

CENTURYTEL INC

FORM 10-Q (Quarterly Report)

Filed 8/16/1999 For Period Ending 6/30/1999

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 June 30, 1999

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 Century Park 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 July 31, 1999, there were 139,510,368 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

CenturyTel, Inc. CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
(Dollars, except per share amounts, and shares expressed in thousands)				
OPERATING REVENUES				
Telephone	\$ 279,113	265,322	572,074	525,135
Cellular	109,932	104,871	208,403	199,037
Other	27,705	18,185	50,529	35,926
Total operating revenues	416,750	388,378	831,006	760,098
OPERATING EXPENSES				
Cost of sales and operating expenses	200,113	185,406	393,765	367,800
Depreciation and amortization	86,012	81,484	175,993	160,678
Total operating expenses	286,125	266,890	569,758	528,478
OPERATING INCOME	130,625	121,488	261,248	231,620
OTHER INCOME (EXPENSE)				
Gain on sale or exchange of assets, net	39,601	25,516	49,959	49,859
Interest expense	(37,487)	(42,072)	(79,728)	(84,881)
Income from unconsolidated cellular entities	9,267	9,066	16,112	15,943
Minority interest	(18,790)	(4,002)	(22,100)	(6,645)
Other income and expense	3,434	691	5,614	1,295
Total other income (expense)	(3,975)	(10,801)	(30,143)	(24,429)
INCOME BEFORE INCOME TAX EXPENSE	126,650	110,687	231,105	207,191
Income tax expense	73,188	46,496	116,538	85,306
NET INCOME	\$ 53,462	64,191	114,567	121,885
BASIC EARNINGS PER SHARE*	\$.38	.47	.83	.89
DILUTED EARNINGS PER SHARE*	\$.38	.46	.81	.87
DIVIDENDS PER COMMON SHARE*	\$.045	.043	.09	.087
AVERAGE BASIC SHARES OUTSTANDING *	138,852	136,922	138,455	136,686
AVERAGE DILUTED SHARES OUTSTANDING *	141,461	140,028	141,245	139,701

* Reflects March 1999 stock split. See Note 4.

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
(Dollars in thousands)				
Net income	\$ 53,462	64,191	114,567	121,885
Other comprehensive income, net of tax:				
Unrealized holding gains arising during period, net of \$1,313, \$1,056, \$2,430 and \$5,891 tax	2,439	1,961	4,512	10,941
Reclassification adjustment for gains included in net income, net of \$-, \$3,060, \$3,625 and \$11,027 tax	-	(5,683)	(6,733)	(20,478)
Other comprehensive income, net of \$1,313, \$2,004, \$1,195, and \$5,136 tax	2,439	(3,722)	(2,221)	(9,537)
Comprehensive income	\$ 55,901	60,469	112,346	112,348

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED BALANCE SHEETS
(UnAUDITED)

	June 30, 1999	December 31, 1998
	(Dollars in thousands)	
ASSETS		

CURRENT ASSETS		
Cash and cash equivalents	\$ 93,893	5,742
Accounts receivable, less allowance of \$3,535 and \$4,155	194,067	185,398
Materials and supplies, at average cost	20,624	23,709
Other	7,450	11,389
	316,034	226,238

NET PROPERTY, PLANT AND EQUIPMENT	2,181,519	2,351,453

INVESTMENTS AND OTHER ASSETS		
Excess cost of net assets acquired, less accumulated amortization of \$139,657 and \$133,135	1,625,044	1,956,701
Other	436,116	401,063
	2,061,160	2,357,764
	\$ 4,558,713	4,935,455
=====		
LIABILITIES AND EQUITY		

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 53,360	53,010
Accounts payable	113,923	87,627
Accrued expenses and other liabilities		
Salaries and benefits	43,015	36,900
Taxes	128,143	33,411
Interest	36,095	36,926
Other	23,532	24,249
Advance billings and customer deposits	32,092	32,721
	430,160	304,844

LONG-TERM DEBT	2,017,472	2,558,000

DEFERRED CREDITS AND OTHER LIABILITIES	461,930	541,129

STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par value, authorized 350,000,000 shares, issued and outstanding 139,363,490 and 138,082,926 shares	139,363	138,083
Paid-in capital	467,561	451,535
Accumulated other comprehensive income - unrealized holding gain on investments, net of taxes	4,996	7,217
Retained earnings	1,034,505	932,611
Unearned ESOP shares	(5,380)	(6,070)
Preferred stock - non-redeemable	8,106	8,106
	1,649,151	1,531,482
	\$ 4,558,713	4,935,455
=====		

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Six months ended June 30,	
	1999	1998
(Dollars in thousands)		
COMMON STOCK		
Balance at beginning of period	\$ 138,083	91,104
Issuance of common stock for acquisitions	-	28
Conversion of convertible securities into common stock	254	169
Issuance of common stock through dividend reinvestment, incentive and benefit plans	1,026	499
Balance at end of period	139,363	91,800
PAID-IN CAPITAL		
Balance at beginning of period	451,535	469,586
Issuance of common stock for acquisitions	-	1,059
Conversion of convertible securities into common stock	3,046	3,131
Issuance of common stock through dividend reinvestment, incentive and benefit plans	11,475	8,350
Amortization of unearned compensation and other	1,505	1,281
Balance at end of period	467,561	483,407
Accumulated other comprehensive income		
Balance at beginning of period	7,217	11,893
Change in unrealized holding gain on investments, net of reclassification adjustment	(2,221)	(9,537)
Balance at end of period	4,996	2,356
RETAINED EARNINGS		
Balance at beginning of period	932,611	728,033
Net income	114,567	121,885
Cash dividends declared		
Common stock-\$.09 and \$.0866 per share, respectively *	(12,469)	(11,864)
Preferred stock	(204)	(204)
Balance at end of period	1,034,505	837,850
UNEARNED ESOP SHARES		
Balance at beginning of period	(6,070)	(8,450)
Release of ESOP shares	690	1,190
Balance at end of period	(5,380)	(7,260)
PREFERRED STOCK - NON-REDEEMABLE		
Balance at beginning and end of period	8,106	8,106
TOTAL STOCKHOLDERS' EQUITY	\$ 1,649,151	1,416,259

* Reflects March 1999 stock split. See Note 4.

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months ended June 30,	
	1999	1998
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 114,567	121,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	175,993	160,678
Deferred income taxes	4,345	25,537
Income from unconsolidated cellular entities	(16,112)	(15,943)
Minority interest	22,100	6,645
Gain on sales of assets	(49,959)	(49,859)
Changes in current assets and current liabilities:		
Accounts receivable	(16,392)	(20,498)
Accounts payable	8,927	(6,834)
Accrued taxes	30,701	(47,170)
Other current assets and other current liabilities, net	14,118	14,240
Increase in other non-current assets	(23,016)	(5,334)
Change in other non-current liabilities	(586)	5,551
Other, net	10,073	3,489
Net cash provided by operating activities	274,759	192,387
INVESTING ACTIVITIES		
Payments for property, plant and equipment	(149,128)	(122,018)
Acquisitions, net of cash acquired	-	(5,000)
Proceeds from sales of assets	465,784	132,307
Distributions from unconsolidated cellular entities	10,109	11,647
Payment into escrow for interest in cellular entity	(17,614)	-
Purchase of life insurance investment	(4,405)	(5,150)
Other, net	1,511	2,386
Net cash provided by investing activities	306,257	14,172
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	7,954	772,852
Payments of long-term debt	(501,087)	(938,532)
Payment upon settlement of hedge contracts	-	(40,237)
Payment of deferred debt issuance costs	-	(6,625)
Proceeds from issuance of common stock	11,947	8,926
Cash dividends	(12,673)	(12,068)
Other, net	994	74
Net cash used in financing activities	(492,865)	(215,610)
Net increase (decrease) in cash and cash equivalents	88,151	(9,051)
Cash and cash equivalents at beginning of period	5,742	26,017
Cash and cash equivalents at end of period	\$ 93,893	16,966
Supplemental cash flow information:		
Income taxes paid	\$ 79,497	118,364
Interest paid	\$ 80,559	66,718
See accompanying notes to consolidated financial statements.		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1999
(UNAUDITED)

(1) Basis of Financial Reporting

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, 1998.

The unaudited financial information for the three months and six months ended June 30, 1999 and 1998 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 six-month periods have been included therein. The results of operations for the first six 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:

	June 30, 1999	December 31, 1998
(Dollars in thousands)		
Telephone, at original cost	\$ 3,311,544	3,660,252
Accumulated depreciation	(1,503,094)	(1,661,315)
	1,808,450	1,998,937
Cellular, at cost	434,285	428,984
Accumulated depreciation	(190,036)	(178,569)
	244,249	250,415
Corporate and other, at cost	233,451	200,422
Accumulated depreciation	(104,631)	(98,321)
	128,820	102,101
	\$ 2,181,519	2,351,453

(3) Earnings 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 June 30, 1999 and 1998) were accounted for by the equity method.

	Six months ended June 30,	
	1999	1998
(Dollars in thousands)		
Results of operations		
Revenues	\$ 642,489	606,793
Operating income	\$ 195,574	216,062
Net income	\$ 194,937	216,952

(4) Stock Split

On February 23, 1999, the Company's Board of Directors declared a three-for-two common stock split effected as a 50% stock dividend distributed on March 31, 1999. Shares outstanding and per share data for 1998 have been restated to reflect this stock split.

(5) Sales of Assets

In the first quarter of 1999 the Company recorded a pre-tax gain aggregating \$10.4 million (\$6.7 million after-tax; \$.04 per diluted share) due to the sale of its remaining common shares of MCIWorldCom, Inc.

In May 1999, the Company sold the stock of substantially all of its Alaska-based operations to Alaska Communications Systems Holdings, Inc. The Company received approximately \$300 million in after-tax cash as a result of the transaction. No gain or loss was recorded upon the disposition of these properties.

In June 1999, the Company sold the assets of its cellular operations in Brownsville and McAllen, Texas to Western Wireless Corporation for approximately \$96 million cash. In connection therewith, the Company recorded a pre-tax gain of approximately \$39.6 million, and an after-tax loss of approximately \$7.8 million (\$.05 per diluted share.)

(6) Pending Acquisitions

In June 1999, the Company signed a definitive asset purchase agreement to purchase GTE's telephone access lines (which numbered approximately 213,650 at December 31, 1998) and related local exchange assets in Arkansas for approximately \$843.4 million cash, subject to certain adjustments. In July 1999, the Company acquired a 61.5% (56.9% fully-diluted) interest in a newly-organized joint venture company, which has entered into a definitive asset purchase agreement to purchase GTE's telephone access lines (which numbered approximately 116,000 at December 31, 1998) and related local exchange assets in Missouri for approximately \$290 million, subject to certain adjustments. At closing, the Company will make a preferred equity investment in the newly organized company of approximately \$55 million. These transactions are expected to close in the first quarter of 2000, pending regulatory approvals and certain other closing conditions.

(7) Business Segments

The Company has two separately reportable business segments: telephone and cellular. The operating income of these segments is reviewed by the chief operating decision maker to assess performance and make business decisions.

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
Operating revenues				
Telephone segment	\$ 279,113	265,322	572,074	525,135
Cellular segment	109,932	104,871	208,403	199,037
Other operations	27,705	18,185	50,529	35,926
	\$ 416,750	388,378	831,006	760,098
Operating income				
Telephone segment	\$ 83,766	79,954	179,064	156,797
Cellular segment	42,753	37,511	73,136	67,166
Other operations	4,106	4,023	9,048	7,657
	\$ 130,625	121,488	261,248	231,620
Operating income	\$ 130,625	121,488	261,248	231,620
Gain on sale or exchange of assets, net	39,601	25,516	49,959	49,859
Interest expense	(37,487)	(42,072)	(79,728)	(84,881)
Income from unconsolidated cellular entities	9,267	9,066	16,112	15,943
Minority interest	(18,790)	(4,002)	(22,100)	(6,645)
Other income and expense	3,434	691	5,614	1,295
Income before income tax expense	\$ 126,650	110,687	231,105	207,191
		June 30, 1999	December 31, 1998	
		(Dollars in thousands)		
Total assets				
Telephone segment		\$ 3,137,296	3,674,148	
Cellular segment		1,242,961	1,097,789	
Other operations		178,456	163,518	
Total assets		\$ 4,558,713	4,935,455	

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, 1998. The results of operations for the three months and six months ended June 30, 1999 are not necessarily indicative of the results of operations which might be expected for the entire year.

CenturyTel, Inc. (the "Company"), is a regional diversified communications company that is primarily engaged in providing local telephone services and cellular telephone communications services. At June 30, 1999, the Company's local exchange telephone subsidiaries operated over 1.2 million telephone access lines primarily in rural, suburban and small urban areas in 20 states, and the Company's majority-owned and operated cellular entities had more than 640,000 cellular subscribers. On December 1, 1998, the Company acquired from affiliates of Ameritech Corporation ("Ameritech") telephone operations serving 86,000 access lines in northern and central Wisconsin and the related telephone directories for approximately \$221 million cash. The operations of the former Ameritech properties are included in the Company's results of operations beginning December 1, 1998. On May 14, 1999, the Company sold substantially all of its Alaska-based operations serving approximately 134,900 telephone access lines and 3,000 cellular subscribers. On June 1, 1999, the Company sold the assets of its Brownsville and McAllen, Texas cellular operations serving approximately 7,500 cellular subscribers. The operations of these disposed properties are included in the Company's results of operations up to the respective dates 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 effects of ongoing deregulation in the telecommunications industry; the effects of greater than anticipated competition in the Company's markets; possible changes in the demand for the Company's products and services; the Company's ability to successfully introduce new offerings on a timely and cost-effective basis; the risks inherent in rapid technological change; the Company's ability to effectively manage its growth, including integrating newly acquired properties into the Company's operations; the success and expense of the remediation efforts of the Company and its vendors in achieving year 2000 compliance; and the effects of more general factors such as changes 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, 1998. 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 June 30, 1999 Compared
to Three Months Ended June 30, 1998

Net income (and diluted earnings per share) for the second quarter of 1999 and 1998 was \$53.5 million (\$.38) and \$64.2 million (\$.46), respectively. Net income (excluding the after-tax effect of asset sales) for the second quarter of 1999 was \$61.2 million compared to \$49.5 million during the second quarter of 1998. Diluted earnings per share (excluding the after-tax effect of asset sales) increased to \$.43 during the three months ended June 30, 1999 from \$.35 during the three months ended June 30, 1998, a 22.9% increase.

	Three months ended June 30,	
	1999	1998
	(Dollars, except per share amounts, and shares in thousands)	
Operating income		
Telephone	\$ 83,766	79,954
Cellular	42,753	37,511
Other	4,106	4,023
	130,625	121,488
Gain on sale or exchange of assets, net	39,601	25,516
Interest expense	(37,487)	(42,072)
Income from unconsolidated cellular entities	9,267	9,066
Minority interest	(18,790)	(4,002)
Other income and expense	3,434	691
Income tax expense	(73,188)	(46,496)
Net income	\$ 53,462	64,191
Basic earnings per share	\$.38	.47
Diluted earnings per share	\$.38	.46

Average basic shares outstanding	138,852	136,922
Average diluted shares outstanding	141,461	140,028

Contributions to operating revenues and operating income by the Company's telephone, cellular, and other operations for the three months ended June 30, 1999 and 1998 were as follows:

	Three months ended June 30,	
	1999	1998
Operating revenues		
Telephone operations	67.0%	68.3
Cellular operations	26.4%	27.0
Other operations	6.6%	4.7
Operating income		
Telephone operations	64.1%	65.8
Cellular operations	32.7%	30.9
Other operations	3.2%	3.3

Telephone Operations

	Three months ended June 30,	
	1999	1998
	(Dollars in thousands)	
Operating revenues		
Local service	\$ 89,452	81,456
Network access	155,789	151,976
Other	33,872	31,890
	279,113	265,322
Operating expenses		
Plant operations	63,492	57,548
Customer operations	24,001	23,033
Corporate and other	38,916	39,225
Depreciation and amortization	68,938	65,562
	195,347	185,368
Operating income	\$ 83,766	79,954

Telephone operating income increased \$3.8 million (4.8%) due to an increase in operating revenues of \$13.8 million (5.2%), which more than offset an increase in operating expenses of \$10.0 million (5.4%).

Of the \$13.8 million increase in operating revenues, \$10.9 million was attributable to the properties acquired from Ameritech, which was more than offset by a \$14.4 million decrease due to the sale of the Company's Alaska telephone properties on May 14, 1999. The remaining \$17.3 million increase in revenues was partially due to a \$5.6 million increase in local network service primarily due to an increase in the number of customer access lines; a \$2.4 million increase in revenues due to increased minutes of use; a \$2.3 million increase in amounts received from the federal Universal Service Fund; a \$1.7 million increase in revenues resulting from revisions of revenue settlement agreements; and a \$1.5 million increase in the partial recovery of increased operating expenses through revenue sharing arrangements in which the Company participates with other telephone companies.

Plant operations expenses increased \$5.9 million (10.3%), of which \$3.1 million was attributable to the properties acquired from Ameritech, offset by a \$4.1 decrease due to the sale of the Alaska properties. The remaining \$6.9 million increase was primarily due to a \$1.6 million increase in repair and maintenance expenses; a \$2.1 million increase in network operations expenses; and a \$1.3 million increase in expenses associated with the Company's non-regulated operations.

During the second quarter of 1999 customer operations expenses increased \$968,000 (4.2%) due to a \$769,000 increase in salaries and benefits and a \$894,000 increase attributable to the properties acquired from Ameritech. Such increases were partially offset by a \$1.4 million decrease due to the sale of the Alaska properties.

Corporate and other expenses decreased \$309,000 (.8%) primarily due to a \$2.0 million decrease in salaries and benefits and a \$2.2 million decrease due to the sale of the Alaska properties. Such decreases were partially offset by a \$2.1 million increase in contract labor expenses associated with readying the Company's systems to be year 2000 compliant and a \$1.6 million increase in operating taxes.

Depreciation and amortization increased \$3.4 million, of which \$3.9 million was attributable to the properties acquired from Ameritech and \$3.1 million was due to higher levels of plant in service. Such increases were partially offset by a \$3.9 million reduction in depreciation and amortization expense related to the Company's Alaska properties.

Cellular Operations and Income From Unconsolidated Cellular Entities

	Three months ended June 30,	
	1999	1998
	(Dollars in thousands)	
Operating income - cellular operations	\$ 42,753	37,511
Minority interest, exclusive of the effect of asset sales	(3,864)	(4,002)
Income from unconsolidated cellular entities	9,267	9,066
	\$ 48,156	42,575

The Company's cellular operations (discussed below) reflect 100% of the results of operations of the cellular 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."

Cellular Operations

	Three months ended June 30,	
	1999	1998
	(Dollars in thousands)	
Operating revenues		
Service revenues	\$ 107,405	102,766
Equipment sales	2,527	2,105
	109,932	104,871
Operating expenses		
Cost of equipment sold	5,254	3,702
System operations	14,438	14,633
General, administrative and customer service	18,470	20,063
Sales and marketing	12,922	13,791
Depreciation and amortization	16,095	15,171
	67,179	67,360
Operating income	\$ 42,753	37,511

Cellular operating income increased \$5.2 million (14.0%) to \$42.8 million in the second quarter of 1999 from \$37.5 million in the second quarter of 1998. Cellular operating revenues increased \$5.1 million (4.8%) while operating expenses decreased \$181,000 (.3%).

The \$4.6 million increase in service revenues was primarily due to a \$5.7 million increase in roaming usage which was partially offset by a \$1.1 million decrease in local service revenues.

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

	Three months ended June 30,	
	1999	1998

Customers at beginning of period	638,992	576,397
Gross units added internally	45,949	43,013
Disconnects	33,623	35,481
Net units added	12,326	7,532
Effect of dispositions	(10,563)	-
Customers at end of period	640,755	583,929

The average monthly cellular service revenue per customer declined to \$56 during the second quarter of 1999 from \$59 during the second quarter of 1998 partially due to the continued trend that a higher percentage of new subscribers tend to be lower usage customers and pricing rate reductions. The average monthly service revenue per customer may further decline (i) as market penetration increases and additional lower usage customers are activated and

(ii) 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, all of which are likely to result in lower average revenue per customer. The Company will continue to focus on customer service and attempt to stimulate cellular usage by promoting the availability of certain enhanced services and by improving the quality of its service through the construction of additional cell sites and other enhancements to its system.

General, administrative and customer service expenses decreased \$1.6 million (7.9%) due to a \$2.2 million decrease in the provision for doubtful accounts which was partially offset by a \$607,000 increase in general office expenses.

The Company's average monthly churn rate (the percentage of cellular customers that terminate service) was 1.72% for the second quarter of 1999 and 1.97% for the second quarter of 1998.

Sales and marketing expenses decreased \$869,000 (6.3%) primarily due to a \$669,000 decrease in advertising and sales promotions expenses and a \$497,000 decrease in commissions paid to agents for selling services to new customers primarily as a result of fewer cellular units being added through this distribution channel during 1999 as compared to 1998.

Depreciation and amortization increased \$924,000 (6.1%) primarily due to an increase in amortization of intangibles.

Other Operations

	Three months ended June 30,	
	1999	1998
	(Dollars in thousands)	
Operating revenues		
Long distance	\$ 19,411	12,338
Call center	3,103	2,349
Other	5,191	3,498
	27,705	18,185
Operating expenses		
Cost of sales and operating expenses	22,620	13,411
Depreciation and amortization	979	751
	23,599	14,162
Operating income	\$ 4,106	4,023

Other operations include the results of operations of subsidiaries of the Company which are not included in the telephone or cellular segments, including, but not limited to, the Company's non-regulated long distance and call center operations. The \$7.1 million increase in long distance revenues was primarily attributable to the growth in the number of customers. The number of long distance customers as of June 30, 1999 and 1998 was 259,800 and 204,700, respectively.

Operating expenses increased \$9.4 million primarily due to (i) a \$4.7 million increase in expenses of the Company's long distance operations due primarily to an increase in customers and (ii) a \$2.5 million increase in expenses due to expansion of the Company's security, personal communications services and fiber network businesses.

Interest Expense

Interest expense decreased \$4.6 million in the second quarter of 1999 compared to the second quarter of 1998 primarily due to a reduction in outstanding indebtedness.

Gain on Sale or Exchange of Assets

In the second quarter of 1999, the Company recorded a pre-tax gain of approximately \$39.6 million as a result of the sale of the assets of the Brownsville and McAllen, Texas cellular properties. See Note 5 of Notes to Consolidated Financial Statements for additional information and Minority Interest below.

In the second quarter of 1998, the Company recorded pre-tax gains aggregating \$25.5 million (\$14.7 million after-tax; \$.11 per diluted share) primarily as a result of the sale of 750,000 shares of MCIWorldCom, Inc. stock and the sale of minority interests in two non-strategic cellular entities.

Minority Interest

Minority interest is the expense recorded by the Company to reflect the minority interest owners' share of the earnings or loss of the Company's majority-owned and operated cellular entities and majority-owned subsidiaries. Minority interest increased \$14.8 million primarily due to the minority partners' share of the gain on sale of assets of the Brownsville and McAllen, Texas cellular properties.

Other Income and Expense

Other income and expense increased \$2.7 million in the second quarter of 1999 compared to the second quarter of 1998, substantially all of which relates to favorable non-recurring items recorded in the second quarter of 1999.

Income Tax Expense

Income tax expense increased \$26.7 million in the second quarter of 1999 compared to the second quarter of 1998. Exclusive of the effects of income tax expense on asset sales, the effective income tax rate was 40.0% and 41.9% in the three months ended June 30, 1999 and 1998, respectively. Such decrease in the effective income tax rate was primarily due to a decrease in non-deductible amortization of excess cost of net assets acquired (goodwill) attributable to the sale of the Company's Alaska and Texas properties in the second quarter of 1999.

Six Months Ended June 30, 1999 Compared to Six Months Ended June 30, 1998

Net income (and diluted earnings per share) for the first six months of 1999 and 1998 was \$114.6 million (\$.81) and \$121.9 million (\$.87), respectively. Net income (excluding the after-tax effect of asset sales) for the first six months of 1999 was \$115.6 million compared to \$91.4 million during the first six months of 1998. Diluted earnings per share (excluding the after-tax effect of asset sales) increased to \$.82 during the six months ended June 30, 1999 from \$.66 during the six months ended June 30, 1998, a 24.2% increase.

	Six months ended June 30,	
	1999	1998
	(Dollars, except per share amounts, and shares in thousands)	
Operating income		
Telephone	\$ 179,064	156,797
Cellular	73,136	67,166
Other	9,048	7,657
	261,248	231,620
Gain on sale or exchange of assets, net	49,959	49,859
Interest expense	(79,728)	(84,881)
Income from unconsolidated cellular entities	16,112	15,943
Minority interest	(22,100)	(6,645)
Other income and expense	5,614	1,295
Income tax expense	(116,538)	(85,306)
Net income	\$ 114,567	121,885
Basic earnings per share	\$.83	.89
Diluted earnings per share	\$.81	.87
Average basic shares outstanding	138,455	136,686
Average diluted shares outstanding	141,245	139,701

Contributions to operating revenues and operating income by the Company's telephone, cellular, and other operations for the six months ended June 30, 1999 and 1998 were as follows:

	Six months ended June 30,	
	1999	1998
Operating revenues		
Telephone operations	68.8%	69.1
Cellular operations	25.1%	26.2
Other operations	6.1%	4.7
Operating income		
Telephone operations	68.5%	67.7
Cellular operations	28.0%	29.0
Other operations	3.5%	3.3

Telephone Operations

	Six months ended June 30,	
	1999	1998
	(Dollars in thousands)	
Operating revenues		
Local service	\$ 180,109	159,582
Network access	322,944	303,154
Other	69,021	62,399
	572,074	525,135
Operating expenses		
Plant operations	130,514	114,207
Customer operations	45,895	45,849
Corporate and other	75,835	79,008
Depreciation and amortization	140,766	129,274
	393,010	368,338
Operating income	\$ 179,064	156,797

Telephone operating income increased \$22.3 million (14.2%) due to an increase in operating revenues of \$46.9 million (8.9%), which more than offset an increase in operating expenses of \$24.7 million (6.7%).

Of the \$46.9 million increase in operating revenues, \$22.9 million was attributable to the properties acquired from Ameritech, which was partially offset by a \$11.7 million decrease due to the sale of the Company's Alaska telephone properties. The remaining \$35.7 million increase in revenues was partially due to a \$11.1 million increase in local network service primarily due to an increase in access lines; a \$4.4 million increase resulting from revisions of revenue settlement agreements; a \$4.0 million increase in amounts received from the federal Universal Service Fund; a \$3.0 million increase in the partial recovery of increased operating expenses through revenue sharing arrangements in which the Company participates with other telephone companies; a \$2.6 million increase in revenues from the provision of Internet access; and a \$2.2 million increase in revenues due to increased minutes of use.

Plant operations expenses increased \$16.3 million (14.3%) of which \$5.3 million was attributable to the properties acquired from Ameritech, offset by a \$3.1 million decrease due to the sale of the Alaska telephone properties. The remaining \$14.1 million increase was primarily due to a \$4.0 million increase in repair and maintenance expenses; a \$3.6 million increase in network operations expenses; and a \$1.9 million increase in expenses associated with the Company's non-regulated operations.

Corporate and other expenses decreased \$3.2 million (4.0%) due to a \$4.1 million decrease in salaries and benefits and a \$4.0 million decrease in expenses due to the sale of the Alaska telephone properties. Such decreases were partially offset by a \$2.3 million increase in expenses attributable to the Ameritech properties and a \$2.4 million increase in contract labor expenses attributable to readying the Company's systems to be year 2000 compliant.

Depreciation and amortization increased \$11.5 million (8.9%) of which \$7.8 million was attributable to the properties acquired from Ameritech and \$5.4 million was due to higher levels of plant in service. Such increases were partially offset by a \$3.3 million reduction in depreciation and amortization expense related to the Company's Alaska properties.

Cellular Operations and Income From Unconsolidated Cellular Entities

	Six months ended June 30,	
	1999	1998
	(Dollars in thousands)	
Operating income - cellular operations	\$ 73,136	67,166
Minority interest, exclusive of the effect of asset sales	(7,162)	(6,645)
Income from unconsolidated cellular entities	16,112	15,943
	\$ 82,086	76,464
=====		

The Company's cellular operations (discussed below) reflect 100% of the results of operations of the cellular 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."

Cellular Operations

	Six months ended June 30,	
	1999	1998
	(Dollars in thousands)	
Operating revenues		
Service revenues	\$ 203,381	194,864
Equipment sales	5,022	4,173
	208,403	199,037
Operating expenses		
Cost of equipment sold	9,635	7,398
System operations	27,741	28,885
General, administrative and customer service	37,630	38,444
Sales and marketing	26,935	27,433
Depreciation and amortization	33,326	29,711
	135,267	131,871
Operating income	\$ 73,136	67,166
=====		

Cellular operating income increased \$6.0 million (8.9%) to \$73.1 million in the first six months of 1999 from \$67.2 million in the first six months of 1998. Cellular operating revenues increased \$9.4 million (4.7%), while operating expenses increased \$3.4 million (2.6%).

The \$8.5 million increase in service revenues was primarily due to a \$9.4 million increase in roaming usage which was partially offset by a \$922,000 decrease in local service revenues.

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

	Six months ended June 30,	
	1999	1998
Customers at beginning of period	624,119	569,983
Gross units added internally	98,931	91,689
Disconnects	71,732	77,743
Net units added	27,199	13,946
Effect of dispositions	(10,563)	-
Customers at end of period	640,755	583,929

The average monthly cellular service revenue per customer declined to \$53 during the first six months of 1999 from \$56 during the first six months of 1998 partially due to the continued trend that a higher percentage of new subscribers tend to be lower usage customers and pricing rate reductions. The average monthly service revenue per customer may further decline (i) as market penetration increases and additional lower usage customers are activated and

(ii) 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, all of which are likely to result in lower average revenue per customer. The Company will continue to focus on customer service and attempt to stimulate cellular usage by promoting the availability of certain enhanced services and by improving the quality of its service through the construction of additional cell sites and other enhancements to its system.

System operations expenses decreased \$1.1 million (4.0%) in the first six months of 1999 primarily due to a \$2.0 million decrease in the net amounts paid to other carriers for cellular service provided to the Company's customers who roam in the other carriers' service areas. Such decrease was partially offset by a \$722,000 increase associated with operating a greater number of cell sites.

General, administrative and customer service expenses decreased \$814,000 (2.1%) due to a \$4.7 million decrease in the provision for doubtful accounts which was partially offset by a \$3.9 million increase in general office expenses.

The Company's average monthly churn rate (the percentage of cellular customers that terminate service) was 1.86% for the first six months of 1999 and 2.22% for the first six months of 1998.

Sales and marketing expenses decreased \$498,000 (1.8%) due primarily to \$2.0 million reduction in commissions paid to agents for selling services to new customers primarily as a result of fewer cellular units being added through this distribution channel during 1999 as compared to 1998. Such decrease was partially offset by a \$1.4 million increase in costs incurred in selling products and services in retail locations.

Depreciation and amortization increased \$3.6 million (12.2%), of which \$1.9 million was attributable to a higher level of plant in service and \$2.2 million was due to an increase in amortization of intangibles.

Other Operations

	Six months ended June 30,	
	1999	1998
	(Dollars in thousands)	
Operating revenues		
Long distance	\$ 36,441	23,602
Call center	5,547	4,948
Other	8,541	7,376
	50,529	35,926
Operating expenses		
Cost of sales and operating expenses	39,580	26,576
Depreciation and amortization	1,901	1,693
	41,481	28,269
Operating income	\$ 9,048	7,657

Other operations include the results of operations of subsidiaries of the Company which are not included in the telephone or cellular segments, including, but not limited to, the Company's non-regulated long distance and call center operations. The \$12.8 million increase in long distance revenues was attributable to the growth in the number of customers.

Operating expenses increased \$13.2 million primarily due to (i) an increase of \$6.9 million in expenses of the Company's long distance operations due primarily to an increase in customers and (ii) a \$3.7 million increase in expenses due to expansion of the Company's security, personal communication services and fiber network businesses.

Interest Expense

Interest expense decreased \$5.2 million in the first six months of 1999 compared to the first six months of 1998 primarily due to a reduction in outstanding indebtedness.

