

ATTACHMENT A

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application)
)
 of) Docket No. 04-0140
)
 PARADISE MERGERSUB, INC., GTE)
 CORPORATION, VERIZON HAWAII INC.,)
 BELL ATLANTIC COMMUNICATIONS, INC.,)
 AND VERIZON SELECT SERVICES INC.)
)
 For approval of a merger transaction and)
 related matters)
)
 _____)

APPLICATION

PARADISE MERGERSUB, INC., a Delaware corporation (“MergerSub”), GTE CORPORATION, a New York corporation (“GTE Corp.”), VERIZON HAWAII INC., a Hawaii corporation (“Verizon Hawaii” or “TelCo Hawaii,” as the case may be),¹ BELL ATLANTIC COMMUNICATIONS, INC., dba Verizon Long Distance, a Delaware corporation (“Verizon LD”), and VERIZON SELECT SERVICES INC., a Delaware corporation (“Verizon Select Services”) (collectively, “Applicants”), by and through their respective counsel, and pursuant to Hawaii Revised Statutes (“HRS”) Sections 269-17, 269-17.5 and 269-19 and Hawaii Administrative Rules (“HAR”) Title 6, Chapter 61, Subchapters 6, 9, 10 and 11 and Title 6, Chapter 80, Subchapter 2, hereby respectfully

¹ For purposes of this Application, the term “Verizon Hawaii” shall be used to refer to Verizon Hawaii Inc. under its current ownership structure, while the term “TelCo Hawaii” shall be used to refer to Verizon Hawaii Inc. under new ownership following closing of the subject transaction, if this Application is approved. It should be noted, however, that upon closing, the name of Verizon Hawaii Inc. will be changed to a new name that is yet to be determined. As such, for purposes of this Application, the term “TelCo Hawaii” is being used as a proxy to provide more clarity regarding the pre-closing versus post-closing entity.

submit this Application requesting that the Hawaii Public Utilities Commission (“Commission”) approve the proposed change of control over Commission-regulated lines of business and the financing obligations associated with said change, by no later than December 15, 2004.²

By way of an overview, the proposed change of control has two parts. First, the stock of Verizon Hawaii currently held by GTE Corp. shall be transferred to Verizon HoldCo LLC, a Delaware limited liability company (“Verizon HoldCo”), which is a newly formed holding company subsidiary of GTE Corp. Ultimately, Verizon HoldCo will be merged into MergerSub, a newly formed holding company subsidiary that is controlled by affiliates of TC Group L.L.C., dba The Carlyle Group, a Delaware limited liability company (“Carlyle”). MergerSub shall be the surviving entity following the proposed merger and shall own all of the outstanding stock of TelCo Hawaii.³

Second, the inter-island toll business of Verizon LD and Verizon Select Services shall be transferred to GTE Corp. as an intermediate step before ultimately being transferred to Verizon AssetCo, a subsidiary of Verizon HoldCo that will be formed shortly before closing (“Verizon AssetCo” or “AssetCo,” as the case may be).⁴

² Approval is being sought by December 15, 2004 to, among other things, facilitate a smooth and expeditious transition of the operations to be assumed and performed under new independent ownership as a result of the subject transaction, if this Application is approved, as well as to minimize unwarranted potential uncertainty for existing customers and employees.

³ See footnote 1 above.

⁴ For purposes of this Application, the term “Verizon AssetCo” shall be used to refer to the Verizon AssetCo entity to be formed prior to closing, while the term “AssetCo” shall be used to refer to Verizon AssetCo under new ownership following closing of the subject transaction. However, it is currently contemplated that the formal/legal name of Verizon AssetCo will be changed at the time it is formed to a name that is yet to be determined. As such, for purposes of this Application, the terms “Verizon AssetCo” and “AssetCo” are being used as proxies to attempt to provide more clarity regarding the pre-closing versus post-closing entity.

Accordingly, after the merger of Verizon HoldCo into MergerSub, MergerSub will also own all of the stock of AssetCo.

In connection with the proposed change of control, Applicants specifically request that the Commission approve all of the following:

1. The merger transaction contemplated by the Agreement of Merger dated as of May 21, 2004 (“Agreement”), a copy of which is attached hereto as Exhibit 1 (said merger transaction shall hereinafter be referred to as the “Merger Transaction”);⁵
2. The transfer of the customer accounts and receivables associated with the inter-island toll business of Verizon LD and Verizon Select Services in connection with the Merger Transaction pursuant to HRS §269-19;⁶
3. The issuance of a new Certificate of Authority (“COA”) to AssetCo that contains the same authorizations held by Verizon LD and Verizon Select Services under their existing respective COAs, and authorization for AssetCo to republish the rules, regulations, tariffs and rates (collectively, “Tariffs”) of Verizon LD and Verizon Select Services under its own name to be effective as of the closing of the Merger Transaction;⁷
4. The interim transfer of Verizon Hawaii’s issued and outstanding capital stock from GTE Corp. to Verizon HoldCo, and the subsequent merger of Verizon

⁵ See *infra*, Section C for a description of the Merger Transaction. See also *infra*, Section D.

⁶ See *infra*, Section E.

⁷ See *infra*, Section E. As reflected in said Section E, the existing COAs for Verizon LD and Verizon Select Services are not being transferred as part of the Merger Transaction. In addition, the existing Tariffs of Verizon LD and Verizon Select Services will remain in effect for said entities following the closing of the Merger Transaction.

HoldCo into MergerSub for the purpose of effectuating the Merger Transaction pursuant to HRS §269-17.5;⁸

5. The guaranty by TelCo Hawaii and AssetCo of the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction pursuant to HRS §269-17;⁹

6. The pledging of TelCo Hawaii's and AssetCo's respective capital stock and the grant of a security interest in and mortgages on substantially all of TelCo Hawaii's and AssetCo's respective tangible and intangible assets to secure the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction pursuant to HRS §269-19;¹⁰

7. Terminating the regulatory condition imposed by the Commission in Part VIII, Subpart 2 of Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345;¹¹ and

8. Granting such other relief as may be just and reasonable under the circumstances.¹²

⁸ See *infra*, Section F.

⁹ See *infra*, Section G.

¹⁰ See *infra*, Section G.

¹¹ See *infra*, Section H.

¹² The Merger Transaction does not involve the purchase, acquisition or transfer of stock from one public utility corporation to another. Therefore, HRS §269-18 is inapplicable.

In support of this Application, Applicants provide the following information:

A. COMMUNICATIONS REGARDING THIS APPLICATION

Pleadings, correspondences, and notices regarding this Application should be directed to the following:

Paradise MergerSub, Inc.
c/o The Carlyle Group
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2505
Attention: Mr. William E. Kennard

GTE Corporation, Verizon Hawaii Inc., Bell Atlantic Communications, Inc.,
and Verizon Select Services Inc.
c/o P.O. Box 2200
Honolulu, HI 96841
Attention: Mr. Joel K. Matsunaga

Copies of all correspondences should also be sent to Applicants' respective counsel as follows:

Alan M. Oshima, Esq.
Michael H. Lau, Esq.
Kent D. Morihara, Esq.
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841 Bishop Street, Suite 400
Honolulu, HI 96813
Attorneys for Paradise MergerSub, Inc.

Leslie Alan Ueoka, Esq.
Blane T. Yokota, Esq.
Verizon Corporate Services Group Inc.
P.O. Box 2200
Honolulu, HI 96841
Attorneys for GTE Corporation, Verizon Hawaii Inc., Bell Atlantic
Communications, Inc., and Verizon Select Services Inc.

B. APPLICANTS

1. MergerSub

MergerSub is a corporation organized under the laws of the State of Delaware, with its principal place of business presently located at c/o The Carlyle

Group, 1001 Pennsylvania Avenue, N.W., Washington, D.C. 20004-2505. MergerSub is a wholly-owned subsidiary of Paradise HoldCo, Inc. (“Buyer”). Buyer is a newly formed Delaware corporation that is controlled by affiliates of Carlyle.¹³ MergerSub was formed for the purpose of consummating the Merger Transaction, all as further described in Section C of this Application. MergerSub is duly organized, validly existing, and in good standing under the laws of the State of Delaware. An organizational chart depicting MergerSub, Buyer, and the ownership structure of Carlyle affiliates that are involved in the Merger Transaction is set forth in Exhibit 2 attached hereto.

2. GTE Corp.

GTE Corp. is a corporation organized under the laws of the State of New York with its principal office located at 1095 Avenue of the Americas, New York, New York. GTE Corp. owns all of the issued and outstanding capital stock of Verizon Hawaii. GTE Corp. is more than 95% owned by Verizon Communications Inc. The balance is owned by NYNEX Corporation, which is wholly-owned by Verizon Communications Inc.

