

---

AGREEMENT OF MERGER

Among

GTE CORPORATION  
VERIZON HOLDCO LLC

And

PARADISE HOLDCO, INC.  
PARADISE MERGERSUB, INC.

Dated as of May 21, 2004

---

Table of Contents

	<u>Page</u>
ARTICLE I	DEFINITIONS ..... 2
1.1	Definitions ..... 2
1.2	Other Definitional Provisions ..... 16
ARTICLE II	THE MERGER ..... 17
2.1	The Merger ..... 17
2.2	The Closing ..... 17
2.3	The Effective Time ..... 17
2.4	Effects of the Merger ..... 17
2.5	Certificate of Incorporation; By-Laws; Directors and Officers of the Surviving Corporation ..... 18
2.6	Effect of the Merger on the Capital Stock and Membership Interests of the Constituent Corporations ..... 18
2.7	Closing Date Distribution; Merger Consideration and Adjustment; Contribution and Transfer ..... 18
ARTICLE III	REPRESENTATIONS AND WARRANTIES OF SELLER ..... 21
3.1	Organization and Related Matters ..... 22
3.2	Membership Interests and Stock ..... 23
3.3	Financial Statements; Changes; Contingencies ..... 25
3.4	Tax Matters ..... 26
3.5	Material Contracts ..... 28
3.6	Owned Real Property ..... 30
3.7	Real Property Leases; Affiliate Subleases; Real Property Interests ..... 31
3.8	Tangible Personal Property ..... 32
3.9	Validity of Contemplated Transactions ..... 32
3.10	Litigation ..... 33
3.11	Insurance ..... 33
3.12	Compliance with Laws ..... 33
3.13	Environmental Compliance ..... 34
3.14	Employee Matters ..... 35
3.15	Intercompany Obligations ..... 37
3.16	No Brokers or Finders ..... 37
3.17	Operation in the Ordinary Course ..... 38
3.18	Material Affiliate Transactions ..... 38
3.19	Bank Accounts ..... 39
3.20	Tariffs; FCC Licenses ..... 40
3.21	Intellectual Property ..... 41
3.22	Customers and Suppliers ..... 41
3.23	Labor Relations and Employment ..... 42
3.24	Sufficiency of Assets and Services ..... 42

ARTICLE IV	REPRESENTATIONS AND WARRANTIES OF BUYER AND MERGER SUB .....	44
4.1	Organization and Related Matters .....	44
4.2	Validity of Contemplated Transactions .....	44
4.3	No Brokers or Finders .....	45
4.4	Litigation .....	45
4.5	Financial Capabilities .....	45
4.6	Insurance Matters .....	46
4.7	Investment Representation .....	46
4.8	Investigation; No Other Representations or Warranties .....	47
ARTICLE V	COVENANTS .....	48
5.1	Conduct of Business .....	48
5.2	Access .....	50
5.3	Third Party Consents .....	51
5.4	Indenture and Bond Matters .....	52
5.5	Financial Statements .....	53
5.6	State Regulatory Approvals .....	54
5.7	FCC Consents .....	54
5.8	HSR Act Review .....	54
5.9	Elimination of Intercompany and Affiliate Agreements and Liabilities .....	55
5.10	Buyer's Financing .....	57
5.11	Contacts by Buyer; Cutover Planning Committee .....	59
5.12	Insurance Coverage .....	60
5.13	Supplemental Disclosure .....	61
5.14	Efforts to Close; Cooperation .....	61
5.15	Powers of Attorney .....	62
5.16	Assignment of Nondisclosure Agreements .....	62
5.17	Confidentiality .....	62
5.18	The Company and Verizon AssetCo .....	63
5.19	Ancillary Documents .....	64
5.20	Intellectual Property Matters .....	64
5.21	Disposition of Certain Assets .....	65
5.22	Certain Notices .....	65
5.23	Resignations .....	65
5.24	Non-Solicitation .....	65
5.25	Non-Regulated Construction Work in Process .....	66
5.26	No Concessions or Conditions .....	67
5.27	Prohibited Activities .....	67
5.28	Receipt of Certain Amounts .....	69
ARTICLE VI	CONDITIONS OF PURCHASE .....	69
6.1	Conditions Precedent to Obligations of Buyer and Merger Sub .....	69
6.2	Conditions Precedent to Obligations of Seller and the Company .....	70