Gain on Sale or Exchange of Assets, Net

In the first six months of 1999, the Company recorded pre-tax gains aggregating \$50.0 million. Approximately \$10.4 million of the pre-tax gains (\$6.7 million after-tax; \$.04 per diluted share) was due to the sale of the Company's remaining common shares of MCIWorldCom, Inc. The remaining \$39.6 million of the pre-tax gains (\$7.8 million loss after-tax; (\$.05) per diluted share) was due to the sale of the Company's Brownsville and McAllen, Texas cellular properties. See Note 5 of Notes to Consolidated Financial Statements for additional information and Minority Interest below.

In the first six months of 1998, the Company recorded pre-tax gains aggregating \$49.9 million (\$30.5 million after-tax; \$.21 per diluted share) primarily due to the conversion of its investment in the common stock of Brooks Fiber Networks, Inc. into common stock of WorldCom, Inc., the subsequent sale of 750,000 shares of WorldCom, Inc. common stock, and the sale of minority interests in two non-strategic cellular entities.

Minority Interest

Minority interest is the expense recorded by the Company to reflect the minority interest owners' share of the earnings or loss of the Company's majority-owned and operated cellular entities and majority-owned subsidiaries. Minority interest increased \$15.5 million primarily due to the minority partners' share of the gain on sale of assets of the Brownsville and McAllen, Texas cellular properties.

Other Income and Expense

Other income and expense increased \$4.3 million in the first six months of 1999 compared to the first six months of 1998, substantially all of which relates to favorable non-recurring items recorded in 1999.

Income Tax Expense

Income tax expense increased \$31.2 million in the first six months of 1999 compared to the first six months of 1998. Exclusive of the effects of income tax expense on asset sales, the effective income tax rate was 41.0% and 41.9% in the six months ended June 30, 1999 and 1998, respectively. Such decrease in the effective income tax rate was primarily due to a decrease in non-deductible amortization of excess cost of net assets acquired (goodwill) attributable to the sale of the Company's Alaska and Texas properties in 1999.

LIQUIDITY AND CAPITAL RESOURCES

Excluding cash used for acquisitions, the Company relies on cash provided by operations to provide a substantial portion of 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 \$274.8 million during the first six months of 1999 compared to \$192.4 million during the first six months of 1998. 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, cellular operations, and other operations of the Company, see Results of Operations.

Net cash provided by investing activities was \$306.3 million for the six months ended June 30, 1999 compared to \$14.2 million for the six months ended June 30, 1998. Proceeds from the sales of assets were \$465.8 million in the first six months of 1999 compared to \$132.3 million in the first six months of 1998. Payments for property, plant and equipment were \$27.1 million more in the first six months of 1999 than in the comparable period during 1998. Capital expenditures for the six months ended June 30, 1999 were \$86.6 million for telephone, \$29.0 million for cellular and \$33.5 million for other operations.

Net cash used in financing activities was \$492.9 million during the first six months of 1999 compared to \$215.6 million during the first six months of 1998. Net payments of long-term debt were \$327.5 million more during the first six months of 1999 compared to the first six months of 1998, primarily due to utilization of proceeds received from the sales of assets. During the first six months of 1998, the Company issued an aggregate of \$765 million of senior notes and debentures. The net proceeds of approximately \$758 million were used to reduce the bank indebtedness incurred in connection with the acquisition of Pacific Telecom, Inc. In addition, the Company paid approximately \$40 million to settle numerous interest rate hedge contracts that had been entered into in anticipation of these debt issuances.

Budgeted capital expenditures for 1999 total \$215 million for telephone operations, \$70 million for cellular operations and \$60 million for corporate and other operations.

As of June 30, 1999, Century's telephone subsidiaries had available for use \$135.1 million of commitments for long-term financing from the Rural Utilities Service and the Company had \$606.1 million of undrawn committed bank lines of credit.

In June 1999, the Company signed a definitive asset purchase agreement to purchase GTE's local exchange assets in Arkansas for approximately \$834.4 million in cash. In July 1999, the Company acquired a 61.5% (56.9% fully diluted) interest in a joint venture company which has entered into a definitive asset purchase agreement to purchase GTE's local exchange assets in Missouri for approximately \$290 million in cash. At closing, the Company will make approximately a \$55 million preferred equity investment in the new entity. The purchase price under both agreements is subject to adjustments which are not expected to be material in the aggregate. Both transactions are anticipated to close in first quarter 2000, subject to regulatory approvals and certain other closing conditions. Financing plans are not yet complete and will be dependent upon the Company's review of its alternatives and market conditions. As a result of the Company's announcement of these transactions, Moody's placed its ratings of the Company's debt under review for possible downgrade and Standard & Poor's placed its ratings of the Company's debt on CreditWatch with negative implications.

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 or legislation or anticipated changes in competition or in the demand for regulated services or products 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 \$320 million and \$370 million.

Year 2000 Readiness Disclosure

The Year 2000 issue concerns the inability of computer systems and certain other equipment to properly recognize and process data that uses two digits rather than four to designate particular years. The Company has initiated a Year 2000 Project Plan ("the Plan") to assess whether its systems that process date sensitive information will perform satisfactorily leading up to and beyond January 1, 2000. The goal of the Plan is to correct, prior to January 1, 2000, any Year 2000-related problem with critical systems, the failure of which could have a material adverse effect on the Company's operations. The Plan includes steps to (i) identify each critical system element that requires date code remediation, (ii) establish a plan to remediate such systems, (iii) implement all required remediations and (iv) selectively test the remediated systems.

Thus far, the identification phase has identified Year 2000 issues in the following critical Company-owned systems: (i) switching and transmission hardware and software used by the Company to route and deliver telephone calls; (ii) network support systems, including customer service systems, and (iii) billing and collection systems used by the Company to invoice and process most of its customer payments. In addition, the Company (i) receives critical services from providers of utilities and other services to facilities that house employees and switching, transmission and other equipment and (ii) is dependent upon outside vendors for, among other things, the provision of critical network components and cellular billing services. The Company is also critically reliant upon the systems of other telecommunication carriers with which the Company's systems interconnect for the routing and delivery of telephone calls. The Company has also identified potential Year 2000-related liability with respect to telephone equipment manufactured by unaffiliated parties that the Company has sold or leased to its customers ("Customer Premises Equipment" or "CPE"). The identification and planning phases of the Plan are materially complete with respect to Company-owned systems, third party vendors and CPE customers, and are substantially complete with respect to other telecommunication carriers.

Based on work completed under the Plan to date, the Company currently intends to take the following additional steps under its Plan with respect to Company-owned systems, third-party vendors, other telecommunications carriers, and CPE customers:

- o The Company generally plans to remediate Company-owned switching, transmission, billing and collection and other critical systems through the revision or replacement of current system components. Necessary changes to critical Company-owned systems are substantially complete and are expected to be finalized by third quarter 1999. The selective testing and verification of such changes are expected to be completed during 1999. Due to the large number of system components requiring remediation, the Company does not intend to test every remediated system but will rely upon the results of selective testing to determine the effectiveness of remediation efforts.
- o With respect to critical services provided by utilities and other third parties, the Company contacted all such suppliers during 1998. Thus far, a majority of those suppliers who have responded have indicated that their systems and service delivery mechanisms are Year 2000 compliant or can be made so through currently available modifications. The Company plans to continue monitoring all third-party remediation efforts and to make contingency plans for the delivery of such services as necessary.
- o The Company has received certain assurances from industry trade data regarding the Year 2000 readiness of major telecommunications companies with which the Company's switching systems interconnect. In June 1999, the Company made specific inquiries with these and other telecommunication carriers to determine their compliance status, and expects to obtain information in response thereto during third quarter 1999, although there can be no assurance that carriers will supply this information.
- o Finally, the Company has obtained Year 2000 compliance information from CPE manufacturers and has provided and will continue to provide this information to the Company's business customers throughout 1999. The Company plans to work with CPE manufacturers to encourage the development of remedies for Year 2000 problems in such equipment and to continue working with its customers to identify Year 2000 problems in CPE. However, there can be no assurance that CPE manufacturers or customers will cooperate with the Company's efforts to address these problems.

While the Company currently believes that it will be able to remediate and selectively test Company-owned systems in time to minimize any detrimental effect on its operations, there can be no assurance that such steps will be successful. Failure by the Company to timely and effectively remediate its systems, or the failure of critical vendors and suppliers and other telecommunications carriers to remediate affected systems, could have a material adverse impact on the Company's business, financial condition, results of operations and prospects. Because the impact of Year 2000 issues on the Company is materially dependent on the mitigation efforts of parties outside the Company's control, the Company cannot assess with certainty the magnitude of any such potential adverse impact. However, based upon risk assessment work conducted thus far, the Company believes that the most reasonably likely worst case scenario of the failure by the Company, its suppliers or other telecommunications carriers with which the Company interconnects to resolve Year 2000 issues would be an inability by the Company (i) to provide telecommunications services to the Company's customers, (ii) to route and deliver telephone calls originating from or terminating with other telecommunications carriers, (iii) to timely and accurately process service requests and (iv) to timely and accurately bill its customers. In addition to lost earnings, these failures could also result in loss of customers due to service interruptions and billing errors, substantial claims by customers and increased expenses associated with stabilizing operations and executing mitigation plans.

Contingency planning to maintain and restore service in the event of natural disasters, power failures and systems-related problems is a routine

part of the Company's operations. The Company believes that such contingency plans will assist the Company in responding to the failure by outside service providers to successfully address Year 2000 issues. In addition, the Company is currently identifying and considering various Year 2000-specific contingency plans, including identification of alternate vendors and service providers and manual alternatives to system operations. These Year 2000-specific contingency plans are expected to be materially completed in third quarter 1999, but their review and development will continue throughout 1999.

Although the total costs to implement the Plan cannot be precisely estimated, the Company incurred costs of \$4.2 million during 1998 (none of which was related to hardware costs and other capital items) and \$13.6 million during the first six months of 1999 (\$10.9 million of which was related to hardware costs and other capital items) and anticipates spending an aggregate of approximately \$17.8 million during the remainder of 1999 (which includes \$10.1 million of hardware costs and other capital items.) All costs will be expensed as incurred, except for hardware and other items that should be capitalized in accordance with generally accepted accounting principles. Some of the costs represent ongoing investment in systems upgrades, the timing of which is being accelerated in order to facilitate Year 2000 compliance. In some instances, such upgrades will position the Company to provide more and better-quality services to its customers than they currently receive. The Company expects to fund these costs with cash provided by operations. Cost estimates and statements of the Company's plans and expectations discussed above are forward-looking statements that are derived using numerous assumptions of future events, many of which are outside the Company's control, including the availability and future cost of trained personnel and various other resources, third party modification plans, the absence of systems requiring remediation that have not yet been discovered, and other factors.

CENTURYTEL, INC. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The Company is not exposed to material future earnings or cash flow exposures from changes in interest rates on long-term debt obligations since the majority of the Company's long-term debt obligations are fixed rate. At June 30, 1999, the fair value of the Company's long-term debt was estimated to be \$2.2 billion based on the overall weighted average rate of the Company's long-term debt of 6.8% and an overall weighted maturity of 13 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 68 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 \$104.6 million decrease in fair value of the Company's long-term debt. The Company is currently not evaluating the future use of any derivative financial instruments; however, it is possible that such instruments may be utilized in connection with financing its acquisitions of local exchange assets in Arkansas and Missouri.

PART II. OTHER INFORMATION

CENTURYTEL, INC.

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's annual meeting of shareholders on May 6, 1999, the shareholders elected five Class II directors to serve until the 2002 annual meeting of shareholders and until their successors are duly elected and qualified and approved the proposals set forth in the Company's proxy statement dated March 16, 1999.

The following number of votes were cast for or were withheld from the following nominees:

Class II Nominees -----	For ---	Withheld -----
Virginia Boulet	146,421,022	3,553,720
Ernest Butler, Jr.	145,694,683	4,280,059
James B. Gardner	147,149,530	2,825,212
R. L. Hargrove, Jr.	146,658,342	3,316,400
Johnny Hebert	145,225,126	4,749,616

The Class I and Class III directors whose terms continued after the meeting are:

Class I -----	Class III -----
William R. Boles, Jr.	Calvin Czeschin
W. Bruce Hanks	F. Earl Hogan
C. G. Melville, Jr.	Harvey P. Perry
Glen F. Post, III.	Jim D. Reppond
Clarke M. Williams	

The following number of votes were cast in the manner indicated below with respect to the following proposals:

1. Proposal to increase the number of authorized shares of common stock from 175 million to 350 million.

For	Against	Abstain	Broker No-Votes
-----	-----	-----	-----
146,065,346	3,519,491	389,905	0

2. Proposal to change the Company's name to CenturyTel, Inc.

For	Against	Abstain	Broker No-Votes
-----	-----	-----	-----
147,704,657	1,966,025	304,060	0

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

3(i) Amended and Restated Articles of Incorporation of Registrant, dated as of May 6, 1999.

4.1 Amendment No.1 to Rights Agreement, dated May 25, 1999, incorporated by reference to Exhibit 4.2(ii) to Registrant's Report on Form 8-K dated May 25, 1999.

11 Computations of Earnings Per Share.

27.1 Financial Data Schedule as of and for the six months ended June 30, 1999.

99 Asset Purchase Agreement between Registrant and affiliates of GTE, dated June 29, 1999.

Pursuant to the regulations of the Securities and Exchange Commission, all schedules and exhibits to the foregoing agreement have been intentionally omitted from this report. The foregoing agreement contains a complete listing of all schedules and exhibits. The registrant agrees to furnish supplementary a copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request.

B. Reports on Form 8-K

(i) The following item was reported in the Form 8-K filed April 30, 1999:

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

(ii) The following items were reported in the Form 8-K filed May 28, 1999:

Item 5. Other Events - (i) adjusted terms of CenturyTel's

Rights Agreement to reflect the three-for-two stock split in the form of a 50% stock dividend and (ii) an amendment to CenturyTel's Rights Agreement which increased the purchase price per 1/225 of a Preference Share from \$48.88 to \$135.00.

(iii) The following item was reported in the Form 8-K filed July 9, 1999:

Item 5. Other Events - News release announcing execution

of a definitive agreement to purchase from an affiliate of GTE Corporation assets comprising substantially all of GTE's local telephone operations in Arkansas.

(iv) The following item was reported in the Form 8-K filed July 9, 1999:

Item 5. Other Events - News release announcing execution of

a definitive agreement to enter into a strategic partnership with various co-investors to purchase telephone access lines in Missouri from an affiliate of GTE 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: August 16, 1999

/s/ Neil A. Sweasy

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

Exhibit 3(i)

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

of

CENTURYTEL, INC.

(formerly Century Telephone Enterprises, Inc.)

The undersigned Corporation, acting through its President and Secretary and by authority of its Board of Directors, does hereby certify as of May 6, 1999 that:

FIRST: The Amended and Restated Articles of Incorporation set forth in Paragraph Fifth below accurately set forth the articles of incorporation of the Corporation and all amendments thereto in effect on the date hereof, including the changes made in the manner described in Paragraph Fourth below.

SECOND: All such amendments have been effected in conformity with law.

THIRD: The date of incorporation of the Corporation was April 30, 1968, and the date of these Amended and Restated Articles of Incorporation is May 6, 1999.

FOURTH: On February 23, 1999, the Board of Directors of the Corporation, at a duly-convened regular meeting of the Board of Directors, unanimously adopted resolutions to (i) amend the Corporation's articles of incorporation to increase the number of authorized shares of the Corporation's common stock and to change the Corporation's name and (ii) restate the Corporation's articles of incorporation, in each case in the manner described further below. On May 6, 1999, the shareholders of the Corporation, at a duly-convened annual shareholders' meeting at which there were present or duly represented a quorum of the holders of the Corporation's total voting power, adopted resolutions to amend the Corporation's articles of incorporation as in effect prior to the date thereof, with each such resolution receiving not less than 146,065,346 affirmative votes, not more than 3,519,491 negative votes and not more than 389,905 votes as to which the shareholders abstained from voting. Pursuant to these proceedings, the Corporation's articles of incorporation have been modified to (i) amend Article III(A) to increase the number of authorized shares of common stock from 175 million to 350 million, (ii) amend Article I to change the Corporation's name from Century Telephone Enterprises, Inc. to CenturyTel, Inc., and (iii) restate the articles of incorporation to reflect the above-described amendments, to delete paragraph F of Article III, which heretofore set forth the terms of the Corporation's Series K Preferred Stock, to amend Article III(F)(2) (heretofore numbered Article III(G)(2)) to clarify the ranking of the Series L Preferred Stock, and to renumber the articles of incorporation to reflect the deleted sections.

FIFTH: The Amended and Restated Articles of Incorporation of the Corporation are as follows:

ARTICLE I

Name

The name of this Corporation is CenturyTel, Inc.

ARTICLE II

Purpose

The purpose of the Corporation is to engage in any lawful activity for which corporations may be formed under the Business Corporation Law of Louisiana.

ARTICLE III

Capital

A. Authorized Stock. The Corporation shall be authorized to issue an aggregate of 352 million shares of capital stock, of which 350 million shares shall be Common Stock, \$1.00 par value per share, and two million shares shall be Preferred Stock, \$25.00 par value per share.

B. Preferred Stock. (1) The Preferred Stock may be issued from time to time in one or more series.

(2) In respect to any series of Preferred Stock, the Board of Directors is hereby authorized to fix or alter the dividend rights, dividend rates, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences of any wholly unissued series of Preferred Stock, and the number of shares constituting any such series and the

designation thereof, or any of them; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series. In addition thereto the Board of Directors shall have such other powers with respect to the Preferred Stock and any series thereof as shall be permitted by applicable law.

(3) No full dividend for any quarterly dividend period may be declared or paid on shares of any series of Preferred Stock unless the full dividend for that period shall be concurrently declared or paid on all series of Preferred Stock outstanding in accordance with the terms of each series. If there are any accumulated dividends accrued or in arrears on any share of any series of Preferred Stock those dividends shall be paid in full before any full dividend shall be paid on any other series of Preferred Stock. If less than a full dividend is to be paid, the amount of the dividend to be distributed shall be divided among the shares of Preferred Stock for which dividends are accrued or in arrears in proportion to the aggregate amounts which would be distributable to those holders of Preferred Stock if full cumulative dividends had previously been paid thereon in accordance with the terms of each series.

C. Voting Rights. Each share of Common Stock and each outstanding share of the Series H Preferred Stock ("Voting Preferred Stock") which has been beneficially owned continuously by the same person since May 30, 1987 will entitle such person to ten votes with respect to such share on each matter properly submitted to the shareholders of the Corporation for their vote, consent, waiver, release or other action when the holders of Common Stock and voting shares of Preferred Stock vote together with respect to such matter.

(2) (a) For purposes of this paragraph C, a change in beneficial ownership of a share of the Corporation's stock shall be deemed to have occurred whenever a change occurs in any person or group of persons who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares voting power, which includes the power to vote, or to direct the voting of, such share; investment power, which includes the power to direct the sale or other disposition of such share; the right to receive or retain the proceeds of any sale or other disposition of such share; or the right to receive distributions, including cash dividends, in respect to such share.

(b) In the absence of proof to the contrary provided in accordance with the procedures referred to in subparagraph (4) of this paragraph C, a change in beneficial ownership shall be deemed to have occurred whenever a share of stock is transferred of record into the name of any other person.

(c) In the case of a share of Common Stock or Voting Preferred Stock held of record in the name of a corporation, general partnership, limited partnership, voting trustee, bank, trust company, broker, nominee or clearing agency, or in any other name except a natural person, if it has not been established pursuant to the procedures referred to in subparagraph (4) that such share was beneficially owned continuously since May 30, 1987 by the person who possesses all of the attributes of beneficial ownership referred to in clauses

(i) through (iv) of subparagraph (2)(a) of this paragraph C with respect to such share of Common Stock or Voting Preferred Stock, then such share of Common Stock or Voting Preferred Stock shall carry with it only one vote regardless of when record ownership of such share was acquired.

(d) In the case of a share of stock held of record in the name of any person as trustee, agent, guardian or custodian under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act or any comparable statute as in effect in any state, a change in beneficial ownership shall be deemed to have occurred whenever there is a change in the beneficiary of such trust, the principal of such agent, the ward of such guardian or the minor for whom such custodian is acting.

(3) Notwithstanding anything in this paragraph C to the contrary, no change in beneficial ownership shall be deemed to have occurred solely as a result of:

(a) any event that occurred prior to May 30, 1987, including contracts providing for options, rights of first refusal and similar arrangements, in existence on such date to which any holder of shares of stock is a party;

(b) any transfer of any interest in shares of stock pursuant to a bequest or inheritance, by operation of law upon the death of any individual, or by any other transfer without valuable consideration, including a gift that is made in good faith and not for the purpose of circumventing this paragraph C;

(c) any change in the beneficiary of any trust, or any distribution of a share of stock from trust, by reason of the birth, death, marriage or divorce of any natural person, the adoption of any natural person prior to age 18 or the passage of a given period of time or the attainment by any natural person of a specified age, or the creation or termination of any guardianship or custodian arrangement; or

(d) any appointment of a successor trustee, agent, guardian or custodian with respect to a share of stock.

(4) For purposes of this paragraph C, all determinations concerning changes in beneficial ownership, or the absence of any such change, shall be made by the Corporation. Written procedures designed to facilitate such determinations shall be established by the Corporation and refined from time to time. Such procedures shall provide, among other things, the manner of proof of facts that will be accepted and the frequency with which such proof may be required to be renewed. The Corporation and any transfer agent shall be entitled to rely on all information concerning beneficial ownership of a share of stock coming to their attention from any source and in any manner reasonably deemed by them to be reliable, but neither the Corporation nor any transfer agent shall be charged with any other knowledge concerning the beneficial ownership of a

share of stock.

(5) Each share of Common Stock acquired by reason of any stock split or dividend shall be deemed to have been beneficially owned by the same person continuously from the same date as that on which beneficial ownership of the share of Common Stock, with respect to which such share of Common Stock was distributed, was acquired.

(6) Each share of Common Stock acquired upon conversion of the outstanding Series H Preferred Stock of the Corporation ("Convertible Stock") shall be deemed to have been beneficially owned by the same person continuously from the date on which such person acquired the Convertible Stock converted into such share of Common Stock.

(7) Where a holder beneficially owns shares having ten votes per share and shares having one vote per share, and transfers beneficial ownership of less than all of the shares held, the shares transferred shall be deemed to consist, in the absence of evidence to the contrary, of the shares having one vote per share.

(8) Shares of Common Stock held by the Corporation's employee benefit plans will be deemed to be beneficially owned by such plans regardless of how such shares are allocated to or voted by participants, until the shares are actually distributed to participants.

(9) Each share of Common Stock, whether at any particular time the holder thereof is entitled to exercise ten votes or one, shall be identical to all other shares of Common Stock in all other respects.

(10) Each share of Voting Preferred Stock, whether at any particular time the holder thereof is entitled to exercise ten votes or one, shall be identical in all other respects to all other shares of Voting Preferred Stock in the same designated series.

(11) Each share of Common Stock issued by the Corporation in a business combination transaction shall be deemed to have been beneficially owned by the person who received such share in the transaction continuously for the shortest period, as determined in good faith by the Board of Directors, that would be permitted for the transaction to be accounted for as a pooling of interests, provided that the Audit Committee of the Board of Directors has made a good faith determination that such transaction has a bona fide business purpose, it is in the best interests of the Corporation and its shareholders that such transaction be accounted for as a pooling of interests under generally accepted accounting principals and such issuance of Common Stock does not have the effect of nullifying or materially restricting or disparately reducing the per share voting rights of holders of an outstanding class or classes of voting stock of the Corporation. Notwithstanding the foregoing, the Corporation shall not issue shares in a business combination transaction if such issuance would result in a violation of any rule or regulation regarding the per share voting rights of publicly-traded securities that is promulgated by the Securities and Exchange Commission or the principal exchange upon which the Common Stock is then listed for trading and nothing herein shall be interpreted to require the Corporation to account for any business combination transaction in any particular manner.

D. Non-Assessability; Transfers; Pre-emptive Rights. The stock of this Corporation shall be fully paid and non-assessable when issued and shall be personal property. No transfer of such stock shall be binding upon this Corporation unless such transfer is made in accordance with these Articles and the by-laws of this Corporation and duly recorded in the books thereof. No stockholder shall have any pre-emptive right to subscribe to any or all additions to the stock of this Corporation.

E. Series H Preferred Stock. The Corporation's Preferred Stock, Series H ("Series H Shares"), shall consist of 20,000 shares of Preferred Stock.

(1) Holders of the outstanding Series H Shares shall be entitled to one vote per share thereof, voting with holders of shares of Common Stock and with holders of other voting shares of Preferred Stock as a single class, except as to those matters on which holders of Preferred Stock or a particular series thereof are required by applicable law to vote separately; and shall be entitled to receive, out of any funds legally available therefor, dividends at the rate of 7% per annum of the part value thereof, and no more, payable in cash quarterly on the last day of March, June, September, and December in each year, commencing 1975, when and as declared by the Board of Directors of the Corporation. Dividends shall accrue on each share of Series H from the date of its original issuance and shall accrue from day to day, whether or not earned or declared. Dividends shall be cumulative so that if dividends in respect of any previously quarterly dividend period at the prescribed rate per annum shall not have been paid on or declared and set apart for all Series H Shares at the time outstanding, the deficiency shall be fully paid on or declared and set apart for said shares before any dividend or other distribution shall be paid on or declared or set apart for shares of Common Stock.

(2) In the event of a liquidation, dissolution or winding up of this Corporation, the holders of Series H Shares shall be entitled to receive, pro rata with all other holders of Preferred Stock of whatever series, to the extent available out of the assets of this Corporation, whether such assets are capital or surplus of any nature, an amount equal to the par value of such Preferred Stock, and in addition thereto, a further amount equal to the dividends unpaid and accumulated thereon, to the date that payment is earned or declared or not, and no more, before any payment shall be made or any assets distributed to the holders of Common Stock. A consolidation or merger of this Corporation with or into any other corporation or corporations, or a sale of all or substantially all of the assets of the Corporation, shall not be deemed to be a liquidation, dissolution or winding up, within the meaning of this paragraph.

(3) The holders of Series H Shares shall have conversion rights as follows:

(a) The Series H Shares shall be convertible, at the option of the respective holders thereof, at the office of the Corporation or any transfer

agent for such shares, into fully paid and non-assessable shares (calculated to the nearest whole share, fractions of a share being disregarded) of Common Stock of the Corporation, at the conversion rate of one and twelve thirteenths (1-12/13ths) shares of Common Stock for each Series H Share converted. Such conversion rate shall be subject to adjustment from time to time in certain instances, as hereinafter provided. The Corporation shall make no payment or adjustment on account of any dividends accrued on the Series H Shares surrendered for conversion.

(b) Before any holder of Series H Shares shall be entitled to convert the same in Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for the Series H Shares, and shall give written notice to the Corporation at such office that he elects to convert the same and shall state in writing therein the name or names in which he wishes the certificate or certificates for Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series H Shares, or to his nominee or nominees, certificates for the number of full shares of Common Stock to which he shall be entitled, as aforesaid. Such conversion shall be deemed to have been made as of the date of surrender of the Series H Shares to be converted, and the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of that Common Stock on said date.

(c) In case the Corporation shall at any time subdivide the outstanding shares of Common Stock, or shall issue as a dividend on Common Stock such number of shares of Common Stock as shall equal 10% or more of the number of shares of Common Stock outstanding immediately prior to the issuance of such dividend, the conversion price in effect immediately prior to such subdivision or the issuance of such dividend shall be proportionately decreased, and in case the Corporation shall at any time combine the outstanding shares of Common Stock, the conversion price in effect immediately prior to such combination shall be proportionately increased, effective at the close of business on the date of such subdivision, dividend or combination, as the case may be.

(d) No fractional shares of Common Stock shall be issued upon the conversion of Series H Shares. If any fractional interest in a share of Common Stock would, except for the provisions of this paragraph (d), be deliverable upon conversion hereunder, the Corporation shall adjust such fractional interest by rounding off said fractional interest to the nearest whole number of shares of Common Stock.

(e) Whenever the conversion is adjusted, as herein provided, the Corporation shall forthwith maintain at its office and file with the transfer agents for Series H Shares, if any, a statement signed by the Chairman of the Board, or the President, or a Vice President of the Corporation, and by its Treasurer or an Assistant Treasurer, showing in detail the facts requiring such adjustment and the conversion price after such adjustment. Such transfer agent shall be under no duty or responsibility with respect to any such statement except to exhibit the same from time to time to any holder of Series H Shares desiring an inspection thereof.

(f) In case of any capital reorganization or any reclassification of the capital stock of the Corporation or in case of the consolidation or merger of the Corporation with or into another corporation or the conveyance of all or substantially all of the assets of the Corporation to another corporation, each Series H Share shall thereafter be convertible into the number of shares of stock or other securities or property to which a holder of the number of shares of Common Stock of the Corporation deliverable upon conversion of such Series H Shares would have been entitled upon such reorganization, reclassification, consolidation, merger or conveyance; and, in any such case, appropriate adjustment (as determined by the Board of Directors) shall be made in the application of the provisions herein set forth with respect to the rights and interests thereafter of the holders of the Series H Shares, to the end that the provisions set forth herein (including provisions with respect to changes in and other adjustments of the conversion price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of the Series H Shares.

(g) In case:

1. the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend, or any other distribution, payable otherwise than in cash; or
2. the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them to subscribe for or purchase any shares of stock of any class or to receive any other rights; or
3. of any capital reorganization of the Corporation, reclassification of the capital stock of the Corporation (other than a subdivision or combination of its outstanding shares of Common Stock), consolidation or merger of the Corporation with or into another corporation, or conveyance of all or substantially all of the assets of the Corporation to another corporation; or
4. of the voluntary or involuntary dissolution, liquidation or winding up of the Corporation; then, and in any such case, the Corporation shall cause to be mailed to the holders of record of the outstanding Series H Shares, at least 10 days prior to the date hereinafter specified, a notice stating the date on which (i) a record is to be taken for the purpose of such dividend, distribution, or rights, or (ii) such reclassification, reorganization, consolidation, merger, conveyance, dissolution, liquidation or winding up is to take place and the date, if any is to be fixed, as of which holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, conveyance, dissolution, liquidation or winding up.

(h) The Corporation shall at all times reserve and keep available, out of its authorized but unissued Common Stock, solely for the purpose of effecting the conversion of the Series H Shares, the full number of shares of Common Stock deliverable upon the conversion of all Series H Shares from time to time outstanding.

(i) The Corporation shall pay any and all issue and other taxes that may be payable in respect to any issue or delivery of shares of Common Stock or conversion of Series H Shares pursuant hereto. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the Series H Shares so converted were registered, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Corporation the amount of any such tax, or has established, to the satisfaction of the Corporation, that such tax has been paid.

(j) All certificates of the Series H Shares surrendered for conversion shall be appropriately cancelled on the books of the Corporation, and the shares so converted represented by such certificates shall be restored to the status of authorized but unissued Preferred Stock of the Corporation without designation as to series.

F. Series L Preferred Stock. The Corporation's 5% Cumulative Convertible Series L Preferred Stock ("Series L Shares") shall consist of 325,000 shares of Preferred Stock having the preferences, limitations and relative rights set forth below.

(1) Voting Rights. Holders of the Series L Shares shall be entitled to cast one vote per share, voting with holders of shares of Common Stock and with holders of other series of voting preferred stock as a single class on any matter to come before a meeting of the shareholders, except with respect to the casting of ballots on those matters as to which holders of Preferred Stock or a particular series thereof are required by law to vote separately.

(2) Rank. The Series L Shares shall, with respect to dividend rights and rights upon liquidation, dissolution and winding up, rank prior to the Common Stock and *pari passu* with respect to the Series H Shares. All equity securities of the Corporation to which the Series L Shares rank prior, whether with respect to dividends or upon liquidation, dissolution or winding-up or otherwise, including the Common Stock, are collectively referred to herein as the "Junior Securities"; all equity securities of the Corporation with which the Series L Shares rank *pari passu*, including the Series H Shares, are collectively referred to herein as the "Parity Securities"; and all other equity securities of the Corporation (other than any convertible debt securities) to which the Series L Shares rank junior are collectively referred to herein as the "Senior Securities." The preferences, limitations and relative rights of the Series L Shares shall be subject to the preferences, limitations and relative rights of the Junior Securities, Parity Securities and Senior Securities issued after the Series L Shares are issued.

(3) Dividends.