Although GTE Corp. itself is not a regulated telephone company within the State of Hawaii or elsewhere, GTE Corp.’s local telephone subsidiaries, or operating companies, including Verizon Hawaii, are subject to public utility regulation in the states in which they operate as well as regulation by the Federal Communications Commission (“FCC”) for the interstate and international services they provide to end users and inter-

¹³ Carlyle is a global private equity firm with more than \$18 billion under management across 23 funds. Carlyle focuses on telecommunications and media, aerospace and defense, automotive and transportation, and consumer, energy and power, healthcare, industrial, technology and business services in North America, Europe and Asia. Since its founding in 1987, Carlyle has invested in excess of \$10.5 billion of equity in more than 300 transactions.

exchange carriers. GTE Corp. also holds one hundred percent (100%) of the outstanding capital stock of Verizon Select Services and Verizon Hawaii International Inc.,¹⁴ both of which hold COAs from the Commission to provide telecommunications services in the State of Hawaii.

When GTE Corp. received an expression of interest in purchasing the assets and operations involved in the Merger Transaction, GTE Corp. was obligated to consider such an offer. Verizon Communications Inc. decided to sell these assets and operations after it reached an agreement with Buyer on a fair price and other terms (including honoring obligations to existing employees). In reaching that agreement, Buyer committed to continue and build on the excellent record that Verizon has established in Hawaii.

3. Verizon Hawaii

Verizon Hawaii is a corporation organized under the laws of the State of Hawaii, with its principal place of business at 1177 Bishop Street, Honolulu, Hawaii 96813. All of the issued and outstanding capital stock of Verizon Hawaii is currently owned by GTE Corp.

Verizon Hawaii is a public utility regulated by the Commission under HRS Chapter 269 and was originally chartered in 1883. Today, Verizon Hawaii provides a comprehensive slate of local and intraLATA telecommunications services on a statewide basis. According to the FCC's latest Automated Reporting Management Information Systems (ARMIS) report, Verizon Hawaii serves approximately

¹⁴ Although the transfer of the assets or capital stock of Verizon Hawaii International Inc. is not included as part of the Merger Transaction, Buyer is currently negotiating to acquire the assets and operations of such company.

698,000 access lines statewide. Verizon Hawaii is an incumbent local exchange carrier, within the meaning of § 252 of the Federal Telecommunications Act of 1996.

4. Verizon LD

Verizon LD is a corporation organized under the laws of the State of Delaware. Its current address in Hawaii is c/o 1177 Bishop Street, Honolulu, Hawaii 96813. Verizon LD is a public utility regulated by the Commission, having received a COA pursuant to HAR §6-80-18 to provide resold intrastate interexchange telecommunications services in the State of Hawaii effective as of November 16, 1999. Under its COA, Verizon LD currently provides inter-island toll service statewide. Verizon LD filed its latest annual report for the year ending December 31, 2003 with the Commission on March 25, 2004, which is hereby incorporated herein by reference pursuant to HAR §6-61-76.

Verizon LD is also subject to regulation by the FCC and provides interstate toll service on a nationwide basis.

5. Verizon Select Services

Verizon Select Services is a corporation organized under the laws of the State of Delaware. Its current address in Hawaii is c/o 1177 Bishop Street, Honolulu, Hawaii 96813. Verizon Select Services is a public utility regulated by the Commission, having received a COA pursuant to HAR §6-80-18 to provide resold intrastate interexchange telecommunications services in the State of Hawaii effective as of January 21, 1997. Verizon Select Services filed its latest annual report for the year ending December 31, 2003 with the Commission on May 3, 2004, which is hereby incorporated herein by reference pursuant to HAR §6-61-76.

C. BACKGROUND AND DESCRIPTION OF THE MERGER TRANSACTION

On May 21, 2004, Buyer (i.e., the parent of MergerSub), MergerSub, GTE Corp. (i.e., the current owner of 100% of Verizon Hawaii's issued and outstanding capital stock) and Verizon HoldCo entered into an Agreement that sets forth the terms and conditions for the Merger Transaction.¹⁵ See Exhibit 1. For the Commission's convenience, a chart showing the transfers that will occur as part of the Merger Transaction is attached hereto as Exhibit 3. Once all necessary conditions under the terms of the Agreement have been met, including obtaining regulatory approval, the following transactions shall occur between and among the parties:¹⁶

- (1) GTE Corp. will transfer all of the outstanding capital stock of Verizon Hawaii to Verizon HoldCo;¹⁷
- (2) Verizon HoldCo will form Verizon AssetCo as a Delaware corporation, whereby Verizon HoldCo will hold and own all of the outstanding capital stock of Verizon AssetCo, free and clear of any encumbrances;
- (3) Verizon LD and Verizon Select Services (both public utilities regulated by the Commission), as well as other non-Hawaii regulated affiliates of GTE Corp. and subsidiaries of Verizon Communications Inc.,¹⁸ will

¹⁵ It should be noted that four (4) additional subsidiaries/affiliates of GTE Corp. and/or Verizon Communications Inc. are currently public utilities regulated by the Commission under HRS Chapter 269. They are: Verizon Avenue Corp., NYNEX Long Distance Company dba Verizon Enterprise Solutions, Verizon Hawaii International Inc. and Cellco Partnership dba Verizon Wireless. The first three listed entities operate under COAs issued by the Commission while the last entity operates under a Certificate of Registration. None of these four (4) entities are involved in the Merger Transaction.

¹⁶ See Section 5.18 of the Agreement (Exhibit 1).

¹⁷ Contemporaneously with the closing of the Merger Transaction, the name of Verizon Hawaii will be changed to a name that is yet to be determined. See footnote 1 above.

¹⁸ As reflected in the Merger Agreement, the non-Hawaii regulated affiliates of GTE Corp. and subsidiaries of Verizon Communications Inc. that will be having certain of their assets contributed directly or indirectly to Verizon AssetCo/AssetCo are Verizon Directories Corp., Verizon Directories Services-

transfer, indirectly, via Verizon Communications Inc. and/or GTE Corp., as depicted in Exhibit 3, their respective rights, title and interest in certain assets ("Assets") to Verizon AssetCo/AssetCo. A more detailed description of the Assets to be transferred to Verizon AssetCo/AssetCo is attached hereto as Exhibit 4; provided, however, that said description shall be subject to amendments and supplements as provided in Section 5.13 of the Agreement;¹⁹ and

- (4) GTE Corp. will then transfer to the employment of Verizon AssetCo/AssetCo each employee who is employed by GTE Corp. or its affiliate, other than Verizon Hawaii, that provides substantially all of his or her services to or for the business with respect to the Assets to be transferred to Verizon AssetCo/AssetCo.

Upon completion of the above, a Certificate of Merger will then be filed with the Secretary of State of the State of Delaware as provided in Section 2.3 of the Agreement. Upon such filing, Verizon HoldCo will be merged with and into MergerSub, and MergerSub will be the sole surviving entity and succeed to and assume all the rights and obligations of Verizon HoldCo (including owning all of the issued and outstanding capital stock of Verizon Hawaii/TelCo Hawaii and Verizon AssetCo/AssetCo,²⁰ respectively, with certain limited exceptions as set forth in the Agreement). MergerSub shall thereafter be a direct, wholly-owned subsidiary of Buyer,

West Inc., Verizon Directories Sales-West Inc., GTE.Net LLC, Verizon Network Integration Corp. and GTE Communication Systems Corporation. See Section 5.18 and pages 4 to 5 of Exhibit 1.

¹⁹ In addition to Exhibit 4, there are also certain intellectual property rights and interests being transferred to Verizon AssetCo/AssetCo as part of the Merger Transaction. A copy of the Intellectual Property Agreement is attached as Exhibit A to the Agreement (Exhibit 1).

²⁰ See footnotes 1 and 4 above.

and all debts, liabilities and duties imposed on Verizon HoldCo and MergerSub shall continue or become, as the case may be, the debts, liabilities and duties of MergerSub as the surviving entity. See Section 2.4 of the Agreement. In addition, subject to the Commission approving Applicants' request to issue a new COA to AssetCo as further discussed in Section E.2 below, AssetCo plans to replicate the services currently offered by Verizon LD and Verizon Select Services under their existing COAs.²¹

As set forth in Section 2.7(b) of the Agreement, the base purchase price to be paid to GTE Corp. to consummate the Merger Transaction is \$1.65 billion, subject to various adjustments as provided in the Agreement. The merger consideration shall be calculated as follows: (1) \$1.65 billion, plus (2) the amounts expended by Verizon Hawaii to comply with "Interim Capital Expenditure Obligations," plus (3) the "Non-Regulated Construction Work in Process Amount," minus (4) the aggregate amount of "Closing Date Indebtedness," and plus (or minus) (5) the amount that the "Closing Date Net Working Capital Amount" exceeds (or is less than) the "Target Net Working Capital Amount" (as those terms are defined in the Agreement). As further discussed in Sections D.1 and G below, the consideration required to effectuate the Merger Transaction will be funded by equity contributions from affiliates of Carlyle and through financing or credit facilities to be obtained from multiple sources. After the Merger Transaction, Verizon Communications Inc. and its subsidiaries will not be liable for, nor guarantee, any of such financing or credit facilities.