6.3	Conditions Precedent to the Obligations of Buyer and Seller .....	71
ARTICLE VII INDEMNIFICATION .....		72
7.1	Survival Period .....	72
7.2	Period for Claims .....	73
7.3	Indemnification Obligation of Seller .....	73
7.4	Indemnification Obligation of Buyer, Surviving Corporation and Verizon Hawaii .....	74
7.5	Definitions for Purposes of this Article .....	75
7.6	Limitation on Claims for Indemnifiable Losses .....	75
7.7	Defense of Claims .....	77
7.8	Subrogation .....	79
7.9	Other Rights and Remedies .....	80
7.10	Tax Treatment .....	80
ARTICLE VIII EMPLOYEES AND EMPLOYEE MATTERS .....		80
8.1	Employees .....	80
8.2	Retained Employees .....	81
8.3	Continued Employment of Active Employees .....	81
8.4	Recognition of Employee Service .....	82
8.5	Assumption of Obligation to Pay Bonuses .....	82
8.6	No Duplicate Benefits; Beneficiaries and Dependents .....	83
8.7	Defined Benefit Plans .....	83
8.8	Savings Plans .....	87
8.9	Welfare Plans .....	88
8.10	Severance Benefits .....	90
8.11	Vacation Benefits .....	90
8.12	Employee Rights .....	91
8.13	Successors and Assigns .....	91
8.14	WARN .....	92
8.15	Hawaii Dislocated Workers' Law .....	92
8.16	Cooperation .....	92
8.17	Employee Obligations of Confidentiality .....	92
ARTICLE IX TAX MATTERS .....		93
9.1	Tax Indemnification .....	93
9.2	Straddle Period .....	93
9.3	Responsibility for Filing Tax Returns for Periods Ending On or Before Closing Date .....	94
9.4	Refunds and Tax Benefits .....	95
9.5	Cooperation on Tax Matters .....	95
9.6	Tax Sharing Agreements .....	96
9.7	Certain Taxes and Fees .....	96
9.8	Audits .....	96
9.9	Section 338(h)(10) Election .....	97

9.10	Allocation of Purchase Price .....	97
9.11	FIRPTA Certificate.....	97
9.12	Retained Indebtedness .....	98
ARTICLE X	TERMINATION .....	98
10.1	Termination of Agreement .....	98
10.2	Good Faith Performance.....	99
10.3	Effect of Termination .....	99
10.4	Compliance with Non-Disclosure Agreement.....	100
10.5	Survival.....	100
ARTICLE XI	MISCELLANEOUS .....	100
11.1	Notices .....	100
11.2	Information Releases .....	101
11.3	Expenses .....	102
11.4	Successors and Assigns .....	102
11.5	Amendments.....	102
11.6	Captions .....	102
11.7	Entire Agreement.....	103
11.8	Waiver .....	103
11.9	Third Parties .....	103
11.10	Counterparts.....	103
11.11	Governing Law .....	103
11.12	Further Assurances .....	104
11.13	Severability.....	104
11.14	Schedules; Exhibits.....	104
11.15	Knowledge Convention .....	105
Exhibit A:	Form of Intellectual Property Agreement	
Exhibit B:	Form of Verizon Proprietary Software License Agreement	
Exhibit C:	Transition Services Agreement	
Exhibit D:	Form of Contribution Agreement	
Exhibit E:	Topics to be Covered by Legal Opinion	

**Seller Disclosure Schedule**

### 3.3 Financial Statements; Changes; Contingencies.

(a) Financial Statements. Section 3.3(a) of the Seller Disclosure Schedule sets forth audited combined statements of selected assets, selected liabilities and parent funding of a combination of Verizon Hawaii and carved-out components of Verizon Information Services, Verizon Internet Services, Inc. and Verizon Long Distance, as at December 31, 2002 and as at December 31, 2003 (such statement as of December 31, 2003, the "2003 Statement of Selected Assets"), and related audited combined statements of income and cash flow for the 12 months ended December 31, 2001, December 31, 2002 and December 31, 2003 and an unaudited combined statement of selected assets, selected liabilities and parent funding as of March 31, 2004 (the "Interim Statement of Selected Assets") and related unaudited combined statements of income for the three-month period ended March 31, 2004 (the foregoing, collectively, and together with the notes thereto, the "Financial Statements"). Such Financial Statements have been prepared from the books and records of the Company, its Subsidiaries and the Contributing Companies (to the extent relating to the use and operation of the Verizon AssetCo Assets) and their Affiliates in accordance with GAAP (it being understood, in the case of the Interim Statement of Selected Assets, that such statement is subject to normal year-end adjustments that are not, in the aggregate, material and does not contain footnotes) applied on a consistent basis throughout the periods involved (except as noted in any such Financial Statement) and present fairly, in all material respects, the combined financial position and operating results of Verizon Hawaii and carved-out components of Verizon Information Services, Verizon Internet Services, Inc. and Verizon Long Distance as of the dates and for the periods indicated therein. Since December 31, 2003, the Company, its Subsidiaries and the Contributing Companies (to the extent relating to the use and operation of the Verizon AssetCo Assets) have not changed any method of accounting or accounting policies, other than those changes required by GAAP.