(a) The holders of record of the Series L Shares shall be entitled to receive, when, as and if declared by the Board of Directors out of funds of the Corporation legally available therefor, an annual cash dividend of \$1.25 on each Series L Share, payable quarterly on each March 31, June 30, September 30 and December 31 on which any Series L Shares shall be outstanding (each a "Dividend Due Date"), commencing on the first such date following the issuance of the Series L Shares. Dividends on each Series L Share shall accrue and be cumulative from and after the date of issuance of such Series L Share and dividends payable for any partial quarterly period shall be calculated on the basis of a year of 360 days consisting of twelve 30-day months. Dividends shall be payable to the holders of record as they appear on the Corporation's stock transfer books at the close of business on the record date for such payment, which the Board of Directors shall fix not more than 60 days or less than 10 days preceding a Dividend Due Date. Holders of the Series L Shares shall not be entitled to any dividends, whether paid in cash, property or stock, in excess of the cumulative dividends as provided in this paragraph (a) and shall not be entitled to any interest thereon.

(b) Unless all cumulative dividends accrued on the Series L Shares have been or contemporaneously are declared and paid or declared and a sum set apart sufficient for such payment through the most recent Dividend Payment Date, then (i) except as provided below, no dividend or other distribution shall be declared or paid or set apart for payment on any Parity Securities, (ii) no dividend or other distribution shall be declared or paid or set aside for payment upon the Junior Securities (other than a dividend or distribution paid in shares of, or warrants, rights or options exercisable for or convertible into, Junior Securities) and (iii) no Junior Securities shall be redeemed, purchased or otherwise acquired for any consideration, nor shall any monies be paid to or made available for a sinking fund for the redemption of any Junior Securities, except by conversion of Junior Securities into, or by exchange of Junior Securities for, other Junior Securities. If any accrued dividends are not paid or set apart with respect to the Series L Shares and any Parity Securities, all dividends declared with respect to the Series L Shares and any Parity Securities shall be declared *pro rata* on a share-by-share basis among all Series L Shares and Parity Securities outstanding at the time.

(4) Conversion. Each Series L Share shall be convertible, at any time, at the option of the holder thereof into that number of fully paid and nonassessable shares of the Common Stock obtained by dividing \$25.00 by the Conversion Price then in effect under the terms of this subsection (4). Unless and until changed in accordance with the terms of this subsection (4), the Conversion Price shall be \$41.25. In order for a holder of the Series L Shares to effect such conversion, the holder shall deliver to KeyCorp Shareholder Services, Inc., Dallas, Texas, or such other agent as may be designated by the Board of Directors as the transfer agent for the Series L Shares (the "Transfer Agent"), the certificates representing such shares in accordance with paragraph

(b) below accompanied by written notice jointly addressed to the Corporation and the Transfer Agent that the holder thereof elects to convert such shares or a specified portion thereof. Each conversion shall be deemed to have been effected immediately prior to the close of business on the date on which the certificates representing the Series L Shares being converted shall have been delivered to the Transfer Agent in accordance with each term and condition of paragraph (b) below, accompanied by the written notice jointly addressed to the Corporation and the Transfer Agent of such conversion (the "Conversion Date"), and the person or persons in whose names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the Common Stock represented thereby at such time. As of the close of business on the Conversion Date, the Series L Shares shall be deemed to cease to be outstanding and all rights of any holder thereof shall be extinguished except for the rights arising under the Common Stock issued in exchange therefor and the right to receive accrued and unpaid dividends on such Series L Shares through the Conversion Date on the terms

specified in paragraph (c) below.

(b) In connection with surrendering to the Transfer Agent the certificates representing (or formerly representing) Series L Shares, the holder shall furnish the Transfer Agent with transfer instruments satisfactory to the Corporation and sufficient to transfer the Series L Shares being converted to the Corporation free of any adverse interest or claims. As promptly as practicable after the surrender of the Series L Shares in accordance with this paragraph and any other requirement under this subsection (4), the Corporation, acting directly or through the Transfer Agent, shall issue and deliver to such holder certificates for the number of whole shares of Common Stock issuable upon the conversion of such shares in accordance with the provisions hereof (along with any interest payment specified in paragraph (a) above and any cash payment in lieu of fractional shares specified in paragraph (d) below). Certificates will be issued for the balance of any remaining Series L Shares in any case in which fewer than all of the Series L Shares are converted. Any conversion under paragraph (a) shall be effected at the Conversion Price in effect on the Conversion Date.

(c) If the Conversion Date with respect to any Series L Share occurs after any record date with respect to the payment of a dividend on the Series L Shares (the "Dividend Record Date") and on or prior to the Dividend Due Date, then (i) the dividend due on such Dividend Due Date shall be payable to the holder of record of such share as of the Dividend Record Date and (ii) the dividend that accrues from the close of business on the Dividend Record Date through the Conversion Date shall be payable to the holder of record of such share as of the Conversion Date. Except as provided in this subsection (4), no payment or adjustment shall be made upon any conversion on account of any dividends accrued on Series L Shares surrendered for conversion or on account of any dividends on the Common Stock issued upon conversion.

(d) No fractional interest in a share of Common Stock shall be issued by the Corporation upon the conversion of any Series L Share. In lieu of any such fractional interest, the holder that would otherwise be entitled to such fractional interest shall receive a cash payment (computed to the nearest cent) equal to such fraction multiplied by the market value of a share of Common Stock, which shall be deemed to equal the last reported per share sale price of Common Stock on the New York Stock Exchange ("NYSE") (or, if the Common Stock is not then traded on the NYSE, the last reported per share sale price on such other national securities exchange on which the Common Stock is listed or admitted to trading or, if not then listed or admitted to trading on any national securities exchange, the last quoted bid price in the over-the-counter market as reported by the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ"), or any similar system of automated dissemination of securities prices) on the trading day immediately prior to the Conversion Date.

(e) The Conversion Price shall be adjusted from time to time as follows:

1. If the Corporation effects any (i) dividend or other distribution upon or in redemption of the Common Stock payable in the form of shares of capital stock of the Corporation or any of its subsidiaries or in the form of any other property (other than cash dividends paid in the ordinary course), (ii) combination of outstanding shares of Common Stock into a smaller number of shares of Common Stock, (iii) split or other subdivision of outstanding shares of Common Stock into a larger number of shares of Common Stock, or (iv) reorganization, exchange or reclassification of Common Stock, or any consolidation or merger of the Corporation with another corporation, or the sale of all or substantially all of its assets to another corporation, or any other transaction effected in a manner such that holders of outstanding Common Stock shall be entitled to receive (either directly, or upon subsequent liquidation) stock, securities or other property with respect to or in exchange for Common Stock (a "Diluting Event"), then as a condition of such Diluting Event, lawful, appropriate, equitable and adequate adjustments shall be made to the Conversion Price whereby the holders of the Series L Shares shall thereafter be entitled to receive (under the same terms otherwise applicable to their receipt of the Common Stock upon conversion of the Series L Shares), in lieu of or in addition to, as the case may be, the number of shares of Common Stock issuable under this subsection (4), such shares of stock, securities or other property as may be issued or payable with respect to or in exchange for that number of shares of Common Stock to which such holders of Series L Shares were so entitled under this subsection (4), and in any such case appropriate, equitable and adequate adjustments shall also be made to such resulting consideration in like manner in connection with any subsequent Diluting Events. It is the intention of the parties that the foregoing shall have the effect of entitling such holders of Series L Shares to receive upon the due exercise of their conversion rights under this subsection (4) such stock, securities and other property (other than cash dividends paid in the ordinary course) as such holders would have received had they held the Common Stock issuable under this subsection (4) (or any replacement or additional stock, securities or property, as applicable) on the record date of such Diluting Event.

2. No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 5% of such price.

3. Whenever the Conversion Price is adjusted as herein provided, the Corporation shall promptly deliver to the Transfer Agent an officer's certificate setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment, which certificate shall constitute conclusive evidence, absent manifest error, of the correctness of such adjustment. Promptly after delivery of such certificate, the Corporation shall prepare and mail a notice to each holder of Series L Shares at each such holder's last address as the same appears on the books of the Corporation, which notice shall set forth the Conversion Price and a brief statement of the facts requiring the adjustment. The failure of the Corporation to take any such action shall not invalidate any corporate action by the Corporation.

(f) The Corporation covenants that (A) all shares of Common Stock that may be issued upon conversions of Series L Shares will upon issue be duly and validly issued, fully paid and nonassessable, and free of all liens, charges or preemptive rights, and (B) it will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued shares of Common Stock or its issued shares of Common Stock held in its treasury, or both, for the purpose of effecting conversions of Series L Shares, the whole number of shares of Common Stock deliverable upon the conversion of all outstanding Series L Shares not theretofore converted.

(5) Liquidation Preference. (a) Upon any voluntary or involuntary dissolution, liquidation, or winding up of the Corporation (for the purposes of this subsection (5), a "Liquidation"), the holder of each Series L Share then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its shareholders, an amount equal to \$25 per share plus all dividends (whether or not declared or due) accrued and unpaid on such share on the date fixed for the distribution of assets of the Corporation to the holders of Series L Shares. With respect to the distribution of the Corporation's assets upon a Liquidation, the Series L Shares shall rank prior to Junior Securities, *pari passu* with the Parity Securities and junior to the Senior Securities.

(b) If upon any Liquidation of the Corporation, the assets available for distribution to the holders of Series L Shares and any Parity Securities then outstanding shall be insufficient to pay in full the liquidation distributions to the holders of outstanding Series L Shares and Parity Securities in accordance with the terms of these Articles of Incorporation, then the holders of such shares shall share ratably in such distribution of assets in accordance with the amount that would be payable on such distribution if the amounts to which the holders of the Series L Shares and Parity Securities are entitled were paid in full.

(c) Neither the voluntary sale, conveyance, lease, pledge, exchange or transfer of all or substantially all the property or assets of the Corporation, the merger or consolidation of the Corporation into or with any other corporation, the merger of any other corporation into the Corporation, a share exchange with any other corporation, nor any purchase or redemption of some or all of the shares of any class or series of stock of the Corporation, shall be deemed to be a Liquidation of the Corporation for the purposes of this subsection (5) (unless in connection therewith the Liquidation of the Corporation is specifically approved).

(d) The holder of any Series L Shares shall not be entitled to receive any payment owed for such shares under this subsection (5) until such holder shall cause to be delivered to the Corporation the certificate or certificates representing such Series L Shares and transfer instruments satisfactory to the Corporation and sufficient to transfer such Series L Shares to the Corporation free of any adverse interest. No interest shall accrue on any payment upon Liquidation after the due date thereof.

(e) After payment of the full amount of the liquidating distribution to which they are entitled, the holders of Series L Shares will not be entitled to any further participation in any distribution of assets by the Corporation.

(6) Preemptive Rights. The Series L Shares is not entitled to any preemptive or subscription rights in respect of any securities of the Corporation.

G. Series BB Preference Stock. The Corporation's Series BB Participating Cumulative Preference Stock shall consist of 1,000,000 shares of Preferred Stock having the preferences, limitations and relative rights set forth below. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, however, that no decrease shall reduce the number of shares of Series BB Participating Cumulative Preference Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options or rights or upon the conversion of any outstanding securities issued by the Corporation convertible into Series BB Participating Cumulative Preference Stock.

(1) The holders of Series BB Participating Cumulative Preference Stock shall have the following dividend rights.

(a) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series BB Participating Cumulative Preference Stock with respect to dividends, the holders of shares of Series BB Participating Cumulative Preference Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the fifteenth day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series BB Participating Cumulative Preference Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$10.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, par value \$1.00 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series BB Participating Cumulative Preference Stock. In the event the Corporation shall at any time after August 27, 1996 (the "Right Declaration Date") (i) declare or pay any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series BB Participating Cumulative Preference Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) The Corporation shall declare a dividend or distribution on the Series BB Participating Cumulative Preference Stock as provided in paragraph (a) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$10.00 per share on the Series BB Participating Cumulative Preference Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series BB Participating Cumulative Preference Stock from the

Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series BB Participating Cumulative Preference Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends of such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series BB Participating Cumulative Preference Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series BB Participating Cumulative Preference Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series BB Participating Cumulative Preference Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 45 days prior to the date fixed for the payment thereof.

(2) In addition to any voting rights otherwise required by law, the holders of shares of Series BB Participating Cumulative Preference Stock shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series BB Participating Cumulative Preference Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare or pay any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series BB Participating Preference Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Except as otherwise provided in the Corporation's Articles of Incorporation or by law, the holders of shares of Series BB Participating Cumulative Preference Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c) (i) If at any time dividends on any Series BB Participating Cumulative Preference Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series BB Participating Cumulative Preference Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preferred Stock (including holders of the Series BB Participating Cumulative Preference Stock) with dividends in arrears in an amount equal to six quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect two Directors.

(ii) During any default period, such voting right of the holders of Series BB Participating Cumulative Preference Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 2(c) or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders, provided that neither such voting right nor the right of the holders of any other series of Preferred Stock, if any, to increase, in certain cases, the authorized number of Directors shall be exercised unless the holders of 10% in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. At any meeting at which the holders of Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect Directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two Directors or, if such right is exercised at an annual meeting, to elect two Directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of Directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect Directors in any default period and during the continuance of such period, the number of Directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or *pari passu* with the Series BB Participating Cumulative Preference Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any shareholder or shareholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the Chairman of the Board, the Chief Executive Officer, the President, a Vice-President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this paragraph (c)(iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to the holder the last address appearing on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any shareholder or shareholders owning in the aggregate not less than 10% of the total number of shares of Preferred Stock outstanding. Notwithstanding the provisions of this paragraph (c)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the shareholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation, if applicable, shall continue to be entitled to elect the whole number of Directors until the holders of Preferred Stock shall have exercised their right to elect two Directors voting as a class, after the exercise of which right (x) the Directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in paragraph (c)(ii) of this Section 2) be filled by vote of a majority of the remaining Directors theretofore elected by

the holders of the class of stock which elected the Director whose office shall have become vacant. References in this paragraph (c) to Directors elected by the holders of a particular class of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of Directors shall be such number as may be provided for in the Corporation's Articles of Incorporation or By-laws irrespective of any increase made pursuant to the provisions of paragraph (c)(ii) of this Section 2 (such number being subject, however, to change thereafter in any manner provided by law or in the Corporation's Articles of Incorporation or By-laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

(d) Except as set forth herein, holders of Series BB Participating Cumulative Preference Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(3) Any shares of Series BB Participating Cumulative Preference Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the shareholders or the Board of Directors, subject to the conditions and restrictions on issuance set forth in the Corporation's Articles of Incorporation.

(4) The Corporation shall abide by the following restrictions:

(a) Whenever quarterly dividends or other dividends or distributions payable on the Series BB Participating Cumulative Preference Stock as provided for in Section 1 are in arrears or the Corporation shall be in default in payment thereof, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series BB Participating Cumulative Preference Stock outstanding shall have been paid or set aside for payment in full, and in addition to any and all other rights which any holder of shares of Series BB Participating Cumulative Preference Stock may have in such circumstances, the Corporation shall not:

1. declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series BB Participating Cumulative Preference Stock;
2. declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series BB Participating Cumulative Preference Stock, unless dividends are paid ratably on the Series BB Participating Cumulative Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;
3. redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series BB Participating Cumulative Preference Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series BB Participating Cumulative Preference Stock; or
4. redeem or purchase or otherwise acquire for consideration any shares of Series BB Participating Cumulative Preference Stock, or any shares of stock ranking on a parity with the Series BB Participating Cumulative Preference Stock (either as to dividends or upon liquidation, dissolution or winding up), except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

(5) Upon any liquidation, dissolution or winding up of the Corporation, the holders of Series BB Participating Cumulative Preference Stock shall have the following rights.

(a) Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, no distribution shall be made to the holders of shares of stock ranking (either as to dividends or upon liquidation, dissolution or winding up) junior to the Series BB Participating Cumulative Preference Stock unless, prior thereto, the holders of shares of Series BB Participating Cumulative Preference Stock shall have received \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series BB Liquidation Preference"). Following the payment of the full amount of the Series BB Liquidation Preference, no additional distributions shall be made to the holders of shares of Series BB Participating Cumulative Preference Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series BB Liquidation Preference by (ii) 100 (as appropriately adjusted as set forth in subparagraph (c) below to reflect such

events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series BB Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series BB Participating Cumulative Preference Stock and Common Stock, respectively, holders of Series BB Participating Cumulative Preference Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Cumulative Preference Stock and Common Stock, on a per share basis, respectively.

(b) In the event, however, that there are not sufficient assets available to permit payment in full of the Series BB Liquidation Preference and the liquidation preferences of all other series of Cumulative Preference Stock, if any, which rank on a parity with the Series BB Participating Cumulative Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment then such remaining assets shall be distributed ratably to the holders of Common Stock.

(c) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(6) In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or converted into other stock or securities, cash and/or any other property, then in any such case the shares of Series BB Participating Cumulative Preference Stock shall at the same time be similarly exchanged or converted in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is converted or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare or pay any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or conversion of shares of Series BB Participating Cumulative Preference Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(7) The shares of Series BB Participating Cumulative Preference Stock shall not be redeemable.

(8) The Articles of Incorporation of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series BB Participating Cumulative Preference Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series BB Participating Cumulative Preference Stock, voting separately as a class.

(9) Series BB Participating Cumulative Preference Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series BB Participating Cumulative Preference Stock.

ARTICLE IV

Directors

A. Number of Directors. The business and affairs of this Corporation shall be managed under the direction of the Board of Directors. The number of directors comprising the Board of Directors of this Corporation (exclusive of directors who may be elected by the holders of any one or more series of Preferred Stock voting separately) shall be 14 unless otherwise determined from time to time by resolution adopted by the affirmative votes of both (i) 80% of the directors then in office and (ii) a majority of the Continuing Directors (as defined in Article V(D)), voting as a separate group, provided, however, that no decrease in the number of directors shall shorten the term of any incumbent director.

B. Classification. The Board of Directors, other than those who may be elected by the holders of any one or more series of Preferred Stock voting separately, shall be divided, with respect to the time during which they shall hold office, into three classes, designated Class I, II and III, as nearly equal in number as possible. Any increase or decrease in the number of directors shall be apportioned by the Board of Directors so that all classes of directors shall be as nearly equal in number as possible. At each annual meeting of shareholders, directors chosen to succeed those whose terms then expire shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election and until their successors are duly elected and qualified.

C. Vacancies. Except as provided in Article IV (G) hereof, any vacancy on the Board (including any vacancy resulting from an increase in the authorized number of directors or from a failure of the shareholders to elect the full number of authorized directors) may, notwithstanding any resulting absence of a quorum of directors, be filled only by the Board of Directors, acting by vote of both (i) a majority of the directors then in office and (ii) a majority of all the Continuing Directors, voting as a separate group, and any director so appointed shall serve until the next shareholders' meeting held for the election of directors of the class to which he shall have been appointed and until his successor is duly elected and qualified.

D. Removal. Subject to Article IV (G) hereof and notwithstanding any other provisions of these Articles or the Bylaws of this Corporation, any director or the entire Board of Directors may be removed at any time, but only for cause, by the affirmative vote at a meeting of shareholders called for such purpose of the holders of both (i) a majority of the Total Voting Power (as defined in Article V(D) hereof) entitled to be cast by the holders of Voting Stock (as defined in Article V(D) hereof), voting together as a single class, and (ii) a majority of the Total Voting Power entitled to be cast by the Independent Shareholders (as defined in Article V(D) hereof), voting as a separate group. At the same meeting in which the shareholders remove one or more directors, a successor or successors may be elected for the unexpired term of the director or directors removed. Except as set forth in this Article, directors shall not be subject to removal.

E. Tender Offers and Other Extraordinary Transactions. In connection with the exercise of its judgment in determining what is in the best interest of the Corporation and its stockholders when evaluating a Business Combination (as defined in Article V(D) hereof) or a tender or exchange offer or a proposal by another Person or Persons to make a tender or exchange offer, the Board of Directors of the Corporation shall consider, in addition to the adequacy of the amount to be paid in connection with any such transaction, all of the following factors and any other factors which it deems relevant: (i) the social and economic effects of the transaction on the Corporation and its subsidiaries, and their respective employees, customers, creditors and other elements of the communities in which they operate or are located, (ii) the business and financial condition and earnings prospects of the acquiring Person or Persons, including, but not limited to, debt service and other existing or likely financial obligations of the acquiring Person or Persons, and the possible effect of such conditions upon the Corporation and its Subsidiaries and the other elements of the communities in which the Corporation and its subsidiaries operate or are located, and (iii) the competence, experience and integrity of the acquiring Person or Persons and its or their management.

F. Board Qualifications. (1) Except as otherwise provided in Article IV(G) hereof, no person shall be eligible for nomination, election or service as a director of the Corporation who shall:

(a) in the opinion of the Board of Directors fail to respond satisfactorily to the Corporation respecting any inquiry of the Corporation for information to enable the Corporation to make any certification required by the Federal Communications Commission under the Anti-Drug Abuse Act of 1988 or to determine the eligibility of such person under this Article;

(b) have been arrested or convicted of any offense concerning the distribution or possession of, or trafficking in, drugs or other controlled substances, provided that in the case of an arrest the Board of Directors may in its discretion determine that notwithstanding such arrest such persons shall remain eligible under this Article; or

(c) have engaged in actions that could lead to such an arrest or conviction and that the Board of Directors determines would make it unwise for such person to serve as a director of the Corporation.

(2) Any person serving as a director of the Corporation shall automatically cease to be a director on such date as he ceases to have the qualifications set forth in paragraph (1) above, and his position shall be considered vacant within the meaning of Article IV(C) hereof.

G. Directors Elected by Preferred Shareholders. Notwithstanding anything in these Articles of Incorporation to the contrary, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the provisions of these Articles of Incorporation (as they may be duly amended from time to time) fixing the rights and preferences of such Preferred Stock shall govern with respect to the nomination, election, term, removal, vacancies or other related matters with respect to such directors.

ARTICLE V

Certain Business Combinations

A. Vote Required in Business Combinations. No Business Combination may be effected unless all of the following conditions have been fulfilled:

(1) In addition to any vote otherwise required by law or these Articles, the proposal to effect a Business Combination shall have been approved by (i) a majority of the directors then in office and a majority of the Continuing Directors and (ii) by the affirmative votes of both of the following:

(a) 80% of the Total Voting Power entitled to be cast by holders of outstanding shares of Voting Stock of this Corporation, voting as a separate voting group; and

(b) Two-thirds of the Total Voting Power entitled to be cast by the Independent Stockholders present or duly represented at a meeting, voting as a separate voting group.

(2) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended (the "Act"), and the rules and regulations thereunder (or any subsequent provisions replacing the Act, rules or regulations as a whole or in part) is mailed to all shareholders of the Corporation at least 30 days prior to the consummation of such Business Combination (regardless of whether such proxy or information statement is required pursuant to the Act or subsequent provisions).

B. Nonapplicability of Voting Requirements. The vote required by Paragraph A of this Article does not apply to a Business Combination if all conditions specified in either of paragraphs 1 or 2 below are met:

(1) The proposed Business Combination is approved prior to the time the Related Person involved in the proposed transaction became a Related Person by the affirmative votes of both a majority of the directors then in office and a majority of the Continuing Directors, voting as a separate group.

(2) All of the following five conditions have been met:

(a) The aggregate amount of the cash and the Market Value on the Valuation Date of consideration other than cash to be received per share by all holders of Common Stock in such Business Combination is at least equal to the highest of the following:

1. the highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by or on behalf of the Related Person for any shares of Common Stock of the same class or series acquired by it within the two-year period immediately prior to the Announcement Date or in the transaction in which it became a Related Person, whichever is higher;

2. The Market Value per share of Common Stock of the same class or series on the Announcement Date or on the Determination Date, whichever is higher; or

3. The price per share equal to the Market Value per share of Common Stock of the same class or series determined pursuant to clause (2) immediately preceding, multiplied by the fraction of the highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by or for the Related Person for any shares of Common Stock of the same class or series acquired by it within the two-year period immediately prior to the Announcement Date, over the Market Value per share of Common Stock of the same class or series on the first day in such two-year period on which the Related Person acquired any shares of Common Stock.

(b) The aggregate amount of the cash and the Market Value as of the Valuation Date of consideration other than cash to be received per share by holders of shares of any class or series of outstanding stock other than Common Stock is at least equal to the highest of the following, whether or not the Related Person has previously acquired any shares of a particular class or series of stock:

1. The highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by or for the Related Person for any shares of such class of stock acquired by it within the two-year period immediately prior to the Announcement Date or in the transaction in which it became a Related Person, whichever is higher;

2. The highest preferential amount per share to which the holders of shares of such class of stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of this Corporation;

3. The Market Value per share of such class of stock on the Announcement Date or on the Determination Date, whichever is higher; or

4. The price per share equal to the Market Value per share of such class of stock determined pursuant to clause (3) immediately preceding, multiplied by the fraction of the highest per share price, including any brokerage commissions, transfer taxes and soliciting dealers' fees, paid by or for the Related Person for any shares of any class of Voting Stock acquired by it within the two-year period immediately prior to the Announcement Date, over the Market Value per share of the same class of Voting Stock on the first day in such two-year period on which the Related Person acquired any shares of the same class of Voting Stock.

(c) The consideration to be received by holders of any class or series of outstanding stock is to be in cash or in the same form as the Related Person has previously paid for shares of the same class or series of stock. If the Related Person has paid for shares of any class of stock with varying forms of consideration, the form of consideration for such class of stock shall be either cash or the form used to acquire the largest number of shares of such class or series of stock previously acquired by it.

(d) After the Related Person has become a Related Person an prior to the consummation of such Business Combination:

1. There shall have been no failure to declare and pay at the regular date therefor any full periodic dividends, cumulative or not, on any outstanding Preferred Stock of this Corporation;

2. There shall have been no reduction in the annual rate of dividends paid on any class or series of stock of this Corporation that is not Preferred Stock except as necessary to reflect any subdivision of the stock, and no failure to increase the annual rate of dividends as necessary to reflect any reclassification, including any reverse stock split, recapitalization, reorganization, or any similar transaction which has the effect of reducing the number of outstanding shares of the stock; and

3. The Related Person did not become the Beneficial Owner of any additional shares of stock of this Corporation except as part of the transaction which resulted in such Related Person becoming a Related Person or by virtue of proportionate stock splits or stock dividends.

The provisions of clause (1) and (2) immediately preceding shall not apply if no Related Person or an Affiliate or Associate of the Related

Person voted as a director of this Corporation in a manner inconsistent with such clauses and the Related Person, within ten days after any act or failure to act inconsistent with such clauses, notifies the Board of Directors of this Corporation in writing that the Related Person disapproves thereof and requests in good faith that the Board of Directors rectify such act or failure to act.

(e) After the Related Person has become a Related Person, the Related Person may not have received the benefit, directly or indirectly, except proportionately as a shareholder, of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by this Corporation or any of its Subsidiaries, whether in anticipation of or in connection with such Business Combination or otherwise.

C. Alternative Shareholder Vote for Business Combinations. In the event the conditions set forth in Subparagraph (B)(1) or (B)(2) have been met, the affirmative vote required of shareholders in order to approve the proposed Business Combination shall be 66-2/3% of the Total Voting Power present or duly represented at the meeting called for such purpose.

D. Definitions. The following terms, for all purposes of these Articles or the By-laws of this Corporation, shall have the following meaning:

(1) An "Affiliate" of, or a person "affiliated with," a specified person means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

(2) "Announcement Date" means the first general public announcement of the proposal or intention to make a proposal of the Business Combination or its first communication generally to shareholders of this Corporation, whichever is earlier.

(3) "Associate," when used to indicate a relationship with any person, means any of the following:

(a) Any corporation or organization, other than this Corporation, of which such person is an officer, director or partner or is, directly or indirectly, the Beneficial Owner of 10% or more of any class of Equity Securities.

(b) Any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity.

(c) Any relative or spouse of such person, or any relative of such spouse, who has the same home as such person.

(d) Any investment company registered under the Investment Company Act of 1940 for which such person serves as investment advisor.

(4) A person shall be deemed to be the "Beneficial Owner" of any shares of capital stock (regardless whether owned of record):

(a) Which that person or any of its Affiliates or Associates, directly or indirectly, owns beneficially;

(b) Which such person or any of its Affiliates or Associates has (i) the right to acquire (whether exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any agreement, arrangement or understanding; or

(c) Which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of voting capital stock of the corporation or any of its subsidiaries.

(5) "Business Combination" means any of the following transactions, when entered into by the Corporation or a Subsidiary with, or upon a proposal by, a Related Person:

(a) The merger or consolidation of, or an exchange of securities by, the Corporation or any Subsidiary;

(b) The sale, lease, exchange, mortgage, pledge, transfer or any other disposition (in one or a series of transactions) of any assets of the Corporation, or of any Subsidiary, having an aggregate book or fair market value of \$1,000,000 or more, measured at the time the transaction or transactions are approved by the Board of Directors;

(c) The adoption of a plan or proposal for the liquidation or dissolution of the Corporation or any Subsidiary;

(d) The issuance or transfer by the Corporation or any Subsidiary (in one or a series of transactions) of securities of the Corporation, or of any Subsidiary, having a fair market value of \$1,000,000 or more;

(e) The reclassification of securities (including a reverse stock split), recapitalization, consolidation or any other transaction (whether or not involving a Related Person) which has the direct or indirect effect of increasing the voting power (regardless whether then exercisable) or the proportionate amount of the outstanding shares of any class or series of Equity Securities of this Corporation or any of its Subsidiaries held by

a Related Person, or any Associate or Affiliate of a Related Person;

(f) Any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Corporation or any subsidiary to a Related Person or any Affiliate or Associate thereof, except proportionately as a shareholder; or

(g) Any agreement, contract or other arrangement providing directly or indirectly for any of the foregoing.

(6) "Capital Stock" means any Common Stock, Preferred Stock or other capital stock of the Corporation, or any bonds, debentures, or other obligations granted voting rights by the Corporation pursuant to La. R.S. 12:75H.

(7) "Common Stock" means any stock other than a class or series of preferred or preference stock.

(8) "Continuing Director" shall mean any member of the Board of Directors who is not a Related Person or an Affiliate or Associate thereof, and who was a member of the Board of Directors prior to the time that the Related Person became a Related Person, and any successor to a Continuing Director who is not a Related Person or an Affiliate or Associate thereof and was recommended to succeed a Continuing Director by a majority of Continuing Directors who were then members of the Board of Directors, provided that, in the absence of a Related Person, any reference to "Continuing Directors" shall mean all directors then in office.

(9) "control," including the terms "controlling," "controlled by" and "under common control with," means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise. The beneficial ownership of 10% or more of the votes entitled to be cast by a corporation's voting stock creates a presumption of control.

(10) "Determination Date" means the date on which a Related Person first became a Related Person.

(11) "Equity Security" means any of the following:

(a) Any stock or similar security, certificate of interest or participation in any profit sharing agreement, voting trust certificate or certificate of deposit for an equity security.

(b) Any security convertible, with or without consideration, into an equity security, or any warrant or other security carrying any right to subscribe to or purchase an equity security.

(c) Any put, call, straddle or other option or privilege of buying an equity security from or selling an equity security to another without being bound to do so.

(12) "Independent Shareholder" or "Independent Stockholder" means a holder of Voting Stock of this Corporation who is not a Related Person.

(13) "Market Value" means the following:

(a) In the case of stock, the highest closing sale price on the date or during the period in question of a share of such stock on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock on the date or during the period in question on the National Association of Securities Dealers, Inc., Automated Quotations Systems, or any alternative system then in use, or, if no such quotations are available, the fair market value on the date or during the period in question of a share of such stock as determined by a majority of the Continuing Directors of this Corporation in good faith.

(b) In the case of property other than cash or stock, the fair market value of such property on the date or during the period in question as determined by a majority of the Continuing Directors of this Corporation in good faith.

(14) A "person" shall mean any individual, firm, corporation or other entity, or a group of persons acting or agreeing to act together in the manner set forth in Rule 13d-5 under the Securities Exchange Act of 1934, as in effect on January 1, 1984.

(15) "Related Person" means any person (other than the Corporation, a Subsidiary or any profit sharing, employee stock ownership or other employee benefit plan of the Corporation or any Subsidiary or any trust, trustee of or fiduciary with respect to any such plan acting in such capacity) who (a) is the direct or indirect Beneficial Owner of shares of Capital Stock representing more than 10% of the outstanding Total Voting Power entitled to vote for the election of directors, and any Affiliate or Associate of any such person, or (b) is an Affiliate or Associate of the Corporation and at any time within the two-year period immediately prior to the date in question was the Beneficial Owner, directly or indirectly, of shares of Capital Stock (including two or more classes or series voting together as a single class) representing 10% or more of the outstanding Total Voting Power entitled to vote for the election of directors. For the purpose of determining whether a person is the Beneficial Owner of a percentage, specified in this Article, of the outstanding Total Voting Power, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned by that person through application of Article V(D)(3) but shall not include any other shares which may be issuable to any other person.

