) An exempt loan shall be without recourse against the Plan and Trust; and only Company Stock acquired with the proceeds of a prior exempt loan or with the proceeds of a prior exempt loan repaid with the proceeds of the current exempt loan may be given as collateral.

(e) No person entitled to payment under the exempt loan shall have any rights to the assets of the Plan and Trust other than:

(i) Collateral given for the loan,

(ii) Contributions other than contributions of Company Stock that are made to the Plan to meet its obligations under the loan, and

(iii) Earnings attributable to such collateral and the investment of such contributions.

The payment made with respect to an exempt loan by the Plan and Trust during a Plan Year shall not exceed an amount equal to the sum of such contribution and earnings received during or prior to the year less such payments in prior years. Such contributions and earnings shall be accounted for separately on the books of account of the Plan until the loan is repaid.

(f) In the event of a default upon an exempt loan, the value of the Plan assets transferred in satisfaction of the loan shall not exceed the amount of default. If the lender is a disqualified person, the loan shall provide for a transfer of Plan assets upon default only upon and to the extent of the failure of the Plan to meet the payment schedule of the loan.

(g) The interest rate of an exempt loan must not be in excess of a reasonable rate of interest.

(h) An exempt loan shall provide for the release from encumbrance under this subsection (h) of the Plan assets used as collateral for the loan in one of the two methods described in this subsection (h):

(i) For each Plan Year during the duration of the loan, the number of securities released must equal the number of encumbered securities held immediately before release for the current Plan Year multiplied by a fraction, the numerator of which is the amount of principal and interest paid for the year and the denominator of which is the sum of the numerator plus the principal and interest to be paid for all future years. The number of future years on the loan must be definitely ascertainable and must be determined without taking into account any possible extensions or renewal periods. If the interest rate under the loan is variable, the interest to be paid in the future years must be computed by using the interest rate applicable as of the end of the Plan Year.

(ii) The number of shares of Company Stock to be released from encumbrance may be determined solely with reference to principal payments provided the following requirements are satisfied. The loan must provide for annual payments of principal and interest at a cumulative rate that is not less rapid at any time than level annual payments of such amounts for ten (10) years. Interest included in any payment is disregarded only to the extent that it would be determined to be interest under standard loan amortization tables. This subparagraph (h)(ii) is not applicable from the time, that, by reason of a renewal, extension or refinancing, the sum of the expired duration of the exempt loan, the renewal period, the extension period, and the duration of the new exempt loan exceeds ten (10) years.

(i) All assets acquired by the Plan and Trust with the proceeds of an exempt loan shall be held in a Suspense Account, and shall be released from encumbrance under subsection (h). For purposes of the allocation to be made under Section 4.2, assets released from the Suspense Account shall be treated as having been contributed to the Plan in the Plan Year in which they are released, and shall be allocated to Participant's Accounts in non-monetary units. Income with respect to Company Stock acquired with the proceeds of an exempt loan shall be allocated as provided in Sections 4.4 and 4.5 except to the extent that income from such Company Stock is to be used to repay the loan.

17.2 Voting Rights.

Each Participant in the Plan (or, in the event of the Participant's death, the Participant's beneficiary) is, for purposes of this Section 17.2, hereby designated a "named fiduciary" within the meaning of Section 403(a)(1) of ERISA and shall be entitled to direct the Plan and Trustee as to the manner in which Company Stock allocated to the Account or Accounts of such Participant is to be voted on each matter brought before an annual or special stockholders' meeting of the Employer. Before each such meeting of stockholders, the Trustee shall cause to be furnished to each Participant (or beneficiary) a copy of the proxy solicitation material, together with a form requesting confidential directions on how such shares of stock allocated to such Participant's Account or Accounts shall be voted on each such matter. Upon timely receipt of such directions the Trustee shall on each such matter vote as directed the number of votes attributable, as provided below, to such Participant.

The instructions received by the Trustee from Participants shall be held by the Trustee in strict confidence and shall not be divulged or released to any person, including officers or employees of the Employer or any affiliate; provided, however, that to the extent necessary for the operation of the Plan, such instructions may be relayed by the Trustee to a recordkeeper, auditor or other person providing services to the Plan if such person (i) is not the Employer, an affiliate or any employee, officer or director thereof, and (ii) agrees not to divulge such directions to any other person, including employees, officers and directors of the Employer and its affiliates.