²¹ Upon completion of the Merger Transaction, the remaining entities that will be regulated by the Commission as a public utility under HRS §269-1 in connection with said Merger Transaction will be TelCo Hawaii and AssetCo, both of whose issued and outstanding capital stock will be held by MergerSub.

D. APPROVAL OF MERGER TRANSACTION

In support of Applicants' request for Commission approval of the Merger Transaction, Applicants hereby represent that TelCo Hawaii and AssetCo will be sufficiently fit, willing and able to provide their respective public utility services and satisfy their respective public utility obligations and that the resulting merger is reasonable and in the public interest. In support of this, Applicants hereby provide the following:²²

1. Financial Fitness

As further discussed in Section G below, in order to close the Merger Transaction, MergerSub will receive an equity contribution from Buyer and has also obtained certain financing and other credit commitments, as described below:

Carlyle Partners III Hawaii LP, a Delaware limited partnership, and other affiliates of Carlyle, will make a cash equity contribution to Buyer, in the form of common

²² Applicants note that although stock sale or change of control transactions do not require specific Commission approval under HRS Chapter 269, the Commission has nevertheless exercised jurisdiction to review and approve such transactions under its general investigative powers set forth by HRS §269-7(a). See, e.g., *In the Matter of the Petition of Maunaloa Associates, Inc., East Honolulu Community Services, Inc. and American Water Works Company, Inc. For a Declaratory Ruling, or in the Alternative, for Authorization to Sell Stock of East Honolulu Community Services, Inc. from Maunaloa Associates, Inc. to American Water Works Company, Inc.*, Decision and Order No. 16175 filed on January 27, 1998 in Docket No. 97-0339. Applicants also note that in merger transactions, the Commission has exercised jurisdiction to review and approve such transactions under HRS §269-19 and/or under its general investigative powers under HRS §269-7(a). See, e.g., *In the Matter of the Application of GTE Corporation and Bell Atlantic Corporation For Expedited Approval to Transfer Control of GTE Corporation to Bell Atlantic Corporation*, Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345. Because the subject Merger Transaction does not involve a merger between two public utilities, it is Applicants' position that HRS §269-19 is inapplicable as it pertains specifically to the subject Merger Transaction. In any event, however, based on a review of the cited transactions, it is Applicants' understanding and position that the Commission undertakes essentially the same standards of review applicable to transfers or assignments of certificates of public convenience and necessity under HRS §269-7.5, to wit, whether the applicant is fit, willing and able properly to perform the service being applied for and whether the transaction is reasonable and in the public interest. It is also Applicants' understanding and position that the use of these standards of review does not require the Commission to undertake a rate review as set forth under HRS §269-7.5. See, e.g., *In the Matter of the Application of Citizens Communications Company, Kauai Electric Division and Kauai Island Utility Co-op For Approval of the Sale of Certain Assets of Citizens Communications Company, Kauai Electric Division and Related Matters*, Decision and Order No. 19658 issued on September 17, 2002 in Docket No. 02-0060 as it pertains to the sale of assets.

equity, in an aggregate amount equal to at least 17.5% of the total capital necessary (i) to consummate the Merger Transaction and (ii) to fund up to \$100 million of the estimated capital investment in back office infrastructure and net transition expenses resulting from the Merger Transaction. The cash contribution will then be contributed by Buyer to MergerSub as common equity.

In addition to the equity contribution, affiliates of Carlyle have secured certain financial commitments which will allow MergerSub to (a) obtain up to \$700 million in senior secured term financing facilities, (b) obtain a \$150 million senior revolving credit facility and (c) issue up to \$700 million in senior subordinated and senior unsecured high yield bonds. The terms of these financial commitments are further described in the term sheets and financing/credit facility summaries attached hereto as Exhibit 5 and incorporated herein by reference. Verizon Hawaii currently has \$425 million in third-party debt and has demonstrated its ability to incur and repay indebtedness, including short-term borrowings from affiliates of Verizon Communications Inc. A portion of MergerSub's financing will be used to repay any of such indebtedness of Verizon Hawaii outstanding at the time of the closing of the Merger Transaction.

Exhibit 6 of this Application sets forth a ten-year pro forma financial projection for TelCo Hawaii based on its regulated operations.²³ As reflected in said Exhibit, TelCo Hawaii will have the financial fitness and ability to fund the continuing operations of Verizon Hawaii²⁴ through the revenue generated from the existing and

²³ Because Verizon LD and Verizon Select Services do not have tangible Hawaii assets other than customer accounts and receivables, no pro forma results of operations for AssetCo are included with this Application.

²⁴ See footnote 1 above.

proposed operations. In addition, based on these financial projections, TelCo Hawaii will be able to provide sufficient dividends to MergerSub, thereby allowing MergerSub to adequately service its financing obligations.

AssetCo will also have the financial fitness and ability following the closing of the Merger Transaction to fund its operations and assume and replicate the services and operations currently authorized and performed by Verizon LD and Verizon Select Services through the revenue generated from the Assets that it will obtain through the Merger Transaction.²⁵ AssetCo is also expected to provide dividends to MergerSub, which will also be utilized by MergerSub to service its financing obligations.

2. Willingness

Buyer and MergerSub's willingness to effectuate the Merger Transaction and assume control of Verizon Hawaii/TelCo Hawaii and the Assets to be acquired by Verizon AssetCo/AssetCo is evident from the amount of time, effort and resources that have been dedicated to consummating the transaction. Buyer and MergerSub have engaged in extensive negotiations with GTE Corp. throughout the nearly nine-month competitive sale process administered by GTE Corp. In furtherance of this objective, Buyer and MergerSub have expended considerable time, effort and resources in conducting due diligence, in negotiating the Agreement, obtaining the aforesaid financing and credit facility commitments and conducting numerous field audits and investigations, including developing extensive plans to create and establish in Hawaii substantially all of the major required back office functions currently handled by Verizon Hawaii's affiliates on the mainland. Given the mission critical nature of the operations and business support systems, Buyer and MergerSub intend to invest tens of millions of

²⁵ See footnote 23 above.

dollars of capital to design and implement state-of-the-art back office systems in the State of Hawaii. Buyer and MergerSub acknowledge the importance of ensuring a seamless transition for customers and have conducted a rigorous process to select a world-class systems integrator to replicate the full functionality of the systems currently provided by Verizon. In that connection, Buyer and MergerSub have retained Deloitte and Touche LLP and David Torline, the former Chief Information Officer of Cincinnati Bell, as consultants to assist in evaluating comprehensive proposals submitted by several systems integrators and other potential vendors. Buyer and MergerSub expect to finalize the selection of the back office service provider and to enter into a definitive contract in the near future.

In addition, in order to facilitate the transition of ownership and to ensure maintenance of service quality following the closing of the Merger Transaction, Buyer and MergerSub have entered into a transition services agreement with GTE Corp., whereby GTE Corp. has agreed to continue providing certain operations and business support for a period of up to nine months following closing. See Exhibit C of the Agreement (Exhibit 1) for a copy of the transition services agreement. Buyer and MergerSub also believe that its license of certain key operations support software from Verizon will significantly advance the implementation of the new systems.

The above efforts demonstrate that Buyer and MergerSub are willing to assume the responsibilities of taking over the ownership and control of Verizon Hawaii/TelCo Hawaii and Verizon AssetCo/AssetCo as part of the Merger Transaction.

3. Ability

a. Carlyle's Experience in Telecommunications.

Carlyle has a track record of successful telecommunications investments, a deep knowledge of the local telephony business, and a thorough understanding of the complex regulatory issues affecting the industry. The Carlyle partners responsible for this acquisition have exceptional experience in the telecommunications sector. For example, James A. Attwood, Jr. is a former executive vice president for Verizon and GTE. William E. Kennard is the immediate past chairman of the FCC. Dan Akerson is the former chairman and Chief Executive Officer of XO Communications and, prior to that, was chairman and Chief Executive Officer of Nextel Communications.

Carlyle's recent global telecommunications and media investments include Casema BV (a Dutch cable TV provider), Dex Media, Inc. (a U.S. directories provider), eAccess, Ltd. (a Japan-based broadband access provider), Taiwan Broadband Communications (a Taiwanese cable TV provider), and WCI Cable, Inc. (a submarine fiber-optic cable company connecting Alaska to the continental United States with terrestrial facilities in Alaska).

b. Local Management and Investors.

Recognizing the unique opportunities and responsibilities of doing business in Hawaii, Carlyle has determined that having locally based management and investors are integral components of its plans to operate MergerSub and its two wholly-owned subsidiaries TelCo Hawaii and AssetCo post-closing. Carlyle intends that all senior management of TelCo Hawaii and AssetCo will be full-time residents of Hawaii. Carlyle is also in the process of establishing a local investor group that will co-invest in

the new companies alongside Carlyle. The local investor group will be represented on the board of directors to provide guidance to Carlyle in establishing the two companies as successful, independent Hawaii-based companies. Carlyle also plans to invite a consortium of local banks to participate in providing a portion of the senior financing for the transaction.

c. Retention of Employees.