(16) "Subsidiary" means any corporation of which Voting Stock having a majority of the votes entitled to be cast is owned, directly or indirectly, by this Corporation.

(17) "Total Voting Power," when used in reference to any particular matter properly brought before the shareholders for their consideration and vote, means the total number of votes that holders of Capital Stock are entitled to cast with respect to such matter.

(18) "Valuation Date" means the following:

(a) For a Business Combination voted upon by shareholders, the latter of the date prior to the date of the shareholders' vote and the day 20 days prior to the consummation of the Business Combination; and

(b) For a Business Combination not voted upon by the shareholders, the date of the consummation of the Business Combination.

(19) "Voting Stock" means shares of Capital Stock of the Corporation entitled to vote generally in the election of directors.

E. Benefit of Statute. This Corporation claims and shall have the benefit of the provisions of R.S. 12:133 except that the provisions of R.S. 12:133 shall not apply to any business combination involving an interested shareholder that is an employee benefit plan or related trust of this Corporation.

ARTICLE VI

Shareholders' Meetings

A. Written Consents. Any action required or permitted to be taken at any annual or special meeting of shareholders may be taken only upon the vote of the shareholders, present in person or represented by duly authorized proxy, at an annual or special meeting duly noticed and called, as provided in the Bylaws of the Corporation, and may not be taken by a written consent of the shareholders pursuant to the Business Corporation Law of the State of Louisiana.

B. Special Meetings. Subject to the terms of any outstanding class or series of Preferred Stock that entitles the holders thereof to call special meetings, the holders of a majority of the Total Voting Power of the Corporation shall be required to cause the Secretary of the Corporation to call a special meeting of shareholders pursuant to La. R.S. 12:73B (or any successor provision). Nothing in this Article VI shall limit the power of the President of the Corporation or its Board of Directors to call a special meeting of shareholders.

ARTICLE VII

Limitation of Liability and Indemnification

A. Limitation of Liability. No director or officer of the Corporation shall be liable to the Corporation or to its shareholders for monetary damages for breach of his fiduciary duty as a director or officer, provided that the foregoing provision shall not eliminate or limit the liability of a director or officer for (1) any breach of his duty of loyalty to the Corporation or its shareholders; (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (3) liability for unlawful distributions of the Corporation's assets to, or redemptions or repurchases of the Corporation's shares from, shareholders of the Corporation, under and to the extent provided in La. R.S. 12:92D; or (4) any transaction from which he derived an improper personal benefit.

B. Authorization of Further Actions. The Board of Directors may (1) cause the Corporation to enter into contracts with its directors and officers providing for the limitation of liability set forth in this Article to the fullest extent permitted by law, (2) adopt By-laws or resolutions, or cause the Corporation to enter into contracts, providing for indemnification of directors and officers of the Corporation and other persons (including but not limited to directors and officers of the Corporation's direct and indirect Subsidiaries) to the fullest extent permitted by law and (3) cause the Corporation to exercise the insurance powers set forth in La. R.S. 12:83F, notwithstanding that some or all of the members of the Board of Directors acting with respect to the foregoing may be parties to such contracts or beneficiaries of such By-laws or resolutions or the exercise of such powers. No repeal or amendment of any such By-laws or resolutions limiting the right to indemnification thereunder shall affect the entitlement of any person to indemnification whose claim thereto results from conduct occurring prior to the date of such repeal or amendment.

C. Subsidiaries. The Board of Directors may cause the Corporation to approve for the officers and directors of its direct and indirect Subsidiaries limitation of liability, indemnification and insurance provisions comparable to the foregoing.

D. Amendment of Article. Notwithstanding any other provisions of these Articles of Incorporation, the affirmative vote of the holders of at least 80% of the Total Voting Power shall be required to amend or repeal this Article VII, and any amendment or repeal of this Article shall not adversely affect any elimination or limitation of liability of a director or officer of the Corporation under this Article with respect to any action or inaction occurring prior to the time of such amendment or repeal.

ARTICLE VIII

Reversion

Except for cash, shares or other property or rights payable or issuable to the holders of Preferred Stock, the rights to which shall be determined under applicable state law, Cash, property or share dividends, shares issuable to shareholders in connection with a reclassification of stock, and the redemption price of redeemed shares, that are not claimed by the shareholders entitled thereto within one year after the dividend or redemption price became payable or the shares became issuable, despite reasonable efforts by the Corporation to pay the dividend or redemption price or deliver the certificates for the shares to such shareholders within such time, shall, at the expiration of such time, revert in full ownership to the Corporation, and the Corporation's obligation to pay such dividend or redemption price or issue such shares, as the case may be, shall thereupon cease, provided, however, that the Board of Directors may, at any time, for any reason satisfactory to it, but need not, authorize (i) payment of the amount of any cash or property dividend or redemption price or (ii) issuance of any shares, ownership of which has reverted to the Corporation pursuant to this Article, to the person or entity who or which would be entitled thereto had such reversion not occurred.

ARTICLE IX

Amendments

A. Charter Amendments. Articles IV (other than paragraphs F and G), V, VI(A) and IX of these Articles of Incorporation shall not be amended in any manner (whether by modification or repeal of an existing Article or Articles or by addition of a new Article or Articles) except upon resolutions adopted by the affirmative vote of both (i) 80% of the Total Voting Power entitled to be cast by the holders of outstanding shares of Voting Stock, voting together as a single group, and (ii) two-thirds of the Total Voting Power entitled to be cast by the Independent Shareholders present or duly represented at a shareholders' meeting, voting as a separate group; provided, however, that if such resolutions shall first be adopted by both a majority of the directors then in office and a majority of the Continuing Directors, voting as a separate group, then such resolutions shall be deemed adopted by the shareholders upon the affirmative vote of a majority of the Total Voting Power entitled to be cast by the holders of outstanding shares of Voting Stock, voting as a single group.

B. Bylaw Amendments. Bylaws of this Corporation may be altered, amended, or repealed or new Bylaws may be adopted by (i) the shareholders, but only upon the affirmative vote of both 80% of the Total Voting Power entitled to be cast by the holders of outstanding shares of Voting Stock, voting together as a single group, and two-thirds of the Total Voting Power entitled to be cast by the Independent Shareholders present or duly represented at a shareholders' meeting, voting as a separate group, or (ii) the Board of Directors, but only upon the affirmative vote of both a majority of the directors then in office and a majority of the Continuing Directors, voting as a separate group.

* * * * *

These Amended and Restated Articles of Incorporation are dated as of May 6, 1999.

WITNESSES:

CENTURYTEL, INC.
(formerly Century Telephone Enterprises, Inc.)

/s/ Stacey W. Goff

By: /s/ Glen F. Post, III

Glen F. Post, III, President

/s/ Kay Buchart

By: /s/ Harvey P. Perry

Harvey P. Perry, Secretary

ACKNOWLEDGMENT

STATE OF LOUISIANA

PARISH OF OUACHITA

BEFORE ME, the undersigned authority, personally came and appeared Glen F. Post, III and Harvey P. Perry, to me known to be the persons who signed the foregoing instrument as President and Secretary, respectively, and who, having been duly sworn, acknowledged and declared, in the presence of the two witnesses whose names are subscribed below, that they signed such instrument as their free act and deed for the purposes mentioned therein.

IN WITNESS WHEREOF, the appearers, witnesses and I have hereunto affixed our hands on this 6th day of May, 1999.

WITNESSES:

/s/ Stacey W. Goff

/s/ Glen F. Post, III

Glen F. Post, III, President

/s/ Kay Buchart

/s/ Harvey P. Perry

Harvey P. Perry, Secretary

/s/ Kenneth J. Najder

NOTARY PUBLIC

EXHIBIT 11
CenturyTel, Inc.

COMPUTATIONS OF EARNINGS PER SHARE
(UNAUDITED)

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
(Dollars, except per share amounts, and shares expressed in thousands)				
Income (Numerator):				
Net income	\$ 53,462	64,191	114,567	121,885
Dividends applicable to preferred stock	(102)	(102)	(204)	(204)
Net income applicable to common stock	53,360	64,089	114,363	121,681
Dividends applicable to preferred stock	102	102	204	204
Interest on convertible securities, net of taxes	63	93	126	186
Net income as adjusted for purposes of computing diluted earnings per share	\$ 53,525	64,284	114,693	122,071
Shares (Denominator): *				
Weighted average number of shares:				
Outstanding during period	139,321	137,484	138,944	137,263
Employee Stock Ownership Plan shares not committed to be released	(469)	(562)	(489)	(577)
Number of shares for computing basic earnings per share	138,852	136,922	138,455	136,686
Incremental common shares attributable to additional dilutive effect of convertible securities	2,609	3,106	2,790	3,015
Number of shares as adjusted for purposes of computing diluted earnings per share	141,461	140,028	141,245	139,701
Basic earnings per share *	\$.38	.47	.83	.89
Diluted earnings per share *	\$.38	.46	.81	.87
* Reflects March 1999 stock split. See Note 4.				

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED CONSOLIDATED BALANCE SHEET OF CENTURYTEL, INC. AND SUBSIDIARIES AS OF JUNE 30, 1999 AND THE RELATED UNAUDITED CONSOLIDATED STATEMENT OF INCOME FOR THE SIX MONTH PERIOD THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS	
FISCAL YEAR END	DEC 31 1999	
PERIOD START	JAN 01 1999	
PERIOD END	JUN 30 1999	
CASH	93,893	
SECURITIES	0	
RECEIVABLES	197,602	
ALLOWANCES	3,535	
INVENTORY	20,624	
CURRENT ASSETS	316,034	
PP&E	3,979,280	
DEPRECIATION	1,797,761	
TOTAL ASSETS	4,558,713	
CURRENT LIABILITIES	430,160	
BONDS	2,017,472	
PREFERRED MANDATORY	0	
PREFERRED	8,106	
COMMON	139,363	
OTHER SE	1,501,682	
TOTAL LIABILITY AND EQUITY	4,558,713	
SALES	0	
TOTAL REVENUES	831,006	
CGS	0	
TOTAL COSTS	569,758	
OTHER EXPENSES	0	
LOSS PROVISION	0	
INTEREST EXPENSE	79,728	
INCOME PRETAX	231,105	
INCOME TAX	116,538	
INCOME CONTINUING	114,567	
DISCONTINUED	0	
EXTRAORDINARY	0	
CHANGES	0	
NET INCOME	114,567	
EPS BASIC	.83	1
EPS DILUTED	.81	1

¹ REFLECTS MARCH 1999 STOCK SPLIT. FINANCIAL DATA SCHEDULES FOR PRIOR PERIODS HAVE NOT BEEN RESTATED TO REFLECT SUCH STOCK SPLIT.

EXHIBIT 99

ASSET PURCHASE AGREEMENT

Between

**GTE ARKANSAS INCORPORATED,
GTE MIDWEST INCORPORATED**

and

GTE SOUTHWEST INCORPORATED,

as Sellers,

and

CENTURYTEL, INC.,

as Buyer

June 29, 1999

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* The Schedule numbers refer to the appropriate Section within the Agreement.

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is made and entered into as of the 29th day of June, 1999, by and between CenturyTel, Inc., a Louisiana corporation ("Buyer"), and GTE Arkansas Incorporated, a Delaware corporation, GTE Midwest Incorporated, a Delaware corporation, and GTE Southwest Incorporated, a Delaware corporation (collectively, "Sellers").

RECITALS

WHEREAS, Sellers are in the business of providing regulated local exchange telephone service in certain areas of the state of Arkansas; and

WHEREAS, Sellers desire to sell, convey, assign, transfer and deliver to Buyer, and Buyer desires to purchase and accept from Sellers, certain of their telephone properties and related assets used in the provision of such service, upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties hereto, intending to be legally bound, agree as follows:

ARTICLE 1 DEFINITIONS

1.1 Terms. For purposes of this Agreement and any amendment hereto, the following terms are defined as set out below or in the Section referenced below:

"Accounts Receivable Settlement Statements" is defined in Section 10.16(b).

"Acquired Local Loop" means a "Local Loop" as defined in 47 C.F.R. Section 51.319(a) of the FCC's rules, which Local Loop is part of the Purchased Exchanges.

"Active Employees" is defined in Section 11.1.

"Additional Exchanges" is defined in Section 5.9.

"Advanced Billings" means amounts arising primarily from the operation of the Business that have been billed by Sellers as of the Closing Date but that are unearned because they relate to provision of service after the Closing Date.

"Affiliate" means, with respect 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.

"Allocation" is defined in Section 10.9.

"Ancillary Documents" means the Transition Services Agreement, the Optional Services Agreement, the License Agreement, the GTE Telecom Agreements and the Bill of Sale and Assignment and Assumption Agreement.

"Assigned Contracts" means Contracts to which Sellers are a party (i) which 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 to which Sellers or their Affiliates are a party and is listed on Schedule 1.1-A.

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

"Assumed Liabilities" is defined in Section 2.4.1

"Automated Assets" is defined in Section 8.1.22.

"Bargained Welfare Plans" is defined in Section 11.2.3(a).

"Base Purchase Price" is defined in Section 3.1.

"Bill of Sale and Assignment and Assumption Agreement" is defined in Section 7.2(a).

"Bondholder Consents" is defined in Section 4.2.

"Bondholders" means the Persons listed on Schedule 8.1.7(b).

"Business" means the business of providing in the geographic area serviced by the Purchased Exchanges (i) local exchange (including extended community calling and extended area service), exchange access, switched, dedicated, special access, tandem, end office switching service and intra-LATA toll telecommunications services to end users, (ii) exchange access telecommunications services to interexchange carriers and other local exchange carriers, (iii) retail sales, leasing and maintenance of telephone equipment and products (including customer premises equipment), (iv) non-tariffed public communications (pay telephones) and commercial telecommunications services facilities leasing, and (v) provision of subscriber listing information (including directory services).

"Buyer Pension" is defined in Section 11.2.1(c)(iii)(B).

"Buyer Pension Plan" and "Buyer Pension Plans" are defined in Section 11.2.1(b).

"Buyer Savings Plan" and "Buyer Savings Plans" are defined in Section 11.2.2(b).

"Buyer Welfare Plans" is defined in Section 11.2.3(a).

"Buyer's Actuary" is defined in Section 11.2.1(d)(ii).

"Buyer's Closing Certificate" is defined in Section 6.2.1.

"Calendar-Related" is defined in Section 8.1.22.

"Capital Expenditure Amount" is defined in Section 5.6.

"Capital Expenditure Deficiency" is defined in Section 5.6.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

"Closing" is defined in Section 7.1.

"Closing Date" is defined in Section 7.1.

"Closing Date Amount" is defined in Section 3.2(b).

"Closing Date Statement" is defined in Section 3.3.

"CLTA" is defined in Section 10.10.

"Co-Bound Directories" is defined in Section 9.3.2.

"Confidentiality Agreement" means the Confidentiality Agreement dated as of August 24, 1998, between Buyer, Sellers and certain Affiliates of Sellers.

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

"Contracts" means all contracts, leases, indentures, agreements, and other legally binding arrangements.

"Customer Advances" means amounts arising from the operation of the Business that have been billed and collected by Sellers as of the Closing Date but that are unearned because they relate to the provision of service after the Closing Date.

"Customer Deposits" is defined in Section 10.7.

"Date Data" is defined in Section 8.1.22.

"Deposit" is defined in Section 3.4.

"Deposit L/C" is defined in Section 3.4.

"Direct Claim" is defined in Section 12.4(b).

"DOJ" is defined in Section 4.5.

"Due Diligence Materials" means all materials contained in the six volumes delivered to Buyer on June 25, 1999.

"Earned End-User Accounts Receivable" means accounts receivable arising primarily from the operation of the Business that have been earned by Sellers' provision of service on or before the Closing Date excluding amounts billed through the carrier access billing system to interexchange carriers.

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

"Employment Agreements" is defined in Section 8.1.16(a).

"Environmental Requirements" means all federal, state, interstate and local government or agency Laws relating to pollution or protection of human health and safety or the environment (including, without limitation, air, surface water, ground water, land surface and subsurface strata), including, without limitation, Laws relating to emissions, discharges, releases or threatened releases of Regulated Materials; or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation or handling of Regulated Materials.

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

"ERISA Plans" is defined in Section 8.1.16(a).

"Estimated Non-Regulated Construction Work in Process Amount" is defined in Section 3.2(a).

"Estimated Regulatory Obligation Amount" is defined in Section 3.2(a).

"Evaluation Material" is defined in the first paragraph of the Confidentiality Agreement.

"Excluded Contracts" means all billing and collection agreements, interconnection agreements, National Account Agreements, billing media agreements, vehicle leasing agreements, except to the extent expressly listed on Schedule 1.1-A, and (ii) such other agreements as are listed on Schedule 1.1-B.

"Excluded Marks" means all trademarks, applications for trademark registration, service marks, applications for service mark registration, 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, and any derivations of the foregoing.

"Excluded Permits" means the permits, licenses, franchises, approvals and authorizations of Sellers by Governmental Authorities that relate to the Excluded Property.

"Excluded Property" is defined in Section 2.3.

"Executive Officers" of Sellers means the regional president of the region that includes the Purchased Exchanges, the general manager and the director of infrastructure provisioning for the Purchased Exchanges and the general manager of customer operations for the Purchased Exchanges.

"Expiration Date" is defined in Section 12.1(a).

"FCC" means the Federal Communications Commission.

"FCC Consents" is defined in Section 4.4.

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

"Final Order" is defined in Section 6.1.4.

"Financial Statements" is defined in Section 8.1.21.

"FRP" is defined in Section 11.2.3(e).

"FTC" is defined in Section 4.5.

"Future Capital Expenditure Obligations" is defined in Section 2.4.1(h).

"Future Regulatory Obligations" is defined in Section 2.4.1(g).

"GAAP" means United States generally accepted accounting principles.

"GATT Grandfathered Participant" is defined in Section 11.2.1(c)(ii)(C).

"Governmental Authority" means any court or any federal, state or foreign governmental, legislative, administrative or regulatory body, agency, department, authority or other instrumentality.

"GTE Telecom Agreements" is defined in Section 9.4.

"GTE Telecom Assets" is defined in Section 9.4.

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

"Indemnifiable Losses" is defined in Section 12.3(a).

"Indemnification Payment" is defined in Section 12.3(a).

"Indemnifying Party" is defined in Section 12.3(a).

"Indemnitee" is defined in Section 12.3(a).

"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), or firmware, and all intellectual property rights therein or based thereon, including patents, patent applications (including continuations, continuations-in-part, divisions, reissues), reexamined patents and extensions thereof, copyrights (whether registered or unregistered), and trade secrets.

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

"IRS" means the Internal Revenue Service.

"Joint Construction Projects" is defined in Section 2.4.1(d).

"LTD Recipient" is defined in Section 11.7.

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

"Leased Real Property" means the real property leased to Sellers under the Real Property Leases.

"License Agreement" means the license agreement attached hereto as Schedule 1.1-D pursuant to which Sellers grant to Buyer certain rights and licenses under Licensed Intellectual Property.

"Licensed Intellectual Property" means Intellectual Property owned by Sellers, and Third Party Intellectual Property licensed to Sellers which Sellers have the right to sublicense to Buyer and its Affiliates without the payment of compensation or other consideration to any Person, and which Intellectual Property and Third Party Intellectual Property (i) 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 Purchased Exchanges, (ii) are located in the geographic area of the Purchased Exchanges, and (iii) are used in the operation of the Business as of the Closing; provided that Licensed Intellectual Property shall at all times be Excluded Property.

"Lien" means any lien, charge, pledge, option, mortgage, security interest, right of first refusal or other encumbrance.

"Material Adverse Effect" means a materially adverse effect on the Business or the Purchased Property, taken as a whole, other than effects

relating to or arising from (i) the execution of this Agreement, (ii) the United States economy generally or Arkansas in particular, or (iii) events or circumstances that affect the Business in the same manner and to the same extent as other businesses in the industry generally.

"Material and Supply Inventory" is defined in the FCC's Part 32 Uniform System of Accounts.

"Material Consents" is defined in Section 4.3.

"Material Contracts" is defined in Section 8.1.11.

"Merger" means the proposed merger involving GTE Corporation and Bell Atlantic Corporation and their respective Subsidiaries.

"National Account Agreements" means agreements between Sellers or their Affiliates with those customers listed on Schedule 1.1-E.

"NECA" is defined in Section 10.6.1.

"Non-Regulated Construction" means all construction related to non-tariffed activities, including PBX, CPE and related construction activities.

"Non-Regulated Construction Work in Process Amount" means amounts expended by Sellers for non-regulated construction work not completed as of Closing Date, net of Construction Advances related to such construction work. Non-Regulated Construction Work in Process Amount is billable by Buyer to third parties after Closing Date.

"Non-Union Welfare Plans" is defined in Section 11.2.3(a).

"Optional Services Agreement" is defined in Section 9.2.

"Owned Real Property" means the real property (i) owned in fee by Sellers, (ii) located in the geographic area of the Purchased Exchanges and (iii) used primarily in the operation of the Business, including all land, buildings, structures, appurtenances and improvements located thereon.

"Participant Loans" is defined in Section 11.2.2(c)(i).

"PBGC" means the Pension Benefit Guaranty Corporation.

"Pension Assets" is defined in Section 11.2.1(d)(i).

"Periodic Taxes" is defined in Section 10.5.

"Permitted Encumbrances" means (i) Liens for current 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, (ii) 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 currently conducted on the Owned Real Property affected thereby, (iii) mechanics', carriers', workers', repairers' and other statutory Liens, satisfaction of which has not come due in the ordinary course of business, (iv) existing zoning or similar Laws or ordinances that do not interfere with the operation of the Business, (v) leases otherwise disclosed herein, and (vi) any other Liens that do not materially interfere with the operations of the Purchased Property in a manner consistent with the current use by Sellers.

"Person" means an individual, corporation, partnership, trust, association, limited liability company or similar entity or organization.

"Plans" is defined in Section 8.1.16(a).

"Price-Cap Regulation Entity" means an entity subject to price-cap regulation within the meaning of 47 C.F.R Section 61.41(c)(2) (the "all-or-nothing" rule).

"Proration Periods" is defined in Section 10.5.

"Publisher" is defined in Section 9.3.1.

"Publishing Agreement" is defined in Section 9.3.1.

"PUC" shall mean the Public Utilities Commission of the State of Arkansas.

"Purchase Price" is defined in Section 3.3(c).

"Purchased Exchanges" means the telephone exchanges listed in Schedule 1.1-C.

"Purchased Property" is defined in Section 2.2.

"Rate-of-Return Regulation Entity" means an entity not subject to price-cap regulation within the meaning of 47 C.F.R. Section 61.41(c)(2) (the "all-or-nothing" rule).

"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, and are located in the geographic area of the Purchased Exchanges, other than Owned Real Property or Leased Real Property.

"Real Property Leases" means the Leases set forth on Schedule 8.1.8.

"Regulated Material" means (i) any "hazardous substance" as defined in CERCLA, (ii) any petroleum or petroleum substance, and (iii) any other pollutant, waste, contaminant, or other substance regulated under Environmental Requirements.

"Regulatory Approvals" is defined in Section 4.1.

"Regulatory Obligation Amount" is defined in Section 3.1.

"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 (i) Tax Returns and Tax records, (ii) Excluded Property, (iii) attorney work product, and (iv) the Retained Liabilities; provided that where reasonably necessary or prudent, "Retained Books and Records" shall also include copies of the Transferred Books and Records.

"Retained Future Capital Expenditure Obligations" is defined in Section 2.4.1(h).

"Retained Future Regulatory Obligations" is defined in Section 2.4.1(g).

"Retained Liabilities" is defined in Section 2.4.2.

"Retired Non-Union Transferred Employee" is defined in Section 11.2.3(b)(ii).

"Sellers' Actuary" is defined in Section 11.2.1(d)(ii).

"Sellers' Bonus Plans" is defined in Section 11.1.4.

"Sellers' Closing Certificate" is defined in Section 6.1.1.

"Sellers' Hourly Pension Plan" is defined in Section 11.2.1(a)(ii).

"Sellers' LTD Plan" is defined in Section 11.7.

"Sellers' Pension" is defined in Section 11.2.1(c)(iii)(B).

"Sellers' Pension Plan" and "Sellers' Pension Plans" are defined in Section 11.2.1(a)(ii).

"Sellers' Salaried Pension Plan" is defined in Section 11.2.1(a)(i).

"Sellers' Savings Plans" is defined in Section 11.2.2(a).

"Sellers' Welfare Plans" is defined in Section 11.2.3(a).

"Switch Software" means any telephone switch software licensed to Sellers which software is necessary to Sellers' current operation and use of any telephone switching equipment in the Purchased Exchanges and which equipment is included in Telephone Plant.

System Date" is defined in Section 8.1.22.

"Tax Returns" means a report, return or other information statement required to be supplied to or filed with a Governmental Authority with respect to Taxes.

"Tax(es)" means any foreign, federal, state, county or local income, sales, use, transfer, excise, franchise, stamp duty, custom duty, real and personal property, gross receipt, capital stock, business and occupation, disability, employment, payroll, recording, ad valorem, unemployment compensation, profits, registration, social security, estimated, add-on, minimum, or withholding tax relating to the Business or the Purchased Exchanges and any interest and penalties and additions to such taxes (civil or criminal) related thereto or to the nonpayment thereof and related notarial fees.

"Telephone Plant" means (i) Owned Real Property, (ii) Real Property Interests, and (iii) the machinery, equipment, inventory, vehicles (whether currently owned or leased by Sellers) and all other assets and properties used primarily in the operation of the Business, including all plant, systems, structures, 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, network connection equipment and other equipment in general), instruments, house wiring connections and other personal property used primarily in the operation of the Business and located in the Purchased Exchanges, other than Excluded Property. Without limiting the generality of the foregoing, Telephone Plant includes the assets 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 8.1.17.

"Third Party Claim" is defined in Section 12.4(a).

"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.

"Third Party Intellectual Property Contracts" is defined in Section 10.1.4.

"Total Service Pension" is defined in Section 11.2.1(c)(iii)(B).

"Transaction Taxes" is defined in Section 10.11.

"Transferred Books and Records" means all of Sellers' customer or subscriber lists and records, accounts and billing records, plant and continuing property records, plans, blueprints, specifications, drawings, surveys, engineering reports, personnel records of Transferred Employees (where applicable), tariffs, orders or other material correspondence or records relating to regulation of the Business by any Governmental Authority, and all other documents, computer data and records, in each case relating primarily to the operation of the Business, except for the Retained Books and Records.

"Transferred Employees" is defined in Section 11.1.

"Transition Services Agreement" is defined in Section 9.1.

"Transitional Year" means any calendar year (beginning with the calendar year in which the Closing occurs) in which USF distributions are based upon the costs, whether historic costs or forward-looking economic costs, reported for a calendar year in which Seller owned the Acquired Local Loop for any part of such calendar year.

"Uncollectible Factor" is defined in Section 10.16.

"USAC" is defined in Section 10.6.1.

"USF" is defined in Section 10.6.1.

"Vacation Proration Amount" is defined in Section 11.3.2.

"Year 2000 Compliant" is defined in Section 8.1.22.

1.2 Interpretation.

(a) Unless the context otherwise requires, (i) all references to Sections, Articles or Schedules are to Sections, Articles or Schedules of or to this Agreement, (ii) each accounting term not otherwise defined in this Agreement has the meaning assigned to it in accordance with GAAP, (iii) all references to the "knowledge of Sellers" are deemed to refer to the actual knowledge of the Executive Officers of Sellers, (iv) the term "primarily" means primarily or exclusively, and (v) the term "including" means including without limitation.

(b) No provision of this Agreement will be interpreted in favor of or against either of the parties by reason of the extent to which any such party or its counsel participated in the drafting thereof or by reason of the extent to which any such provision is inconsistent with any prior draft of such provision or of this Agreement.

(c) Except as otherwise provided in this Agreement, in the event of any dispute concerning the "knowledge" of a party to this Agreement, the burden of proof shall be on the party asserting that another party had such knowledge.

ARTICLE 2

PURCHASE AND SALE OF ASSETS

2.1 Purchase and Sale of Assets. Upon the terms and subject to the conditions of this Agreement, Sellers hereby agree to sell, convey, transfer, assign and deliver to Buyer and Buyer hereby agrees to purchase, acquire and accept from Sellers, in each case effective as of the Closing, all of Sellers' right, title and interest in and to the Purchased Property.

2.2 Purchased Property. The term "Purchased Property" means all the following business, properties, assets and rights of Sellers on the Closing Date, other than the Excluded Property:

- (i) Telephone Plant;
- (ii) Earned End-User Accounts Receivable;
- (iii) Material and Supply Inventory
- (iv) Non-Regulated Construction Work In Process
- (v) FCC Licenses and Assigned Permits;
- (vi) Assigned Contracts;
- (vii) Transferred Books and Records;
- (viii) Real Property Leases;
- (ix) Advance Billings;
- (x) Insurance proceeds of Sellers arising from any loss, damage or destruction of Purchased Property between the date hereof and the Closing Date, to the extent that (1) such Purchased Property has not been replaced by Sellers, and (2) such insurance proceeds do not exceed the replacement cost of such Purchased Property; and
- (xi) All other business, property, assets and rights of Sellers on the Closing Date not described above that relate primarily to the Purchased Exchanges.

2.3 Excluded Property. For purposes of this Agreement, "Excluded Property" means the following:

- (a) Cash, cash equivalents and investments;
- (b) All rights of 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 and obligations related to the Retained Liabilities;
- (e) The Retained Books and Records;
- (f) Sellers' interests in any business other than the Business, including the provision of wireless service (cellular and PCS), inter-LATA long distance and internet service or internet related services, air-to-ground communications (air phone service), and any Excluded Permits related thereto, and all assets of Sellers and their Affiliates used in connection with any such business or related thereto, and all assets used by Sellers and their Affiliates in rendering corporate services to Sellers or the Business that are located outside the geographic area serviced by the Purchased Exchanges
- (g) Such other assets (i.e., encryption decoder devices, AWAS terminals, SODA, etc.), if any, as set forth on Schedule 2.3(g);
- (h) The Excluded Contracts;
- (i) The Excluded Marks;
- (j) All Intellectual Property, including the Licensed Intellectual Property and Third Party Intellectual Property (except for such rights to possess and use Third Party Intellectual Property as may be assigned in accordance with Section 10.1.4); and
- (k) All of Sellers' insurance proceeds arising in connection with the operation of the Business or the Purchased Property prior to the Closing, except as described in Section 2.2(x).