The number of votes attributable to each Participant shall be determined as follows:

- (a) first, the total number of shares of Company Stock allocated as of the record date for the matter requiring the vote shall be determined;
- (b) next, the total number of votes attributable to all Company Stock owned by the Plan shall be determined;
- (c) next, the number of votes attributable to allocated shares shall be determined by multiplying the total number of available votes by a fraction, the numerator of which shall be the number of allocated shares, and the denominator of which shall be total shares;
- (d) next, the number of votes determined under (iii), above, shall be attributed to each Participant, in the ratio which the number of shares allocated to such Participant's Account or Accounts as of the immediately preceding Valuation Date bears to the total number shares allocated to Participants' Accounts as of such date.

Each Participant, as a named fiduciary, shall also be entitled to separately direct the vote of a portion of the number of votes with respect to which a signed voting-direction instrument is not timely received from the Participants and a portion of the number of votes with respect to any shares of stock not then released pursuant to Section 17.1(h) and (i) and held in the Suspense Account and a portion of the number of votes with respect to any shares of stock released pursuant to Section 17.1(h) and (i) and not allocated to Participants' Accounts ("Undirected Votes"). Such direction with respect to each Participant who timely elects to direct the vote of Undirected Votes as a named fiduciary shall be with respect to a number of Undirected Votes equal to the total number of Undirected Votes multiplied by a fraction, the numerator of which is the total number of votes attributable to such Participant and the denominator of which is the total number of votes attributable to all Participants who timely elect to vote Undirected Votes as a named fiduciary.

17.3 Rights on Tender or Exchange Offer.

Each Participant (or, in the event of the Participant's death, the Participant's beneficiary) is, for purposes of this Section 17.3, hereby designated a "named fiduciary" within the meaning of Section 403(a)(1) of ERISA and shall have the right, to the extent of the number of shares of Company Stock allocated to such Participant's Account or Accounts, to direct the Trustee in writing as to the manner in which to respond to a tender or exchange offer with respect to shares of Company Stock. Each Participant, as a named fiduciary, shall also be entitled to separately direct the tender of a portion of the shares of Company Stock not released pursuant to Section 17.1(h) and (i) and held in the Suspense Account and a portion of the shares of Company Stock released pursuant to Section 17.1(h) and (i) and not allocated to Participants' Accounts. Such direction shall be with respect to the total of the number of shares of Company Stock in the Suspense Account and the number of shares of Company stock released and not allocated multiplied by a fraction, the numerator of which is the total shares of Company Stock allocated to the Participant's Account or Accounts and the denominator of which is the total number of shares of Company Stock which are allocated to the Accounts of all Participants. The Trustee shall use its best efforts to timely distribute or cause to be distributed to each Participant (or beneficiary) such information as will be distributed to stockholders of the Employer in connection with any such tender or exchange offer. Upon timely receipt of such instructions, the Trustee shall respond as instructed with respect to shares of Company Stock allocated to such Participant's Account or Accounts. The instructions received by the Trustee from Participants shall be held by the Trustee in strict confidence and shall not be divulged or released to any person, including officers or employees of the Employer or any affiliate; provided, however, that to the extent necessary for the operation of the Plan, such instructions may be relayed by the Trustee to a recordkeeper, auditor or other person providing services to the Plan if such person (i) is not the Employer, an affiliate or any employee, officer or director thereof, and (ii) agrees not to divulge such directions to any other person, including employees, officers and directors of the Employer and its affiliates. If the Trustee shall not receive timely instruction from a Participant (or beneficiary) as to the manner in which to respond to such a tender or exchange offer, the Trustee shall not tender or exchange any shares of Company Stock with respect to which such Participant has the right of direction. In effecting the foregoing, to the extent possible, the Trustee shall tender or exchange shares of Company Stock entitled to one vote per share prior to shares of Company Stock having greater than one vote per share.