To promote stability during the transition to independent ownership, the Merger Agreement provides that employees that devote substantially all of their time to support Verizon Hawaii or to support the business with respect to the Assets to be transferred to AssetCo will have the opportunity to remain employed by either MergerSub, TelCo Hawaii or AssetCo as of the closing of the Merger Transaction in the same or comparable positions and with at least the same base pay and comparable total compensation in the aggregate (taking into account base pay, bonus, and other incentive compensation). See Sections 8.1 and 8.3 of the Agreement. Another key component of the Merger Transaction is MergerSub's agreement to assume the existing collective bargaining agreement and offer employees comparable benefits, including pension benefits. It is anticipated that these provisions in the Agreement, taken together with the necessity of relocating to Hawaii substantially all of the major back office functions now performed on the mainland, will result in an overall increase in staffing levels. Like Verizon, Buyer and MergerSub will retain the flexibility to modify staffing levels going forward. In addition, it should be noted that GTE Corp. has agreed that, for a period of time following the closing of the Merger Transaction, it and its Verizon affiliates will not solicit employees to leave TelCo Hawaii.

d. Transition Planning.

In addition to ensuring that TelCo Hawaii and AssetCo will retain Hawaii-based employees as described above, Buyer has already begun planning for the transition from support functions provided by Verizon Hawaii affiliates on the mainland (hereinafter, the “Verizon Support Functions”) to self-sustained operations using support functions located in Hawaii. As mentioned in Section D.2 above, Buyer and MergerSub have obtained the commitment of GTE Corp. to work on a transition planning team²⁶ and have a contract in place for the continued provisioning of Verizon Support Functions for a period of up to nine (9) months following the closing.

e. Establishment of Other Hawaii-Based Functions.

As mentioned in Section D.2 above, Carlyle plans to invest significant capital to transition the new companies to independent local companies in a manner that will maintain service quality and provide a seamless transition to existing customers. Prior to the expiration of the transition services agreement discussed above, Buyer will re-establish back office functions previously phased out of Hawaii and consolidated with other Verizon operations on the mainland. Carlyle intends to eventually relocate substantially all of the major functions of the new companies to Hawaii and to staff such functions predominantly with local employees. Carlyle also plans to re-establish headquarters for the new companies in Hawaii, to rebuild a local network and information technology (IT) operations center, to augment local sales and marketing efforts, to staff locally support functions such as finance, information technology, and human resources that are currently provided on the mainland by affiliates of Verizon Hawaii, and to maintain existing call center operations.

²⁶ See Section 5.11(b) of the Agreement (Exhibit 1).

4. **Reasonableness and Key Public Interest Points**

a. **Rates.**

Buyer and MergerSub have no current intention to seek a general rate increase for regulated retail services provided by either TelCo Hawaii or AssetCo as a result of the Merger Transaction.²⁷

b. **Agreement to Conform to Commission's Rules and Orders.**

Buyer and MergerSub commit and agree that TelCo Hawaii and AssetCo shall abide by and conform to all applicable Commission rules and orders. TelCo Hawaii will, subject to Commission order, continue to abide by all rights and obligations currently imposed on Verizon Hawaii in connection with all applicable Commission orders, rules and regulations and will continue to be so bound. Similarly, AssetCo will, subject to Commission order, agree to abide and be bound by the rights and obligations imposed upon AssetCo by the Commission in connection with the issuance of a new COA, including all applicable Commission orders, rules and regulations.

Buyer and MergerSub also agree that, upon completion of the Merger Transaction, TelCo Hawaii will continue to abide by all rights and obligations under all outstanding leases, permits, service and supply contracts and other agreements that will be assumed in accordance with the Agreement. Similarly, AssetCo will continue to abide by and will assume all of the rights and obligations under all outstanding leases, permits, service and supply contracts and other agreements

²⁷ Buyer and MergerSub reserve the right to seek rate increases as they deem necessary for discrete retail services (e.g., local directory assistance). See Decision and Order No. 20620 in Docket No. 03-0034.

currently held by Verizon LD and Verizon Select Services that will be assumed in accordance with the Agreement.

c. Goodwill/Acquisition Premium.

Buyer and MergerSub acknowledge the Commission's general policy not to allow recovery from utility customers of goodwill or acquisition premium amounts arising from utility merger and acquisition transactions.²⁸ In accordance with this policy, Buyer and MergerSub agree that neither TelCo Hawaii nor AssetCo will seek rate recovery of any goodwill amortization, acquisition premium costs or goodwill impairment charges pursuant to Generally Accepted Accounting Principles.

d. Transaction and Transition Costs.

Buyer and MergerSub also acknowledge the Commission's policy not to allow accounting deferral or recovery from utility customers of transaction and transition costs arising from utility merger and acquisition transactions.²⁹ In accordance with this policy, Buyer and MergerSub agree that neither TelCo Hawaii nor AssetCo will seek rate recovery of any transaction or transition costs (but excluding capital costs related to re-establishing the back office functions in Hawaii) or amortization of such costs.

²⁸ For examples, see *In the Matter of the Application of BHP Hawaii Inc., Gasco, Inc. and Citizens Utilities Company Requesting Approval of the Sale of Gasco, Inc. to Citizens Utilities Company, and the Merger of Gasco, Inc. with Citizens Utilities Company, and Related Transactions, Pursuant to Haw. Rev. Stat. Sections 269-17.5, 269-18, 269-19, 269-19.5, and for a Declaratory Order Terminating Certain Regulatory Conditions Previously Applicable to Gasco, Inc. and BHP Hawaii Inc.*, Decision and Order No. 15899 filed on September 10, 1997 in Docket No. 97-0035; *In the Matter of the Application of GTE Corporation and Bell Atlantic Corporation For Expedited Approval to Transfer Control of GTE Corporation to Bell Atlantic Corporation*, Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345; and *In the Matter of the Application of Hawaiian Tug & Barge Corp., Young Brothers, Limited and Saltchuk Resources, Inc. Requesting Approval of the Sale of the Stock of Young Brothers, Limited to Saltchuk Resources, Inc., Pursuant to Hawaii Revised Statutes, §271G-4*, Decision and Order No. 17283 filed on October 20, 1999 in Docket No. 99-0231.

²⁹ Id.

E. APPROVAL OF TRANSFER OF ASSETS OF VERIZON LD AND VERIZON SELECT SERVICES, ISSUANCE OF COA TO ASSETCO AND REPUBLISHING OF TARIFF

1. Transfer of Assets of Verizon LD and Verizon Select Services

As mentioned in Section C of this Application, as part of the Merger Transaction, Verizon LD and Verizon Select Services (both public utilities regulated by the Commission) will transfer to Verizon Communications Inc. and GTE Corp., respectively, their respective rights, title and interest in certain Assets (but excluding their respective COAs issued by the Commission). These Assets ultimately will be transferred to AssetCo, with AssetCo being a resulting public utility regulated by the Commission following the closing of the Merger Transaction.

In connection with the above, Applicants hereby jointly request approval by the Commission of the above asset transfer as part of the Merger Transaction to the extent required by HRS §269-19 or otherwise by the Commission.³⁰ The closing of the Merger Transaction is conditioned on securing the Commission's approval. Other conditions precedent to closing are included in Article VI of the Agreement.

The following information, in addition to the description of Applicants and the Merger Transaction discussed in Sections B and C of this Application, respectively, as well as the Agreement (Exhibit 1), are provided in satisfaction of HAR §6-61-105:

a. Because only customer accounts and receivables and no tangible "assets" are being transferred by Verizon LD and Verizon Select Services to Verizon

³⁰ Under HRS §269-19, the Commission's prior approval is required for the sale, lease, assignment or other disposition of utility assets. The purpose of this statute is to safeguard the public interest. *In re Honolulu Rapid Transit Company, Ltd.*, 54 Haw. 402, 409 (1973). Some of the factors the Commission considers in determining whether the public interest is protected are whether the transaction will have a negative impact on the cost of the utility's operations, on the continued ability to serve customers, on the efficiency of operations, on the quality of personnel, and on rates. See, *Re GTE Corp. and Bell Atlantic Corp.*, 197 P.U.R. 4th 337, Docket No. 98-0345, D&O No. 17377 (November 17, 1999); *Re BHP Hawaii, Inc., Gasco, Inc. and Citizens Utilities Company*, Docket No. 97-0035, D&O No. 15899 (September 10, 1997).