2.4 Assumption of Liabilities.

2.4.1 Assumed Liabilities. Upon the terms and subject to the conditions of this Agreement, Buyer hereby agrees to assume, as of the Closing Date, and agrees, beginning on the day following the Closing Date, to pay, perform and discharge when due the following (the "Assumed

Liabilities"):

- (a) Ordinary Course. All liabilities, responsibilities and obligations (including Taxes), arising out of or accruing or resulting from the use or ownership of the Purchased Property in the ordinary course after the Closing Date;
- (b) Employment Matters. All liabilities, responsibilities and obligations of Buyer as provided in Article 11 with respect to Transferred Employees;
- (c) Assigned Contracts, Real Property Interests and Real Property Leases. 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) Joint Construction Projects. All liabilities, responsibilities and obligations to third parties that relate to arrangements and commitments between Sellers and a third party related to post-Closing engineering and construction required to complete scheduled construction of mutual transmission facilities between various switching points included in the Purchased Exchanges ("Joint Construction Projects");
- (e) Construction in Progress. All liabilities, responsibilities and obligations relating to post-Closing engineering and construction required to complete scheduled construction and other capital expenditure projects for the Purchased Exchanges;
- (f) Customer Advances, Advance Billings, Customer Deposits and Construction Advances. All liabilities, responsibilities and obligations relating to Customer Advances, Advance Billings, Customer Deposits and Construction Advances;
- (g) Future Regulatory Obligations. All liabilities, responsibilities and obligations, other than Future Capital Expenditure Obligations, related to the Purchased Exchanges arising out of any Law promulgated or issued by a Governmental Authority after the Closing Date or other action taken by a Governmental Authority after the Closing Date, regardless of whether such Law or action is or purports to be based on conduct or actions that occurred at any time prior to the Closing Date ("Future Regulatory Obligations"), except that Buyer shall not be liable for any such Future Regulatory Obligation arising directly out of any intentional misconduct by Sellers or conduct by Sellers that was not reasonably prudent based on the circumstances prevailing at the time that occurred prior to the Closing Date ("Retained Future Regulatory Obligations"); provided that (i) Sellers' reliance on reasonable interpretation of existing Law or practice shall be deemed reasonably prudent, and (ii) Sellers shall not retain any liability for Future Regulatory Obligations to the extent that the costs associated with such obligations are included in Buyer's rate base for the Purchased Exchanges;
- (h) Future Capital Expenditure Obligations. All liabilities, responsibilities and obligations related to the Purchased Exchanges arising out of any Law promulgated or issued by a Governmental Authority or other action taken by a Governmental Authority requiring any capital expenditure (other than a Future Regulatory Obligation) after the date of this Agreement, regardless of whether such Law or action is or purports to be based on conduct, facts or actions that occurred at any time prior to the date of this Agreement ("Future Capital Expenditure Obligations"), except that Buyer shall not be liable for any such Future Capital Expenditure Obligation arising directly out of any intentional misconduct by Sellers or conduct by Sellers that was not reasonably prudent based on the circumstances prevailing at the time ("Retained Future Capital Expenditure Obligations"); provided that (i) Sellers' reliance on reasonable interpretation of existing Law or practice shall be deemed reasonably prudent, and (ii) Sellers shall not retain any liability for Future Capital Expenditure Obligations to the extent that the costs associated with such obligations are included in Buyer's rate base for the Purchased Exchanges. Prior to the Closing Date, Sellers shall notify Buyer of all material Future Capital Expenditure Obligations within a reasonable time after publication of said obligations by a Governmental Authority; and
- (i) Litigation and Claims. All liabilities and obligations arising out of (i) litigation and claims that arise out of an occurrence after the Closing Date, (ii) litigation and claims in respect of Future Regulatory Obligations (other than Retained Future Regulatory Obligations) regardless of when filed, and (iii) claims of a Governmental Authority arising from or related to a Future Regulatory Obligation (other than Retained Future Regulatory Obligations).

Notwithstanding anything in this Section 2.4.1 to the contrary, "Assumed Liabilities" shall not include any liabilities, responsibilities or obligations expressly included in Retained Liabilities pursuant to Section 2.4.2.

2.4.2 Retained Liabilities. Sellers jointly and severally shall retain and shall pay, perform and discharge when due, the following liabilities, responsibilities and obligations of Sellers (the "Retained Liabilities"); provided that Retained Liabilities shall not include any liability, responsibility or obligation with respect to any matter that is the subject of a representation, warranty or covenant by Sellers (breaches of which shall be handled in accordance with Article 12):

- (a) Subject to Section 10.5, all trade payables and other accrued payment obligations of Sellers as of the Closing Date;
- (b) All debt of Sellers (including indebtedness to the Bondholders) and debt of Sellers owed to any one or more of their Affiliates;
- (c) Subject to Section 10.5, all federal, state and local income, franchise, gross receipts and similar Taxes of Sellers or their consolidated or combined group and all federal, state and local income, franchise, gross receipts and sales, use, property or other Taxes relating to the operation of the Business on or before the Closing Date or the use, ownership or operation of the Purchased Property on or before the Closing Date;

(d) Except to the extent otherwise provided in Article 11, all liabilities and obligations arising on or before the Closing Date with respect to the Transferred Employees, including (i) all liabilities responsibilities and obligations arising on or before the Closing Date relating to collective bargaining agreements or other union Contracts, and (ii) any such liabilities or obligations that arise after the Closing Date to the extent that such liabilities and obligations relate to facts, circumstances or conditions arising or occurring on or before the Closing Date, but excluding any Future Regulatory Obligations with respect to the Transferred Employees;

(e) All liabilities, responsibilities and obligations resulting from (i) litigation and claims that arise out of an occurrence prior to the Closing Date, (ii) litigation and claims in respect of Retained Future Regulatory Obligations and (iii) litigation and claims in respect of Retained Future Capital Expenditure Obligations;

(f) Any Retained Future Regulatory Obligations and any Retained Future Capital Expenditure Obligations; and

(g) All liabilities, responsibilities and obligations with respect to the Excluded Property and Excluded Contracts.

2.5 No Assignment Without Consent. 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 Purchased Property (including any Contract) is prohibited by any applicable Law or would require any governmental or third-party authorizations, approvals, consents or waivers and such authorizations, approvals, consents or waivers shall not have been obtained prior to the Closing, this Agreement shall not constitute a sale, conveyance, transfer, assignment or delivery, or an attempted sale, conveyance, transfer, assignment or delivery thereof, if any of the foregoing would constitute a breach of applicable Law or the rights of any third party; provided, however, that, except to the extent that a condition to Closing set forth in Article 6 relating to the foregoing shall not be satisfied, the Closing shall occur notwithstanding the foregoing without any adjustment to the Purchase Price on account of such required authorization. Following the Closing, the parties shall use their commercially reasonable efforts, and shall cooperate with each other, to obtain promptly such authorizations, approvals, consents or waivers; provided, however, that neither Sellers nor Buyer nor any of their respective Affiliates shall be required to pay any consideration therefor, other than filing, recordation or similar fees payable to any Governmental Authority, which fees shall be shared equally by Sellers and Buyer. Pending or in the absence of such authorization, approval, consent or waiver, the parties shall cooperate with each other in any reasonable and lawful arrangements to provide to Buyer the benefits and liabilities of use of such Purchased Property including, if permitted by the terms of any applicable Real Property Lease or applicable Material Contract, through a sublease or subcontract in accordance with Article

4. If such authorization, approval, consent or waiver for the sale, conveyance, transfer, assignment or delivery of any such Purchased Property is obtained, Sellers shall promptly convey, transfer, assign and deliver, or cause to be conveyed, transferred, assigned and delivered, such Purchased Property to Buyer.

ARTICLE 3 ARTICLE 3. PURCHASE PRICE

3.1 Purchase Price. The purchase price for the Purchased Property shall be the sum of (i) eight hundred forty-three million three hundred fifty thousand dollars (\$843,350,000) (the "Base Purchase Price"), (ii) amounts expended by Sellers to comply with Future Capital Expenditure Obligations between the date of this Agreement and the Closing Date (the "Regulatory Obligation Amount"), and (iii) the Non-Regulated Construction Work in Process Amount, minus (iv) any Capital Expenditure Deficiency and (v) any Vacation Proration Amount (assuming that Buyer receives a credit under Section 11.3.2, but if Sellers receive a credit, the Vacation Proration Amount shall be added to the Purchase Price).

3.2 Closing Date Estimate.

(a) Not less than three (3) business days prior to the Closing Date, Sellers will give to Buyer a notice, setting forth Sellers' good faith estimate as of the Closing Date of (i) the Regulatory Obligation Amount (the "Estimated Regulatory Obligation Amount"), (ii) the Non-Regulated Construction Work in Process Amount (the "Estimated Non-Regulated Construction Work in Process Amount"), (iii) any Capital Expenditure Deficiency and (v) any Vacation Proration Amount.

(b) On the Closing Date, Buyer shall pay to Sellers an amount equal to the sum of (i) the Base Purchase Price, (ii) the Estimated Regulatory Obligation Amount, and (iii) the Estimated Non-Regulated Construction Work in Process Amount, minus (iv) any Capital Expenditure Deficiency and (v) any Vacation Proration Amount (assuming that Buyer receives a credit under Section 11.3.2, but if Sellers receive a credit, the Vacation Proration Amount shall be added to the Purchase Price) (the "Closing Date Amount"). The Closing Date Amount shall be paid by delivery on the Closing Date of immediately available funds in U.S. dollars by wire transfer to an account that Sellers shall designate to Buyer at least two (2) business days prior to the Closing Date. Payments from Buyer to Sellers for Earned End-User Accounts Receivable and from Sellers to Buyer for Customer Advances and Customer Deposits will occur subsequent to Closing in accordance with Article 10.

3.3 Closing Date Statement.

(a) Within sixty (60) days after Closing Date, Sellers shall prepare and deliver to Buyer a written statement (with appropriate supporting documentation) of the Base Purchase Price, Regulatory Obligation Amount, Non-Regulated Construction Work in Process Amount, any Capital Expenditure Deficiency and any Vacation Proration Amount ("Closing Date Statement").

(b) Within thirty (30) days after receipt of the Closing Date Statement, Buyer shall, in a written notice to Sellers, either accept the Closing Date Statement or describe in reasonable detail any proposed adjustments to the Closing Date Statement and the reasons therefore. If Sellers shall

not have received a notice of proposed adjustments within such thirty (30) day period, Buyer will be deemed irrevocably to have accepted such Closing Date Statement.

(c) Upon the acceptance of any Closing Date Statement by Buyer, the parties shall, based thereupon, calculate the Base Purchase Price, Regulatory Obligation Amount and Non-Regulated Construction Work in Process Amount (collectively, the "Purchase Price"). If the Purchase Price as finally determined above is greater than the Closing Date Amount, Buyer shall promptly, but no later than three (3) business days after such acceptance, pay to Sellers the amount of such difference. If the Purchase Price as determined above is less than the Closing Date Amount, Sellers shall promptly, but no later than three (3) business days after such acceptance, pay to Buyer the amount of such difference.

(d) Sellers and Buyer shall negotiate in good faith to resolve any disputes over any proposed adjustments to the Closing Date Statement, provided that if any such dispute is not resolved within thirty (30) days following Sellers' receipt of any proposed adjustments delivered by Buyer pursuant to Section 3.3(b), Buyer and Sellers jointly shall select an independent public accounting firm that is nationally recognized in the United States to resolve such disputes in accordance with the standards set forth in this Section 3.3, which resolution shall be final and binding. The fees and expenses of such accounting firm shall be 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.

(e) If Buyer disputes any portion of the Closing Date Statement, the parties shall calculate the portion of the Closing Date Statement that is not the subject of any dispute or proposed adjustment. If the undisputed portion of the Closing Date Statement (i) is greater than the respective estimated amounts paid on the Closing Date, Buyer shall promptly pay Sellers the amount of such difference, or (ii) is less than the respective estimated amounts paid on the Closing Date, Sellers shall promptly pay Buyer the amount of such difference. Payments with respect to any undisputed portions of these adjustments shall be made no later than three (3) business days after delivery of the notice of the proposed adjustments. Upon resolution of any dispute over any proposed adjustments as described above in Section 3.3(d), a party which is determined to owe the other party an amount shall pay that amount promptly, but no later than three (3) business days after resolution.

(f) Any amount payable pursuant to this Section 3.3 after the date which is ninety (90) days following the Closing Date shall bear interest from such ninetieth day through but excluding the date of payment, at a rate of eight percent (8%) per annum. Such interest shall accrue daily on the basis of a year of three hundred sixty-five (365) days and the actual number of days for which interest is due and shall be payable together with the amount payable pursuant to this Section 3.3. All amounts payable pursuant to this

Section 3.3 shall be paid by delivery of immediately available funds in U.S. dollars by wire transfer to, in the case of amounts payable by Buyer, the account identified by Sellers as described in 3.2 above or to an alternate account that Sellers may designate on the Closing Date Statement and, in the case of amounts payable by Sellers, to such account of Buyer as Buyer shall designate in writing to Sellers.

3.4 Performance Deposit

(a) Concurrently with the execution and delivery hereof, Buyer shall pay to Sellers by wire transfer of immediately available funds the sum of forty-two million one hundred sixty-seven thousand five hundred dollars (\$42,167,500), an amount equal to five percent (5%) of the Base Purchase Price (the "Deposit"), to be held by Sellers against payment of the Purchase Price and as security for the performance by Buyer of its obligations under this Agreement.

(b) Buyer may elect to deliver the Deposit to Sellers in cash or in the form of an irrevocable, clean, standby letter of credit for the same amount (the "Deposit L/C"). The Deposit L/C shall (i) be in a form reasonably acceptable to Sellers, (ii) be issued in favor of Sellers under this Agreement and (iii) be issued by a bank that has a long-term unsecured debt rating of at least A+ by Standard & Poor's Rating Services and that is otherwise reasonably satisfactory to Sellers. The Deposit L/C (and any replacement thereof furnished in accordance with this Section 3.4(b)) 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(b)), 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(b)), then Sellers shall draw down the full amount of the existing letter of credit 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.

(c) If the transfer of the Purchased Property as contemplated hereunder is consummated, then the Deposit shall be paid to Sellers at the Closing and credited against the Base Purchase Price. If Buyer elects to deliver the Deposit L/C in lieu of cash, Sellers shall draw down the full amount of the Deposit L/C at the Closing and pay such proceeds to Sellers as a credit against the Base Purchase Price.

(d) Sellers acknowledge that, upon two (2) business days prior written notice to Sellers, Buyer shall have the right to deliver to Sellers a cash payment of \$42,167,500, and upon receipt of such payment, Sellers shall return to Buyer the Deposit L/C.

(e) The parties hereto acknowledge and agree that their respective rights and obligations related to the Deposit are described in Section 13.3.

ARTICLE 4 REQUIRED APPROVALS, CONSENTS AND NOTIFICATIONS

4.1 State Regulatory Approval. Promptly after the date of this Agreement Buyer and Sellers shall file the appropriate applications and notices with the PUC, seeking orders permitting the transfer of service in the Purchased Exchanges to Buyer (collectively, the "Regulatory Approvals"). Buyer will be responsible for establishing the tariff for its post-Closing operations in the Purchased Exchanges. Buyer agrees to use its commercially reasonable efforts to obtain the Regulatory Approvals and Sellers agree to cooperate fully with Buyer and with the applicable regulatory agency to obtain the Regulatory Approvals at the earliest practicable date.

4.2 Bondholder Consents. Sellers shall use their commercially reasonable efforts to obtain from their Bondholders the termination or release, at Closing, of all security agreements, mortgages, financing statements or other Liens running in favor of the Bondholders and relating to the Purchased Property (such termination or release being hereinafter referred to as the "Bondholder Consents"). Buyer agrees to cooperate in good faith with Sellers in obtaining the required Bondholder Consents.

4.3 Material Consents. Promptly after the date hereof, the parties shall use their commercially reasonable efforts to mutually seek the consent of the lessor under any Real Property Lease with respect to a central office or any license with respect to Switch Software which lease or license requires consent as a condition to an assignment, and which is identified on Schedule 4.3 or Schedule 8.1.8 (the "Material Consents"). If a lessor or licensor refuses to consent to an assignment, and if the applicable lease or license permits a sublease or sublicense without the consent of the lessor or licensor, the parties hereto shall, effective as of the Closing, enter into a sublease or sublicense upon terms and conditions as similar and comparable to an assignment of the lease or license as is reasonably feasible.

4.4 FCC Consents. Promptly after the date of this Agreement, the parties shall use their commercially reasonable efforts to obtain (i) the FCC's consent to the transfer of the FCC Licenses from Sellers to Buyer, (ii) the FCC consents and waivers set forth on Schedule 4.4 and (iii) the FCC Final Orders (all such consents, waivers or orders are collectively referred to as the "FCC Consents").

4.5 HSR Act Review. Within thirty (30) business days after the date of this Agreement, 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 ("FTC") or the U.S. Department of Justice ("DOJ") pursuant to the HSR Act or otherwise and will comply promptly with any requests by the FTC or the DOJ 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, Sellers and Buyer agree to use their 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.

Sellers and Buyer shall cause their respective counsel to furnish each other such necessary information and reasonable assistance as the other may reasonably request in connection with the preparation of necessary filings or submissions under the provisions of the HSR Act. Sellers and Buyer will cause their respective counsel to supply to each other 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.

4.6 Notification. Each of the parties agrees to notify the others promptly upon learning of any fact or set of circumstances that would be reasonably likely to delay or prevent receipt of a Regulatory Approval, Bondholder Consent, FCC Consent, HSR clearance or other consent or approval referred to in Article 4.

4.7 GTE/Bell Atlantic Merger. Notwithstanding anything else contained in this Agreement, Sellers and their Affiliates shall not be obligated to take any action that would violate the terms of their agreements regarding the Merger, or that would interfere with, delay or prevent the consummation of the Merger; provided that Buyer shall not be obligated to proceed with the Closing if the Merger has resulted in a Material Adverse Effect.

ARTICLE 5 PRE-CLOSING COVENANTS

5.1 Investigation by Buyer. Prior to the Closing, upon reasonable notice from Buyer to Sellers given in accordance with this Agreement and subject to approval by Sellers' appointed representative (which shall not be unreasonably withheld), Sellers will afford to the authorized representatives of Buyer reasonable access during normal business hours to the Transferred Books and Records, the Owned Real Property and the Leased Real Property, so as to afford Buyer the opportunity to make such review, examination and investigation of the Business and the Purchased Property as Buyer may reasonably request; provided, however, that no environmental sampling or other testing shall be performed without Sellers' prior written consent, which consent may be given or withheld in Sellers' sole discretion. Buyer will not contact any employee, customer or supplier of Sellers with respect to this Agreement, the matters involved herein or the Purchased Property without the prior written consent of Sellers. Nothing herein will obligate Sellers to take actions that would unreasonably disrupt the normal course of the business of Sellers or violate the terms of any applicable Law or any Contract to which Sellers or any of their Affiliates is a party or to which any of their assets is subject. Any information or documentation provided to Buyer or acquired by Buyer during this investigation shall be deemed "Evaluation Material" as that term is defined in the Confidentiality Agreement and shall be subject in all cases to the terms of the Confidentiality Agreement.

5.2 Operation of the Business in the Ordinary Course.

5.2.1 Preservation of Business. Except as contemplated on Schedule 5.2.1 or in connection with or relating to the Merger (and disclosed to Buyer) or as otherwise consented to by Buyer prior to the Closing, from the date of this Agreement until the Closing Sellers shall:

- (a) Conduct the Business in the ordinary course consistent with past practice and shall keep available to the Business its services and the services of its Affiliates to the same extent generally available on the date hereof;
- (b) Operate the Business in substantially the same manner as it is presently being conducted, and, with respect to the Business, refrain from entering into any Contract that would be a Material Contract without the prior consent of Buyer (which shall not be unreasonably withheld);
- (c) Not institute or participate in any proceeding with respect to, or otherwise change, amend or supplement any of its tariffs or make any other filings (other than periodic reports) with the PUC without the prior consent of Buyer (which shall not be unreasonably withheld) except as disclosed on Schedule 8.1.15(a);
- (d) Maintain the Purchased Property in good repair, order and condition, reasonable wear and use excepted;
- (e) Maintain insurance with respect to the Purchased Property consistent with past practice;
- (f) Make capital expenditures in accordance with Section 5.6; and
- (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, in which event Sellers shall promptly notify Buyer.

5.2.2 No Material Changes. Except as contemplated by this Agreement or in connection with or relating to Merger (and disclosed to Buyer) or as otherwise consented to by Buyer prior to the Closing, from the date of this Agreement until the Closing, Sellers will not:

- (a) Make any material change in the general nature of the Business;
- (b) Sell, lease or dispose of, or make any Contract for the sale, lease or disposition of any Purchased Property, other than in the ordinary course of business consistent with past practice;
- (c) Increase the number of Active Employees other than in a manner consistent with past practice, or increase the benefit provided under any plans concerning employee benefits or increase the general rates of compensation of their Transferred Employees, except (i) as required by Law, (ii) pursuant to any Contract to which Sellers are a party existing on the date hereof, (iii) in the ordinary course of business of Sellers consistent with past practice, or (iv) as listed or described on Schedule 5.2.2(c);
- (d) (i) Enter, amend, modify or terminate any Material Contract or permit any of the foregoing to occur other than in the ordinary course of business; or (ii) sell, transfer or otherwise dispose of any Purchased Property other than in the ordinary course of business or as listed or described on Schedule 5.2.2(d), or encumber any Purchased Property, except for Permitted Encumbrances;
- (e) Enter into any new written employment agreement, or union agreement with, or commitment to, the Transferred Employees (including any new commitment to pay retirement or other benefits or other amendments to Sellers' retirement plans), provided that Sellers may enter into new union agreements to the extent the new union agreements succeed any union agreement that expires prior to the Closing; or
- (f) Except as contemplated by this Agreement or the Ancillary Agreements, enter into any transaction with any of their Affiliates that contemplates (i) the transfer of any Purchased Property; or (ii) any other contractual arrangement that will survive the Closing and not be terminable at will by, and with no cost to, Buyer subsequent to the Closing.

5.3 Satisfaction of Conditions. Without limiting the generality or effect of any provision of Article 6, the parties will use their commercially reasonable efforts to satisfy promptly all the conditions required to be satisfied prior to the Closing.

5.4 Approvals.

- (a) Between the date of this Agreement and the Closing Date, Buyer and Sellers will (i) cooperate with one another and take all reasonable steps to obtain, as promptly as practicable, all consents, approvals, authorizations, waivers and permits of any Governmental Authorities required of either party to consummate the transactions contemplated by this Agreement and (ii) provide such other information and communications to any Governmental Authority as may be reasonably requested.
- (b) To the extent that any consents, approvals, authorization or waiver of a third party with respect to any Assigned Contract is required in connection with the transactions contemplated by this Agreement, Sellers shall use their commercially reasonable efforts to obtain such authorization, consent, approval or waiver prior to the Closing Date.

5.5 Financial Statements. Sellers will cooperate with the independent auditors chosen by Buyer to audit the Financial Statements delivered to Buyer in accordance with Section 8.1.21. Sellers' cooperation will include access to workpapers and other supporting documents used in the preparation of the Financial Statements as may be reasonably required by such auditors to render an opinion, and cooperation with respect to such other financial statements as Buyer may require 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. Sellers will bear the cost of preparation of the Financial Statements.

Buyer will bear the cost of the audit and the cost of preparation of any financial statements other than the Financial Statements. Buyer acknowledges that the Financial Statements and any supporting documents have been made available as an indication of the historical financial performance and condition of the Business. Except to the extent that the Financial Statements reflect intentional misrepresentation or fraud, or to the extent that Sellers have breached their representations and warranties under Section 8.1.21, Buyer agrees not to make any claims related to the performance of the Business after the date of the Financial Statements on the basis of a comparison to the Financial Statements.

5.6 Capital Expenditures. Sellers shall be obligated to make capital expenditures with respect to the Telephone Plant 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 \$17,500,000 during calendar year 1999, and which amount shall be discounted on a pro rata daily basis to the extent that the Closing Date occurs prior to December 31, 1999 (the "Capital Expenditure Amount"). The Purchase Price shall be adjusted down, on a dollar-for-dollar basis, to the extent that Sellers' 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, 2000, 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 2000 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, 2000. 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 \$100,000.

5.7 Delivery of Interim Information. From the date of this Agreement until the Closing, Sellers shall furnish Buyer monthly reports concerning the operating performance of the Business. Such reports shall contain such data as typically reported to GTE management with respect to the Purchased Exchanges, including revenue, access line counts, trouble indices, total year-to-date capital expenditure actuals (on a quarterly basis only) indices and other service measures. All information provided in accordance with this Section 5.7 shall be subject to compliance with the Confidentiality Agreement and to compliance with applicable antitrust Laws.

5.8 Cooperation with Respect to Like-Kind Exchange. Buyer agrees that Sellers' transfer of the Purchased Property may, at Sellers' election, be accomplished in a manner enabling such transfer to qualify as part of a like-kind exchange of property covered by Section 1031 of the IRC. If Sellers so elect, Buyer shall cooperate with Sellers (but without being required to incur any out-of-pocket costs in the course thereof) in connection with Sellers' efforts to effect such like-kind exchange, which cooperation shall include, without limitation, taking such actions as Sellers request in order to enable Sellers to qualify such transfer as part of a like-kind exchange of property covered by Section 1031 of the IRC (including any actions required to facilitate the use of a "qualified intermediary" within the meaning of the United States Treasury Regulations), and Buyer agrees that Sellers may assign all or part of their rights (but no obligations) under this Agreement to a person or entity acting as a qualified intermediary to qualify the transfer of the Purchased Property as part of a like-kind exchange of property covered by Section 1031 of the IRC. Buyer and Sellers agree in good faith to use reasonable efforts to coordinate the transactions contemplated by this Agreement with any other transactions engaged in by either Buyer or Sellers; provided that such efforts are not required to include an unreasonable delay in the consummation of the transactions contemplated by this Agreement.

5.9 Additional Exchange. Sellers agree to use their good faith best efforts to determine within fourteen (14) days of the date hereof whether Buyer will be entitled to purchase the access lines located in the Seligman exchange. The parties agree that if Sellers' management approves such purchase, Buyer will acquire such lines at a price of \$2,443,394 and under the terms of this Agreement as if such access lines were included in the definition of Purchased Property as of the date hereof. The parties agree that immediately upon such approval of Buyer's purchase of the Additional Exchanges this Agreement will be amended to (i) increase the Base Purchase Price by an amount of \$2,443,394; (ii) include the Additional Exchange on Schedule 1.1-C and (iii) within forty (40) days of the date of this Agreement, make such other changes as may be necessary or appropriate to accomplish the purposes of the second sentence of this Section 5.9.

ARTICLE 6 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 satisfaction or waiver by Buyer, at or prior to the Closing, of each of the following conditions, any one or more of which may be waived at the option of Buyer:

6.1.1 No Misrepresentation or Breach of Covenants and Warranties. Sellers shall have complied in all material respects with their covenants to be performed in whole or in part prior to the Closing, and the representations and warranties of Sellers in Section 8.1 shall be true and correct as of the Closing, except for (i) such representations or warranties that are made expressly as of and only as of an earlier date, which shall have been true and correct as of such earlier date except as would not have a Material Adverse Effect, and (ii) to the extent that any breach of such representations and warranties has not had and is not reasonably likely to have, individually or in the aggregate, a Material Adverse Effect; and Sellers shall have delivered to Buyer a certificate ("Sellers' Closing Certificate") in the form attached as Schedule 6.1.1, dated the Closing Date and signed by an Executive Officer of Sellers, certifying each of the foregoing, or specifying those respects in which such covenants have not been performed or such representations and warranties are not true and correct.

6.1.2 Documents. Sellers shall have delivered to Buyer all documents required by Section 7.2.

6.1.3 HSR. All required waiting periods under the HSR Act shall have expired or been terminated.

6.1.4 No Legal Obstruction. Each of the required Bondholder Consents shall have been obtained, each consent required under Section 4.3 shall have been obtained and each of the required Regulatory Approvals and FCC Consents shall have been obtained, free of any special terms,

conditions or restrictions that are materially adverse to Buyer (other than any such approvals or consents which, if not obtained, would not have a Material Adverse Effect); provided that any Regulatory Approval that would have the effect of converting Buyer from a Rate-of-Return Regulation Entity to a Price-Cap Regulation Entity shall be deemed to have a Material Adverse Effect. 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 (a "Final Order"). In addition, there shall not have been entered a preliminary or permanent injunction, temporary restraining order or other judicial or administrative order or decree in any jurisdiction, the effect of which prohibits the Closing.

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

6.2 Conditions Precedent to Obligations of Sellers. The obligations of Sellers to consummate the Closing shall be subject to the satisfaction or waiver by Sellers, at or prior to the Closing, of each of the following conditions:

6.2.1 No Misrepresentation or Breach of Covenants and Warranties. Buyer shall have complied in all material respects with its covenants to be performed in whole or in part prior to the Closing, and the representations and warranties of Buyer in Section 8.2 shall be true and correct in all material respects as of the Closing, except for (i) representations or warranties made expressly as of and only as of an earlier date, which shall have been true and correct as of such earlier date except as would not have a Material Adverse Effect, and (ii) to the extent that any breach of such representations and warranties has not, individually or in the aggregate, had a Material Adverse Effect, and Buyer shall have delivered to Sellers a certificate ("Buyer's Closing Certificate") in the form attached as Schedule 6.2.1, dated the Closing Date and signed by an Executive Officer of Buyer, certifying each of the foregoing or specifying those respects in which such covenants have not been performed or such representations and warranties are not true and correct.

6.2.2 Documents. Buyer shall have delivered to Sellers all documents required by Section 7.3.

6.2.3 Delivery of Closing Date Amount. Buyer shall have delivered to Sellers, in the manner specified in Section 3.2, the Closing Date Amount.

6.2.4 HSR. All required waiting periods under the HSR Act shall have expired or been terminated.

6.2.5 No Legal Obstruction. Each of the required Bondholder Consents shall have been obtained, and each of the required Regulatory Approvals and FCC Consents shall have been obtained free of any special terms, conditions or restrictions that are materially adverse to Sellers based upon good faith business concerns that are not commercially unreasonable (other than any such approvals or consents which, if not obtained, would not have a Material Adverse Effect). For purposes of this Agreement, all such approvals and consents shall be deemed to have been obtained upon the granting of a Final Order. In addition, there shall not have been entered a preliminary or permanent injunction, temporary restraining order or other judicial or administrative order or decree in any jurisdiction, the effect of which prohibits the Closing.

ARTICLE 7 THE CLOSING

7.1 The Closing. Subject to the terms and conditions of this Agreement, the closing of the purchase and sale of the Purchased Property and the assumption of the Assumed Liabilities (the "Closing") shall be held at 9 A.M. local time at the offices of GTE Network Services at 600 Hidden Ridge, Irving, Texas 75038, on the date agreed upon by the parties, provided such date shall be

(i) the last business day of the month, and (ii) at least five (5) business days, but not more than ninety (90) days, after the date either party notifies the other in writing of its determination that all required Regulatory Approvals, Bondholder Consents, the Material Consents and FCC Consents have been obtained, or at such other time and place as the parties may agree (the "Closing Date"). Such Closing shall be deemed to have occurred as of 11:59 P.M., local time, on the Closing Date. Sellers' ownership and operation of the Purchased Property shall be deemed to cease immediately prior to the Closing.

7.2 Sellers' Obligations at Closing. At the Closing, Sellers shall deliver to Buyer the following documents:

(a)(i) The Bill of Sale and Assignment and Assumption Agreement, (ii) subject to Permitted Encumbrances, special warranty deeds in respect of the Owned Real Property, and (iii) subject to Section 2.5, assignments of the Assigned Contracts or to the extent set forth in Section 4.3, sublicenses of certain Assigned Contracts. For purposes of this Agreement, the term "Bill of Sale and Assignment and Assumption Agreement" means the form attached hereto as Schedule 7.2(a) executed by Sellers;

(b) A legal opinion from William Mundy, general counsel for GTE Network Services, as counsel for Sellers, dated as of the Closing Date and in the form of Schedule 7.2(b);

(c) Sellers' Closing Certificate;

(d) Instruments of assignment of the Real Property Leases and Real Property Interests or, to the extent set forth in Section 4.3, subleases for the Leased Real Property;

(e) Mortgage satisfactions, UCC Form 3 Termination Statements and other instruments necessary to remove, release and terminate all Liens

held by any party on the Purchased Property (except for Permitted Encumbrances);

(f) All of the documents and papers required of Sellers as conditions to Closing pursuant to Section 6.1, including the Regulatory Approvals, Bondholder Consents and FCC Consents;

(g) A certificate substantially in the form of Schedule 7.2(g) certifying that Sellers is not a "foreign person" within the meaning of Section 1445(b)(2) of the IRC;

(h) The License Agreement;

(i) All documentation and information required to be delivered by Sellers prior to Closing pursuant to Article 11; and

(j) Such other documents as Buyer may reasonably request.

7.3 Buyer's Obligations at Closing. At the Closing, Buyer shall deliver to Sellers the following:

(a) The Closing Date Amount in the manner specified in Section 3.2;

(b) The Bill of Sale and Assignment and Assumption Agreement and the Ancillary Agreements executed by Buyer;

(c) A legal opinion from Boles, Boles & Ryan, counsel to Buyer dated as of the Closing Date and in the form of Schedule 7.3(c);

(d) Buyer's Closing Certificate;

(e) All other documents and papers required of Buyer as conditions of Closing pursuant to Section 6.2, including the Regulatory Approvals; and

(f) Such other documents as Sellers may reasonably request.