17.4 Special Limitation Rules.

Any Employer contributions which are used by the Trustee (not later than the due date, including extensions, for filing the Company's Federal income tax return for the Plan Year) to pay interest on an exempt loan shall not be included as annual additions under Section 4.8; provided, however, that the provisions of this Section 17.4 shall be applicable only for a Plan Year in which not more than one-third (1/3) of the Employer contributions applied to pay principal and/or interest on an exempt loan are allocated to Participants who are highly compensated employees, as defined in Section 414(q) of the Code; and the Committee shall reallocate such Employer contributions to the extent necessary to satisfy this special rule.

17.5 Limitation on Electing Shareholder.
 [RESERVED]

17.6 Investment Diversification.

Each Participant in the Plan who has attained age fifty-five (55) and

has completed at least ten (10) years of participation in the Plan shall be permitted to direct the investment of twenty-five percent (25%) of the total number of shares of Company Stock acquired by or contributed to the Plan after December 31, 1986 and allocated to his Account in the Plan, reduced by the number of shares of Company Stock previously diversified pursuant to an election under this paragraph. This election may

be made within the ninety (90) day period following the end of each Plan Year during the six (6) Plan Year period beginning with the first Plan Year in which the Participant is eligible to make the election. For the last Plan Year in which the Participant can make an election, this paragraph shall be applied by substituting "fifty percent (50%)" for "twenty-five percent (25%)" herein.

If a Participant elects to diversify pursuant to the preceding paragraph, the Committee shall facilitate such diversification by making available to the Participant at least three (3) investment options which are not Company Stock, and which are consistent with the requirements of regulations promulgated by the Secretary of the Treasury. These investment options may be provided either in this Plan or in another qualified plan sponsored by the Employer. The number and type of investment options available, and the determination regarding the inclusion of the investment options in this Plan or another qualified plan, shall be at the sole discretion of the Committee.

The Trustee shall comply with any diversification election hereunder within ninety (90) days following the ninety (90) day election period by either

(i) substituting other investment assets in this Plan for the Company Stock as to which the election is made, or (ii) if the Participant's investment options are made available under another qualified plan, transferring to such qualified plan the net cash proceeds realized from the sale by the Plan of the shares of Company Stock for which diversification is elected."

If a Participant elects to diversify the investment of twenty-five (25%) or fifty percent (50%) of his Account balance, as the case may be, the Plan Administrator shall direct the Trustee to distribute, within ninety (90) days after the end of the election period during which the election could be made, the portion of the Participant's Account balance covered by the election.

17.7 Company Stock Distributions.

(a) Notwithstanding the provisions of Sections 5, 6, 7 and 8, distributions of Company Stock from the Plan shall be made in accordance with this Section 17.7, unless the application of Sections 5, 6, 7 and 8 would result in an earlier distribution date.

(b) Unless the Participant (or his beneficiary, if the Participant is deceased) elects otherwise, if a Participant retires, dies or becomes disabled while employed by the Employer, distribution of Company Stock in his Account will be made or commenced as soon as practicable following the date on which the Participant retires, dies or becomes disabled, but not later than the sixtieth (60th) day next following the close of the Plan Year during which the Participant retires, dies or becomes disabled.

(c) Unless the Participant elects otherwise, upon termination of employment of the Participant with the Employer for reasons other than retirement, death or disability, distribution of Company Stock in his Account will be made not later than the later of:

(i) one (1) year after the close of the Plan Year which is the fifth (5th) Plan Year following the Plan Year in which his employment terminates, unless the Participant is reemployed by the Employer before the end of such year; or

(ii) the earlier of:

(A) the Plan Year in which an Exempt Loan is fully repaid with respect to distributions of Company Stock acquired with the proceeds of that Exempt Loan; or

(B) the sixtieth (60th) day following the end of the Plan Year in which the Participant attains Normal Retirement Age.

(d) Any distribution hereunder shall comply with the consent requirements contained in Sections 411(a)(11) and 409(o) of the Code.

SECTION 18 QUALIFIED DOMESTIC RELATIONS ORDERS

DEFINITIONS

18.1 Domestic Relations Order.

Any judgment, decree, or order (including approval of a property settlement agreement) that relates to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child or other dependent of a Participant, made pursuant to a state domestic relations law, including a community property law.