Communications Inc. and GTE Corp., respectively, and ultimately to AssetCo as part of the Merger Transaction, there is no book cost or original cost information to provide pursuant to HAR §6-61-105(b)(2).

b. The latest available balance sheet and income profit and loss statements of Verizon LD were filed with the Commission on March 25, 2004 as part of Verizon LD's latest annual report for the year ending December 31, 2003, which is hereby incorporated herein by reference pursuant to HAR §6-61-76.

c. The latest available balance sheet and income profit and loss statements of Verizon Select Services were filed with the Commission on May 3, 2004 as part of Verizon Select Services' latest annual report for the year ending December 31, 2003, which is hereby incorporated herein by reference pursuant to HAR §6-61-76.

d. As discussed in Section D above, following the Merger Transaction, AssetCo will have the financial fitness and ability to fund its operations and assume and replicate the services and operations currently authorized and performed by Verizon LD and Verizon Select Services under their respective COAs.

e. Buyer and MergerSub have agreed to continue the employment of the employees discussed in Section D.3 above, and, therefore, following the closing of the Merger Transaction, AssetCo will be able to provide experienced and capable operational management of the respective public utility operations. See discussion in Section D.3 above.

f. The Merger Transaction is reasonable and in the public interest. See discussion in Section D.4 above.

2. Issuance of COA to AssetCo and Republishing of Tariff

As noted above, certain assets of Verizon LD and Verizon Select Services will be transferred to AssetCo.³¹ However, the existing COAs for Verizon LD and Verizon Select Services are not being transferred as part of the Merger Transaction. Therefore, pursuant to HAR §6-80-17(c), Applicants request that the Commission issue AssetCo a new COA. In this regard, Applicants note the following:

(a) The type of telecommunications service to be offered by AssetCo will be the same type of service currently authorized and provided by Verizon LD and Verizon Select Services under their respective COAs; namely, to provide resold intrastate interexchange services.

(b) The geographical scope of operation will be the entire State of Hawaii.

(c) Because AssetCo will not be a facilities-based carrier, no specific equipment will be employed in providing the regulated service.

(d) The initial rates and charges proposed to be imposed by AssetCo and the regulations that will govern the proposed service are identical to the rates, charges and regulations currently set forth in the existing Tariffs of Verizon LD and Verizon Select Services.

In connection with the above, Applicants request that the Commission permit AssetCo to republish the Tariffs of Verizon LD and Verizon Select Services under its own name to be effective as of the closing of the Merger Transaction.³² This will

³¹ See footnote 4 above.

³² The existing Tariffs of Verizon LD and Verizon Select Services will remain in effect for said entities following the closing of the Merger Transaction.

allow AssetCo to operate under the same rules, regulations, tariffs and rates set forth in the respective Tariffs of Verizon LD and Verizon Select Services.

Applicants hereby incorporate by reference the information provided in Sections D and E.1 above in support of AssetCo's financial fitness and ability to render the proposed service to be provided under the requested COA.

F. APPROVAL OF TRANSFER OF VERIZON HAWAII'S STOCK

As discussed in Section C of this Application, as part of the Merger Transaction, all of the issued and outstanding stock of Verizon Hawaii, a Hawaii corporation, will be transferred from GTE Corp., a New York corporation, to Verizon HoldCo, a Delaware limited liability company. This issued and outstanding stock will then be subsequently transferred to MergerSub, a Delaware corporation, by way of a merger between Verizon HoldCo and MergerSub, with MergerSub being the surviving entity.

In connection with the above, Applicants also seek Commission approval of the above transfers pursuant to HRS §269-17.5 because the outstanding capital stock of Verizon Hawaii will, following the Merger Transaction, be held by a Delaware corporation.³³ Applicants hereby incorporate by reference its discussions in Sections D and E of this Application in support of this request.

³³ HRS §269-17.5 provides the following, in relevant part:

No more than twenty-five per cent of the issued and outstanding voting stock of a corporation organized under the laws of the State [of Hawaii] and who owns, controls, operates, or manages any plant or equipment, or any part thereof, as a public utility within the definition set forth in section 269-1 shall be held, whether directly or indirectly, by any single foreign corporation or any single non-resident alien, or held by any person, unless prior written approval is obtained from the public utilities commission

For purposes of HRS §269-17.5, a foreign corporation means a corporation not organized under the laws of the State of Hawaii or a corporation in which a majority of the voting stock is held by a single corporation that is not organized under the laws of the State of Hawaii.

G. APPROVAL OF TRANSACTIONS RELATED TO FINANCING ARRANGEMENTS

As noted in Section D.1 above and as discussed below, MergerSub has obtained commitments for certain financing and credit facility arrangements. Because MergerSub (and not TelCo Hawaii or AssetCo, the entities to be regulated by the Commission following the Merger Transaction) is obtaining the financing, Applicants believe it is not necessary to obtain Commission approval to enter into the proposed financing and credit facility arrangements pursuant to HRS §269-17³⁴ or §269-19.³⁵ Instead, as will be further discussed below, Applicants request Commission approval for the following aspects of the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction:

- Applicants request Commission approval pursuant to HRS §269-17 to allow TelCo Hawaii and AssetCo to provide a guaranty of the financing and credit facility arrangements; and

³⁴ HRS §269-17 provides the following, in relevant part:

A public utility corporation may, on securing the prior approval of the public utilities commission, and not otherwise, issue stocks and stock certificates, bonds, notes, and other evidences of indebtedness, payable at periods of more than twelve months after the date thereof, for the following purposes and no other; namely: for the acquisition of property or for the construction, completion, extension, or improvement of or addition to its facilities or service, or for the discharge or lawful refunding of its obligations or for the reimbursement of moneys actually expended from income or from any other moneys in its treasury not secured by or obtained from the issue of its stocks or stock certificates, or bonds, notes, or other evidences of indebtedness, for any of the aforesaid purposes except maintenance of service, replacements, and substitutions not constituting capital expenditure in cases where the corporation has kept its accounts for such expenditures in such manner as to enable the commission to ascertain the amount of moneys so expended and the purposes for which the expenditures were made, and the sources of the funds in its treasury applied to the expenditures. . . . All stock and every stock certificate, and every bond, note, or other evidence of indebtedness of a public utility corporation not payable within twelve months, issued without an order of the commission authorizing the same, then in effect, shall be void.

³⁵ Under HRS §269-19, the Commission's prior approval is required for, among other things, the mortgage or other encumbrance of utility assets.

- Applicants request Commission approval pursuant to HRS §269-19 to
 - (i) pledge all of the capital stock of TelCo Hawaii and AssetCo, and
 - (ii) provide a perfected first-priority with respect to security interests in, and mortgages on, substantially all tangible and intangible assets of TelCo Hawaii and AssetCo.

1. **Guaranty**

As part of the senior secured term facilities that MergerSub has obtained, Buyer, MergerSub, as well as each existing and subsequently acquired or organized domestic subsidiary of Buyer, must unconditionally guarantee all obligations of MergerSub. As a result, following the closing of the Merger Transaction, TelCo Hawaii and AssetCo, as new subsidiaries of MergerSub (and ultimately of Buyer), will be required to provide this unconditional guaranty.

2. **Security and Collateral**

In consideration of the senior secured term facilities, Buyer, MergerSub, and each subsidiary guarantor, including TelCo Hawaii and AssetCo, will provide (i) a first-priority pledge of all the capital stock of MergerSub, and all other capital stock and equity interests held by Buyer, Merger Sub or any subsidiary guarantor; (ii) a perfected first-priority with respect to security interests in, and mortgages on, substantially all tangible and intangible assets of Buyer, MergerSub, and each subsidiary guarantor (including TelCo Hawaii and AssetCo), including accounts receivable, inventory, equipment, intellectual property and licenses (other than any license or permit which may not be pledged under applicable law or regulation), contract rights, other general intangibles, instruments, investment property, real property interests (other than leaseholds), intercompany notes and all proceeds and products of the foregoing. It

should be noted that substantially all of Verizon Hawaii's existing assets are now and have been pledged to secure its obligations to pay bonds issued under an existing indenture.

In addition to the information about Verizon Hawaii/TelCo Hawaii, Verizon AssetCo/AssetCo and the Merger Transaction set forth above, the financial pro forma attached as Exhibit 6 hereto, and the financing information in Sections D.1 above and this Section G, Applicants hereby incorporate by reference, pursuant to HAR §6-61-76, the latest financial statements and related information for Verizon Hawaii that was filed with the Commission on April 15, 2004, to satisfy the applicable requirements of HAR §6-61-101 and §6-61-105 for which information is available.³⁶

H. ORDER REGARDING DECISION AND ORDER NO. 17377

In Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345, the Commission approved the merger of GTE Corp. with a wholly-owned subsidiary of Bell Atlantic Corporation, now known as Verizon Communications Inc. In approving that merger, which closed on June 30, 2000, the Commission imposed the following condition:

GTE Hawaiian Tel [nka Verizon Hawaii] will account for all merger related expenses, savings, and revenue enhancements attributable to regulated Hawaii services and will report on the same on an annual basis for the first seven years after the merger or until its next rate proceeding, whichever is later. Ordering Paragraph 2 (Part VIII, Subpart 2) of Decision and Order No. 17377.