ARTICLE 8 REPRESENTATIONS AND WARRANTIES

8.1 Representations and Warranties of Sellers. Sellers jointly and severally represent and warrant to Buyer as follows:

8.1.1 Authorization and Effect of Agreement. Sellers have the requisite corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements and to perform their obligations hereunder and thereunder. The execution and delivery by Sellers of this Agreement and the Ancillary Agreements and the fulfillment of their obligations under this Agreement and the Ancillary Agreements have been duly authorized by all necessary corporate action on the part of Sellers and, to the extent required by Law, any entity that controls the Sellers. This Agreement and the Ancillary Agreements have been or will be duly executed and delivered by Sellers and, assuming the due execution and delivery of this Agreement and the Ancillary Agreements by Buyer, constitute valid and binding obligations of Sellers enforceable in accordance with their terms subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights of creditors generally and subject to the exercise of judicial discretion in accordance with principles of equity

8.1.2 No Restrictions Against Sale or Assignment of the Purchased Property. The execution and delivery of this Agreement and the Ancillary Agreements by Sellers do not, and prior to Closing will not, and the fulfillment by Sellers of its obligations under this Agreement and the Ancillary Agreements will not (i) conflict with or violate any provision of their certificates of incorporation or bylaws, (ii) subject to obtaining the approvals and or consents referred to in Section 2.5, Article 4 and Schedule 8.1.11(a-e), conflict with, violate or result in the breach of any provision of any Material Contract, or (iii) result in the creation of any Lien (other than Permitted Encumbrances) upon any of the Purchased Property under (a) any Material Contract or (b) any Law applicable to any of the Purchased Property, except in the case of clauses (ii) or (iii) for any such conflict, violation, breach or Lien that would not have a Material Adverse Effect.

8.1.3 Consents, Approvals and Permits of Governmental Authorities. Except as set forth in Schedule 8.1.3:

(a) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required to be obtained or made by or with respect to Sellers or in connection with the execution and delivery of this Agreement and the Ancillary Agreements by Sellers or the fulfillment by Sellers of their obligations under this Agreement and the Ancillary Agreements, except (i) FCC Consents and HSR Act clearance, (ii) the Regulatory Approvals, and (iii) any consent approval, order or authorization or registration declaration or filing, which if not obtained or made would not have a Material Adverse Effect.

(b) 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.

8.1.4 No Violation of Law. Except as indicated in Schedule 8.1.4, the execution and delivery of this Agreement and the Ancillary Agreements and the fulfillment by Sellers of its obligations under this Agreement and the Ancillary Agreements will not violate any applicable Law, except where such violation would not reasonably be expected to have a Material Adverse Effect.

8.1.5 Corporate Organization. Sellers are corporations duly organized, validly existing and in good standing under the laws of the state of Delaware, and are duly qualified to conduct business in Arkansas. Sellers have full power and authority to own their properties and to carry on the Business as it is now being conducted and to own, or hold under lease or Contract the Purchased Property.

8.1.6 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 or any of the Purchased Property for any broker's or finder's fees or similar fees or expenses.

8.1.7 Title to Owned Real Property. As of the date hereof, the address and a general description of each item of Owned Real Property are set forth on Schedule 8.1.7(a). Sellers have good fee simple title to all of the Owned Real Property, free and clear of any Lien other than Permitted Encumbrances and Liens of the Bondholders identified on Schedule 8.1.7(b). Sellers represent that the only creditors that have a Lien (other than any Permitted Encumbrances) on any of the Owned Real Property are the Bondholders identified on Schedule 8.1.7(b). The Owned Real Property set forth on Schedule 8.1.7(a) constitutes substantially all of the Owned Real Property used in the Business during calendar year 1998 and located in the Purchased Exchanges, except as such (i) has been disposed of since January 1, 1998 in the ordinary course of business, or (ii) would not have a Material Adverse Effect.

8.1.8 Real Property Leases. Schedule 8.1.8 sets forth (i) a list of all Real Property Leases as of the date hereof and, except for such Real Property Leases as may have been executed or terminated in accordance with Section 5.2, as of the Closing Date, and (ii) all Real Property Leases used in the Business and with respect to property located in the Purchased Exchanges during calendar year 1998 except such as (1) have been executed or terminated since January 1, 1998 in the ordinary course of business, or (2) would not have a Material Adverse Effect. Each of the leases for the Leased Real Property 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, and except as otherwise disclosed in Schedule 8.1.8, there is not under any lease any material default or a material breach of covenant by Sellers.

8.1.9 Tangible Assets. All of the tangible Purchased Property is in substantially good operating condition and repair, normal wear and tear excepted. Except as set forth on Schedule 8.1.9 or elsewhere in this Agreement, Sellers have, or as of Closing will have, good title to each item of tangible Purchased Property (other than Real Property Interests, representations with respect to which are included in Section 8.1.7 and 8.1.8 hereof, and office equipment or vehicles subject to leases) with a fair market value in excess of \$10,000, free and clear of any Lien (other than Permitted Encumbrances). Sellers have not received any written notice within the past twelve(12) months of a violation of any ordinances, regulations or building, zoning or other Laws with respect to such assets that would have a Material Adverse Effect. **EXCEPT AS EXPRESSLY PROVIDED IN THIS SECTION 8.1.9, SELLER MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AS TO THE CONDITION OR FITNESS OF THE TANGIBLE PURCHASED PROPERTY AND HEREBY DISCLAIMS ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR WARRANTY AGAINST INFRINGEMENT.**

8.1.10 No Material Adverse Change. Except as disclosed in Schedule 8.1.10 or as may be related to the Merger (and disclosed to Buyer), between December 31, 1997 and the date of this Agreement there has not occurred (i) any event or condition that would have a Material Adverse Effect; (ii) any increase in compensation payable or to become payable by Sellers to any of their Transferred Employees or agents, other than normal merit or promotional increases made in the ordinary course of business consistent with past practice, other than Sellers' obligation to make payments for service prior to Closing under the retention pay program announced in connection with the network business repositioning of Sellers and its Affiliates; or (iii) any amendment or termination by Sellers of any Material Contract, except any amendment or termination in the ordinary course of business.

8.1.11 Material Contracts. Except for the agreements set forth on Schedule 8.1.11 subparts (a) through (d) (all such contracts being referred to herein as the "Material Contracts"), there is no Assigned Contract (other than the Assigned Contracts entered into after the date of this Agreement in the ordinary course of business) that is:

- (a) an agreement containing a non-compete agreement or other covenant that in either case would by its terms limit the freedom of Buyer following the Closing to compete in any material respect with respect to the Business with any third party, other than any such agreement or covenant which does not materially impair the continued operation of the Business as it is currently conducted;
- (b) an agreement granting a Lien with respect to any of the Purchased Property (other than a Permitted Encumbrance or Lien of a Bondholder);
- (c) an agreement for the sale, lease or encumbrance (other than a Permitted Encumbrance or Lien of a Bondholder) of any material Purchased Property (including any interconnection agreements) or grant of any preferential rights to purchase any material Purchased Property in each case outside the ordinary course of business; or

(d) an agreement other than as set forth above with respect to which the aggregate amount to be received or paid thereunder with respect to calendar year 1999 is expected to exceed \$100,000 based on the payments which have been made under such agreement with respect to calendar year 1998, to the extent applicable.

Except as set forth on Schedule 8.1.11, to the knowledge of Sellers, each of the Material Contracts is valid, binding and in full force and effect and is enforceable by Sellers or Sellers' Affiliates, as applicable, in accordance with its terms, 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 8.1.11, to the knowledge of Sellers, Sellers and Sellers' Affiliates have performed all material obligations required to be performed by them to date under the Material Contracts, and they are not (with or without the lapse of time or the giving of notice, or both) in breach or default thereunder and, to the knowledge of Sellers, no other party to any Material Contract is (with or without the lapse of time or the giving of notice, or both) in breach or default in any respect 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, neither Sellers nor any Sellers' Affiliate has, except as disclosed on Schedule 8.1.11, received any written notice of the intention of any party to terminate any Material Contract. Except as set forth in Schedule 8.1.11, no consents or approvals are required from third parties with respect to the assignment of any Material Contract. Complete and correct copies of all the Material Contracts, together with all modifications and amendments thereto to the date of this Agreement, have been made available to Buyer or its representatives.

8.1.12 Insurance. The Purchased Property 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. Effective at 11:59 P.M. on the Closing Date, the coverage under the insurance policies and programs applicable to the Purchased Property will be terminated. Thereafter, Buyer will be responsible for providing all insurance coverage for the Purchased Property.

8.1.13 Taxes. Except as disclosed on Schedule 8.1.13, (i) all Tax Returns required to be filed by Sellers on or before the Closing Date have or will have been filed, and all Taxes shown as due and payable on such Tax Returns have been or will be paid by Sellers when required by law; (ii) no deficiencies or assessments for any Taxes have been asserted in writing or assessed against Sellers that remain unpaid and that individually or in the aggregate are material to the Business; (iii) Sellers have withheld all required federal, state and local payroll Taxes relating to the Business and have remitted or will remit all amounts required to be remitted to the appropriate Taxing authorities; (iv) there are no Tax Liens upon any of the Purchased Property except for statutory liens covering Taxes not yet due and payable; (v) Sellers are not a "foreign persons" within the meaning of Section 1445(b)(2) of the IRC and shall provide an appropriate certificate for purposes of Section 1445(b)(2) of the IRC; and (vi) there are no material, current audits or material audits for which written notice has been received or, to the knowledge of Sellers, for which verbal notice has been received (in either case, specifically with respect to the Business).

8.1.14 No Material Claims or Suits. Except as disclosed in Schedule 8.1.13 or Schedule 8.1.14, there are no claims, actions, lawsuits or legal proceedings pending before any Governmental Authority, or, to the knowledge of Sellers threatened, against or affecting the Business or Purchased Property that in Sellers' opinion, if determined adversely to Sellers, would reasonably be expected to have a Material Adverse Effect on the Business or materially adversely affect ability of Sellers to consummate the transactions contemplated hereby.

8.1.15 Tariffs; FCC Licenses.

(a) Schedule 8.1.15(a) sets forth a list of all regulatory tariffs applicable to the Business. Such tariffs stand in full force and effect on the date of this Agreement in accordance with all 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 their 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 Sellers' regulatory agency. 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 disclosed on Schedule 8.1.15(a), there are no applications by Sellers or complaints (other than end-user complaints), or petitions by others or proceedings pending or threatened before the PUC relating to the Business or its operations or the regulatory tariffs. 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 set forth on Schedule 8.1.15(a) has been delivered or made available to Buyer.

(b) Schedule 8.1.15(b) sets forth a list of all FCC Licenses held by Sellers and used in the operation of the Business. Except as set forth on Schedule 8.1.15(b), (i) each such FCC License is in full force and effect on the date of this Agreement in accordance with its terms, (ii) there is no outstanding notice of cancellation or termination or, to Sellers' knowledge, any threatened cancellation or termination in connection therewith, nor (iii) 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 (other than individual end-user complaints that would not cause a Material Adverse Effect) 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 on the Business.

8.1.16 Employee Matters.

(a) Sellers have provided by letter of even date herewith the name, annual compensation, incentive compensation target, job title, job location and collective bargaining unit status as of March 17, 1999 of each person employed by Sellers at a location in the Purchased Exchanges who is expected to be a Transferred Employee. Schedule 8.1.16(a) lists (and identifies the sponsor of) each material "Employee Pension Benefit Plan,"

as that term is defined in Section 3(2) of 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 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 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 8.1.16(a) also includes a list of each material written employment, severance, termination or similar-type agreement between Sellers and their Affiliates and any Transferred Employee (the "Employment Agreements"). Except for retention bonuses paid in connection with the closing of the transactions contemplated by this Agreement and except as otherwise disclosed on Schedule 8.1.16(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 Transferred Employee of any severance, termination, or similar-type payments or benefits being paid to any Transferred Employee.

(b) Except as set forth on Schedule 8.1.16(b):

(i) Neither Sellers 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, any of their Affiliates or the Business 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 IRC; 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, any of their Affiliates or the Business (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 8.1.16(c), with respect to the Plans other than those Plans identified on Schedule 8.1.16(d) as "multiemployer plans":

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

(ii) none of the ERISA Plans has incurred an "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the IRC), 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 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 IRC and, to the extent applicable, Section 401(k) of the IRC, 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 IRC, 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 by or on behalf of any of the Plans, by any employee or beneficiary covered under any such Plan, or otherwise involving any such Plan (other than routine claims for benefits and routine expenses).

(d) Except as set forth on Schedule 8.1.16(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 8.1.16(d), neither Sellers nor any of their Affiliates have not made or incurred 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, any of their Affiliates or the Business, and the transactions contemplated herein shall not constitute a "complete withdrawal" or a "partial withdrawal" as such terms are defined in Sections 4203 and 4205 of ERISA, respectively.

(e) Except as set forth on Schedule 8.1.16(e), (i) none of the Transferred Employees are represented by a labor union or labor organization, and (ii) Sellers are not subject to any collective bargaining agreement covering any Transferred Employee. There are currently no strikes, slowdowns, work stoppages or lockouts by or with respect to any Transferred Employee covered by collective bargaining agreements. Except as set forth on Schedule 8.1.16(e), to the best 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 Transferred Employees.

(f) Sellers will make available to Buyer, prior to the Closing Date, a list of those Transferred Employees that Sellers believe to 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.

8.1.17 Schedules of Telephone Plant. Schedule 8.1.17 sets forth, as of December 31, 1998 and, except for such changes as may occur pursuant

to

Section 5.2, as of the Closing Date, a materially accurate summary of the book value of the Telephone Plant (except for Real Property Interests and Real Property Leases) and Material and Supply Inventory as reflected in Sellers' continuing property records. Schedule 8.1.17 summarizes substantially all Telephone Plant used in the Business (other than Excluded Property and the GTE Telecom Assets) during calendar year 1998 and located in the Purchased Exchanges, except such as (i) has been disposed of in the ordinary course of business since January 1, 1998, or (ii) would not have a Material Adverse Effect.

8.1.18 Schedule of Real Property Interests. To the knowledge of Sellers and as of the date of this Agreement, Schedule 8.1.18 sets forth a true and accurate list of all its Real Property Interests.

8.1.19 Environmental Matters. Except as set forth in Schedule 8.1.19 (which Sellers may supplement within 30 days of the date hereof with respect to Leased Real Property):

- (a) Sellers' current use of the Owned Real Property or Leased Real Property materially complies with Environmental Requirements;
- (b) No Liens under any Environmental Requirement have been or are imposed on any of the Owned Real Property, except for such Liens as would not have a Material Adverse Effect;
- (c) No action, proceeding, revocation proceeding, procedure, writ, injunction or claim is pending, or to Sellers' knowledge threatened, concerning any Environmental Requirement and relating to any of the Owned Real Property, except as would not have a Material Adverse Effect;
- (d) Sellers have obtained or filed for all permits, licenses, registrations, and other approvals and has made all reports and notifications required under any Environmental Requirements in connection with the Owned Real Property, except as would not have a Material Adverse Effect; and
- (e) There are no present actions, activities, circumstances, conditions, events, or incidents relating to Sellers' use of any of the Owned Real Property or Leased Real Property that would reasonably be expected to involve Sellers in any material litigation under the Environmental Requirements, or impose upon Sellers any material liability related to any Environmental Requirements.

8.1.20 Schedule of Joint Construction Projects. Schedule 8.1.20 sets forth a list of all Joint Construction Projects for which Buyer is to assume liability as of the Closing.

8.1.21 Financial Statements. Schedules 8.1.21(a), 8.1.21(b) and 8.1.21(c) present the estimated income statement, estimated balance sheet and estimated statement of cash flows, respectively for the Business for the years ended December 31, 1997 and December 31, 1998 (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. However, because the Business represents only a portion of Sellers, the Financial Statements are based on the extensive use of estimates and allocations. Sellers believe these estimates and allocations have been performed on a reasonable basis and such Financial Statements materially reflect the results of operations for the periods set forth therein. However, Buyer acknowledges that (i) the Financial Statements themselves may not be consistent with the applicable regulations of the FCC or state regulatory authorities, and

(ii) because the Business represents only a portion of Sellers, the Buyer is not acquiring significant support elements located outside the Purchased Exchanges, and Buyer will operate under new tariffs, carrier contracts and other conditions that may significantly impact the future revenue of the Business, the Financial Statements may not be representative of the financial performance of the Business during future periods.

8.1.22 Year 2000 Compliance.

- (a) As of the Closing Date, Sellers shall have caused the modification or remediation of the Automated Assets in accordance with applicable manufacturer or vendor recommendations such that the Automated Assets are Year 2000 Compliant; provided that any and all Buyer or third-party supplied computer software, computer firmware and computer hardware that directly interfaces with the Automated Assets, co-exists with the Automated Assets, or indirectly influences the operation of the Automated Assets are also demonstrated to be Year 2000 Compliant.
- (b) Sellers shall be deemed to be in satisfaction of the requirements of subsection (a) of this Section 8.1.22 to the extent that Sellers have (i) performed on or before the Closing Date any modification or remediation in accordance with applicable manufacturer or vendor recommendations for achieving Year 2000 compliance or Year 2000 readiness, or (ii) received on or before the Closing Date reasonable assurances from the applicable manufacturer or vendor that an Automated Asset, without modification or remediation, is Year 2000 Compliant or Year 2000 ready.

(c) When used in this Section 8.1.22, the following terms shall have the respective meanings given below:

"Automated Assets" means the computer software, computer firmware, computer hardware (whether general or special purpose), documentation, data, and other similar or related items of the automated, computerized, and/or software system(s) that are provided by Sellers to Buyer as part of the Purchased Exchanges pursuant to this Agreement.

"Calendar-Related" refers to the date values based on the Gregorian calendar, as defined in Encyclopedia Britannica, 15th edition, 1982, page 602, and to all uses in any manner of those date values, including without limitation manipulations, calculations, conversions, comparisons and presentations.

"Date Data" means any Calendar-Related data in the inclusive range January 1, 1900 through December 31, 2050, which the Automated Assets use in any manner.

"System Date" means any Calendar-Related data value in the inclusive range January 1, 1985 through December 31, 2035 (including the natural transition between such values) which the Automated Assets shall be able to use as their current date while operating.

"Year 2000 Compliant" means:

(i) As of the Closing Date, in connection with Calendar-Related data and Calendar-Related processing of Date Data or of any System Date, the Automated Assets will not malfunction, will not cease to function and will not produce incorrect results; and

(ii) As of the Closing Date, the Automated Assets will represent dates without ambiguity as to century when providing Calendar-Related data to and accepting Calendar-Related data from other automated, computerized and/or software systems and users by way of user interfaces, electronic interfaces and data storage.

8.1.23 Access Line Count. As of December 31, 1998, the Purchased Exchanges served a total of 213,651 access lines.

8.2 Representations and Warranties of Buyer. Buyer represents and warrants to Sellers as follows:

8.2.1 Corporate Organization. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the state of Louisiana, and is duly qualified to conduct business in Arkansas and has the requisite corporate power and authority to own, lease or otherwise hold the assets owned, leased or held by it.

8.2.2 Authorization and Effect of Agreement. Buyer has the requisite corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements, to carry on the Business as presently conducted and to fulfill all other obligations of Buyer under this Agreement and the Ancillary Agreements. The execution and delivery by Buyer of this Agreement and the Ancillary Agreements, and the fulfillment by it of its obligations under this Agreement and the Ancillary Agreements have been duly authorized by all necessary corporate action on the part of Buyer. Buyer has the requisite legal capacity to purchase, own and hold the Purchased Property upon the consummation of the sale of the Purchased Property. This Agreement and the Ancillary Agreements have been duly executed and delivered by Buyer and, assuming the due execution and delivery of this Agreement and the Ancillary Agreements by Sellers, constitute valid and binding obligations of Buyer enforceable in accordance with their terms subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights of creditors generally and subject to the exercise of judicial discretion in accordance with principles of equity.

8.2.3 No Restrictions Against Purchase of the Purchased Properties. The execution and delivery of this Agreement and the Ancillary Agreements by Buyer do not, and the fulfillment by Buyer of its obligations under this Agreement and the Ancillary Agreements will not, conflict with, violate or result in the breach of any provision of the certificate of incorporation or bylaws of Buyer or, conflict with, violate or result in the breach of any contract to which Buyer is a party. No material consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required to be obtained or made by or with respect to Buyer in connection with the execution and delivery of this Agreement by Buyer or the fulfillment by Buyer of its obligations under this Agreement, except the filings and approvals described in Article 4.

8.2.4 No Violation of Law. The execution and delivery of this Agreement and the Ancillary Agreements and the fulfillment by Buyer of its obligations under this Agreement and the Ancillary Agreements will not violate any Law except to the extent any such violation would not have a material adverse effect on the ability of Buyer to fulfill its obligations hereunder and thereunder.

8.2.5 Financial Capacity.

(a) Buyer has sufficient cash or other sources of funds to pay the Purchase Price in the manner specified in Section 3.1 and all related fees and expenses.

(b) Buyer has sufficient financial resources to operate the Business after the Closing Date. Without limiting the generality of the foregoing, Buyer has sufficient financial resources to satisfy any applicable requirement relating to financial capacity or capital imposed by any Governmental Authority in any 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.

8.2.6 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.

8.2.7 Consents and Approvals of Governmental Authority. Subject to Article 4 with respect to Regulatory Approvals and FCC Consents, no consent, approval or authorization of, or declaration, filing or registration with, any Governmental Authority or regulatory authority is required in connection with the execution, delivery and performance of this Agreement by Buyer or the consummation by Buyer of the transactions contemplated herein, except for filings with the FTC and DOJ pursuant to the HSR Act, if required.

ARTICLE 9 CONTINUING BUSINESS RELATIONSHIPS

9.1 Transition Services Agreement. The parties agree to cooperate with each other to ensure that the transition of the ownership of the Purchased Property proceeds with minimal disruption to the services being provided to subscribers. The parties agree that it may be necessary for Sellers to assist Buyer in converting Sellers' systems and processes with respect to the Purchased Property to Buyer's systems and processes. Sellers and Buyer agree to execute a separate "Transition Services Agreement" substantially in the form attached hereto as Schedule 9.1 for the provision of such services.

9.2 Optional Services Agreement. It is understood and agreed that Buyer may not have for a period of time after Closing Date, certain systems or processes necessary to provide some basic customer services. Sellers will at Buyer's request and for the fees described in Schedule 9.2 provide any or all of the services described in a separate "Optional Services Agreement" signed by the parties substantially in the form attached hereto as Schedule 9.2.

9.3 Directory Publishing.

9.3.1 Assumption of Certain Directory Publishing Agreement Rights and Obligations. Sellers are parties to a directories publishing agreement with [GTE Directories Service Corporation n/k/a GTE Directories Corporation or GTE Directories Corporation as purchaser of the rights and interests of Associated Directory Services, Inc. f/k/a Mast Advertising and Publishing, Inc.] herein "Publisher." This [These] agreement[s] is [are] identified in Schedule 9.3.1 attached hereto ("Publishing Agreement[s]"). Pursuant to this [these] agreement[s] Publisher has the exclusive right and obligation to sell advertising, and to publish, print and distribute directories containing telephone numbers relating to the Purchased Exchanges.

At Sellers' option, Buyer agrees to execute an agreement effective as of the Closing to assume and appropriately amend the Publishing Agreement[s] as it[they] relate to the Purchased Exchanges, which agreement will extend the length of the term of the Publishing Agreement[s] to expire not earlier than December 31, 2001. Buyer agrees to allow Publisher to participate in any process for negotiating future directory publishing agreements on terms no less favorable than any other participant.

9.3.2 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 Purchased Exchanges ("Co-Bound" directory). Co-Bound directory agreements of which Sellers are aware, if any, are identified on Schedule 9.3.2.

9.3.3 Meeting to Discuss Directory Publication. Within ninety (90) days following the date of this Agreement, Buyer agrees to meet with Sellers and Publisher for the purpose of having an initial discussion about the first directory publication after the Closing Date. This meeting will be held at Publisher's address unless otherwise agreed between the parties and Publisher. All parties shall employ their respective commercially reasonable efforts to ensure that directory publication is not interrupted following the Closing Date.

9.4 GTE Telecom Agreements. Buyer acknowledges that GTE Telecom will retain ownership of certain assets as well as related rights in connection with fiber loop located in the Purchased Exchanges, all of which assets and rights are listed on Schedule 2.3(g) (the "GTE Telecom Assets"). Buyer further acknowledges that the GTE Telecom Assets may be co-located with the Purchased Property, and may share certain easements, rights of way or other real property interests. In order to clarify the relationship between Buyer and GTE Telecom with respect to the GTE Telecom Assets, Buyer agrees to execute and deliver at Closing certain agreements substantially in the form attached hereto as Schedule

9.4 (the "GTE Telecom Agreements").

ARTICLE 10 ADDITIONAL COVENANTS OF THE PARTIES

10.1 Intellectual Property.

10.1.1 No License. Buyer and Sellers agree and understand that except as expressly set forth in writing in the License Agreement and Section 10.1.3, Sellers have not granted any rights or licenses, express or implied, of, and nothing shall constitute or be construed as a license of 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 or any of its Affiliates, 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 of, 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 that Sellers or their Affiliates are the owners of Excluded Marks that qualify as Excluded Property under Section 2.3. Buyer understands and agrees that the Excluded Marks, or any right to or license of the Excluded Marks, are not being transferred 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 assert any rights or claims in such Excluded Marks (or in any names, domain names, marks or when confusingly similar to the Excluded Marks). 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 for items 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 destroy or deliver to Sellers, all such 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 items with Excluded Marks affixed to them including giveaways; order, purchase or materials forms; requisitions; invoices; statements; time sheets/labor reports; bill inserts; stationery; personalized note pads; 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 ninety (90) day time 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 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 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) Buyer will not 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 Purchased Property 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 areas of the Purchased 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"), then subject to Section 2.5 and the receipt of any required consents from Switch Software vendors, effective as of the Closing and provided that no payments to any Person other than a Switch Software vendor are thereby required, Sellers hereby assign to Buyer, and Buyer hereby accepts all rights and licenses, if any, to possess and use such software pursuant to such Third Party Intellectual Property Contracts. Buyer agrees that the acceptance by Buyer of such assignment of the Third Party Intellectual Property Contracts includes the assumption by Buyer of obligations under such Third Party Intellectual Property Contracts, including all obligations necessary or incidental to the transfer of such rights and licenses. Buyer understands and agrees that except as provided above in this Section 10.1.4, or as expressly provided elsewhere in this Agreement or in another written agreement between Buyer and Sellers, 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 of which Buyer acquires possession in connection with Purchased Property and which, after the Closing Date, Buyer knows, or reasonably should know, is not the subject of a Third Party Intellectual Property Contract that has been rightfully transferred to Buyer. Sellers make no warranty or representation that any Third Party Intellectual Property Contract or any right therein is assignable in whole or in part to Buyer.

10.2 Effect of Due Diligence and Related Matters.

(a) Buyer represents that it is a sophisticated entity that was advised by knowledgeable counsel and financial advisors and, to the extent it deemed necessary, other advisors in connection with this Agreement and has conducted its own independent review and evaluation of the Purchased Property. Accordingly, Buyer covenants and agrees that (i) except for the representations and warranties set forth in this Agreement, Buyer has not relied and will not rely upon any duty to disclose or any document or written or oral information furnished to or discovered by it or its representatives, including any financial data, (ii) there are no representations or warranties, express or implied, statutory or otherwise, by or on behalf of Sellers or their Affiliates or representatives except for those expressly set forth in this Agreement, and

(iii) to the fullest extent permitted by law, Buyer's rights and obligations with respect to all of the foregoing matters will be solely as set forth in this Agreement. Buyer further acknowledges and agrees that Sellers are not under any duty to make any inquiry regarding any matter that may or may not be known to Sellers or any of their officers, directors, employees or representatives.

(b) Upon the Closing, Buyer shall be deemed to have waived any claim with respect to a breach of any representation, warranty, covenant or obligation of Sellers, or any failure of a condition, hereunder of which Buyer had actual knowledge on or prior to the date hereof; provided that Buyer shall be deemed to have actual knowledge on or prior to the date hereof of the information made available to Buyer and/or its representatives during Buyer's due diligence review, and which information is contained in the Due Diligence Materials.

(c) After the date of this Agreement and prior to the Closing Date, Buyer shall promptly notify Sellers if Buyer obtains actual knowledge of any actual or prospective breach of any representation, warranty, covenant or obligation of Sellers, or any actual or prospective failure of a condition, hereunder of which Buyer obtains actual knowledge. Failure to provide timely notice of any such breach of which Buyer obtains actual knowledge after the date hereof shall be deemed to constitute a waiver with respect to such breach.

10.3 Confidentiality. Whether or not the Closing occurs, the parties hereto and their respective officers, directors, employees and representatives will comply with the Confidentiality Agreement (to the extent not inconsistent with this Agreement), the provisions of which are expressly incorporated herein in their entirety by this reference.

10.4 Further Assurances. After the Closing, Sellers will 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 Purchased Property, to be delivered from time to time upon Buyer's reasonable request.

10.5 Prorations. The following liabilities that call for periodic payments shall be prorated between Sellers and Buyer: (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 and Real Property Interests), (iii) personal services (these services are charged for a period which includes the Closing Date; this shall include contract labor), and (iv) any Taxes that are imposed on a periodic basis and are payable for a taxable period that includes (but does not end on) the Closing Date, including but not limited to real and personal property Taxes, ad valorem Taxes, and franchise fees or Taxes ("Periodic Taxes"). 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) and (iii) of the preceding sentence shall be apportioned between Sellers and Buyer as of the Closing Date, with Buyer bearing only the expense thereof in the proportion that the number of days remaining in the applicable Proration Period after the Closing Date bears to the total number of days covered by such Proration Period. Real and personal property Taxes and ad valorem Taxes shall be prorated between Buyer and Sellers based on the relative periods the Purchased Property was owned by each respective party during the fiscal period for which Periodic Taxes were assessed 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 Periodic Taxes (including instances in which such property Taxes have been paid before the Closing Date) on this prorated basis. If a payment on a Periodic 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 rate of eight percent (8%) per annum. Similarly, all prepayments made by Sellers under Assigned Contracts with respect to service or maintenance agreements requiring periodic payments with third parties or license or other fees payable to third parties shall be prorated on an appropriate basis between Sellers and Buyer.

10.6 Cost Studies/NECA Matters.

10.6.1 Prior to Closing. Sellers agree that, with respect to all toll revenues, settlements, pools, separations studies or similar activities, Sellers shall be responsible for (and shall receive the benefit or suffer the burden of) any adjustments to contributions, or receipt of funds, by Sellers resulting from any such activities that are related to the operation of the Business or the ownership or operation of the Purchased Property prior to the Closing Date. Specifically, this paragraph shall apply, but shall not be limited to, any matters related to the National Exchange Carrier Association ("NECA") or the Universal Service Administration Company ("USAC") including the Universal Service Fund ("USF"), Long Term Support ("LTS"), and Telecommunications Relay Services funds established by the FCC.

10.6.2 From and After Closing.

(a) In the case of Purchased Exchanges that comprise less than an entire Study Area, the following shall apply:

(i) Rural and non-rural carriers currently receive USF funds based on historic costs computed pursuant to Subpart F of Part 36 of the FCC's rules. Beginning July 1, 1999 or a date thereafter determined by the FCC, non-rural carriers shall not receive USF funds pursuant to Part 36, but will receive support based on forward-looking economic costs pursuant to Part 54. Sellers will take all steps necessary to ensure that, for each Transitional Year, Buyer receives a pro rata share of any USF funds distributed during each year. Buyer's pro rata share of such USF funds for a given Transitional Year shall be determined for each Acquired Local Loop by multiplying the USF funds attributable to such loop for that year times the number of months of that year that such loop is owned by the Buyer.

(ii) Buyer shall make all USF filings that are required under FCC rules after the Closing Date, and Sellers shall provide such reasonable assistance as is required in order to make such filings.

(iii) Notwithstanding the foregoing, Buyer's right to receive a pro rata share of USF is conditioned upon Buyer's payment, from and after the Closing Date, of a pro rata share of the annual universal service contribution liability assessed by the USAC based on end-user retail revenues for the previous year generated by assets being sold. The resulting Buyer's annual USF obligation for assets purchased shall be prorated in proportion to the number of months in the year from and after the Closing Date.

(b) In the case of Purchased Exchanges that comprise an entire Study Area, the following shall apply:

(i) Buyer shall receive all USF funds, from and after the Closing Date, as determined by USAC from data submitted by Sellers prior to Closing Date pursuant to FCC Rules and Regulations as stated in Part 36.611 and Part 36.612 for rural carriers and Part 54 for non-rural carriers. After Closing Date Buyer shall make all submissions and filings for USF funds for all years for which Sellers had not made a submission prior to Closing Date in accordance with FCC Rules and Regulations. Within a reasonable time after Buyer's written request, Sellers shall furnish to Buyer such necessary information regarding Sellers' ownership of the Purchased Property during any year for which Buyer shall make a submission, and such reasonable assistance as required in connection with Buyer's preparation of necessary filings or submissions.