18.2 Alternate Payee.

Any spouse, former spouse, child or other dependent of a Participant who is recognized by a Qualified Domestic Relations Order as having a right to receive all, or a portion of, the benefits payable under the Plan with respect to a Participant.

18.3 Qualified Domestic Relations Order.

A Domestic Relations Order as described in Section 414(p) of the Code which:

(a) Creates or recognizes the existence of an Alternate Payee's right to, or assigns to an Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant under the Plan; and

(b) Clearly specifies the following:

(i) the name and last known mailing address (if available) of the Participant and each Alternate Payee to which the order relates (unless the Plan Administrator has reason to know such addresses independently);

(ii) the amount or percentage of the Participant's benefits to be paid to an Alternate Payee or the manner in which the amount is to be determined; and

(iii) the number of payments or period for which payments are required.

A Qualified Domestic Relations Order does not include an order which:

(a) requires the Plan to provide any type or form of benefit, or any option, not otherwise provided under the Plan;

(b) requires the Plan to provide increased benefits, i.e., provides for the payment of benefits in excess of the benefits to which the Participant would be entitled in the absence of the order; or

(c) requires the payment of benefits to an Alternate Payee that are required to be paid to another Alternate Payee under a previously existing Qualified Domestic Relations Order.

PROCEDURES

18.4 Notice.

Upon receipt of a Domestic Relations Order, the Plan Administrator shall promptly notify the Participant and any Alternate Payee of receipt of the order and of the Plan's procedures for determining whether the order is a Qualified Domestic Relations Order.

18.5 Determination of Qualification.

Within a reasonable period of time after receipt of the order (as defined in regulations to be prescribed by the Secretary of Labor), the Plan Administrator shall determine whether the order is qualified and notify the Participant and any Alternate Payee of such determination.

18.6 Deferral of Payment.

During any time period during which the issue of whether a Domestic Relations Order is qualified is being determined, any amount which would be payable pursuant to the terms of the order shall be deferred and the amounts so payable will be segregated into a separate account.

18.7 Payment after Deferral.

If, within eighteen (18) months after payment is deferred in accordance with Section 18.6, the Plan Administrator determines that the Domestic Relations Order is qualified, the amounts segregated into the separate accounts, plus earnings thereon, shall be paid to the Alternate Payee(s) specified in the order, in accordance with the terms of the order (subject, however, to the provisions of Code Section 414 (p) this Section 18 and other applicable provisions of the Plan).

18.8 Payments after Eighteen Months.

If, after eighteen (18) months have elapsed after the deferral of benefits pursuant to Section 18.6, the Plan Administrator determines that the order is qualified, the Plan Administrator shall make payments pursuant to the order; however, such payments shall be made prospectively only, and any amounts segregated into the special account for periods before the determination that the order is qualified shall be paid to the person or persons who would have received the amounts if the order had not been issued. Neither the Plan, nor the Plan Administrator, shall be liable for payments to any Alternate Payee for any period before the order is determined to be qualified.

18.9 Payments Under Qualified Domestic Relations Order.

Payments may be made to an Alternate Payee prior to, coincident with, or after Participant's termination of employment if made pursuant to a Qualified Domestic Relations Order. A distribution to an Alternate Payee may be made out of a Participant's Account on a date coincident with the Participant's "earliest retirement age," defined as the earlier of (i) the date on which the Participant is entitled to a distribution under the Plan, or (ii) the later of (A) the date the Participant attains age 50, or (B) the earliest date on which the Participant could begin receiving benefits under the Plan if he had separated from service. In addition, this Plan specifically authorizes distributions to an Alternate Payee under a

Qualified Domestic Relations Order prior to the Participant's attainment of the earliest retirement age (as defined above and in Section 414(p) of the Code) but only if: (1) the order specifies distribution at the earlier date or permits an agreement between the Plan and the Alternate Payee authorizing an earlier distribution; and (2) the Alternate Payee consents to a distribution prior to the Participant's earliest retirement age if the present value of the Alternate Payee's benefits under the Plan exceeds \$5,000. Nothing in this Section 18 shall provide a Participant with a right to receive a distribution at a time not otherwise permitted under the Plan, nor shall it provide the Alternate Payee with a right to receive a form of payment not permitted under the Plan.