³⁶ Because Verizon AssetCo/AssetCo is not yet formed and as such does not presently own any assets or have any operations or income, it does not have a financial statement or other information to submit pursuant to HAR §6-61-75, §6-61-101 or §6-61-105. In addition, some of the requested information regarding Verizon Hawaii/TelCo Hawaii, such as a resolution approving its guaranty of the financing and credit facility arrangements, its pledge of stock and the providing of a first-priority security interest in and mortgages on its tangible and intangible assets, apply only to the post-closing ownership structure (TelCo Hawaii) and not to its current ownership structure, and as such will not be available until after the closing of the Merger Transaction.

In connection with the above, Applicants hereby request an order from the Commission terminating the above regulatory condition upon closing of the subject Merger Transaction because of the changes in ownership and circumstances as described throughout this Application.

I. CONCLUSION

For the reasons set forth above, Applicants hereby respectfully request that the Commission issue an order, by no later than December 15, 2004:³⁷

1. Approving the Merger Transaction;
2. Approving, pursuant to HRS §269-19, the transfer of the customer accounts and receivables associated with the inter-island toll business of Verizon LD and Verizon Select Services;
3. Approving, pursuant to HAR §6-80-17(c), the issuance of a new COA to AssetCo that contains the same authorizations held by Verizon LD and Verizon Select Services under their existing respective COAs, and authorizing AssetCo to republish the Tariffs of Verizon LD and Verizon Select Services under its own name³⁸ to be effective as of the closing of the Merger Transaction;
4. Approving, pursuant to HRS §269-17.5, (a) the interim transfer of Verizon Hawaii's issued and outstanding capital stock from GTE Corp., a New York corporation, to Verizon HoldCo, a Delaware limited liability company, and (b) the subsequent merger of Verizon HoldCo into MergerSub, a Delaware corporation, for the purpose of effectuating the Merger Transaction;

³⁷ See footnote 2 above.

³⁸ See footnote 4 above.

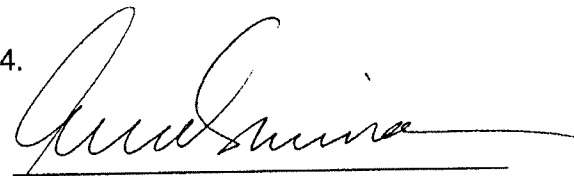
5. Approving, pursuant to HRS §269-17, the guaranty by TelCo Hawaii and AssetCo of the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction;

6. Approving, pursuant to HRS §269-19, the pledging of TelCo Hawaii's and AssetCo's respective capital stock and the grant of a security interest in and mortgages on substantially all of TelCo Hawaii's and AssetCo's tangible and intangible assets to secure the financing and credit facility arrangements proposed to be obtained by MergerSub for the purpose of effectuating the Merger Transaction;

7. Terminating the regulatory condition imposed by the Commission in Part VIII, Subpart 2 of Decision and Order No. 17377 filed on November 17, 1999 in Docket No. 98-0345; and

8. Granting such other relief as may be just and reasonable under the circumstances.

DATED: Honolulu, Hawaii, June 21, 2004.



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Paradise MergerSub, Inc.



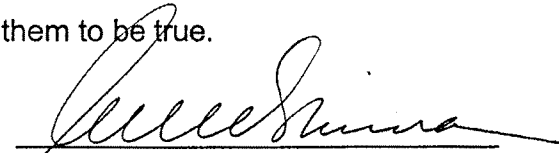
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Verizon Corporate Services Group Inc.

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GTE Corporation, Verizon Hawaii Inc.,
Bell Atlantic Communications, Inc., and
Verizon Select Services Inc.

VERIFICATION


STATE OF HAWAII)
)
COUNTY OF HONOLULU) SS.

ALAN M. OSHIMA, being first duly sworn, deposes and says: That he is an attorney for PARADISE MERGERSUB, INC. in the above proceeding; that the officers of PARADISE MERGERSUB, INC. are not present within the City and County of Honolulu; that he has read the foregoing Application, and knows the contents thereof; and that the same are true of his own knowledge except as to those matters stated on information and belief, and that as to those matters he believes them to be true.



ALAN M. OSHIMA

Subscribed and sworn to before me
this 21ST of June, 2004



Notary Public, State of Hawaii
Print Name: Edna Sagudang
My commission expires: June 21, 2006

CERTIFICATE OF SERVICE

I (we) hereby certify that copies of the foregoing document were duly served on the following parties, by having said copies delivered as set forth below:

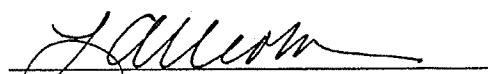
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS 4 COPIES
DIVISION OF CONSUMER ADVOCACY HAND DELIVERY
250 S. King Street
Room 825
Honolulu, Hawaii 96813

DATED: Honolulu, Hawaii, June 21, 2004.



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GTE Corporation, Verizon Hawaii Inc.,
Bell Atlantic Communications, Inc., and
Verizon Select Services Inc.

Section 5.18(c)

Verizon AssetCo - Assets

Notwithstanding anything to the contrary, the contribution of assets set forth below shall include all Network Elements of the Contributing Companies but shall not include (i) any Intellectual Property or (ii) any asset that constitutes a payable or receivable between Seller and one of its Affiliates (other than the Company, the Subsidiaries and the Contributing Companies) on one hand and the Company, the Subsidiaries and the Contributing Companies on the other hand, which shall remain outstanding as provided in Section 5.9.

1. Each of Verizon Directories Corp., Verizon Directories Services – West Inc. and Verizon Directories Sales – West Inc., will contribute all their right, title and interest with respect to the following tangible assets in the State of Hawaii and other non-tangible assets (a) exclusively used in the sale of advertising in print telephone directories covering all or a portion of the State of Hawaii (but excluding directories covering Hawaii and any other state so long as any such directories predominantly cover a state (or states) other than Hawaii) and (b) the existing physical inventory of such print telephone directories:

(i) All Contracts with Telephone print directory advertisers in the State of Hawaii as of the opening of business on the Closing Date, but excluding Contracts or relationships with any certified marketing representative that is not solely related to Hawaii.

(ii) All accounts receivable as of the opening of business on the Closing Date arising from the operations of such entities in the State of Hawaii.

(iii) Inventory of current print directories and electronic copy of the current print directories covering all or a portion of the State of Hawaii (but excluding directories covering Hawaii and any other state so long as any such directories predominantly cover a state (or states) other than Hawaii).

(iv) All rights and obligations pursuant to (a) the Motor Vehicle Fleet Open-End Operating Lease Agreements, dated September 9, 2002 between D.L. Peterson Trust and Verizon Directories Corp., and (b) all service, management, maintenance and vehicle safety program agreements between PHH Vehicle Management Services, LLC and Verizon Directories Corp., with respect to the vehicles identified as subsection (v) hereof. Seller will seek consent to partial assignment pursuant to the terms of the Merger Agreement of the Agreements described in (a) and (b) above with respect to such vehicles.

(v) The vehicles pursuant to the lease agreements referenced in the preceding clause (iv)(a):

YEAR	MAKE	MODEL
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	DODGE	INTREPID
2001	DODGE	INTREPID
2001	DODGE	INTREPID
2001	DODGE	INTREPID
2001	DODGE	INTREPID
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2001	FORD	TAURUS
2002	FORD	TAURUS
2002	FORD	TAURUS
2002	FORD	TAURUS
2002	FORD	TAURUS
2001	FORD	TAURUS
2001	DODGE	INTREPID
2001	FORD	TAURUS

(vi) The following property leases:

LESSOR	ADDRESS	COUNTY
TMS-CURCI LLC, A LIMITED LIABILITY COMPANY	711 KAPIOLANI BLVD., 8 th FLOOR	HONOLULU
2969 MAPUNAPUNA INVESTORS	2969 MAPUNAPUNA PLACE	HONOLULU

(vii) The following properties:

See Annex K-1 of the Seller Disclosure Schedule.

(viii) All hardware relating to Transferred Employees in the State of Hawaii.

Notwithstanding the foregoing, no assets of Verizon Directories Corp., Verizon Directories Services – West Inc. and Verizon Directories Sales – West Inc. used in the composition, publication or printing of print white or yellow page directories or electronic directories shall be included among the above assets.

2. GTE.Net LLC will contribute all its right, title and interest with respect to the following assets used primarily in the provision of Internet access (including dial-up access) in the State of Hawaii:

- (i) All Contracts between GTE.Net LLC and its customers in the State of Hawaii as of the opening of business on the Closing Date.
- (ii) Master Agreement for Wholesale ISP DSL Services, as amended, dated April 1, 2004, between GTE.Net LLC d/b/a Verizon Internet Solutions and Level 3 Communications LLC.
- (ii) All accounts receivable, as of the opening of business on the Closing Date of GTE.Net LLC arising from its operations in the State of Hawaii.
- (iii) All hardware relating to Transferred Employees in the State of Hawaii.
- (iv) All inventory and spare parts in the State of Hawaii, if any.