(ii) Notwithstanding the foregoing, Buyer's right to receive all USF revenue is conditioned upon Buyer's payment, from and after the Closing Date, of all universal service contribution liability assessed by USAC based on end-user retail revenues for the previous year generated by assets being sold.

10.7 Customer Deposits and Construction Advances. Within thirty

(30) days after Closing, Sellers agree to transfer to Buyer the customer deposits together with any interest accrued thereon (collectively "Customer Deposits") and Construction Advances, together with all of Sellers' obligations (exclusive of pre-Closing disputes with respect thereto) and rights to hold the Customer Deposits and Construction Advances of the Business, up to the Closing Date, and Buyer agrees to hold, disburse and retain such deposits so delivered to it, and to perform related construction, as the case may be, as if it were Sellers.

10.8 Access to Books and Records.

(a) After the Closing, Sellers will retain all Retained Books and Records for a period of three (3) years from the date hereof, except for Tax Returns and supporting documentation, which Sellers shall retain until the later to occur of (i) sixty (60) days subsequent to the expiration of the applicable statute of limitations or any extensions thereof, or (ii) the expiration of three (3) years from the date hereof.

(b) After the Closing, upon reasonable notice and subject to the Confidentiality 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 Purchased Property, 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 any Tax Returns and related information, but not attorney work product), audits, legal proceedings, governmental investigations and other 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 herein will obligate any party to take actions that would unreasonably disrupt the normal course of its business or violate the terms of any Contract 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 10.8(b).

10.9 Purchase Price Allocation. No later than ninety (90) days subsequent to the Closing Date, Buyer and Sellers shall use their good faith efforts to agree to the allocation (the "Allocation") of the Purchase Price, the Assumed Liabilities and other relevant items (including, for example, adjustments to the Purchase Price) to the individual assets or classes of assets within the meaning of Section 1060 of the IRC. If Buyer and Sellers agree to such Allocation prior to Closing, Buyer and Sellers covenant and agree that (i) the values assigned to the assets by the parties' mutual agreement shall be conclusive and final for all purposes, and (ii) neither Buyer nor Sellers will take any position before any Governmental Authority or in any judicial proceeding that is in any way inconsistent with such Allocation. Notwithstanding the foregoing, if Buyer and Sellers cannot agree to an Allocation, Buyer and Sellers covenant and agree to file and to cause their respective Affiliates to file, all Tax Returns and schedules thereto (including, for example, amended returns, claims for refund, and those returns and forms required under Section 1060 of the IRC and any Treasury regulations promulgated thereunder) consistent with each of Buyer and Sellers' good faith Allocations, unless otherwise required because of a change in applicable Law.

10.10 Owned Real Property Transfers. Within sixty (60) days of the date of this Agreement, Sellers shall deliver to Buyer copies of all existing title insurance policies in Sellers' possession covering the Owned Real Property. Thereafter, no later than thirty (30) days before the Closing Date, Sellers shall deliver (at Sellers' expense) to Buyer title commitments for owners' policies of title insurance prepared by a title insurance company reasonably acceptable to Buyer and a certified current survey, with respect to all Owned Real Property included in the Purchased Property and in which Sellers purports to own fee title. Buyer acknowledges that such title commitments shall be for California Land Title Association ("CLTA") owners' policies of title insurance (or its equivalent) unless Buyer has requested in writing, prior to the date hereof, that such commitments be issued for other forms of title insurance (in which event, Buyer shall bear all costs and premiums for such title insurance to the extent attributable to such coverage being in excess of CLTA coverage or its equivalent). Such title commitments shall reflect that upon the consummation of the sale to Buyer contemplated by this Agreement and the payment of all premiums and charges due for such title insurance, Buyer will be vested with good, fee simple title to such Owned Real Property, subject only to the exceptions show thereon, the title company's standard exceptions and exclusions, and such matters that arise after the date and time of such title commitment. Except as provided in the following sentence, in the event that Buyer requires endorsements to such title commitments or the applicable title insurance policies, such endorsements shall be obtained at Buyer's sole cost and expense and shall not be a condition to Closing. On the Closing Date, Sellers shall convey the Owned Real Property to be transferred to Buyer subject only to Permitted Encumbrances, provided that Sellers may transfer such

property subject to one or more exceptions that are not Permitted Encumbrances if Sellers commit in writing, in form and substance reasonably acceptable to Buyer, on or before the Closing Date, to cause any such exception that is not a Permitted Encumbrance to be removed, insured or bonded over to Buyer's reasonable satisfaction, or if Sellers indemnify Buyer with respect to such exceptions to Buyer's reasonable satisfaction on or before the Closing Date. With respect to each parcel of Owned Real Property covered by a title commitment referenced above, the amount of title insurance provided under the applicable title insurance policy shall be the fair market value of the applicable 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, and shall be acceptable to the title insurance company. The determination of fair market value shall be made in a timely manner such that the title commitments can be issued in a timely manner prior to the Closing Date. Sellers agree that prior to Closing it will provide the title company with such instructions, authorizations, affidavits, and indemnities as may be reasonably necessary for the title company to issue title policies to Buyer, dated as of the Closing Date, for all of the Owned Real Property with so-called non-imputation endorsements. By no later than forty-five (45) days after the Closing Date, Sellers shall deliver to Buyer a final title insurance policy covering each parcel of the Owned Real Property covered by the title commitments. Buyer will use its commercially reasonable efforts to work with the title company between the date hereof and forty-five (45) days after Closing Date to resolve any issues with respect to such title commitments. Sellers shall be responsible for the payment of all title insurance premiums attributable to the CLTA portion of the coverage afforded by each such policy obtained, and Buyer shall be responsible for the payment of all title insurance premiums in excess of such amount and for the payment of all endorsement charges and other fees and costs imposed by the title company.

10.11 Transaction Taxes. Buyer shall bear and be responsible for paying any sales, use, transfer, documentary, registration, business and occupation and other similar Taxes (including related penalties (civil or criminal), additions to Tax and interest) imposed by any Governmental Authorities with respect to the transfer of Purchased Property to Buyer (including the Owned Real Property) ("Transaction Taxes"), regardless of whether the Tax authority seeks to collect the 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.

10.12 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 Purchased Property.

10.13 Prepaid Non-regulated Maintenance Agreements. Within thirty (30) days following Closing, Sellers shall 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 as of the Closing Date.

10.14 Vehicle Registration. Buyer agrees to 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 Sellers pursuant to this Agreement. Buyer agrees that it shall remove and destroy Sellers' existing license plates from all vehicles received promptly upon the receipt of new license plates.

10.15 Carrier Access Billing and Accounts Receivable Transition. Sellers shall render their own final carrier access bills to its interexchange carriers for minutes, messages and other applicable charges up to the Closing Date. Sellers shall be responsible for collecting and settling any disputes associated with their final bills to the interexchange carriers.

10.16 End-User Billing and Accounts Receivable Transition. Buyer agrees to purchase Sellers' Earned End-user Accounts Receivable and make payment to Sellers for those accounts in the manner described below.

(a) Sellers shall transfer to Buyer, as soon as reasonably available after Closing, all open end-user customer account records as of the end of business on 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. Sellers will promptly forward to Buyer all customer payments and related remittance documents received by Sellers after the Closing for processing by Buyer.

(b) Within twenty (20) days following the Closing, Sellers will provide an accounting to Buyer of the Earned End-User Accounts Receivable and the Customer Advances, as well as the most recent twelve (12) month history of Sellers' uncollectible net writeoffs expressed as a percentage of billings for the Business (the "Uncollectible Factor"). This data and the resulting calculation of the Earned End-User Accounts Receivable Amount will be summarized in an accounts receivable settlement statement (the "Accounts Receivable Settlement Statement"). Within thirty (30) days following the Closing, Buyer will remit to Sellers an amount equal to 80% of the Earned End-User Accounts Receivable Amount less 100% of the Customer Advances. Within sixty (60) days following the Closing, Buyer will remit an additional 15% of the Earned End-User Accounts Receivable Amount and within ninety (90) days will remit the final 5%.

(c) Not later than ten (10) days prior to the due dates for the sixty (60) and ninety (90) day payments referred to in Section 10.16(b) above, Sellers will 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.

(d) If at any time during the ninety (90) day period following the Closing, Buyer or Sellers discovers any material discrepancy in the Accounts

Receivable Settlement Statement, Sellers and Buyer agree to use commercially reasonable efforts to resolve any discrepancy in a timely manner, and also agree to make payments related to any undisputed amounts as set forth above.

10.17 Cooperation. Subsequent to the Closing Date, Buyer and Sellers agree that they shall cooperate, each with the other, in order to facilitate the orderly transfer of the operation of the Business from Sellers to Buyer; provided that except as may be otherwise required under that Agreement, no party shall be required to pay any out-of-pocket costs associated with their respective obligations hereunder.

ARTICLE 11 EMPLOYEES AND EMPLOYEE MATTERS

11.1 Employment of Transferred Employees. All Active Employees of Sellers employed in the Business, and all Active Employees of Sellers and their Affiliates who are associated with the Business, on the Closing Date (hereinafter collectively referred to as "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 (exclusive of any retention bonus)), as were in effect on the Closing Date, except as otherwise provided in this Agreement. The term "Transferred Employees" shall include only those individuals described in the preceding sentence who are identified as such on Schedule 11.1. For purposes of the first sentence, the term "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, non-occupational disability, on layoff with recall rights, and employees on other approved leaves of absence with a legal or contractual right to reinstatement. Buyer also shall employ any employee of Sellers or their Affiliates who on the Closing Date is an LTD Recipient (as defined in Section 11.7) and who immediately before his active employment with Sellers or their Affiliates ceased was employed in or in association with the Business and whose primary work location is within the areas serviced by the Purchased Exchanges, provided such employee returns to active employment within one (1) year of the Closing Date. For a period of six (6) 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-month period beginning three (3) months before the Closing Date. All Transferred Employees and LTD Recipients (as defined in Section 11.7) shall be identified on Schedule 11.1 to be prepared by Seller and submitted to Buyer at least fifteen (15) days prior to the Closing Date; such Schedule 11.1 shall identify, as of the date of such Schedule, the employees who have terminated employment as described in the preceding sentence; and such Schedule 11.1 shall be updated as of the date that is three months after the Closing to identify any employees who terminated employment as described in the preceding sentence after the date of the original Schedule 11.1.

11.1.1 Assumption of Collective Bargaining Agreement Obligations. On and after the Closing Date, Buyer, as successor employer to Sellers (subject to Sellers' Retained Liabilities in Section 2.4.2(d)), shall assume all of the employer's obligations under, and be bound by the provisions of, each collective bargaining agreement covering Transferred Employees. Each such collective bargaining agreement relating to Transferred Employees shall be identified on a Schedule 11.1.1 to be prepared by Sellers and submitted to Buyer at least fifteen (15) days prior to the Closing Date. 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. If, on or before the Closing Date, an employee objects, or refuses to assent, to the consummation of the transactions contemplated by this Agreement insofar as the Agreement affects the employee, Sellers and their Affiliates shall have no liability or obligation to the employee or any other party by reason of the employee's objection or refusal to assent, and Buyer shall be responsible for any liability or obligation that arises by reason of the employee's objection or refusal to assent (other than any liability or obligation that results from Sellers' failure to comply with this Agreement and that does not result from Buyer's failure to comply with this Agreement).

11.1.2 Assumption of Employment and Other Agreements. On and after the Closing Date, except as otherwise provided in this Agreement or in Schedule 11.1.2, Buyer, as successor employer to Sellers (subject to Sellers' Retained Liabilities in Section 2.4.2(d)), shall assume all obligations under and be bound by the provisions of each offer of employment by Sellers relating to the Business, each employment agreement or any other agreement by Sellers relating to conditions of employment, employment separation, severance, or employee benefits in connection with the Business. All obligations described in this Section 11.1.2 assumed by and binding Buyer shall be identified on a Schedule 11.1.2 to be prepared by Sellers and submitted to Buyer at least fifteen (15) days prior to the Closing Date.

11.1.3 Recognition of Transferred Employee Service. On and after the Closing Date, and subject to the provisions of any applicable collective bargaining agreement, Buyer shall recognize the service of each Transferred Employee for all employment-related purposes (other than an employee achievement award, within the meaning of Section 274(j) of the IRC) determined in accordance with the practices and procedures of Sellers in effect on the Closing Date, as if such service had been rendered to Buyer. Schedule 11.1 to be prepared by Sellers and submitted to Buyer no later than fifteen (15) days prior to the Closing Date shall list the service of each Transferred Employee for the employment-related purposes referred to in the preceding sentence.

11.1.4 Assumption of Obligation to Pay Bonuses. Except as otherwise expressly provided in this Agreement, 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. For the year in which the Closing Date occurs, the Transferred Employees shall be paid any bonuses that would have been payable to the Transferred Employees for that year had the Transferred Employees remained employees of Sellers or one of their Affiliates, in accordance with the provisions of the policy, plan, arrangement, program, practice or agreement under which the bonus would have been paid (the "Sellers' Bonus Plans"). Sellers shall pay to Transferred Employees that portion of any such bonus that is attributable to service during such year on or before the Closing Date, and Buyer shall pay to Transferred Employees that portion of any such

bonus that is attributable to service during such year after the Closing Date. In determining the amount of the bonus to be paid by Buyer in accordance with the preceding sentence, Buyer shall apply criteria that are substantially comparable to the criteria established as of the Closing Date under the Sellers Bonus Plans under which the bonus would have been paid had the Transferred Employees remained employees of Sellers or one of their Affiliates. Sellers shall identify the Sellers Bonus Plans on a Schedule 11.1.4 to be delivered to Buyer no later than fifteen (15) days prior to the Closing Date.

11.1.5 No Duplicate Benefits; Dependents and Beneficiaries. 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.

11.1.6 Affiliate Employees. If any employee identified in Schedule 11.1 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, except that his or her service as of the Closing Date shall be determined in accordance with the practices and procedures of his or her employer, as in effect on the Closing Date.

11.1.7 Term of Assumed Obligations. Except as otherwise expressly provided in this Agreement, Buyer's obligations with respect to Transferred Employees under this Article 11 shall continue for a period of not less than one year after the Closing Date.

11.2 Transferred Employee Benefit Matters.

11.2.1 Defined Benefit Plans.

(a) Sellers' Pension Plans. As of the date of this Agreement, Seller participates in the following single-employer defined benefit pension plans maintained in the United States:

(i) the GTE Service Corporation Plan for Employees' Pensions (the "Sellers' Salaried Pension Plan"); and

(ii) the GTE Midwest Incorporated Plan for Hourly-Paid Employees' Pensions and the GTE Southwest Incorporated Plan for Hourly-Paid Employees' Pensions (collectively, the "Sellers' Hourly Pension Plan").

The plans identified in this Section 11.2.1(a) shall be referred to collectively in this Agreement as the "Sellers' Pension Plans," and each such plan shall be referred to individually as a "Sellers' Pension Plan."

(b) Buyer Obligations. 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") effective as of the Closing Date 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 IRC; (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 IRC, 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 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 Sellers' 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 Sellers' Hourly Pension Plan. Within the 30-day period immediately preceding any transfer of assets and liabilities from a Sellers' Pension Plan to a Buyer Pension Plan pursuant to this Section 11.2.1(b), 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 11.2.1(b).

(c) Transfer of Liabilities.

(i) In accordance with the provisions of this Section 11.2.1, Buyer shall cause the Buyer Pension Plans to accept all liabilities for benefits under the Sellers Pension Plans, whether or not vested, that would have been paid or payable (but for the transfer of assets and liabilities pursuant to this Section 11.2.1) to or with respect to the Transferred Employees under the terms of the Sellers' Pension Plans, including, but not limited to, all liabilities for "Section 411(d)(6) protected benefits" (as defined by Section 411(d)(6) of the IRC and the regulations thereunder) that have accrued under the Sellers' Pension Plans to or with respect to the Transferred Employees based on accredited service and compensation under the Sellers' Pension Plans as of the Closing Date. Buyer shall not amend the Buyer Pension Plans, or permit the Buyer Pension Plans to be amended, to eliminate any benefit, whether or not vested, that is a "Section 411(d)(6) protected benefit" (as defined by Section 411(d)(6) of the IRC and the regulations thereunder). Sellers or an Affiliate thereof may, in its sole discretion on or prior to the transfer of liabilities, take action to fully vest Transferred Employees in their benefits (if any) under the Sellers' Pension Plans.

(ii) (A) For purposes of eligibility and vesting under the Buyer Pension Plans, each Transferred Employee whose accrued benefit is transferred from a Sellers' 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 Sellers' Pension Plan. The benefit under the Buyer Pension Plan for each Transferred Employee who, on the Closing

Date, participates in the Sellers' 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 Sellers' Hourly Pension Plan. The benefit for each Transferred Employee who, on the Closing Date, participates in the Sellers' Salaried Pension Plan, shall not be less than the greater of (x) the sum of the Transferred Employee's "Sellers' Pension" and "Buyer Pension," or (y) the Transferred Employee's "Total Service Pension," each as determined under the rules set forth in subsection (c)(iii)(B) of this Section 11.2.1.

(B) Each Transferred Employee who, as of the Closing Date, participates or formerly participated in the Sellers' Salaried Pension Plan and who, under the terms of the Sellers' Salaried Pension Plan, has at least 15 years of accredited service and combined years of age and accredited service of at least 74 as of June 1, 1999, shall be eligible, after the Transferred Employee's employment with the Buyer and its Affiliates is terminated and after the Transferred Employee's combined years of age and years of accredited service equal or exceed 76, to receive his or her "Sellers' Pension" (as determined under the rules set forth in subsection (c)(iii) of this Section 11.2.1) as an immediate early retirement pension under the applicable Buyer Pension Plan in accordance with early retirement provisions that are no less favorable to the Transferred Employee than the early retirement provisions of the Sellers' Salaried Pension Plan as of the Closing Date. For a period of at least five (5) years following June 1, 1999, Buyer shall cause the Buyer Pension Plan to retain early retirement provisions that are no less favorable to the Transferred Employees than the early retirement provisions of the Sellers' Salaried Pension Plan to which they were subject as of the Closing Date; provided, however, that a Transferred Employee shall be entitled to consent to the provision to such Transferred Employee of a different and less favorable early retirement benefit.

(C) Notwithstanding the foregoing provisions of this subsection (c) (ii), if a lump-sum distribution is available under the Buyer Pension Plan, the benefit under the Buyer Pension Plan of a GATT Grandfathered Participant, when expressed in the form of a lump sum, shall not be less than the benefit under the Buyer Pension Plan determined without regard to the changes to Section 417 of the IRC made by the Uruguay Round Agreements Act. The method used to convert a GATT Grandfathered Participant's accrued benefit into a lump-sum amount under the Buyer Pension Plan after 1999 shall be not less favorable to a GATT Grandfathered Participant than the method used for similar purposes by the Seller Pension Plan. For purposes of this paragraph

(c)(ii)(C), "GATT Grandfathered Participant" shall mean a Transferred Employee

(x) with respect to whom liabilities are transferred pursuant to this subsection

(c) and (y) who, taking service from Buyer into account as service with Seller, would have been eligible under the Sellers' Pension Plan, but for the transfer of liabilities pursuant to this subsection (c), to have his benefit under the Sellers' Pension Plan (when expressed in the form of a lump sum) determined without regard to the changes to Section 417 of the IRC made by the Uruguay Round Agreements Act. (D) For a period of five (5) years following June 1, 1999, Buyer shall cause the Buyer Pension Plan to retain early retirement provisions that are no less favorable to the Transferred Employees than the early retirement provisions of the Sellers' Hourly Pension Plan to which they were subject as of the Closing Date; provided, however, that a Transferred Employee shall be entitled to consent to the provision to such Transferred Employee of a different and less favorable early retirement benefit.

(iii)(A) The Buyer Pension Plan benefit of a Transferred Employee who, on the Closing Date, participates in the Sellers' Hourly Pension Plan, shall be calculated as set forth in paragraph (c)(ii)(a) of this Section 11.2.1.

(B) The Buyer Pension Plan benefit of a Transferred Employee who, on the Closing Date, participates in the Sellers' Salaried Pension Plan, shall be calculated by applying the benefit formula set forth in paragraph (c)(ii)(A) of this Section 11.2.1, in accordance with the rules described in the remainder of this paragraph (B). A Transferred Employee's "Sellers' Pension" shall be calculated by applying the benefit formula under the Sellers' Salaried Pension Plan (as in effect on the Closing Date) to the Transferred Employee's service and compensation credited under the Sellers' Salaried Pension Plan as of the Closing Date. A Transferred Employee's "Buyer Pension" shall be not less than an amount calculated by applying the benefit formula under the Buyer Pension Plan to the Transferred Employee's total accredited service and compensation under the Buyer Pension Plan (including service and compensation credited under the Sellers' Salaried Pension Plan as of the Closing Date as if such service and compensation had been earned under the Buyer Pension Plan and service and compensation credited under the Buyer Pension Plan after the Closing Date), multiplied by the ratio of accredited service earned after the Closing Date to such total accredited service; provided that for a period of at least five (5) years following June 1, 1999, Buyer shall cause the benefit formula used in determining such "Buyer Pension" to provide benefits at least as valuable as were provided under the benefit formula applicable to the Transferred Employee under the Sellers' Salaried Pension Plan on the Closing Date. A Transferred Employee's "Total Service Pension" shall be calculated by applying the benefit formula under the Buyer Pension Plan to the Transferred Employee's accredited service (including service and compensation credited with the Sellers under the Sellers' Salaried Pension Plan as of the Closing Date as if such service and compensation was earned under the Buyer Pension Plan and service and compensation credited under the Buyer Pension Plan on and after the Closing Date). Solely for purposes of computing a Transferred Employee's "Total Service Pension," compensation received by such a Transferred Employee from the Sellers shall be treated as compensation received from the Buyer. The Sellers' Pension, the Buyer Pension, and the Total Service Pension shall take into account the Transferred Employee's actual age and entire period of service (including service credited under the Sellers' Salaried Pension Plan as of the Closing Date and service credited under the Buyer Pension Plan on and after the Closing Date) for vesting and benefit eligibility purposes.

(C) Each Transferred Employee who is eligible to receive a benefit under the Buyer Pension Plan may elect to receive the portion of said benefit that is equal to the Sellers' Pension in any form, and with any early retirement or other actuarial subsidy, that was available under the Sellers' Pension Plan on the Closing Date, without regard to whether the Transferred Employee is eligible to elect or receive, or does elect or receive, the same form of payment or early retirement or actuarial subsidy for the remainder of the pension under the Buyer Pension Plan.

(iv) As soon as practicable after the Closing Date, Seller shall deliver to Buyer a list reflecting each Transferred Employee's service and compensation under each of the Sellers' Pension Plans and each Transferred Employee's accrued benefit thereunder as of the Closing Date.

(d) Transfer of Assets.

(i) In accordance with the provisions of subsection

(d)(i) of this Section 11.2.1 and subject to the provisions of subsection

(d)(vi) of this Section 11.2.1, Sellers shall direct the trustee of the Sellers' Pension Plans to transfer to the trustee or funding agent of the applicable Buyer Pension Plan an amount in cash determined as provided in the following sentence (the "Pension Assets") with respect to the Transferred Employees whose accrued benefits are transferred to a Buyer Pension Plan pursuant to Section (c) of this Section 11.2.1. The value of the Pension Assets to be transferred by the Sellers' Pension Plans shall be equal in value to the projected benefit obligation, as defined in paragraph 17 of Statement of Financial Accounting Standards No. 87 ("FAS 87"), under the Sellers' Pension Plans for the Transferred Employees whose accrued benefits are transferred to a Buyer Pension Plan pursuant to Section (c) of this Section 11.2.1, determined in each case on an on-going plan basis as of the Closing Date, and on the basis of the assumptions used for the fiscal year which includes the Closing Date in Sellers' determination of pension expense for the Sellers' Pension Plans in accordance with FAS 87; provided, however, that in no event shall the value of the Pension Assets be less than the amount required to be transferred by Section 414(l) of the Code and the regulations thereunder determined using the assumptions used by the PBGC with respect to a plan termination occurring on the Closing Date. The Pension Assets shall be in the form of cash or marketable obligations. Under no circumstances shall Sellers or the Sellers' Pension Plans 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

Section (c) of this Section 11.2.1, including but not limited to any circumstance under which any person (including a governmental agency) 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 11.2.1 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 of 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 expenses 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 Section (d); provided that any Pension Assets that are distributed from the Sellers' Pension Plans before the date of transfer pursuant to subsection (d)(vi) of this Section 11.2.1 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 each Buyer Pension Plan, the accrued benefit of each Transferred Employee immediately after the transfer of assets and liabilities pursuant to this Section 11.2.1 shall not be less than the sum of each Transferred Employee's accrued benefits under the Sellers' Pension Plan and the Buyer Pension Plan immediately before the transfer of assets and liabilities. Neither Sellers nor their Affiliates nor the Sellers' Pension Plans nor any trustee thereof shall retain any liability for benefits under the Sellers' Pension Plans for any Transferred Employee with respect to whom cash or marketable obligations have been transferred to a Buyer Pension Plan pursuant to this Section 11.2.1 or distributed pursuant to subsection

(d)(vi) of this Section 11.2.1 (other than any additional liability that results from Sellers' (or their Affiliates') failure to comply with this Agreement, the Sellers' Pension Plan or applicable Law and that does not result from any failure of Buyer or its Affiliates to comply with this Agreement, the Buyer Pension Plan or applicable Law).

(v) In connection with the transfer of assets and liabilities pursuant to this Section 11.2.1, Sellers and Buyer shall cooperate with each other in making all appropriate filings required by the IRC or ERISA and the regulations thereunder, and the transfer of assets and liabilities pursuant to this Section 11.2.1 shall not take place until as soon as practicable after the latest of (i) the expiration of the 30-day period following the filing of any required notices with the IRS pursuant to Section 6058(b) of the IRC, or (ii) 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 IRC, 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 IRC 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 IRC.

(vi) (A) If, after the Closing Date and before the date of transfer of assets and liabilities from the Sellers' Pension Plans pursuant to this Section 11.2.1, the accrued benefit as of the Closing Date becomes payable under a Sellers' Pension Plan to or with respect to a Transferred Employee, Buyer shall (xx) furnish GTE Service Corporation with a copy of a properly completed application for such benefits, and (yy) direct GTE Service Corporation to instruct the trustee of the Sellers' Pension Plan to make benefit payments in the form and amount determined by GTE Service Corporation in accordance with the properly completed application for benefits. Sellers shall cause GTE Service Corporation to comply with any such direction.

(B) To the extent that any reasonable custodial, trustee, asset management, or other plan administration expenses attributable to the Pension Assets and to the period ending on the date of the transfer of assets and liabilities from the Sellers' Pension Plans pursuant to this Section 11.2.1 are allocable to the assets and liabilities to be so transferred, Buyer shall reimburse the trustee of the Sellers' Pension Plans in the amount of such allocable expense if the expense is to be paid from assets then held by the trustee of the Sellers' Pension Plans or, if the expense is not to

be paid from assets then held by the trustee of the Sellers' Pension Plans, Buyer shall reimburse GTE Service Corporation in the amount of the expense, in each case within fifteen (15) days of the date on which Buyer receives a statement therefor from GTE Service Corporation.

(C) Notwithstanding anything herein to the contrary, the assets and liabilities to be transferred from the trustee of the Sellers' Pension Plans to the trustee or funding agent of the Buyer Pension Plan pursuant to this Section 11.2.1 shall be reduced, as provided in this subsection (vi), to reflect any benefit payments made pursuant to this subsection (vi) regardless of the form in which paid and any expenses described in paragraph (B) of this subsection (vi) that have not otherwise been paid pursuant to this subsection (vi).

11.2.2 Savings Plans.

(a) As of the date of this Agreement, Sellers participate in the GTE Savings Plan and the GTE Hourly Savings Plan (collectively referred to as the "Sellers' Savings Plans"). Except as provided in Section (g) of this Section 11.2.2, Transferred Employees shall not be entitled to make contributions to or to benefit from matching or other contributions under the Sellers' Savings Plans on and after the Closing Date.

(b) Buyer shall take all action necessary and appropriate to ensure that, as soon as practicable after the Closing Date, Buyer maintains or adopts one or more savings plans (hereinafter referred to in the aggregate as the "Buyer Savings Plans" and individually as the "Buyer Savings Plan") effective as of the Closing Date and to ensure that the Buyer Savings Plans satisfy the following requirements as of the Closing Date: (i) each Buyer Savings Plan is a qualified, single-employer individual account plan under Section 401(a) of the IRC; (ii) at least one (1) Buyer Savings Plan does not exclude Transferred Employees from eligibility to participate therein; (iii) at least one (1) Buyer Savings Plan permits Transferred Employees to make before-tax contributions (under Section 401(k) of the IRC) and provides for matching contributions by the Buyer at a rate of match determined solely in the discretion of Buyer; and (iv) the Buyer Savings Plan does not violate the requirements of any applicable collective bargaining agreement to which it is subject. Within the thirty (30) day period immediately preceding any transfer of assets and liabilities from a Sellers' Savings Plan to a Buyer Savings Plan pursuant to this Section 11.2.2, Buyer shall provide Sellers with a written certification, in a form acceptable to Sellers, that the Buyer Savings Plan satisfies each of the requirements set forth in this Section (b).

(c) (i) Sellers shall direct the trustee of the Sellers' Savings Plans to transfer to the trustee or funding agent of the Buyer Savings Plan designated by Buyer an amount in cash equal in value to the account balances of the Transferred Employees covered by the Sellers' Savings Plans as of the date of the transfer; provided that to the extent the account balances to be transferred consist in whole or in part of outstanding participant loans which comply with the provisions of the IRC and ERISA (the "Participant Loans"), Sellers shall direct the trustee of the Sellers' Savings Plans to transfer to the trustee or funding agent of the Buyer Savings Plans, in lieu of cash, the promissory notes and related documents evidencing such Participant Loans. Buyer and Sellers shall take such actions as may be required to effect the assignment of such loans by the trustee of the Sellers' Savings Plan to the trustee or funding agent of the Buyer Savings Plan, and Buyer shall cause the trustee or funding agent of the Buyer Savings Plan to accept the assignment of such Participant Loans.

(ii) After the date of the transfer of assets and liabilities pursuant to this Section 11.2.2, Buyer shall assume all liabilities for the benefits payable to or with respect to such Transferred Employees under the Sellers' Savings Plans, and Sellers and the Sellers' Savings Plans and their implementing trust shall retain no liability for such benefits (other than any additional liability that results from Sellers' (or their Affiliate's) failure to comply with this Agreement, the Sellers' Savings Plan or applicable Law and that does not result from any failure of Buyer or its Affiliates to comply with this Agreement, the Buyer Savings Plan or applicable Law.

(d) For purposes of eligibility and vesting under the Buyer Savings Plans, each Transferred Employee shall be credited with service as of the Closing Date as determined under the terms of the Sellers' Savings Plans. As soon as practicable after the Closing Date, Sellers shall cause GTE Service Corporation to deliver to Buyer a list of the Transferred Employees covered by the Sellers' Savings Plans, together with each Transferred Employee's service under each of the Sellers' Savings Plans as of the Closing Date.

(e) In connection with the transfer of assets and liabilities pursuant to this Section 11.2.2, Sellers and Buyer shall cooperate with each other in making all appropriate filings required by the IRC or ERISA and the regulations thereunder, and the transfer of assets and liabilities pursuant to this Section 11.2.2 shall not take place until as soon as practicable after the latest of (i) 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 IRC, and (ii) the date Buyer has delivered to Sellers (xx) a copy of the Buyer Savings Plan and a copy of the most recent determination letter from the IRS to the effect that the Buyer Savings Plan is qualified under Sections 401(a) and 401(k) of the IRC, together with documentation reasonably satisfactory to Sellers of the due adoption of any amendments to the Buyer Savings 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 IRC has not yet expired).