18.10 Non-qualification.

If the Plan Administrator determines that the order is not qualified, or if eighteen (18) months have expired since deferral of benefits, the Plan Administrator shall pay the amounts segregated pursuant to Section 18.6 above to the person or persons who would have received the amounts if the order had not been issued.

18.11 Effective Dates.

The provisions of this Section 18 shall be effective for orders issued on or after January 1, 1985; however, the Plan Administrator may treat any order issued before such date as a Qualified Domestic Relations Order if it otherwise meets the requirements of this Section 18. Additionally, the Plan Administrator shall treat a Domestic Relations Order received before January 1, 1985 as a Qualified Domestic Relations Order to the extent payments are being made pursuant to the order.

SECTION 19 AMENDMENT AND TERMINATION OF PLAN; ASSIGNMENT OF BENEFITS

19.1 Amendment.

The Employer shall have the right at any time, and from time to time, to amend, in whole or in part, any or all of the provisions of the Plan. However, no such amendment shall authorize or permit any part of the Trust Fund (other than such part as is required to pay taxes and administration expenses) to be used for or diverted to purposes other than for the exclusive benefit of the Participants or their beneficiaries or estates. Any such amendment shall become effective upon the adoption thereof by an appropriate written instrument executed by order of the Board of Directors or upon such later date as may be specified in such instrument provided that any amendment affecting the powers and duties of the Trustee shall not be effective until the date it is accepted in writing by the Trustee.

No amendment to the Plan shall be effective to the extent that it has the effect of decreasing a Participant's accrued benefit. Notwithstanding the preceding sentence, a Participant's Account balance may be reduced to the extent permitted under Section 412(c)(8) of the Code. For purposes of this paragraph, a Plan amendment which has the effect of decreasing a Participant's Account balance or eliminating an optional form of benefit with respect to benefits attributable to service before the amendment shall be treated as reducing an accrued benefit. Furthermore, if the vesting schedule of the Plan is amended, in the case of an Employee who is a Participant as of the later of the date such amendment is adopted or the date it becomes effective, the nonforfeitable percentage (determined as of such date) of such Employee's right to his Employer-derived accrued benefit will not be less than his percentage computed under the Plan without regard to such amendment.

19.2 Termination; Discontinuance of Contributions.

The Employer shall have the right at any time to terminate this Plan. Such termination shall be effective upon execution by the Employer of an appropriate instrument terminating the Plan as authorized by the Board of Directors or upon such later date as may be specified in such instrument. A copy of such instrument shall be delivered to the Trustee.

Upon termination or partial termination of the Plan by any method, the Regular Accounts of all Participants shall become fully vested and the Plan Administrator shall direct the Trustee to distribute all assets remaining in the Plan to Participants, their beneficiaries or estates in the ratio of the Participants' Account balances in the Plan.

In the event the Employer completely discontinues contributions for a fixed or indeterminate period, but without terminating this Plan, the Regular Accounts of Participants shall be completely vested and nonforfeitable at the values determined by the Trustee as of the close of the year in which contributions have been suspended, and all adjustments in Participant's Accounts thereafter made under the terms of the Plan and Trust with respect to the amounts so vested shall similarly be completely vested in favor of each Participant but no distribution shall be made of any Account except on actual termination of the Plan or the occurrence of any of the events stated in Sections 5, 6, and 7 and then only in the manner provided in such Sections.

19.3 Assignment of Benefits.

No benefit or interest available hereunder will be subject to assignment or alienation, either voluntarily or involuntarily. The interest of each Participant or beneficiary shall be held subject to the maximum restraint on alienation permitted or required by applicable Louisiana or Federal law. The preceding sentences shall also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant pursuant to a Domestic Relations Order, unless such order is determined to be a Qualified Domestic Relations Order, as defined in Section 414(p) of the Code.