3. Verizon Network Integration Corporation will contribute all its right, title and interest with respect to the following assets used primarily in the provision of design, sale, installation and maintenance of data networks as well as the management of customer networks in the State of Hawaii:

- (i) All Contracts between Verizon Network Integration Corporation and its customers in the State of Hawaii as of the opening of business on the Closing Date.
- (ii) All accounts receivable of Verizon Network Integration Corporation arising from its operations in the State of Hawaii as of opening of business on the Closing Date.
- (iii) All hardware relating to Transferred Employees in the State of Hawaii.

4. Verizon Select Services, Inc. will contribute all its right, title and interest with respect to the following tangible assets in the State of Hawaii and other non-tangible assets (i) used primarily in the provision of U.S. InterLATA toll services in the State of Hawaii or (ii) used primarily in the provision of design, sale, installation and maintenance of data and voice networks in the State of Hawaii as well as the management of customer networks and sale of installation and maintenance of customer premise equipment:

- (i) All Contracts between Verizon Select Services, Inc. and its customers in the State of Hawaii as of opening of business on the Closing Date, excluding the Network Management Services Agreement, as amended, between Federated Systems Group, Inc. and GTE Data Services Incorporated, dated May 21, 1999.

(ii) Contract dated July 1, 2000 for the Voice Telecommunications Network Equipment Maintenance and Data Communications Network Equipment Maintenance by and between Verizon Select Services, Inc. (formerly known as GTE Communications Corporation) and Kaiser Foundation Hospitals.

(iii) Maintenance Agreement for Kaiser Foundation Hospitals Pursuant to the Master Services Agreement between Verizon Select Services Inc. and Verizon Hawaii, dated December 13, 1999 (as amended)

(iv) Contract dated March 15, 2004 for the transfer of non-regulated Customer Premise Equipment ("CPE") assets, accounts receivable, reserves liabilities and customers to Verizon Select Services Inc. Estimated value or receivables net of reserve as of 12/31/03 was \$10,048,705. When transfer is complete Verizon Hawaii will no longer provide non-regulated CPE or CPE maintenance to customers other than federal "E-Rate" discount customers. All other offerings will be offered by Verizon Select Services Inc. or Verizon Network Integration Corporation.

(v) All accounts receivable, as of the opening of business on the Closing Date, of Verizon Select Services, Inc. arising from its operations in the State of Hawaii.

(vi) All hardware relating to Transferred Employees in the State of Hawaii.

5. Bell Atlantic Communications, Inc. will contribute all its right, title and interest with respect to the following assets in the State of Hawaii used primarily in the provision of U.S. InterLATA toll services in the State of Hawaii:

(i) All Contracts between Bell Atlantic Communications, Inc. and its customers in the State of Hawaii as of the opening of business on the Closing Date.

(ii) All accounts receivable, as of the opening of business on the Closing Date of Bell Atlantic Communications, Inc. arising from its operations in the State of Hawaii.

(iii) All hardware relating to Transferred Employees in the State of Hawaii.

6. GTE Communication Systems Corporation will contribute all its right, title and interest with respect to the following tangible assets in the State of Hawaii relating primarily to equipment calibration services and leasing or subleasing of space on equipment towers and maintenance and sale of paging equipment in the State of Hawaii:

(i) The following licenses pursuant to the agreement for the sale of paging assets, dated December 12, 2002, between Telesector Resources Group, Inc. (d/b/a/ Verizon Services

Group) formerly known as GTE Communication Systems Corp. and Weblink Wireless (recently purchased by Metrocall Inc.):

County	Property Address	City	STATE	GLC	Tenant Name	PUSE ¹
HAWAII	S. HILO	HILO	HI	2010900	METROCALL	RSM
HAWAII	MAMANE ST & SPENCER ROAD	HONOKAA	HI	2040900	METROCALL	CO
HAWAII	MAMALAHOA HIGHWAY	KAMUELA	HI	2080900	METROCALL	CO
HAWAII	S. KOHALA	KAMUELA	HI	2155900	METROCALL	TWR
HAWAII	HAWI-NIULI ROAD	KOHALA	HI	2115900	METROCALL	CO
HAWAII	73-4156 MAMALAHOA HIGHWAY	N. KONA	HI	2070900	METROCALL	CO
HAWAII	MAMALAHOA HIGHWAY	NAALEHU	HI	2180900	METROCALL	CO
HAWAII	HUMUULA	NINOLE	HI	2165900	METROCALL	TWR
HAWAII	PUNA ROAD	PAHOA	HI	2210900	METROCALL	CO
HAWAII	84-5022 S. KONA BELT ROAD	S. KONA	HI	2035900	METROCALL	CO
HAWAII	19-4080 VOLCANO ROAD AND WRIGHT ROAD	VOLCANO	HI	2230900	METROCALL	CO
HONOLULU	92-1600 KIKAHA STREET	EWA BEACH	HI	1285900	METROCALL	TWR
HONOLULU	KOKO HEAD	HONOLULU	HI	1220901	METROCALL	TWR
HONOLULU	1021 KIKOWAENA PLACE	HONOLULU	HI	1300901	METROCALL	REPT
HONOLULU	ON TOP OF TANTALUS	HONOLULU	HI	1390900	METROCALL	TWR
HONOLULU	51-476 LIHIMAUNA ROAD	KAAWA	HI	1140900	METROCALL	CO
HONOLULU	44-354 KANEOHE BAY DRIVE	KANEOHE	HI	1375900	METROCALL	TWR
HONOLULU	92-815	MAKAKILO	HI	1265900	METROCALL	CO

¹ Legend:

CO: Central Office
REPT: Reporting Center
RSM: Remote Switch Module
TWR: Tower / Antenna / Mast

County	Property Address	City	STATE	GLC	Tenant Name	PUSE ¹
	NOHOHALE STREET					
HONOLULU	252 KOA STREET	WAHIAWA	HI	1405900	METROCALL	CO
HONOLULU	MOKULEIA	WAIALUA	HI	1315900	METROCALL	TWR
KAUAI	54-378 KUHIO HIGHWAY	HANAIEI	HI	4020900	METROCALL	CO
KAUAI	KALEPA RIDGE	HANAMAULU	HI	4035900	METROCALL	RSM
KAUAI	PUU ROAD	KALAHEO	HI	4070900	METROCALL	TWR
KAUAI	WAIMEA, ACCESS FROM KOKEE RD	WAIMEA	HI	4090900	METROCALL	TWR
KAUAI	4004 MAKEKE ROAD	WAIMEA	HI	4095900	METROCALL	CO
MAUI	TOP OF HALEAKALA	MAKAWAO	HI	3010900	METROCALL	TWR
MAUI	24 OLINDA ROAD	MAKAWAO	HI	3050900	METROCALL	CO
MAUI	MOLOKAI	MAUNOLA	HI	5035900	METROCALL	TWR
MAUI	60 SOUTH CHURCH STREET	WAILUKU	HI	3080900	METROCALL	CO

(ii) An agreement for the sale of paging assets, dated December 12, 2002, between Telesector Resources Group, Inc. (d/b/a/ Verizon Services Group) formerly known as GTE Communication Systems Corp. and Weblink Wireless (recently purchased by Metrocall Inc.).

(iii) All hardware relating to Transferred Employees in the State of Hawaii.

(iv) All tangible assets of the Contributing Company in the State of Hawaii more particularly described as listed on Annex K-2 of the Seller Disclosure Schedule.

Topics to be Covered by Opinion

Opinions covering the following topics will be addressed in one or more opinions to be delivered by counsel to [(i) GTE Corporation (“Seller”), (ii) [Verizon HoldCo LLC] (“Company”), (iii) Verizon Hawaii, Hawaiian Insurance Company and Verizon AssetCo (the “Subsidiaries”), (iv) [Verizon Directories Corp., Verizon Directories Services-West Inc., Verizon Directories Sales-West Inc., GTE.Net LLC, Verizon Network Integration Corporation, Verizon Select Services, Inc., Bell Atlantic Communications, Inc., Verizon Data Services Inc. and GTE Communication Systems Corporation (collectively, the “Contributing Companies”) and (v) [Verizon Service Entity] (“Service Provider” and together with Seller, Company and the Contributing Companies, the “Relevant Parties”)], subject in each case to standard exceptions and qualifications¹:

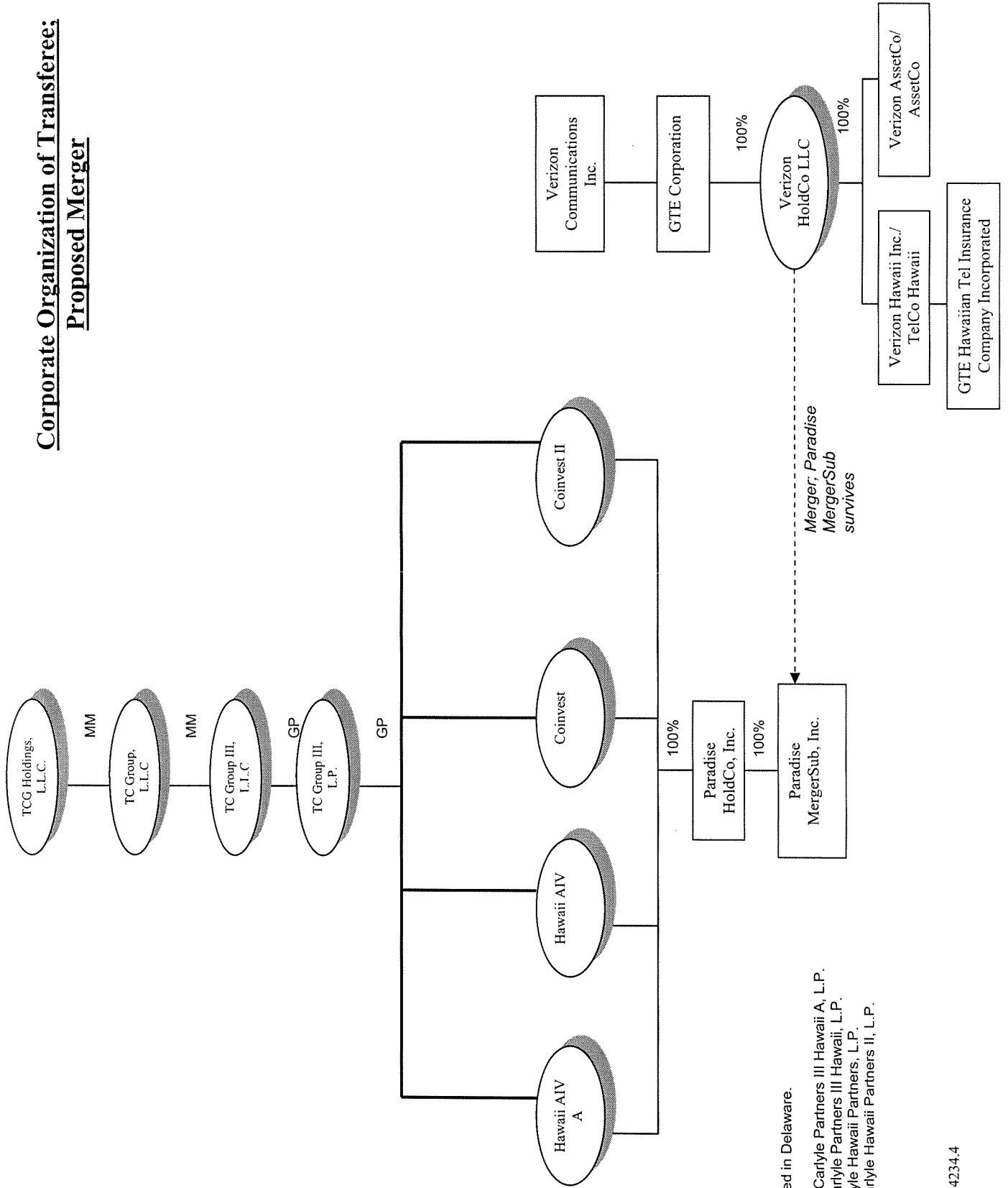
1. [Each Relevant Party] is a [limited liability company] [corporation] of the State of [New York] [Delaware], with [limited liability company] [corporate] power and authority to enter into the Merger Agreement and the Ancillary Documents to which it is a party and perform its obligations thereunder.² Based on certificates from public officials, we confirm that [each Relevant Party] is validly existing and in good standing under the laws of the State of [New York] [Delaware].
2. The execution, delivery and performance of the Merger Agreement and the Ancillary Documents to which it is a party have been duly authorized by all necessary [limited liability company] [corporate] action of [each Relevant Party], and the Merger Agreement and the Ancillary Documents to which it is a party have been duly executed and delivered by [each Relevant Party].
3. Each of the Merger Agreement and the Ancillary Documents to which it is a party constitutes a legally valid and binding obligation of [each Relevant Party], enforceable against [each Relevant Party] in accordance with its terms, it being understood that no opinion is given as to the enforceability of any covenant not to compete or to refrain from hiring or soliciting any person.
4. The execution and delivery of the Merger Agreement and the Ancillary Documents to which it is a party, and the consummation of the Merger, on the date hereof do not:
 - a. violate the provisions of the organizational documents of [any Relevant Party],

¹ Capitalized terms used by not defined herein have the meanings ascribed to such terms in the Merger Agreement.

² In the event any of the companies are organized under the laws of a state other than the State of New York or the State of Delaware, assumptions shall be made regarding the laws of such other jurisdiction.

- b. violate any federal, [New York or Delaware] statute, rule or regulation applicable to [any Relevant Party] except that no opinion is given with respect to antitrust, FCC or intellectual property matters, or
- c. require any consents, approvals, or authorizations to be obtained by [any Relevant Party], or any registrations, declarations of filings to be made by [any Relevant Party], under any federal, [New York or Delaware] statute, rule or regulation applicable to [any Relevant Party] that have not been obtained or made, subject to materiality exception and exceptions for antitrust, FCC or intellectual property matters.

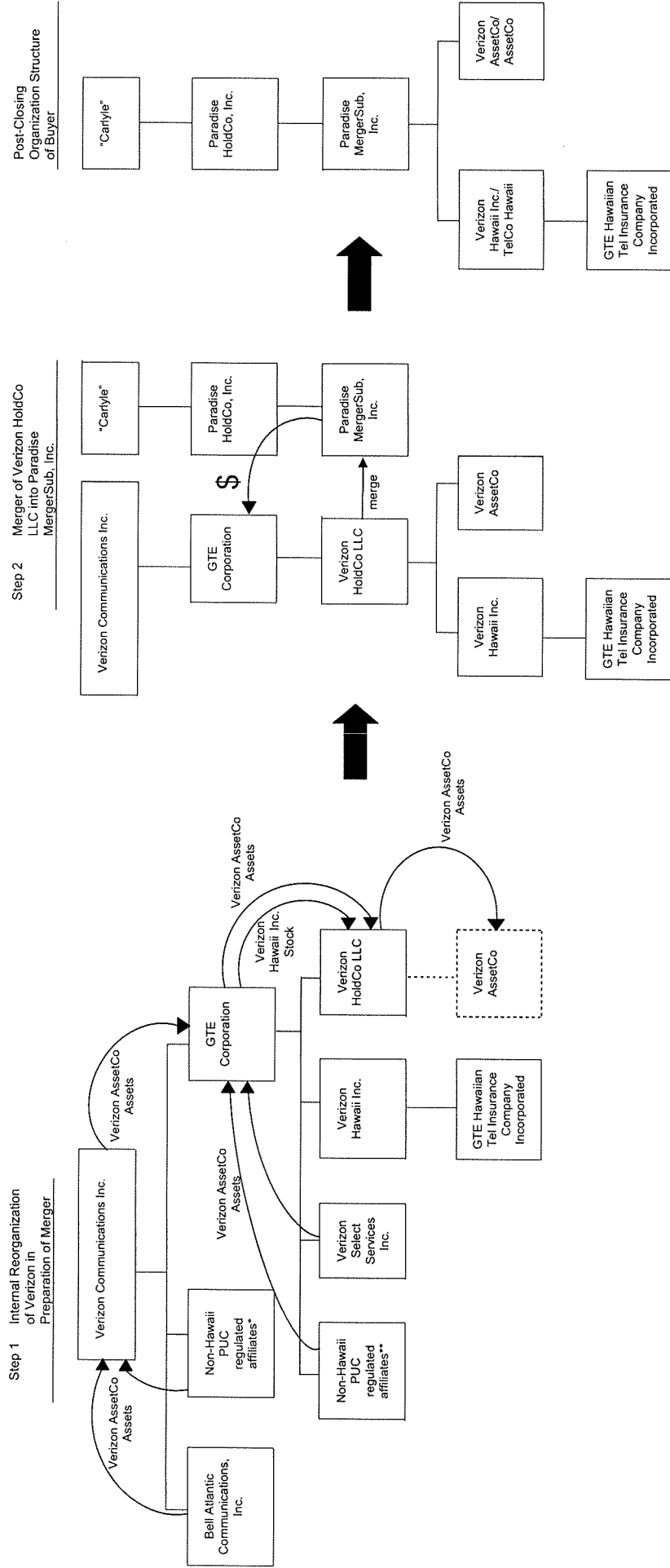
Corporate Organization of Transferee:
Proposed Merger



Notes:
 All entities formed in Delaware.
Hawaii AIV A: Carlyle Partners III Hawaii A, L.P.
Hawaii AIV: Carlyle Partners III Hawaii, L.P.
Coinvest: Carlyle Hawaii Partners, L.P.
Coinvest II: Carlyle Hawaii Partners II, L.P.

EXHIBIT 3

Chart Depicting Proposed Transaction and Final Organization Structure



* Assets of Verizon Network Integration Corp.

** Assets of Verizon Directories Corp., Verizon Directories Services-West Inc., Verizon Directories Sales-West Inc., GTE.Net LLC, and GTE Communication Systems Corporation.