(f) As soon as practicable after the Closing Date, Sellers shall cause GTE Service Corporation to deliver to Buyer a list of the Transferred Employees who have outstanding Participant Loans under the Sellers' Savings Plans, together with copies of said Transferred Employees' notes, disclosure statements, and security agreements under the Sellers' Savings Plans. Subject to obtaining the consent of the applicable Transferred Employee if required by law, from the Closing Date until the earliest of (i) the actual date of transfer of assets and liabilities pursuant to this Section 11.2.2; (ii) the full amortization of the Transferred Employee's indebtedness; (iii) the distribution of the entire balance of the Transferred Employee's accounts; or (iv) the last date on which Buyer or one of its Affiliates pays remuneration to the Transferred Employee, Buyer or its Affiliate shall (x) continue the payroll deductions pursuant to which each such Transferred Employee is discharging indebtedness to a Sellers' Savings Plan and

(y) remit the deducted funds to Fidelity Management Trust Company, the trustee of the Sellers' Savings Plans, as soon as practicable, but in no event more than thirty (30) days, after the date of deduction, together with an accounting that identifies the Transferred Employees with respect to whom the funds were deducted and the amount deducted for each Transferred Employee. All such remitted funds shall be transferred to the appropriate Sellers' Savings Plan and applied to reduce the appropriate Transferred Employee's outstanding indebtedness. Buyer's obligations under this

Section (f) are limited to payroll deductions of Participant Loans repayments by the Transferred Employees and remittance of those funds, and nothing herein shall be construed to obligate Buyer to repay to Sellers any portion of the outstanding indebtedness of the Transferred Employees that are not otherwise discharged by the Transferred Employees themselves.

(g) Sellers shall make all required matching contributions with respect to the Transferred Employees' contributions to the Sellers' Savings Plans that are (i) eligible for matching and (ii) made before, or relate to a period ending on or prior to, the Closing Date. Such matching contributions shall be made not later than the date on which all other matching contributions are made to the Sellers' Savings Plans with respect to contributions made at the same time as the Transferred Employees' contributions.

11.2.3 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 (including retiree medical and life) 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. For purposes of determining eligibility to participate in each Buyer Welfare Plan, each Transferred Employee shall be credited with service, determined under the terms of the corresponding welfare plans maintained by Sellers on the Closing Date (hereinafter referred to collectively as the "Sellers' 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 Sellers' Welfare Plan in accordance with the corresponding Sellers' Welfare Plans. As soon as practicable after the Closing Date, Sellers shall deliver to Buyer a list of the Transferred Employees who had credited service under a Sellers' Welfare Plan, together with each such Transferred Employee's service, co-payment amounts, and deductible and out-of-pocket limits under such plan.

(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 (or the dependents or beneficiaries of such Transferred Employee, as the case may be) under substantially comparable terms and conditions as apply to other comparable employees of Buyer, and Sellers shall have no obligation to provide retiree medical, health and life benefits in respect of any Transferred Employee on or after the Closing Date.

(ii) Subject to Section 11.4 below, following the retirement from Buyer and its Affiliates or any successor thereof of a Transferred Employee who is not subject to a collective bargaining agreement as of the Closing Date, who has combined age and years of accredited service (within the meaning of the Sellers' Pension Plan) as of June 1, 1999, equal to at least 66, and who as of his or her retirement has combined age and years of accredited service (within the meaning of the Sellers' Pension Plan) equal to at least 76 and at least 15 years of accredited service (within the meaning of the Sellers' Pension Plan) (a "Retired Non-Union Transferred Employee"), Sellers shall provide or cause to be provided to each such Retired Nonunion Transferred Employee (and/or his or her dependents and beneficiaries) retiree medical, health, and life benefits under terms and conditions that are substantially identical to the terms and conditions under the corresponding programs offered by Sellers to their similarly situated noncollectively bargained employees retiring as of the Closing Date; provided that nothing in this subsection (b)(ii) shall be construed to prevent any Retired Non-Union Transferred Employee (or his or her dependents or beneficiaries) from voluntarily relinquishing such benefits. Buyer shall reimburse Sellers, in accordance with this subsection

(b)(ii), 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 Seller under this subsection (b)(ii), Buyer shall pay Sellers annually in arrears, within 30 days after Sellers provide a statement therefor to Buyer, (A) \$4,500 with respect to each Retired Non-Union 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 a Retired Non-Union Transferred Employee and who has not yet attained age 65 during the year for which the payment is made, and (B) \$2,000 with respect to each Retired Non-Union 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 a Retired Non-Union 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 a Retired Non-Union Transferred Employee. The reimbursement obligation for partial years shall be prorated based on the portion of the year covered by the obligation. Each Retired Non-Union Transferred Employee (or his or her dependent or beneficiary, as the case may be) who is provided benefits by Sellers under this subsection (b)(ii) shall be required to pay to Sellers any premium, contribution or other payment required under, and shall be subject to any copayment or deductible required under, the terms of Sellers' applicable retiree medical, health, or life benefit plan; to the extent that any amount constituting such a payment is deducted from any plan, program, or arrangement maintained by Buyer or one of its Affiliates or is otherwise paid to Buyer or one of its Affiliates by such person, Buyer shall cause such amount to be paid to Sellers as soon as administratively practicable.

(iii) Benefits provided pursuant to subsection (b)(ii) of this Section (b) shall take into account service with and compensation increases from

Buyer on and after the Closing Date in the same manner as if such post-Closing Date service was performed with, or such compensation was provided by, Sellers. Buyer shall provide Sellers with such information as shall be required to implement the immediately preceding sentence.

(c) Buyer shall refer to GTE Service Corporation and GTE Service Corporation shall assume responsibility for any valid claim under a Sellers' Welfare Plan for disability, medical, dental or other benefits made by a Transferred Employee on or after the Closing Date arising from a loss incurred on or before the Closing Date. Nothing in this Section 11.2.3 shall require Sellers, any Affiliate of Sellers, or the Sellers' Welfare Plans to make any payment or to provide any benefit not otherwise provided by the terms of the Sellers' Welfare Plans.

(d) Sellers, Buyer, their respective Affiliates, and the Sellers' Welfare Plans and the Buyer Welfare Plans shall assist and cooperate with each other in the disposition of claims made under the Sellers' Welfare Plans pursuant to subsection (c) of this Section 11.2.3, 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.

(e) Except for GTE Flexible Reimbursement Plan (the "FRP") account balances described in Section 11.2.3(f), nothing in this Agreement shall require Sellers or their Affiliates to transfer assets or reserves with respect to the Sellers' Welfare Plans to Buyer or the Buyer Welfare Plans.

(f) 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.

(g) 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 are the same as or comparable to the severance or separation pay policy benefits that are provided by Sellers (or the applicable Affiliate, if the Transferred Employee is employed by an employer other than the Sellers) or a Sellers' Pension Plan as of the Closing Date. Buyer shall recognize the service of each such Transferred Employee with Sellers and their Affiliates for eligibility, vesting, and benefit determinations under the Buyer severance or separation pay policy or plan. Transferred Employees subject to a collective bargaining agreement shall be eligible for severance or separation pay benefits in accordance with the terms of the applicable collective bargaining agreement.

11.3 Miscellaneous Benefits.

11.3.1 Loans.

Buyer shall (i) obtain at its own expense newly executed payroll deduction authorization forms from all Transferred Employees to whom Sellers have made outstanding education loans, mortgage loans, and relocation loans (excluding any Participant Loans under the Sellers' Savings Plans), (ii) subject to obtaining the consent of the applicable Transferred Employee if required by law, continue the payroll deductions pursuant to which such Transferred Employees are discharging such indebtedness, and (iii) as soon as practicable, but in no event more than thirty (30) days, after the date of deduction, remit such funds (together with an accounting that identifies the Transferred Employees with respect to whom the funds were deducted and the amount deducted for each Transferred Employee) to Sellers for application by Sellers to the Transferred Employees' outstanding indebtedness. Buyer's obligation with respect to each respective Transferred Employee pursuant to the preceding sentence shall commence as of the Closing Date and continue until the earlier of the full amortization of the Transferred Employee's indebtedness or the last date on which Buyer or one of its Affiliates pays remuneration to the Transferred Employee. Sellers shall not seek to accelerate, cancel or otherwise change the terms of any education loans, mortgage loans, or relocation loans made by Sellers to such Transferred Employees, except in the case of a default by a Transferred Employee. Buyer's obligations under this Section 11.3.1 are limited to payroll deductions of loan repayments by the Transferred Employees and remittance of those funds and the related accounting, and nothing herein shall be construed to obligate Buyer to repay to Sellers any portion of the outstanding indebtedness of the Transferred Employees that are not otherwise discharged by the Transferred Employees themselves; provided that, notwithstanding anything to the contrary in Article 12 of this Agreement or Section 11.6 of this Agreement, Sellers shall indemnify and hold harmless Buyer for all claims, demands, actions, proceedings, causes of action, liability, loss, cost, damage, and expense (including reasonable attorney's fees) in any way arising from or incurred as a result of Buyer's administration of the outstanding indebtedness or the payroll deduction authorization process as described above. All Transferred Employees with outstanding indebtedness as described in this Section 11.3.1 and the amount and nature of this indebtedness shall be identified on a Schedule 11.3.1 to be prepared by Sellers and submitted to Buyer before the Closing Date.

11.3.2 Vacation.

(a) 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, with respect to the calendar year of the Closing, prior to the Closing Date. Except as provided in the following sentence, Sellers and their Affiliates shall have no liability to Transferred Employees for the vacation payments described in this Section 11.3.2. Sellers shall pay Transferred Employees any banked vacation on or before the Closing Date. Schedule 11.1 to be prepared by Sellers and submitted to Buyer on or before the Closing Date 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.

(b) For purposes of determining a Transferred Employee's eligibility for vacation under Buyer's vacation plan, a Transferred Employee shall be credited, as of the first day of the first calendar year that begins after the calendar year in which the Closing Date occurs, with service for the calendar year in which the Closing Date occurs in an amount equal to the aggregate of the Transferred Employee's service with both Sellers and Buyer during the calendar year in which the Closing Date occurs.

(c) At the time of Closing, all vacation for Transferred Employees for the calendar year of Closing shall be prorated and the net liability related thereto shall be an adjustment to the Purchase Price (the "Vacation Proration Amount"). The adjustment shall be determined by crediting the Buyer with an amount equal to the accrued and unused vacation for Transferred Employees. In determining said net liability, Sellers shall receive a credit against the total liability for any vacation used in excess of the accrued vacation for Transferred Employees as of the Closing Date.

11.4 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 11.1.2 with respect to employment agreements, to continue to employ any Transferred Employee for any period of time following the Closing Date.

11.5 WARN Act Requirements. On and after the Closing Date, Buyer shall be responsible with respect to Transferred Employees and their beneficiaries for compliance with the Worker Adjustment and Retraining Notification Act of 1988 and any other applicable Law, including any requirement to provide for and discharge any and all notifications, benefits, and liabilities to Transferred Employees and government agencies that might be imposed as a result of the consummation of the transactions contemplated by this Agreement or otherwise.

11.6 Indemnification.

11.6.1 Indemnification of Sellers. Notwithstanding anything to the contrary in Article 12 of this Agreement, Buyer shall indemnify and hold harmless Sellers, their Affiliates, and their respective directors, officers, employees, agents, and assigns, and each employee benefit plan or arrangement maintained or contributed to by Sellers or an Affiliate thereof (whether or not such plan or arrangement is an "employee benefit plan" within the meaning of

Section 3(3) of ERISA) and its administrators, fiduciaries, and agents, from and against any and all claims, demands, actions, administrative or other proceedings, causes of action, liability, loss, cost, damage, and expense (including reasonable attorneys' fees) (i) in any way arising out of or incurred as a result of any action by Buyer, its Affiliates, their respective directors, officers, employees, or agents, the administrators or fiduciaries of any employee benefit plan maintained or contributed to by Buyer or an Affiliate thereof (whether or not such plan or arrangement is an "employee benefit plan" within the meaning of Section 3(3) of ERISA), or any of their successors, to change, reduce contributions to, terminate, fail to continue, fail to pay benefits under, or fail to manage or administer properly any employee benefit plan or arrangement (whether or not such plan or arrangement is an "employee benefit plan" within the meaning of Section 3(3) of ERISA) on or after the Closing Date, or (ii) in any way arising out of or incurred as a result of any action that is a breach of any the covenants, representations, warranties, or obligations of any such person under this Agreement.

11.6.2 Indemnification of Buyer. Notwithstanding anything to the contrary in Article 12 of the Agreement, Sellers shall indemnify and hold harmless Buyer, its Affiliates, and their respective directors, officers, employees, agents, and assigns, and each employee benefit plan or arrangement maintained or contributed to by Buyer or an Affiliate thereof (whether or not such plan or arrangement is an "employee benefit plan" within the meaning of

Section 3(3) of ERISA) and its administrators, fiduciaries, and agents, from and against any and all claims, demands, actions, administrative or other proceedings, causes of action, liability, loss, cost, damage, and expense (including reasonable attorneys' fees) (i) in any way arising out of or incurred as a result of any action by Sellers, their Affiliates, their respective directors, officers, employees, or agents, the administrators or fiduciaries of any employee benefit plan maintained or contributed to by Sellers or an Affiliate thereof (whether or not such plan or arrangement is an "employee benefit plan" within the meaning of Section 3(3) of ERISA), or any of their successors, to change, reduce contributions to, terminate, fail to continue, fail to pay benefits under, or fail to manage or administer properly any employee benefit plan or arrangement (whether or not such plan or arrangement is an "employee benefit plan" within the meaning of Section 3(3) of ERISA) before, or relating to a period before, the Closing Date, or (ii) in any way arising out of or incurred as a result of any action that is a breach of any the covenants, representations, warranties, or obligations of any such person under this Agreement.

11.7 Special Provisions For Certain Employees. Any individual employed in or in association with the Business and whose primary work location is within the areas serviced by the Purchased Exchanges who as of the Closing Date either (i) is currently receiving long-term disability benefits under a long-term disability plan of the Sellers or one of their Affiliates (the "Sellers' LTD Plan"), (ii) has been approved for receipt of long-term disability benefits under the Sellers' LTD Plan, or (iii) is receiving a disability pension under a Sellers' Pension Plan (collectively, an "LTD Recipient") shall be treated as a Transferred Employee if and when the LTD Recipient recovers from his or her disabling condition and returns to active service with the Buyer. The term "LTD Recipients" shall include only those individuals described in the preceding sentence who are identified on Schedule 11.1.

Any Transferred Employee described in the preceding paragraph (whether or not identified on Schedule 11.1 as an "LTD Recipient") shall continue to receive benefits under Sellers' LTD Plan (or, if applicable, a disability pension under a Sellers' Pension Plan) after the Closing Date

to the extent provided under Sellers' LTD Plan (or the applicable Sellers' Pension Plan). As long as such individual remains eligible to receive benefits under Sellers' LTD Plan (or the applicable Sellers' Pension Plan), the Buyer shall not be required to provide coverage or benefits to the individual under the employee benefit plans or programs maintained by the Buyer.

If any LTD Recipient recovers from his or her disabling condition, Sellers shall have no obligation to offer or provide any employment to such LTD Recipient, and absent a legal or contractual right to reemployment and except as otherwise provided in Section 11.1, Buyer shall have no obligation to offer or provide any employment to such LTD Recipient. If an LTD Recipient who received disability benefits under the Sellers' LTD Plan (or the applicable Sellers' Pension Plan, as the case may be) returns to active service with the Buyer or one of its Affiliates, the LTD Recipient's period of disability covered under the Sellers' LTD Plan (or the applicable Sellers' Pension Plan, as the case may be) shall be treated as a period of service under the employee benefit plans and programs of the Buyer and its Affiliates to the same extent that the period of disability is treated as a period of service under the employee benefit plans and programs of Sellers and their Affiliates.

ARTICLE 12 INDEMNIFICATION

12.1 Survival of Representations, Warranties and Covenants.

(a) The representations and warranties contained in Sections 8.1.6 and 8.2.6 will survive the Closing and remain in full force and effect indefinitely. The representations and warranties contained in Section 8.1.13 will terminate upon the expiration of the applicable statute of limitations. Each of the other representations and warranties contained in Article 8 will terminate, without further action, on the date which is (i) the later of one (1) year following the Closing Date, or (ii) the completion of Buyer's first audit cycle following the Closing Date, however, that such cycle is completed within fifteen (15) months following the Closing Date (in each case, the applicable date of expiration of such representations and warranties is referred to herein as an "Expiration Date").

(b) This Article 12 shall survive any termination of this Agreement and the Ancillary Agreements and the indemnification contained in this Article 12 shall survive the Closing and shall remain in effect (i) indefinitely, with respect to any Indemnifiable Claim related to the breach of any representation or warranty which pursuant to Section 12.1(a) survives indefinitely, (ii) indefinitely, with respect to any Indemnifiable Claim arising under Section 12.2(a)(iii) (Retained Liabilities) or 12.2(b)(iii) (Assumed Liabilities) and (iii) until the date Expiration Date for any Indemnifiable Claims that are not specified in any of the preceding clauses. 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 Indemnifiable Losses actually incurred, or after due inquiry, reasonably expected to be incurred, by an Indemnitee prior to the expiration of the survival period for such representation or warranty.

12.2 Indemnification.

(a) Following the Closing and subject to the other sections of this Article 12, Sellers jointly and severally will indemnify, defend and hold harmless Buyer and its Affiliates and their respective directors, officers, and agents from and against all Indemnifiable Losses relating to, resulting from or arising out of (i) any inaccuracy in any of the representations and warranties made by Sellers in Section 8.1 of this Agreement, (ii) a breach by Sellers of any covenant or agreement of Sellers contained in this Agreement, and (iii) any of the Retained Liabilities.

(b) Following the Closing and subject to the other sections of this Article 12, Buyer will indemnify, defend and hold harmless Sellers and their Affiliates and their respective directors, officers, and agents from and against all Indemnifiable Losses relating to, resulting from or arising out of

(i) any inaccuracy in any of the representations or warranties made by Buyer in Section 8.2 of this Agreement, (ii) a breach by Buyer of any covenant or agreement of Buyer contained in this Agreement, and (iii) any of the Assumed Liabilities.

(c) Payments made under this Section 12.2 shall be treated by Buyer and Sellers as purchase price adjustments and Buyer and Sellers shall file all Tax Returns consistent with such treatment. Notwithstanding anything to the contrary contained herein, Buyer shall not be indemnified or reimbursed for any Tax consequences arising from the receipt or accrual of an indemnity payment hereunder including any Tax consequences arising from adjustments to the basis of any asset resulting from an adjustment to the Purchase Price or any additional or reduced taxes resulting from any such basis adjustment.

12.3 Limitations on Liability.

(a) For purposes of this Agreement, (i) "Indemnification Payment" means any amount of Indemnifiable Losses required to be paid pursuant to this Agreement, (ii) "Indemnitee" means any person or entity entitled to indemnification under this Agreement, (iii) "Indemnifying Party" means any person or entity required to provide indemnification under this Agreement, and (iv) "Indemnifiable Losses" means any losses, liabilities, damages, costs and expenses (including reasonable attorneys' fees and expenses and reasonable costs of investigation) actually incurred in connection with any actions, suits, demands, assessments, judgments and settlements, in any such case (x) reduced by

(i) the amount of insurance proceeds recovered from any person or entity with respect thereto, and (ii) any Tax benefits to the Indemnatee as a result of the Indemnifiable Losses involved and (y) 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 Indemnatee. For purposes of this 12.3(a), the amount of any Tax benefits to the Indemnatee shall be deemed to be equal to the net present value amount of the reduction in federal, state and local income or franchise Taxes or the increase of a Tax loss or credit determined on the basis of the maximum marginal Tax rates in effect for the Taxable period when payment is made by the Indemnifying Party (regardless of whether the Indemnatee realizes or will realize an actual reduction in federal, state or local income or franchise Taxes).

(b) Notwithstanding anything to the contrary contained in this Agreement, if the Closing occurs, (i) no claim for indemnification may be asserted under Section 12.2(a)(i) or Section 12.2(a)(ii) with respect to any matter (x) known to Buyer on or before the date of this Agreement, or (y) after the date of this Agreement and on or before the Closing Date to the extent that such matter became known to Buyer prior to Closing and Buyer did not provide timely notice to Sellers of the existence of such claim or condition in accordance with Section 10.2(c), and (ii) no claim for indemnification may be asserted under Section 12.2(b)(i) or Section 12.2(b)(ii) with respect to any matter discovered by or known to Sellers on or before the date of this Agreement.

(c) As between Sellers and any Affiliate of Sellers, on the one hand, and Buyer and any Affiliate of Buyer, on the other hand, the remedies, rights and obligations set forth in this Article 12, Sections 10.1.2, 11.2.2, 11.7, 13.3 and the Ancillary Agreements will be the exclusive remedies, rights and obligations with respect to the liabilities and obligations referred to in Section 12.2 and any breach of the representations, warranties or covenants set forth in this Agreement. Without limiting the foregoing, as a material inducement to entering into this Agreement, to the fullest extent permitted by law, each of the parties waives any claim or cause of action that it otherwise might assert, and any breach of the representations, warranties or covenants set forth in this Agreement, except for claims or causes of action brought under and subject to the terms and conditions of this Article 12 and Sections 10.1.2, 11.7 and 13.3, and claims based on common law fraud.

(d) Notwithstanding any other provision of this Agreement or of any applicable Law, no Indemnatee will be entitled to make a claim against an Indemnifying Party under Sections 11.2.2, 11.7, 12.2(a)(i), 12.2(a)(ii), 12.2(b)(i) or 12.2(b)(ii) until:

(i) the aggregate amount of Indemnifiable Losses incurred by the Indemnatee for any individual occurrence giving rise to such Indemnifiable Losses exceeds \$25,000, and

(ii) the aggregate amount of claims that may be asserted for such Indemnifiable Losses pursuant to Section 12.3(d)(i) exceeds an amount equal to two percent (2%) of the Purchase Price, but only to the extent such amount, if any, (a) exceeds an amount equal to two percent (2%) of the Purchase Price, or in the case of claims for breaches of Section 8.1.19 only, exceeds an amount equal to \$7,000,000 (provided that Indemnifiable Losses with respect to breaches of Section 8.1.19 shall be payable as Indemnifiable Losses in excess of the \$7,000,000 basket or the two percent (2%) basket, but not both), and (b) is less than the amount set forth in Section 12.3(e).

(e) Notwithstanding any other provision of this Agreement, the indemnification obligations of Sellers under Section 12.2(a) (except with respect to indemnification for inaccuracies of the representations contained in Sections 8.1.1 through 8.1.6) or the indemnification obligation of Buyer under Section 12.2(b) will not exceed the amount of an amount equal to ten percent (10%) of the Purchase Price respectively, after subtracting the floor amount specified in Section 12.3(d)(ii).

(f) No Indemnifying Party shall be liable to or obligated to indemnify any Indemnatee 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 the Indemnifying Party under its insurance or have been received by a third person and are the subject of a Third Party Claim for which indemnification is available under the express terms of this Section 12.

(g) Notwithstanding anything in this Agreement to the contrary, Sellers shall not be liable to or obligated to indemnify Buyer or any other Indemnatee hereunder for any claim that any of Sellers' representations or warranties in Section 8.1 is 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 Sellers to undertake after Closing.

(h) From the date hereof through the Expiration Date, Buyer shall not be eligible to seek indemnification from Sellers with respect to any resulting Indemnifiable Losses, and shall indemnify Sellers from any losses, liabilities, damages, costs and expenses (including reasonable attorneys' fees and expenses and reasonable costs of investigation) actually incurred in connection with any resulting actions, suits, demands, assessments, judgments and settlements in the event that Buyer, without the prior written consent of Sellers: (i) undertakes any environmental remediation activity with respect to any Owned Real Property; or (ii) contacts, or causes or permits any of its subsidiaries, affiliates, agents, employees, officers or directors to contact on its behalf, any Governmental Authority for the purpose of initiating any investigation or inquiry as to the compliance by Sellers with Environmental Requirements with respect to the Owned Real Property, except in each case as is required to comply with applicable Environmental Requirements.

(i) 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 or resolve any such claim or liability.

12.4 Defense of Claims.

(a) 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 a party to this Agreement or an Affiliate of such a party (a "Third Party Claim") against such Indemnitee, with respect to which an Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnitee will give such Indemnifying Party 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 the Indemnitee to notify the Indemnifying Party shall only relieve the Indemnifying Party from its obligation to indemnify the Indemnitee pursuant to this Article 12 to the extent that the Indemnifying Party is materially prejudiced by such failure (whether as a result of the forfeiture of substantive rights or defenses or otherwise). Upon receipt of notification of a Third Party Claim, the Indemnifying Party 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 Indemnifying Party 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 (i) the employment of such separate counsel has been specifically authorized in writing by the Indemnifying Party, (ii) the Indemnifying Party has failed to assume the defense of such Third Party Claim within reasonable time after receipt of notice thereof with counsel reasonably satisfactory to such Indemnitee, or (iii) the named parties to the proceeding in which such claim, demand, action or cause of action has been asserted include both the Indemnifying Party 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 Indemnifying Party. Notwithstanding the foregoing, the Indemnifying Party shall not be liable for the fees and disbursements of more than one counsel for all Indemnified Parties 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 the Indemnitee, the Indemnifying Party 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. If a settlement offer solely for money damages is made by the applicable third party claimant, and the Indemnifying Party notifies the Indemnitee in writing of the Indemnifying Party'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 Indemnifying Party, and the amount of any ultimate liability with respect to such Third Party Claim that the Indemnifying Party has an obligation to pay hereunder shall be limited to the lesser of (A) 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 (B) the aggregate Losses of the Indemnitee with respect to such claim.

(b) Any claim by an Indemnitee on account of an Indemnifiable Loss that does not result from a Third Party Claim (a "Direct Claim") will be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than thirty (30) calendar days after the receipt of notice thereof, and the Indemnifying Party will have a period of thirty (30) calendar days within which to respond in writing to such Direct Claim. If the Indemnifying Party does not so respond within such thirty (30) calendar day period, the Indemnifying Party 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 12.

(c) If after the making of any Indemnification Payment the amount of the Indemnifiable Loss 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 entity, 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 Indemnifying Party. Upon making any Indemnification Payment, the Indemnifying Party 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 Indemnifiable Loss to which the Indemnification Payment relates; provided that (i) the Indemnifying Party shall then be in compliance with its obligations under this Agreement in respect of such Indemnifiable Loss, and (ii) until the Indemnitee recovers full payment of its Indemnifiable Loss, all claims of the Indemnifying Party 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 12, each such Indemnitee and Indemnifying Party will duly execute upon request all instruments reasonably necessary to evidence and perfect the above-described subrogation and subordination rights.

ARTICLE 13 TERMINATION

13.1 Termination Rights. This Agreement may be terminated at any time prior to the Closing Date:

(a) at any time by mutual written consent of the parties;

(b) by Buyer if any of the conditions provided in Section 6.1 of this Agreement have not been met within eighteen (18) months after execution of this Agreement and have not been waived by Buyer;

(c) by Sellers if any of the conditions provided in Section 6.2 of this Agreement have not been met within eighteen (18) months after execution of this Agreement and have not been waived by Sellers; or

(d) by Sellers if any obligations of Buyer provided in Article 3 become incapable of being fulfilled.

13.2 Good Faith Performance. Neither party shall be entitled to exercise any right of termination pursuant to subsection 13.1(b),(c) or (d) 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.

13.3 Effect of Termination.

(a) If this Agreement is terminated as a result of a Material Adverse Effect or Section 13.1(a), this Agreement shall be of no further force and effect and there shall be no further liability hereunder (except the obligations under the Confidentiality 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.

(b) If this Agreement is terminated by Buyer pursuant to Section 13.1(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 Confidentiality 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 (i) in the event that such termination is the result of one or more Sellers' willful or negligent failure to fulfill their conditions to Closing under Section 6.1 and Buyer has fulfilled its conditions to Closing under Section 6.2, and Sellers have failed to cure such non-performance within a reasonable period after notice from Buyer, then Sellers jointly and severally shall pay Buyer liquidated damages in an amount equal to the Deposit, and (ii) Sellers shall promptly refund the Deposit following such termination. Payment of the amount of the Deposit by Sellers as liquidated damages and return of the Deposit to Buyer shall be Buyer's sole and exclusive remedy. Sellers shall promptly pay such amount to Buyer in immediately available funds following such termination. Notwithstanding anything herein to the contrary, in no event shall any act or omission of Sellers in connection with the Merger be deemed to be a breach of the terms and conditions of this Agreement for purposes of this Section 13.3(b).

(c) If this Agreement is terminated by Sellers pursuant to Section 13.1(c) or (d), 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 Confidentiality 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 Sellers shall be entitled to retain the Deposit as liquidated damages as Sellers' sole and exclusive remedy if such termination is (i) the result of Buyer's willful or negligent failure to fulfill its conditions to Closing under Section 6.2 and Sellers have fulfilled their conditions to Closing under Section 6.1, and Buyer has failed to cure such non-performance within a reasonable period after notice from Seller; or (ii) the result of Buyer's incapacity to fulfill its obligations under Article 3.

(d) Upon any termination of the Agreement, each of the parties shall promptly comply with the obligations of the Confidentiality Agreement regarding return or destruction of Evaluation Material of the other party.

(e) Notwithstanding anything to the contrary contained herein, the provisions of this Section 13.3 and of Sections 14.1, 14.2, 14.3, 14.8, 14.11, 14.13 and 14.14, shall survive any termination of this Agreement.

ARTICLE 14 MISCELLANEOUS

14.1 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 Century Park Drive
Monroe, LA 71203

` Facsimile No.: 318-388-9488 Attention: R. Stewart Ewing, Jr.

Executive Vice President and
Chief Financial Officer

Stacey W. Goff
General Counsel's Office

With a copy to:

William R. Boles, Jr.
Boles, Boles & Ryan
1805 Tower Drive
Monroe, LA 71201

(b) If to Sellers, to:

William M. Edwards, III
Vice President - Property Repositioning 600 Hidden Ridge, HQE02J27
Irving, TX 75038
Facsimile No. (972) 719-7062

With a copy to:

Dale R. Chamberlain
Legal Counsel - Property Repositioning 600 Hidden Ridge, HQE02J34
Irving, TX 75038
Facsimile No. (972) 719-7162

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

14.2 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.

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

14.4 Successors and Assigns. This Agreement will 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; provided, that (i) Sellers may assign this Agreement to an Affiliate of Sellers without the consent of Buyer including, on and after the closing of the Merger, the ultimate parent entity of the successor corporation to such merger or any entity controlled thereby and (ii) Buyer may assign its rights under this Agreement to one or more wholly-owned subsidiaries, provided that Buyer shall remain responsible for all of its obligations under this Agreement.

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

14.6 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.

14.7 Entire Agreement. The term "Agreement" shall mean collectively this document, the Schedules hereto and any agreements expressly incorporated herein. This Agreement supersedes and revokes any prior discussions and representations, other agreements, commitments, arrangements or understandings of any sort whatsoever, whether oral or written, that may have been made or entered into by the parties relating to the matters contemplated hereby, except the Confidentiality Agreement. This Agreement, the Confidentiality Agreement and the Ancillary Documents constitute the entire agreement by and among 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.

14.8 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.

14.9 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.

14.10 Counterparts. This Agreement may be executed in two or more counter- parts, any or all of which shall constitute one and the same instrument.

14.11 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 Arkansas District Court or any Federal Court located in Arkansas 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 14.1 shall be effective service of process for any action, suit or proceeding in Arkansas 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.

14.12 Further Assurances. From time to time, 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 Sellers and Buyer, to consummate and make effective the transactions contemplated by this Agreement.

14.13 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.

14.14 Representation by Counsel; Interpretation. Sellers and Buyer each acknowledge that each party to this Agreement has been represented by counsel in connection with this Agreement and the transactions contemplated by this Agreement. Accordingly, any rule of Law or any legal decision that would require interpretation of any claimed ambiguities in this Agreement against the party that drafted it has no application and is expressly waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the intent of Buyer and Sellers.

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 ARKANSAS INCORPORATED

*By: /s/ William M. Edwards, III
Name: William M. Edwards, III
Title: VP - Property Repositioning*

CENTURYTEL, INC.

*By: /s/ R. Stewart Ewing, Jr.
Name: R. Stewart Ewing, Jr.
Title: Executive Vice President
and CFO*

GTE MIDWEST INCORPORATED

*By: /s/ William M. Edwards, III
Name: William M. Edwards, III
Title: VP - Property Repositioning*

GTE SOUTHWEST INCORPORATED

*By: /s/ William M. Edwards, III
Name: William M. Edwards, III
Title: VP - Property Repositioning*

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