THUS DONE AND SIGNED on the day first above shown, in the presence of the undersigned competent witnesses, who hereunto sign their names with the said appearers and me, Notary after reading of the whole.

WITNESSES:

CENTURYTEL, INC.

/s/ Linda Vaughn

/s/ R. Stewart Ewing, Jr.
By: _____

/s/ Linda Reeves

R.Stewart Ewing, Jr.
Executive Vice-President
and Chief Financial Officer

/s/ Connie J. Walker

NOTARY PUBLIC

MERGER AGREEMENT

THIS AGREEMENT made this 18th day of September, 2001, by and between:

CENTURYTEL, INC., represented herein by R. Stewart Ewing, Jr., Executive Vice President and Chief Financial Officer ("CenturyTel"), as sponsor of the CenturyTel, Inc. Stock Bonus Plan and PAYSOP ("Stock Bonus Plan and PAYSOP") and the CenturyTel, Inc. Employee Stock Ownership Plan ("ESOP");

REGIONS BANK OF LOUISIANA, represented herein by Lisa K. McGivney ("Regions Bank"), as Trustee of the CenturyTel, Inc. Stock Bonus and PAYSOP Trust ("Stock Bonus and PAYSOP Trust") and the CenturyTel, Inc. Employee Stock Ownership Trust ("ESOP Trust");

WHEREAS, CenturyTel currently maintains the Stock Bonus Plan and PAYSOP, and the ESOP;

WHEREAS, CenturyTel has determined to merge the Stock Bonus Plan and PAYSOP into the ESOP;

WHEREAS, in connection with the merger, 100% of the account balances of participants in the Stock Bonus Plan and PAYSOP shall be transferred to the ESOP; and

WHEREAS, the merger and the transfers are to be effective September 18, 2001;

NOW, THEREFORE, the parties agree as follows:

1. The Stock Bonus Plan and PAYSOP, and the ESOP, are hereby merged, and the account balances of participants in the Stock Bonus Plan and PAYSOP are hereby transferred to the ESOP, effective as of September 18, 2001;

2. The merger and transfer shall be made in accordance with the "merger" requirements of Treasury Regulations 1.414(l)-1 et. seq., including the following:

(a) The sum of the fair market value of the account balances in the Stock Bonus Plan and PAYSOP and the fair market value of the account balances in the ESOP, shall equal the fair market value (determined as of the date of the merger) of the entire plan assets;

(b) The assets of the Stock Bonus Plan and PAYSOP are to be combined with the assets of the ESOP to form the assets of the ESOP as merged; provided, however, that

(1) the assets of the Stock Bonus Plan and PAYSOP and the assets of the ESOP shall continue to be held in the Stock Bonus and PAYSOP Trust and the ESOP Trust as provided in paragraph 3 below, and (2) the assets of both the Stock Bonus and PAYSOP Trust and the ESOP Trust will be available to pay benefits under the ESOP as merged; and

(c) Immediately after the merger, the account balances of participants in the resulting plan shall equal the sum of the account balances of participants in both the Stock Bonus Plan and PAYSOP, and the ESOP, before the merger and transfer.

3. Contemporaneous herewith, the ESOP shall be amended to provide as follows:

(a) Stock Bonus Accounts and PAYSOP Tax Credit Accounts of participants in the Stock Bonus Plan and PAYSOP shall continue to be maintained in the ESOP after the merger.

(b) The PAYSOP provisions contained in the Stock Bonus Plan and PAYSOP shall be incorporated into the ESOP and shall apply to PAYSOP Tax Credit Accounts in the ESOP.

(c) Except to the extent inconsistent with the PAYSOP provisions or other applicable law, all provisions of the ESOP shall apply to Stock Bonus Accounts and PAYSOP Tax Credit Accounts in the ESOP.

(d) Provisions in the plans relating to voting of shares and tendering of shares shall continue to apply to accounts in the same manner as provided in the plans prior to the merger.

(e) Provisions in the ESOP for diversification of accounts under Code Section 401(a)(28) shall apply to ESOP Accounts, Stock Bonus Accounts and PAYSOP Tax Credit Accounts under the ESOP as merged.