(b) No Other Liabilities. As of the date hereof, the Company, the Subsidiaries and the Contributing Companies (to the extent relating to the use and operation of the Verizon AssetCo Assets) have no liabilities (whether accrued, absolute, contingent, unliquidated, known or unknown) except liabilities (1) that are reflected on the 2003 Statement of Selected Assets and the Interim Statement of Selected Assets, (2) that are disclosed in this Agreement, any Ancillary Document or the Seller Disclosure Schedule, (3) that were incurred in the ordinary course of business and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, (4) that are for Taxes not yet due and payable or (5) that are for Taxes that are being contested in good faith through appropriate proceedings and disclosed in Section 3.4(b) of the Seller Disclosure Schedule.

(c) No Indebtedness. Other than intercompany indebtedness owed to Seller or its Affiliates (all of which Indebtedness shall be repaid, discharged or otherwise satisfied pursuant to Section 5.9) and other than Indebtedness listed in Section 3.3(c) of the Seller

Disclosure Schedule, as of the date hereof, the Company and the Subsidiaries and the Contributing Companies (with respect to the Verizon AssetCo Assets) have no Indebtedness.

(d) Pro Forma Financial Statements. Section 3.3(d) of the Seller Disclosure Schedule sets forth Seller's good faith estimate of the pro forma balance sheet as of December 31, 2003 of the combined financial condition of a combination of Verizon Hawaii and carved-out components of Verizon Information Services, Verizon Internet Services, Inc. and Verizon Long Distance, together with the notes thereto, adjusted to eliminate certain identified assets and liabilities accrued on the financial statements of Verizon Hawaii and its Affiliates, which assets or liabilities (based on certain assumptions) will either be transferred prior to the Closing Date or paid by Seller or its Affiliates (other than the Company or Subsidiaries) on or prior to the Closing Date or be retained or assumed by Seller or its Affiliates (other than the Company and Subsidiaries) on or prior to the Closing Date (the "Pro Forma Balance Sheet"). Such Pro Forma Balance Sheet has been prepared from the books and records of the Company, its Subsidiaries and the Contributing Companies in accordance with GAAP (except for the pro forma adjustments specified therein) and present fairly, in all material respects, the combined pro forma financial position of Verizon Hawaii and carved-out components of Verizon Information Services, Verizon Internet Services, Inc. and Verizon Long Distance as of the date indicated therein.

3.4 Tax Matters. Except as set forth on Section 3.4 of the Seller's Disclosure Schedule:

(a) The Company and the Subsidiaries have timely filed all material Tax Returns that they were required to file, either separately or as members of an Affiliated Group. All such Tax Returns were correct and complete in all material respects. All material Taxes of the Company and the Subsidiaries (whether or not shown on any Tax Return) have been timely paid or, to the extent accrued through the date hereof, are set forth in an adequate reserve (established in conformity with GAAP) included in the Financial Statements and the unpaid Taxes of the Company and the Subsidiaries do not exceed the reserve included in the Financial Statements. All material Taxes which have been collected from third parties by the Company and the Subsidiaries have been properly remitted to the appropriate taxing authorities. There are no material Encumbrances for Taxes upon any of the assets of the Company or the Subsidiaries.

(b) There is no material dispute, claim or audit concerning any Tax liability of the Company, the Subsidiaries, or any of the Contributing Companies (to the extent relating to the use or operation of the Verizon AssetCo Assets). No waivers of statutes of limitation with respect to any Tax Returns of the Company, the Subsidiaries, or any of the Contributing Companies (to the extent relating to the use or operation of the Verizon AssetCo Assets), whether filed separately or as members of an Affiliated Group, have been given or requested. All deficiencies asserted or assessments made as a result of any