(f) Contributions to the Stock Bonus Plan and PAYSOP for the 2001 Plan Year, and earnings on accounts of participants in the Stock Bonus Plan and PAYSOP, shall be carried forward into the ESOP as merged, and allocated to Stock Bonus Accounts and PAYSOP Tax Credit Accounts, as applicable, as of the end of the 2001 plan year for the ESOP as merged.

The ESOP, the ESOP Trust, and the Stock Bonus and PAYSOP Trust shall be deemed to be amended by this Merger Agreement until such time as amendments to effectuate the foregoing are adopted by CenturyTel.

4. The following shall apply to assets in the Stock Bonus and PAYSOP Trust and the ESOP Trust after the merger of the Plans:

(a) Assets in both trusts shall be available to pay benefits to participants, former participants and beneficiaries under the ESOP as merged.

(b) All features, rights, and privileges (including voting rights) of the CenturyTel stock held in the Trusts prior to the merger of the Plans shall continue unchanged and will continue to apply to such stock after the merger.

5. Effective September 18, 2001, the Stock Bonus Plan and PAYSOP is hereby amended and restated to read identically to the ESOP, as amended in accordance with paragraph 3 above, and as of such date the separate existence of the Stock Bonus Plan and PAYSOP shall cease. The merger and transfer is intended to be a continuation of the Stock Bonus Plan and PAYSOP, as merged into the ESOP, and is not intended to be a termination or partial termination of the Stock Bonus Plan and PAYSOP. All benefits, rights and features provided under the Stock Bonus Plan and PAYSOP that are protected by Internal Revenue Code Section 411(d)(6) shall be preserved in the ESOP as merged.

If any of the terms of the Stock Bonus Plan and PAYSOP, the ESOP, the Stock Bonus and PAYSOP Trust, or the ESOP Trust, are inconsistent with the terms of this Merger Agreement, they are hereby amended by this Merger Agreement.

And now appears Regions Bank, as trustee for the Stock Bonus and PAYSOP Trust, and as trustee for the ESOP Trust, for the purpose of acknowledging and accepting the terms of this Merger Agreement.

THUS DONE AND SIGNED on the date first above mentioned.

**CENTURYTEL, INC., AS SPONSOR OF THE CENTURYTEL,
INC. STOCK BONUS PLAN AND PAYSOP AND THE
CENTURYTEL, INC., EMPLOYEE STOCK OWNERSHIP PLAN**

BY: /s/ R. Stewart Ewing, Jr.

*R. Stewart Ewing, Jr., Executive
Vice President and
Chief Financial Officer*

**REGIONS BANK OF LOUISIANA, AS TRUSTEE OF THE CENTURYTEL, INC. STOCK BONUS AND PAYSOP TRUST AND THE
CENTURYTEL, INC. EMPLOYEE STOCK OWNERSHIP TRUST**

BY: /s/ Lisa K. McGivney

Name: Lisa K. McGivney

Title: Senior Vice President

CenturyTel, Inc.

COMPUTATIONS OF EARNINGS PER SHARE
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
(Dollars, except per share amounts, and shares expressed in thousands)				
Income (Numerator):				
Net income	\$ 92,305	67,224	293,268	174,353
Dividends applicable to preferred stock	(100)	(100)	(299)	(299)
Net income applicable to common stock	92,205	67,124	292,969	174,054
Dividends applicable to preferred stock	100	100	299	299
Interest on convertible securities, net of taxes	-	33	-	99
Net income as adjusted for purposes of computing diluted earnings per share	\$ 92,305	67,257	293,268	174,452
Shares (Denominator):				
Weighted average number of shares:				
Outstanding during period	141,046	140,587	140,985	140,374
Employee Stock Ownership Plan shares not committed to be released	(274)	(367)	(292)	(385)
Number of shares for computing basic earnings per share	140,772	140,220	140,693	139,989
Incremental common shares attributable to additional dilutive effect of convertible securities	1,488	1,628	1,574	1,780
Number of shares as adjusted for purposes of computing diluted earnings per share	142,260	141,848	142,267	141,769
Basic earnings per share	\$.66	.48	2.08	1.24
Diluted earnings per share	\$.65	.47	2.06	1.23

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